



National Association of Federal Credit Unions
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B. Dan Berger
Executive Vice President
Government Affairs

May 4, 2010

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, D.C. 20510

Re: Oppose Senator Durbin's Interchange Amendments 3769, 3770, 3771 to the Restoring American Financial Stability Act of 2010 (S.3217)

Dear Leader Reid and Leader McConnell:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association exclusively representing the interests of our nation's federal credit unions, I am writing to express our concerns with, and opposition to, Senator Durbin's Amendments 3769, 3770, 3771 to the Restoring American Financial Stability Act of 2010 (S.3217).

All three of these amendments would impose heavy new restrictions on interchange fees for financial institutions issuing credit and debit cards. While interchange fees are a banking issue, we believe these amendments do not belong in the Restoring American Financial Stability Act. There has not been a single hearing on interchange fees in any Senate Committee in the 111th Congress, and the issue has therefore not been fully vetted and examined. Furthermore, there is litigation currently pending in the Eastern District of New York addressing the issue of interchange fees.

As currently drafted, these amendments will hurt credit unions and their 92 million members and we urge you to oppose them.

The electronic payments system has proven to be one of the most important advances in the financial services marketplace in the last century. The system is tremendously beneficial to consumers, as well as merchants. Consumers can travel the globe without worrying about having access to cash or exchange currency. Everything from a trip to the supermarket or gas station is made simpler and more convenient thanks to credit and debit cards. Merchants benefit from immediate payment, while financial institutions, such as credit unions, assume the risk in the transaction. Ill-conceived amendments on interchange could potentially harm smaller card issuers such as credit unions and community banks more than large financial institutions.

The system has been equally beneficial for merchants. Retailers reap tremendous benefits in the form of increased sales, reduced costs for overhead such as accounting for, and transporting cash, substantially

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fewer fraud losses and immediate payment for goods and services. Indeed, credit and debit card sales helped Wal-Mart ring up more than \$375 billion in sales last year. It is also instructive to note that Exxon-Mobil, Royal Dutch Shell, Chevron, and BP were the first, third, fourth, and fifth most profitable companies in 2008, according to Forbes Magazine. Based on the profits of the largest gasoline manufacturers, perhaps gas station operators should look to cut costs by negotiating a cheaper wholesale price for gasoline rather than advocating for price controls on interchange fees. Further, the explosion in internet commerce would have been virtually impossible absent the electronic payment system.

Amendment #3770 would also cap interchange fees charged to government entities. The government already pays among the lowest interchange rates available, and has derived tremendous value from card acceptance— particularly through savings in administrative costs, which dwarf the already significant direct savings from accepting payment cards. In fact, the government experience is an outstanding example of all the benefits derived from electronic payments that the private sector has already assimilated.

The electronic payment system and the interchange fee structure that supports the system are incredibly important to the credit union industry. The electronic payment system is integral in allowing credit unions to compete with the largest financial institutions. Credit and debit products are important tools in developing and fostering relationships with our members. Finally, interchange fee revenue helps cover the cost of maintaining the system; a cost which, contrary to merchants' arguments, is not negligible.

If new limits are placed on interchange, it could have negative impacts on credit unions and other small financial institutions. First, it will be more difficult to provide our members a credit or debit card without increasing costs elsewhere. Second, if the credit union finds it no longer can offer these products they will lose an incredibly important relationship building tool. In this day and age, it would be literally impossible for a credit union to grow and continue operating if it cannot offer its members this most basic product that credit union members want and expect from their institution.

The current interchange fee structure is transparent for retailers. Merchants have argued that they do not know what the fees are for each card. A simple search on Google.com for "Visa interchange rates" or "MasterCard interchange rates" will yield information from Visa and MasterCard respectively on what the rate is for each kind of transaction.

Another significant cost associated with the system is fraud losses. In 2008, it is estimated that there was over \$8.6 billion in plastic card fraud losses. Most of those losses occurred when merchants and retailers failed to safeguard sensitive data. In nearly all situations, it is the financial institution that covers those losses. Federal law caps the amount that can be charged to a consumer if his or her account is fraudulently accessed; therefore, the financial institution absorbs these costs. Further, many credit unions will reimburse members in full for any fraudulent transactions made on their account.

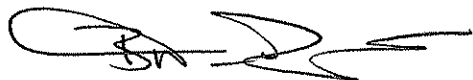
It is also worth noting that neither the merchants nor retailers have agreed to lower their prices at a level equal to any change on the interchange rate structure and pass on those savings to consumers. In fact, many of the large merchants are approaching this as a way to increase revenue with zero benefit to the consumer.

We urge the Senate to reject Senator Durbin's amendments 3769, 3770, 3771 and all efforts to make changes to the interchange rate structure in the Restoring American Financial Stability Act of 2010, S. 3217.

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Should you have any questions or require any additional information please do not hesitate to contact myself or Javier Sanchez, NAFCU's Associate Director of Legislative Affairs, at 703-522-4770.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Dan Berger". The signature is stylized with a large initial "B" and a long horizontal stroke extending to the right.

B. Dan Berger
Executive Vice President, Government Affairs

cc: Members of the United States Senate