America's Credit Unions

**Jim Nussle**
President & CEO
202-508-6745
jnussle@americascreditunions.org

99 M Street SE
Suite 300
Washington, DC 20003

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The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

**Re: Today's Hearing: "The Semiannual Monetary Policy Report to the Congress"**

Dear Chairman Brown and Ranking Member Scott:

On behalf of America's Credit Unions, I am writing regarding the Committee's hearing entitled, "The Semiannual Monetary Report to the Congress." America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their over 140 million members nationwide.

As you prepare to hear from the Federal Reserve Chairman, America's Credit Unions wants to reiterate that we strongly oppose the Federal Reserve Board's (the Board) recently proposed rule to drastically reduce the Regulation II debit interchange fee cap. This proposal is seriously flawed. A skewed methodology for assessing base component costs fails to give appropriate weight to the cost experience of most covered issuers, especially credit unions. Additionally, the Notice of Proposed Rulemaking (NPRM) does not consider the market impact of recent amendments which went into effect in July 2023, requiring dual routing for card-not-present transactions. The July 2023 amendments and resulting changes in merchant routing behavior will have a direct bearing on the overall monetary impact of the revised interchange fee cap for both covered and exempt issuers.

The Board is not required to lower the debit interchange fee cap. The Durbin Amendment directed the Board to establish a cap that was "reasonable and proportional" to the costs of the issuer. In 2011, the Board determined that the cap met this standard when only 80 percent of covered debit card issuers would see cost recovery for their authorization, clearance, and settlement (ACS) costs—the largest banks. The latest data collection shows only 77.4 percent of debit card issuers are experiencing full recovery of ACS costs—once again leaving high-cost, low-volume issuers, including many credit unions, operating at a deficit. If anything, this data suggests the interchange fee cap should be raised, not lowered.

The small financial institution exemption does not work. Downward market pressure on interchange fees driven by the largest issuers cannot be contained by regulatory thresholds. The Federal Reserve's Regulation II data indicates the average per transaction interchange fee for exempt single-message debit transactions is down nearly 31 percent in inflation-adjusted dollars from 2011 to 2021.

Merchants did not pass on their cost savings to consumers from the initial regulation. They will not pass it along with further cuts. Research conducted by the Federal Reserve Bank of Richmond shows that only about 1 percent of merchants passed savings on to consumers after the initial adoption of Regulation II and more than 20 percent increased their prices. The Electronic Fund Transfer Act (EFTA) requires the Federal Reserve to consider the impact of its regulations on consumers, and research shows that consumers were harmed when the debit interchange fee cap was introduced as costs were passed on by issuers.

Consumers lost with the first regulation and will continue to lose with further reductions. The Government Accountability Office ranks the Durbin Amendment "among the top five laws and regulations most cited…as having significantly affected the cost and availability of basic banking services." One study has estimated $1-3 billion in annual transfers from low-income households to large retailers and their shareholders due to the Durbin Amendment.

We urge the Committee to support S. 4570, the Secure Payments Act, and call for the Board to withdraw this flawed proposal.

On behalf of America's Credit Unions and their over 140 million credit unions members, thank you for holding today's hearing. We look forward to continuing to work with you to create an environment where credit unions can thrive.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Committee on Banking, Housing, and Urban Affairs