



Jim Nussle
President & CEO

Phone: 202-508-6745
jnussle@cuna.coop

99 M Street SE
Suite 300
Washington, DC 20003-3799

May 25, 2021

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

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

Dear Chairman Brown and Ranking Member Toomey,

On behalf of America's credit unions, I am writing to express our views in regard to the hearing entitled, "The Semiannual Testimony on the Federal Reserve's Supervision and Regulation of the Financial System." The Credit Union National Association (CUNA) represents America's credit unions and their more than 120 million members.

Although not a direct regulator of credit unions, the Board of Governors of the Federal Reserve System (Board) through regulation and policies directly impacts the operation of credit unions. CUNA welcomes this opportunity to highlight with the Committee an important issue the Board has chosen to tackle.

CUNA is concerned that proposed Regulation II could adversely impact credit unions by unnecessarily increasing the regulatory burden associated with providing credit union members debit cards. The Board's proposed updates to Regulation II (12 C.F.R. pt. 235) that seeks to provide "clarification" to the regulation of debit card routing requirements. In our view, the proposal represents much more than a clarification but instead would add new requirements to Regulation II that would increase the complexity and costs associated with debit cards. CUNA plans to provide fulsome comments to the Board detailing credit unions concerns; nonetheless, it is appropriate for the Committee in its oversight role to explore the proposed rule and its implications with Vice Chairman Quarles.

Under the current Regulation II's requirements, issuing credit unions can comply with the routing and exclusivity requirements by issuing debit cards carrying a signature network and an unaffiliated network. The proposed rule would require issuers to offer two unaffiliated networks which must also be capable of processing transactions under a new framework of expectations surrounding merchant type, transaction and location. The proposed rule does not properly consider technological challenges, particularly enablement challenges at smaller issuers that rely on third-party technology vendors. Although changes and clarifications may sound simple when written, the reality is each change in requirement creates additional operational and compliance burdens on top of lost revenue used to support a debit card program itself. The beneficiary of these technical changes is not consumers or small businesses, but large retailers in position to exploit routing requirements to their advantage.

Any regulatory change to interchange is contentious, as any legislation or regulation that limits revenue, imposes costs and increased regulatory burden on an industry will be. As the committee knows, debit and credit card payments are transactions between businesses and any regulation that Congress may institute will pick winners and losers, hurting one business in order to aid another.

Sincerely,

A handwritten signature in black ink that reads "Jim Nussle". The signature is fluid and cursive, with a large loop at the end.

Jim Nussle
President & CEO