

April 27, 2010

To: Members of the House Committee on the Judiciary

Re: Opposition to Proposals to Regulate Interchange Fees (H.R. 2695)

The House Judiciary Committee has scheduled a hearing on H.R. 2695, the Credit Card Fair Fee Act, this week. If enacted, this bill would seriously disrupt the proper functioning of our nation's electronic payment system to the detriment of consumers, businesses, and the broader economy. Moreover, this legislation would dramatically impact the ability of community banks to competitively provide credit and debit cards to local consumers. The undersigned trade associations strongly urge you to oppose H.R. 2695 or other efforts to regulate interchange rates.

Interchange is a fee that a merchant pays when a consumer uses a credit or debit card to make a purchase. The fee partially reimburses the issuing bank for the significant costs and risks of issuing cards, including infrastructure expenses, fraud risk, and the real risk of non-payment. H.R. 2695 attempts to regulate interchange by allowing retailers to pass their cost of doing business onto the consumer. The bill would require parties to negotiate interchange rates, with negotiations and rates monitored by the Department of Justice. In practice, the bill has the goal of artificially driving down rates through government-endorsed retailer collective activity. If enacted, consumers likely would bear the infrastructure and other costs.

H.R. 2695 represents only one example of the many efforts retailers are using to increase their profits at the expense of consumers. Merchants also want the price of debit card transactions to be the same as clearing checks (despite the numerous added benefits and costs associated with debit cards), and for retailers to have the authority to tell consumers they will not accept card payments if a card carries an interchange fee the merchant does not like – or if the consumer's total purchase value doesn't meet an identified threshold.

Additionally, retailers are seeking a back-door solution by asking Congress to give the Federal Reserve authority to set interchange fees, asking that agency to dictate marketplace pricing on what are clearly business-to-business transactions. All of these retailer profit-seeking initiatives fail to recognize that electronic payments are not just a substitution for cash payments, but provide consumers, merchants, and the economy with many more benefits, for which there is a cost.

Should Congress choose to establish price controls on interchange, consumers would be harmed, as lenders likely would pass on portions of merchants' costs to borrowers. Moreover, community banks and other small businesses would be significantly impacted. Community banks would no longer be able to provide various payment services on a par with their larger competitors, and thus no longer be able to serve their customers, with local communities suffering as a result. In sum, these initiatives would significantly harm the current marketplace.

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We strongly urge you not to support H.R. 2695 or other similar efforts.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association
California Bankers Association
Colorado Bankers Association
Community Bankers Association of Ohio
Connecticut Bankers Association
Delaware Bankers Association
Florida Bankers Association
Georgia Bankers Association
Hawaii Bankers Association
Heartland Community Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Illinois League of Financial Institutions
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Association of Community Banks
Maryland Bankers Association
Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association

Missouri Bankers Association
Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association
New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
South Carolina Bankers Association
South Dakota Bankers Association
Tennessee Bankers Association
Texas Bankers Association
Utah Bankers Association
Vermont Bankers Association
Virginia Bankers Association
Washington Bankers Association
Washington Financial League
West Virginia Bankers Association
Wisconsin Bankers Association
Wyoming Bankers Association