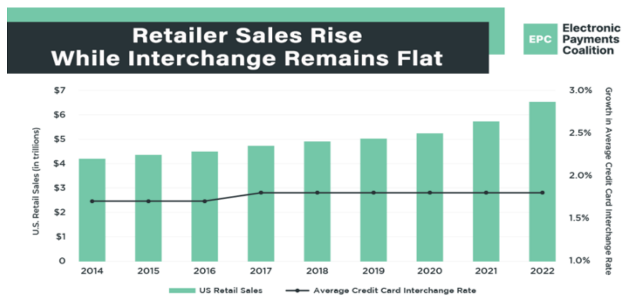
ISSUE BRIEF
Interchange

NAFCU strongly opposes the Credit Card Competition Act of 2023 (CCCA), S. 1838 and H.R. 3881, legislation introduced by Senators Dick Durbin (D-IL), Roger Marshall (R-KS), Peter Welch (D-VT), and JD Vance (R-OH) and Representatives Lance Gooden (R-TX), Zoe Lofgren (D-CA), Tom Tiffany (R-WI), and Jefferson Van Drew (R-NJ). This bill threatens credit unions' ability to provide important services to their members by imposing new credit routing mandates that would act as a backdoor price cap on interchange fees. We urge you to oppose this legislation.

THINGS TO CONSIDER

There Is No Need for this Legislation - Big box retailers claim that this legislation is needed to address rising interchange costs, but that's simply not true. As the chart outlines, U.S. retail sales continue to grow while the average credit card interchange rate remains constant.



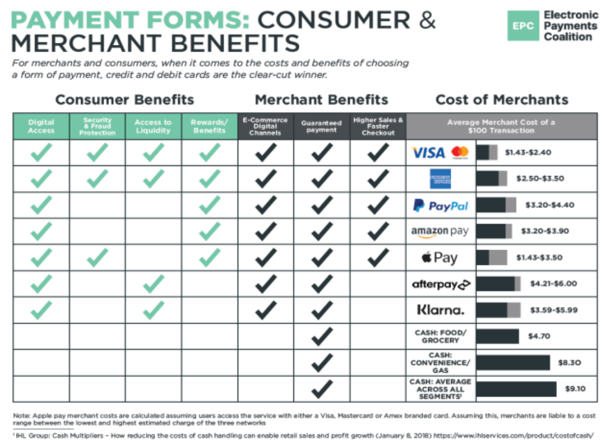
The CCCA Will Hurt Access to Credit - Interchange helps credit unions provide access to credit and low cost banking products especially in underserved, rural, and low-income communities. Credit cards essentially provide consumers with a loan at point of sale to make a purchase they may not otherwise be able to make. Without interchange, many institutions could be forced to stop issuing credit cards altogether or tighten credit standards. Consumers with less-than-perfect credit or no credit have greater access to secure financial services thanks, in large part, to the funding and benefits provided by the current interchange system.

Data Privacy and Security Would Suffer - The incidence of fraudulent debit transactions has more than doubled since the Durbin Amendment was enacted and allowed retailers to process transactions over less secure networks.[1] Consumers who had chosen a debit card based on the network's reputation for payment security had their choice invalidated, and the cost of covering the increasing volume of fraudulent transactions continues to fall on financial institutions. Extending similar requirements to credit cards would also allow retailers to choose alternative payment networks that do not provide consumers with the security and rewards they expect based on *their* choice of credit card. A recent survey found that 36% of consumers report receiving a new credit card due to fraud or a data breach. Interchange helps pay for those replacement cards.

[1] Federal Reserve. "2019 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions" (May 2021). https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2019.pdf.

Consumers Would Lose - Consumers have already directly felt negative impacts from the original Durbin Amendment. First, the Durbin Amendment led to a significant reduction in the number of debit card rewards programs, with 30 percent of cardholders losing debit rewards two years after enactment.[2] Second, the availability of free checking accounts suffered a major decline as an immediate result of the implementation of the Durbin Amendment. Extending these impacts to credit cards will also lead to a loss of credit for a number of individuals. The Credit Card Competition Act doubles down on this consumer harm and tops it off with the likely end of many consumer credit card rewards programs.

The CCCA's So-Called Exemption Won't Work - Experience with the original Durbin Amendment has shown that even a high asset threshold "exemption" as proposed in this bill (for institutions under $100 billion in assets) offers no protection to smaller financial institutions like credit unions. A similar exemption in the original Durbin Amendment has failed community financial institutions which have a dramatic decline in debit interchange.



Big Box Retailers Benefit the Most - This bill is essentially a "big box bailout" that will provide the greatest benefit to large retailers and corporations. While lobbying for the original Durbin Amendment, retailer groups frequently claimed those restrictions would lead to cost savings for consumers and small businesses and greater choice and reliability in payment networks. Research from the Federal Reserve Bank of Richmond found that rather than cut prices in response to lower debit interchange costs, merchants had "asymmetric reactions" as 98.8 percent did not decrease prices and 21.6 percent even implemented price increases.[3] Among businesses, big box retailers clearly saw greater benefits from the Durbin Amendment's price caps than small businesses, many of which were harmed by government distortion of the market price for interchange fees.[4] What retailers won't tell you, but the chart above does, is that credit cards are actually one of the lowest cost and most beneficial forms of payments for retailers. Why do you think so many unstaffed self-checkouts have been emerging at big box stores?

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[2] Electronic Payments Coalition. "Out of Balance: How the Durbin Amendment has Failed to Meet Its Promise" (May 2022). https://2oynji41vtot1y4f8s1gnb8a-wpengine.netdna-ssl.com/wp-content/uploads/2022/05/EPC.DurbinStudiesPaper.pdf.

[3] Wang, Zhu, Scarlett Schwartz, and Neil Mitchell. "The Impact of the Durbin Amendment on Merchants: A Survey Study" (2014). Economic Quarterly, Issue 3Q, pp. 183-208. https://ssrn.com/abstract=2655978.

[4] Zywicki, Todd J., Geoffrey A. Manne, and Julian Morris. "Unreasonable and Disproportionate: How the Durbin Amendment Harms Poorer Americans and Small Businesses" (April 25, 2017). International Center for Law and Economics. http://laweconcenter.org/images/articles/icle-durbin_update_2017_final.pdf.