December 18, 2023

Susan M. Collins
President & CEO
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210-2204
Via email

Re: Debit card interchange fees: Regulation II Proposal

Dear President Collins:

We write today as the CEOs of the Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont Bankers Associations on behalf of our respective member institutions which range in size from the smallest to the largest in the nation. Our Associations' members share a deep concern about the Federal Reserve Board of Governor's recent proposal to lower the maximum interchange fee that a large debit card issuer can receive for debit card transactions.

As you know, debit card services are critically important to the payment system with our members devoting significant resources to preserve its accuracy and safety annually. Rapidly evolving threats, coupled with the ongoing challenge of preventing fraud, have increased expenses borne by financial institutions throughout the Northeast and beyond.

We are concerned that the Federal Reserve's proposal to suddenly tighten the debit card price caps in Regulation II will mean that many banks will have to increase consumer fees for checking accounts. Banks have relied on interchange revenue in reducing overdraft fees and expanding access to free checking. If the Fed succeeds in reducing issuer interchange revenue by one-third, banks would face material obstacles in their efforts to offset the regulatory, anti-fraud, and operating costs involved with extending banking services to low-balance consumers. The Government Accountability Office ("GAO") concluded in February 2022 that "debit card interchange fee regulations increased the cost of checking accounts."

The debit card fraud prevention expense burden resulting from this discretionary rulemaking is particularly significant for smaller debit card issuers and comes at a time when smaller banks are under financial pressure. While this proposal is ostensibly aimed at larger issuers, the payment system is integrated, and the lower cap will affect many of our members below the proposal's stated $10 billion threshold. Data we have seen from members - with assets of less than $10 billion - show interchange revenue drops off by up to 30 percent since the Fed's first cap on debit interchange was implemented, a troubling trend.

Further, lowering fees will undoubtedly reduce banks' capacity to adequately maintain this important customer service and could force difficult product decisions. While we are certain that it was not the Board's intent to reduce consumers' access to banking services, a decrease in debit card interchange fees could indeed have that serious, albeit unintended, consequence. Given the Board's and the industry's commitment to financial inclusion, we believe this would be a step in the wrong direction – especially when the new Community Reinvestment Act regulation is intended to incentivize new deposit services.

You are likely to hear these and other concerns about this proposal directly from our members and believe we must underscore them given the potential to impact so many consumers and the banks which strive to serve their needs. We respectfully request that these concerns be shared with those within the Federal Reserve involved with this flawed proposal.

Sincerely,

Tom Mongello
Connecticut Bankers Association

Jim Roche, President
Maine Bankers Association

Kathleen Murphy, President and CEO
Massachusetts Bankers Association

Kristy Merrill, President
New Hampshire Bankers Association

Patricia A. Octeau, Executive Director
Rhode Island Bankers Association

Christopher D'Elia, President and Treasurer
Vermont Bankers Association