RESPONSE TOOLKIT

Federal Reserve Board. (FRB) – Debit Card Interchange Fees and Routing

Talking Points and Comment Letter Template

Call to Action!

We are requesting your credit union to submit a comment to the leaders at the Federal Reserve Bank of San Francisco. To ensure the Federal Reserve considers your comment, you must submit it no later than May 12.

You may also consider uploading a comment letter to the public comment portal that will go directly to the Federal Reserve Board of Governors. Please note that the League will be submitting a comment letter to the Federal Reserve Board of Governors.

This guide includes the following:

- ✓ History of Regulation II + Proposed Changes to Regulation II (Page 1)
- ✓ Template Comment Letter – please customize the letter! (Pages 2 - 4)
- ✓ Instructions on how to send comment letters. (Pages 5)
- ✓ Data points to consider when crafting your letter. (Pages 7 – 8)

History of Regulation II

- The Federal Reserve Board (FRB) promulgates Regulation II pursuant to its authority under the so-called Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act (15 U.S.C. § 1693o-2). Regulation II rules were originally prescribed in 2011.
- The Durbin Amendment requires the FRB to establish standards for assessing whether the amount of any interchange transaction fee is "reasonable and proportional" to the cost incurred by the issuer with respect to the transaction.

Proposed Changes to Regulation II

- On October 25, 2023, the FRB issued a proposed rule to lower the cap on debit card interchange fees in Regulation II.
- If finalized in its present form, the proposal would adjust debit interchange fee caps as follows:

Type of Rate Component	Current Rate	Proposed Rate	Difference
Base Component/Fee Cap	21 cents	14.4 cents	-6.6 cents
Ad Valorem Component	5.0 basis points	4.0 basis points	-1.0 basis points
Fraud-Prevention Adjustment	1 cent	1.3 cents	+0.3 cents

- The FRB also proposes to codify an approach for updating the three components of the interchange fee cap every other year going forward based on the latest data reported to the Board by covered issuers. The FRB proposes to not seek public comment on such future updates.
- The proposed rule would not amend the exemptions to the interchange fee caps, including the exemption for interchange fees charged or received by debit card issuers with less than $10 billion in total assets (i.e., the "small issuer exemption").
- The proposal would also amend some of the official staff commentary related to the small issuer exemption, as well as other technical aspects of Regulation II.
- Comments on the proposed rule are due by May 12, 2024.

Draft Comment Letter Template to Federal Reserve Bank of San Francisco

We are requesting your credit union to submit a comment to the leaders at the Federal Reserve Bank of San Francisco. We are asking credit unions to send two letters and an optional third letter.

Letter #1: President, Federal Reserve Bank of San Francisco

All CUs in CA & NV
Mary Colleen Daly President and Chief Executive Officer Federal Reserve Bank of San Francisco 101 Market St San Francisco, CA 94105 You may submit via email to mary.daly@sf.frb.org

Letter #2: Regional Directors, Northern CA/NV & Southern CA/NV
Please submit letter based on your region.

Northern California/Northern Nevada Address	Southern California/Southern Nevada Address
Stephen DeLay Vice President and Regional Executive, San Francisco Federal Reserve Bank of San Francisco 101 Market St San Francisco, CA 94105 You may submit via email to stephen.delay@sf.frb.org	Qiana Charles Vice President and Regional Executive, Los Angeles Federal Reserve Bank of San Francisco 950 South Grand Avenue, Los Angeles, CA 90015 You may submit via email to Qiana.Charles@sf.frb.org

Optional Letter #3: Comment Letter to the Federal Reserve Board of Governors
Please note this letter is optional because the Leagues will be submitting a comment letter.
Directions on how to submit a letter are below.

All CUs in CA & NV
Ann E. Misback, Secretary Board of Governors of the Federal Reserve System 20th Street and Constitution Avenue NW Washington, DC 20551

Overview

To ensure your letter is considered, please:

- Personalize the letter.
    - Comments will not be considered if multiple letters use verbatim language, known as “form” or “template” letters.
- Provide background information on your credit union.
- Use data to highlight your narrative.

Here is an outline of the letter:

[Date]

Dear President Daly/Regional Director:

I. Opening – express urgency and concern
II. Background on organization
III. 2-5 main arguments that concern your credit union – support these arguments with tailored data points and descriptions of how your credit union will be impacted.
IV. Conclusion – wrap up message summarizing the top line arguments

Sincerely,

[Your Name]
[Your Title]
[Your Signature]

Sample Letter

[Date]

[Address to Colleen Daly AND Stephen DeLay (Northern CA/NV) OR Qiana Charles (Southern CA/NV)

Dear President Daly:

I am writing on behalf of [XYZ Credit Union] to express our deep concern regarding the proposed changes to the debit card interchange fees by the Board of Governors of the Federal Reserve System (Board). I believe that these changes could have significant repercussions for credit unions, particularly impacting the financial well-being of our members.

As a leader in the credit union industry, I respectfully request the Federal Reserve Bank of San Francisco to oppose the Board's proposal. Below are our specific comments and concerns for your consideration.

Who We Are:

[XYZ Credit Union] is a [describe your asset size] asset credit union, headquartered in [Location]. We serve approximately [Number] members in [list your communities].

Specific Comments Pertaining to the Proposed Rule:

While Regulation II initially exempted financial institutions with less than $10 billion in assets, the challenges imposed by Regulation II and the Durbin Amendment have adversely affected credit unions, particularly smaller financial institutions like ours. The decrease in the base component from 21 cents to 14.4 cents and the ad valorem component from 5 basis points to 4 basis points would substantially reduce our non-interest income. These funds are crucial for operating our debit card program securely, covering areas such as card fraud technology, dispute resolution, risk mitigation, core and online banking debit card technology, plastic and digital issuance, and cybersecurity.

Moreover, the proposal to automatically update the interchange fee cap every two years without the ability to comment on adjustments is concerning. This approach lacks transparency and does not ensure the accuracy of the data used by the Board for adjustments.

The proposed changes would not only make it expensive for our credit union to operate the debit card program but also negatively affect consumers, particularly those in underserved communities. Credit unions, being nonprofit financial cooperatives, have traditionally worked to minimize fees, particularly for consumers of modest means. Lowering interchange fees may result in reduced access to financial services and higher costs for basic services, impacting the most financially vulnerable consumers.

While the proposed rule marginally increases the amount credit unions can charge for fraud prevention from 1 cent to 1.3 cents for regulated transactions, these measures may not be sufficient to cover larger-scale fraud mitigation and prevention strategies. Our credit union has witnessed significant increases in fraud rates, and the reduction in revenue from interchange fees would impede our ability to invest in innovative fraud prevention technologies.

Conclusion:

I appreciate your consideration of our views on this critical matter. The proposed modifications have the potential to undermine the vital role credit unions play in providing affordable and accessible financial solutions to our members. I urge you to consider a fair and balanced solution that addresses the unique challenges faced by credit unions in today's financial landscape.

Sincerely,

[Your Name]
[Your Title]
[Your Signature]

How to Submit Your Comment Letter

A. Submitting to the Federal Reserve of San Franciso

You may submit your letter to the Federal Reserve of San Francisco via email or mail.

Mary Colleen Daly
President and Chief Executive Officer
Federal Reserve Bank of San Francisco
101 Market St San Francisco, CA 94105
mary.daly@sf.frb.org

Qiana Charles
Vice President and Regional Executive, Los Angeles
Federal Reserve Bank of San Francisco
950 South Grand Avenue, Los Angeles, CA 90015
Qiana.Charles@sf.frb.org

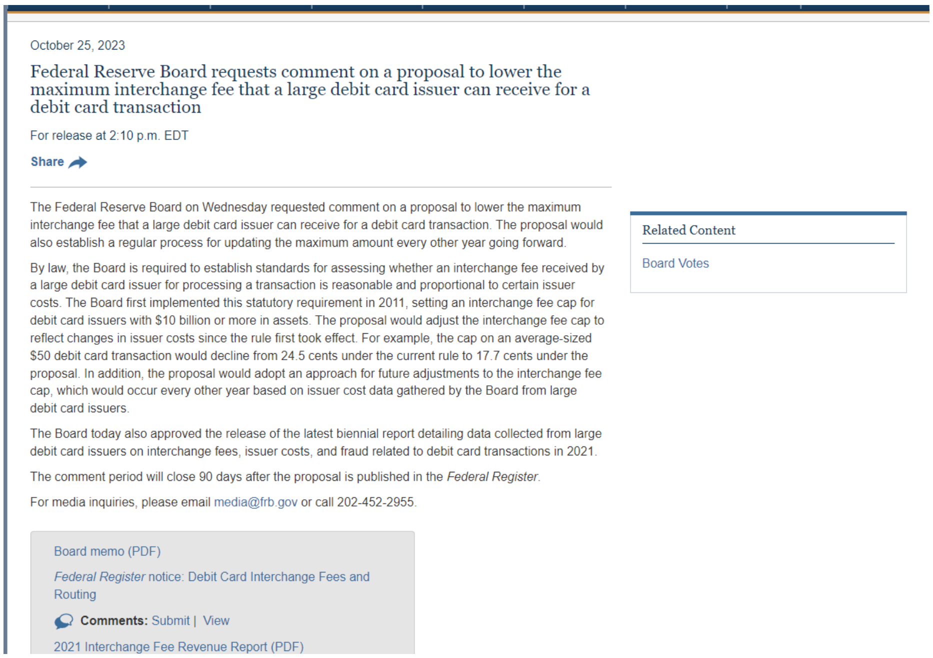
Stephen DeLay
Vice President and Regional Executive, San Francisco
Federal Reserve Bank of San Francisco
101 Market St San Francisco, CA 94105
stephen.delay@sf.frb.org

B. Submitting to Federal Reserve Board (Optional)

If you choose to do so, you may also submit your letter to the Board of Governors of the Federal Reserve System. However, you will need to ensure that your letter is properly addressed to Federal Reserve Board and not to the local Federal Reserve of San Francisco.

You may submit your letter through the Fed's online portal, the eRulemaking Portal, email, fax or mail.

Fed's online portal by May 12, 2024 through this link:



October 25, 2023

Federal Reserve Board requests comment on a proposal to lower the maximum interchange fee that a large debit card issuer can receive for a debit card transaction

For release at 2:10 p.m. EDT

Share

The Federal Reserve Board on Wednesday requested comment on a proposal to lower the maximum interchange fee that a large debit card issuer can receive for a debit card transaction. The proposal would also establish a regular process for updating the maximum amount every other year going forward.

By law, the Board is required to establish standards for assessing whether an interchange fee received by a large debit card issuer for processing a transaction is reasonable and proportional to certain issuer costs. The Board first implemented this statutory requirement in 2011, setting an interchange fee cap for debit card issuers with $10 billion or more in assets. The proposal would adjust the interchange fee cap to reflect changes in issuer costs since the rule first took effect. For example, the cap on an average-sized $50 debit card transaction would decline from 24.5 cents under the current rule to 17.7 cents under the proposal. In addition, the proposal would adopt an approach for future adjustments to the interchange fee cap, which would occur every other year based on issuer cost data gathered by the Board from large debit card issuers.

The Board today also approved the release of the latest biennial report detailing data collected from large debit card issuers on interchange fees, issuer costs, and fraud related to debit card transactions in 2021.

The comment period will close 90 days after the proposal is published in the *Federal Register*.

For media inquiries, please email media@frb.gov or call 202-452-2955.

Board memo (PDF)

Federal Register notice: Debit Card Interchange Fees and Routing

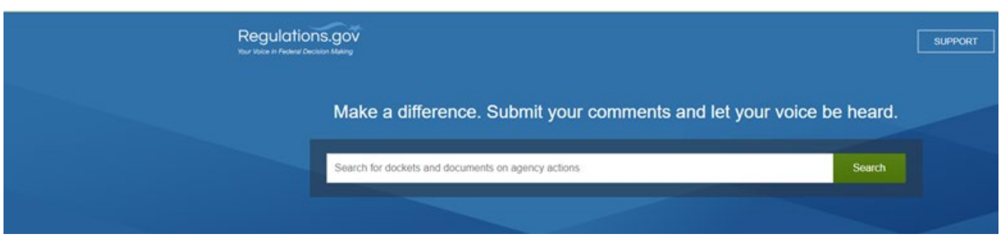
Comments: Submit | View

2021 Interchange Fee Revenue Report (PDF)

Related Content

Board Votes

[Federal eRulemaking Portal](): Follow instructions for submitting comments.



Email: regs.comments@federalreserve.gov. Include R-1818 and RIN 7100-AF in the subject line of the message.

Fax: (202) 452–3819 or (202) 452–3102

Mail: Ann E. Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551

Comment Letter Talking Points

- FRB Governor Michelle Bowman opposed the proposal and was the sole dissenter.
  - In her dissent on the proposed rule, she shared some concerns about the proposal stating, "While the proposal suggests that it could result in benefits to consumers, I am concerned that the costs for consumers—through the form of increased costs for banking products and services—will be real, while the benefits to consumers—such as lower prices at merchants— may not be realized."

- Interchange fees cover the cost of fraud detection, credit monitoring, and fraudulent purchase protection benefiting both consumers and merchants.
  - Reduced interchange fees pose a real threat to data security, and could raise fraud-related costs for credit unions and banks.

- Fraud is a growing risk and cost.
  - Fraud rates have doubled in the last ten (10) years (according to the Fed's data (Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions. Board of Governors of the Federal Reserve System (May 2021)).
  - 422 million consumers were affected by data breaches in 2022 (2022 Data Breach Reports, Identify Theft Resource Center - idtheftcenter.org, Page 2).
  - 36% of consumers received a new card due to fraud or data breach (CUNA National Voter Survey January 2023, Frederick Polls, Cygnal).

- It doesn't just affect institutions with over $10 billion in assets, as proposed. Institutions, including credit unions, of all sizes have been impacted since Regulation II became effective in 2011.
  - While the proposal exempts financial institutions with less than $10 billion in assets, America's Credit Unions (formerly Credit Union Nation Association (CUNA)) and American Association of Credit Union Leagues (AACUL) released a study that shows mandated interchange caps negatively impact local and community financial institutions like credit unions.

- The Durbin Amendment has harmed low-income consumers.
  - Since 2011:
    - Most financial institutions addressed revenue shortfalls through higher monthly fees and increased minimum balance requirements.
    - The availability of free checking was greatly reduced to consumers, and an increased number of Americans became unbanked in the years following the rollout of the Durbin Amendment.
    - After reviewing relevant research and extensive interviews with market participants, the Government Accountability Office ("GAO") concluded "debit card interchange fee regulations increased the cost of checking accounts."

  - The proposal is expected to follow a similar path, with an anticipated rise in checking account fees and a decrease in the availability of free accounts. This trend is likely to contribute to an increase in the number of unbanked consumers. Additionally, it may pose challenges to initiatives like the BankOn program, which aims to link consumers with safe and affordable bank or credit union accounts featuring low or no fees, no overdraft charges, online bill pay, and other essential attributes.

- Mandating credit unions to invest in technology and counteract fraud represents a financial burden on their resources.
  - A CUNA research study conducted between 2020 and 2021 found that among surveyed credit unions, fraud and program expenses increased while interchange revenue declined. While the proposed rule marginally increases the amount credit unions can charge for fraud prevention from 1 cent to 1.3 cents for regulated transactions, these measures may not be sufficient to cover larger-scale fraud mitigation and prevention strategies.

- It has been proven that merchants do not pass on savings to consumers.
  - A study conducted by the Richmond Federal Reserve in conjunction with Javelin Strategy and Research concluded the regulation has had limited and unequal impacts on merchants. According to the study's authors:
    - A sizable portion of merchants raised prices.
    - Many merchants implemented debit restrictions (such as a minimum purchase or surcharge) as their costs of accepting debit cards increased.
    - 77% of merchants did not change prices following the implementation of debit card price caps.
    - 22% chose to increase prices.
    - 1% passed on savings to customers.