May 9, 2024

Board of Governors
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: **Docket No. R–1818, RIN 7100–AG67**

Dear Honorable Members of the Board of Governors:

Thank you for the opportunity to comment on behalf of our 120 commercial, cooperative and savings banks and federal savings banks and savings and loan associations that employ more than 72,000 employees throughout Massachusetts and New England. We respectfully request you to withdraw the proposed Debit Card Interchange Fees and Routing rule that would tighten the price caps on debit interchange under Regulation II. This proposal will result in an immediate 30% cut in debit interchange revenue for banks and will harm consumers by increasing the cost of everyday banking services currently supported by interchange revenue.

As you are aware, banks invest heavily in payments system technology to ensure that their customers, both individuals and businesses, can transact safely and securely across a wide range of platforms. The proposed rule not only disincentivizes that investment by misappropriating the income derived from it, but also fails to accurately account for the real-world cost banks incur to facilitate transactions. In fact, the Fed's own data clearly demonstrates that hundreds of smaller issuers will be unable to cover their debit card transaction costs under the proposed formula. This will likely further restrict debit accessibility for consumers and could even feed the current trend of consolidation among community banks as another key source of revenue is regulated away.

The proposed rule will also impact banks' ability to offer basic banking services, like checking accounts, at no or low-cost to consumers. Basic deposit accounts are operationally expensive to service and maintain, and banks rely heavily on interchange revenue to offset the cost of those accounts, especially where balances are low and other banking activity is limited.

As you know, the Dodd-Frank Act of 2010 included language otherwise known as the Durbin amendment, which was crafted with a goal to reduce debit card interchange fees and promote competition in the payment-processing industry. Unfortunately, history and data has since proven that small businesses experienced increased costs, consumers have not enjoyed lower prices for goods and community banks and credit unions "saw their per-transaction compensation cut by over 25%." Put simply, the Durbin amendment is a poorly conceived policy that effectively eliminated debit card rewards, killed debit programs at many community banks, and reduced access to free and low-cost checking accounts for consumers.

The proposed rule to further cap debit card interchange, along with adjacent legislation pending before Congress, will only exacerbate the problems caused by the original Durbin amendment. The

# Mass Bankers ASSOCIATION

Federal Reserve is not statutorily required to pursue any change to existing regulations under the Durbin amendment and we strongly discourage you from needlessly doubling down on this demonstrably damaging policy. At a time when individuals and families are paying more out of pocket for everyday necessities like groceries, gas, childcare and more, regulations and legislation that have the potential to do more harm to consumers and small businesses than good should be met with strong opposition.

Additionally, the constant layering of thousands of pages of regulations targeting the financial services industry unduly burdens community banks across the country and ultimately impacts the very customers whom they are charged with protecting and supporting their financial success and wellbeing. There are numerous concurrent and conflicting proposed regulations targeting the financial services industry proposed by other federal agencies including the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of Currency (OCC), the Federal Trade Commission (FTC), and the Securities and Exchange Commission (SEC), not to mention additional regulations proposed by the various state agencies with regulatory authority over the financial services industry.

The banking industry is among the most regulated industries across the United States and is mandated to follow stringent protocols as stipulated by state and federal laws and regulations. Unlike other industries, FDIC-insured banks are subject to state and other federal regulators such as the state bank regulators, the FDIC, OCC and the CFPB, depending on their charter, and must consider and strictly adhere to a host of rules and directives in regard to protecting their customers' personal and confidential information and financial health. As referenced at the beginning of this letter, regulations such as this proposal and the many others proposed by various banking regulators will do nothing to further safeguard bank customers' financial wellbeing but will harm consumers by increasing the cost of everyday banking services currently supported by interchange revenue.

For additional reference and to further underscore the significant impact this proposed rule will have on banks and their customers, included here is the joint letter to the Board of Governors from the Massachusetts Bankers Association, the American Bankers Association and the 51 other state bankers associations submitted in February, 2024. You may find the letter here.

For these reasons and more we strongly encourage you to withdraw the proposed Debit Card Interchange Fees and Routing rule that would tighten the price caps on debit interchange under Regulation II.

Sincerely,

Brad S. Papalardo, Esq.
Senior Vice President,
Chief of Government Affairs and Counsel