

They Said It—The Truth About Interchange

March 17, 2011

Cost to Consumers

“If they are forced down to the 12 cent level, that is going to -- to reduce the income that they get for debit cards, so I think they're going to have to make that up somewhere, probably by raising the fees that they have on transaction accounts. . . That would not be helpful for consumers and that might be an unintended consequence.”

-- Sheila Bair, Chairman of the Federal Deposit Insurance Corporation, February 17, 2011

“The full policy ramifications - who's paying for what, who's going to pay more and who's going to pay less under this - is something that maybe wasn't dealt with as thoroughly as it might have been.”

-Sheila Bair, Chairman of the Federal Deposit Insurance Corporation, Senate Banking Committee, February 17, 2011

“Cardholders value the convenience and security of debit cards, but issuers may cease to offer debit cards if regulations require them to operate card programs at a loss. At the same time, there is no guarantee that retailers will pass savings from lower interchange fees on to the consumer.”

-Senator Claire McCaskil (D-MO), December 17, 2010

“But there's the problem with price-fixing. We can't guarantee that, can we? We can't guarantee that a single consumer will get any benefit from that legislation.”

-Senator Mike Johanns (R-NE)

“Dodd-Frank may not raise taxes directly, but consumers will soon feel its cost with a pie -- pay higher regulatory fees, higher compliance costs and higher prices for financial services.”

-Senator Richard Shelby (R-AL)

“I feel that the current timetable for implementing [these] interchange rules is not sufficient for those who are affected – whether you're the consumer or the retailer or the bank...it's going to be very difficult for them to adjust.”

-Representative Francisco Canseco (R-TX)

“While this will provide a major windfall to big-box retailers and other merchants, the impact on consumers will be devastating—and again low-income consumers will be the hardest hit.”

-Economist Todd Zywicki, Wall Street Journal, January 4, 2011

“If this amendment stands, our constituents will pay more for basic banking products and credit cards and no longer receive valuable services like fraud and identity-theft protection paid for by the current interchange system.”

-Debbie Wasserman-Schultz (D-FL)

“The hastily passed Durbin amendment will have numerous unintended consequences for debit card users, including reduced access and increased fees.”

-Senator Bob Corker (R-TN)

“The fact is, the Draconian rules proposed by the Federal Reserve as price caps on debit card transactions will have dire consequences on credit unions – not-for-profit, member-owned financial institutions – and by extension, the 92 million Americans they serve.”

-Fred R. Becker is the President of the National Association of Federal Credit Unions

“No one wins when consumers are levied with fees or even forced out of the banking system altogether—not consumers, not banks and not merchants. With unemployment hovering around 10 percent and our economy slow to recover, we cannot afford to implement a rule with far-reaching consequences that may harm the economy.”

-Representative Shelly Capito (R-WV)

“Mr. Durbin pitched his bill as pro-consumer but it was really an attempt to rob banks and debit-card issuers in order to pay off his campaign check writers in the retail industry. As usual, the little guy is getting trampled.”

-Wall Street Journal editorial, March 17, 2011

Cost to Under Served Communities

“This rule should be thoroughly and expeditiously reviewed prior to implementation, allowing a full and appropriate impact study to be performed to ensure that it will not raise fees or otherwise harm at-risk communities, including communities of color.”

-Hilary O. Shelton, vice president for advocacy and policy at the National Association for the Advancement of Colored People (NAACP), March 7, 2011

“We would be concerned with a rule that would inadvertently reduce access to debit cards and other basic banking services to low- and moderate-income borrowers.”

-John Taylor, chief executive officer of the National Community Reinvestment Coalition, February 22, 2011

“No one has yet been able to tell me how Senator Durbin's amendment will keep the under-served from being hurt by higher fees for the very basic service that debit cards provide or how the amendment will ensure lower prices for consumers instead of bigger profits for merchants.”

-Russell Simmons, Founder of GlobalGrind.com

“Do you like free checking? Enjoy it while you can, because unless you're a high roller you will soon be paying for check-writing privileges.”

-Wall Street Journal editorial, March 17, 2011

Small Bank Exemption

“It is possible that because merchants will reject more expensive cards from smaller institutions or because networks will not be willing to differentiate the interchange fee for issuers of different sizes, it is possible that that exemption will not be effective in the marketplace.”

- Ben Bernanke, Senate Banking Committee, February 17, 2011

“The interchange provision has a exemption for banks -- smaller banks -- which of course we will put in the rule. We are not certain -- and I think this is something we are trying to better understand through the comments and through our outreach -- we are not certain how effective that exemption will be.”

-Ben Bernanke, Senate Banking Committee, February 17, 2011

“We are concerned these institutions may not actually receive the benefit of interchange fee limit exemption explicitly provided by Congress, resulting in a loss of income for community banks and ultimately higher banking costs for their customers. “

-Sheila Bair, Federal Deposit Insurance Corporation Chairman, comment letter to the Federal Reserve, March 10, 2011

“The interchange fee issue I think is a very real one. We are very concerned...I think the likelihood of this hurting community banks and requiring them to increase the fees they charge for accounts is much greater than any tiny benefit retail customers maybe get.”

-Sheila Bair, Federal Deposit Insurance Corporation Chairman, Senate Banking Committee, February 17, 2011

“I do think this is a real issue for community banks.”

- Sheila Bair, Chairman of the Federal Deposit Insurance Corporation, February 17, 2011

“It would seem to me that there's going to be undue harm done to smaller banks when the retailer looks at this and says, ‘You know what? I'm going with the smallest interchange possible, because it's going to help my bottom line.’”

-Senator Jon Tester (D-MT)

“You're starting to hear feedback that there may actually be some practical problems with implementing [the exemption for small financial institutions with assets of less than \$10 billion].”

-Senator Michael Bennet (D-CO)

“[T]here is at a minimum some confusion about the provision in this rule and if done incorrectly, this could be the final nail in the coffin for many of the smaller financial institutions, I think, that have been decimated by a weak economy and piles of new regulations from Washington.

- Representative Ed Royce (R-CA)

Some concerns have been raised that, despite its intent, the small issuers’ exemption may end up creating an unlevel playing field in the industry that hurts small issuers like community banks and credit unions by making their cards more expensive for merchants to accept. Such an outcome would run contrary to the general goal of benefiting consumers and promoting competition that we all share.

-Spencer Bachus (R-AL), House Financial Services Chairman, and Jeb Hensarling (R-TX), December 17, 2010

“15-20% of U.S. GDP travels over debit rails -- and that's plain percentages of consumer spending -- and if banks can't make money on this product anymore, there's going to be a lot of disruption there.”

- Adam Frish, analyst at Morgan Stanley Equity Research, CNBC, March 9.

Fraud

“Despite the statute’s indication that Board may consider fraud prevention and data security costs in determining the standards for interchange fees, the proposal does not include an adjustment for such costs.”

- *Mary Mitchell Dunn, SVP & Deputy General Counsel, Credit Union National Association, February 22, 2011*

"To ensure that small institutions are truly exempt, to ensure that fraud costs are truly accounted for, we have got to slow the process, study the issue and get this right in legislation."

- *Representative Ed Royce (R-CA), (3/2/11)--Speaking before the 2011 Credit Union National*

Costs to Debit Providers

"The statute limits the interchange fee to the incremental costs associated with individual transactions, which does not cover the full cost. It includes some fixed costs associated with setting up a debit card program, for example.

-*Ben Bernanke, Senate Banking Committee, February 17, 2011*

“It is a simple fact that for any business to remain viable, revenue has to exceed costs. If the Federal Reserve’s interchange proposal is allowed to move forward, banks will likely see a 70 percent to 85 percent cut in debit card revenues. This means that the income earned on the service will be significantly less than it costs a bank to provide it.”

-*David Kemper, Chairman and Chief Executive Officer, Commerce Bancshares, February 17, 2011*

“The exemption for community banks and Visa's two-tier pricing plan will not protect community banks or their customers.”

-*Karen Thomas is senior executive vice president of government relations and public policy at the Independent Community Bankers of America.*

"I think the likelihood of this hurting community banks and requiring them to increase the fees they charge for accounts is much greater than any tiny benefit retail customers maybe get from any savings."

- *Sheila Bair, Chairman of the Federal Deposit Insurance Corporation*

Unprecedented Government Interference in the Free Market

“Not only national firms are multinational players, they're some of the biggest economic players in the world. This isn't Joe's Hardware in somewhere in Nebraska. . . . Really, what you're doing is moving money from here to here, and it's the big players that are going to see the benefit of that, the big retailers.”

-*Senator Mike Johanns (R-NE)*

“The new law and the Federal Reserve proposal are an unwarranted intervention in a functioning market that will have far reaching consequences.”

- *Statement for the Record by the Independent Community Bankers of America, February 17, 2011*

"The federal government shouldn't be telling private companies what they can charge for goods and services; that's price fixing, and that's exactly what the Durbin amendment does."

-Senator Bob Corker (R-TN)

"Government price-fixing in the United States will make it harder for community-based institutions to compete with the largest institutions and provide their customers with the products and services they expect."

-Karen Thomas is senior executive vice president of government relations and public policy at the Independent Community Bankers of America.

"I get very nervous when the government tries to starts doing regulation and charging fees."

-Sheila Bair, Federal Deposit Insurance Corporation Chairman

Larry Kudlow: Let the market determine that.

Sheila Bair: Listen, I'd be fine with that.

-Sheila Bair, Federal Deposit Insurance Corporation Chairman, CNBC interview

"Price controls are almost always problematic...If the rule remains in place, retailers, banks and consumers will lose out in the long run through higher costs and limited choices."

-Senator Mike Lee (R-UT)

Safety and Soundness/Economic Recovery

"The proposal takes an unnecessarily narrow approach to recovery of costs that would be allowable under the law and that are recognized and indisputably part of conducting a debit card business. This has long term safety and soundness consequences - for banks of all sizes - that are not compelled by the statute."

-John Walsh, Acting Comptroller of the Currency, March 7, 2011

"If debit cards go away, it's not going to help small businesses."

-Senator Jon Tester (D-MT)

Stop and Study

"Any government regulation of interchange fees should yield some tangible consumer benefit, but the Fed's current cap offers no such guarantee. Further study will help yield a more thoughtful, long-term solution."

-Senator Chris Coons (D-DE)

"I think we have a real chance to get 60 because this is not a repeal...It's a delay and study and I think more information is always better as you move forward, especially considering Bernanke and Bair. ... Is it going to be difficult to get passed? Absolutely, it's going to be difficult. We need to have everybody pull in the same direction."

-Senator Jon Tester (D-MT)

“I’m concerned that the proposed rule dictating debit card interchange fees will have a harmful effect on consumers, small banks and credit unions...This legislation will allow Congress and federal regulators to take a thoughtful pause and avoid unintended consequences.”

-Senator Tom Carper (D-DE)

“The government should not be in the business of setting price controls on any product and implementing this rule would set a precedent for that...We need more time to sufficiently review this regulation, because failing to get it right ultimately means it will fall on the backs of consumers, merchants and financial institutions, including our small community banks. And at a time when Americans are watching every penny, we cannot afford to let that happen.”

-Senator Pat Roberts (R-KS)

“My bipartisan bill provides for a one year delay and allows the Federal Reserve, FDIC, OCC, and NCUA to study potential unintended consequences of capping the interchange fee at 12 cents then make recommendations for changes, if necessary. Simply put, the stakes are too high for consumers to let this rule go forward without answering some of these critical questions.”

-Representative Shelly Capito (R-WV)