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January 12, 2024

Jeff Schmid, President & CEO  
Kansas City Federal Reserve  
1 Memorial Drive  
Kansas City, MO 64198

Docket No. R-1818, RIM7100-AG67  
Regulation II-Debit Card Interchange Fees and Routing Proposed Rule

Dear President Schmid,

The undersigned trade associations representing the vast majority of state and federally chartered banks, savings and loans and credit unions in the state of Nebraska, write to express our opposition to the Federal Reserve System's (Board) proposal to tighten debit card caps (Price Caps) in Regulation II.

The proposed reduction in Price Caps will raise costs for consumers with no guarantee that merchants will lower their prices in exchange for lower fees. We do not believe that the Board has collected or published sufficient data regarding the costs of Regulation II on regulated entities and their checking account customers to warrant the proposed reduction in the debit card Price Caps. Regulation II Price Caps have created unequal and disproportionate access and inclusion impacts on economically disadvantaged or marginalized communities and those serving in or retired from military service. The proposed rule will only serve to exacerbate the adverse effects of the existing regulation.

The proposed rule will result in many banks and credit unions having to increase consumer fees for checking accounts. The proposal will also lead to more consolidations as financial institutions approaching \$10 billion in assets will incur millions of dollars in reduced first-year revenues. In addition, the Board acknowledges in its proposal that about one-third of the financial institutions will not be able to cover the costs of their debit card transactions under the proposed reductions in debit card Price Caps.

The Board's recent debit card routing rule reduced net interchange for all sizes of banks and credit unions and also increased fraud costs. These increased costs have been ignored in proposing the reduced debit card Price Caps. The proposed rulemaking is purely discretionary in nature and no part of the Durbin amendment requires the Board to revisit the issue of Price Caps. The Board is also proposing an auto-adjustment to the debit card Price Caps every two years without seeking public comment. Having based the proposed rule under consideration upon flawed and outdated data and formulas this approach going forward will only magnify the adverse impacts of Regulation II on banks, credit unions and their customers.

Restrictions on debit card fees and routing options have not benefited consumers or small businesses. In addition, all issuers of debit cards-including those under the \$10 billion asset threshold have experienced significant negative revenue impacts. While targeted at financial institutions with over \$10 billion in assets, smaller community banks and credit unions will inevitably face pricing pressure, directly or indirectly, from the interchange fee cap. Institutions forced to operate their debit card programs at a loss, will need to recover costs elsewhere, such as through higher loan rates or through additional fees for services. These factors combined will limit the ability of exempt institutions to provide low-cost checking accounts to low-income customers. The customers of community banks and credit unions should not be forced to subsidize the merchants who will benefit from reduced Price Caps.

Merchants benefit greatly from the use of debit cards by their customers. Revenues derived from interchange fees cover increases in operating expenses incurred by community banks and credit unions to implement fraud protection and mitigation measures. Continuing reductions in fees will adversely impact the ability of community banks and credit unions to maintain robust debit card fraud protection and mitigation programs.

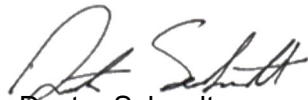
For these reasons, we would encourage you to contact the Board of Governors to request that they withdraw the proposed rule. There is no statutory obligation for the Board to issue a new ruling. However, in the event the Board elects to move forward on the proposed rule, it should first conduct further study to ensure that it has adequately considered and quantified the increased fraud and operational costs that are not currently captured in the Board survey.

The undersigned organizations thank you for the opportunity to weigh in on this important issue. We would welcome the opportunity to meet with you to discuss this issue and our concerns in greater detail.

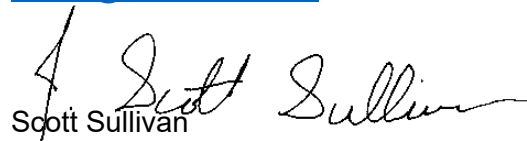
Thank you,



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