Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Description:

Comment ID: 160344

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Document ID: R-1818
Revision:1
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Fed policy could expand Texas' unbanked population

The Federal Reserve is pushing a new regulation that will disproportionately harm low-income Texans if passed.

The Fed is the organization responsible for ensuring price and economic stability. Recently, the Fed has done all but this by letting prices soar 20% above their pre-pandemic level. Consumer inflation was up again last month, causing many Texans to feel anxious about the eroding value of their dollars.

With the massive increase in bank regulations following the global financial crisis in 2008, the Fed started to focus more on picking winners and losers rather than monetary policy. As an unelected bureaucracy, the Fed has done this largely unconstrained by Congress and the will of the American people.

A recent example is the Fed considering expanding a price control on debit card swipe fees with a rule called Regulation II.

Congress introduced this price control in 2010. While it was supported by large retailers such as Walmart, which wanted the government to reduce their fees, it gave banks no choice but to recoup their losses by cutting reward programs, reducing the availability of fee-free accounts and increasing fees on small transactions.

As a result, more Americans became unbanked in the United States, a problem especially relevant to Texas, where nearly 8% of the population is already unbanked. That's 35% more than the national average.

From 2000 to 2009, 7.1 new banks were chartered in Texas each year on average. Once a plethora of regulations, including this price control, were introduced, this number decreased to 0.3 new banks chartered per year after 2010. In other words, regulators, including the Fed, reduced the number of Texans that could access the financial system, especially low-income families.

Now, the Fed is looking to exacerbate its past mistake by proposing Regulation II, which would expand the last price control. Doing this would result in more problems for the people of this state.

Texas has 368 community banks & the highest number among all 50 states. Small community banks are more likely to charge lower or no fees on accounts, but Regulation II threatens their business model.

In addition, smaller banks do not have the resources to invest in a large legal department to navigate tens of thousands of pages of regulations. So, if Regulation II goes into effect, it will mean a less competitive and adaptable banking system & one that will become increasingly dominated by large, more well-connected conglomerates.

The Fed's overreach extends beyond Regulation II. More than 20% of its banks' working papers are now on activist topics such as inequality and climate change. Those are legitimate issues, but they have little to do with monetary policy, which is what the central bank was created to address.

Managing inflation is a core Fed responsibility. With consumer prices continuing to rise and Texans struggling to afford basic goods, the central bank should go back to managing what it was created to do so prices can finally stabilize in the Lone Star State.

This would be a far better use of its time than engaging in a sort of mission creep, where the Fed expands its net into political matters in ways that are inconsistent with its original mandate. History suggests that is a recipe for harming low-income Texans, not helping them & and the sooner the Fed realizes that, the better.

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