



MISSOURI CREDIT UNION ASSOCIATION

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## Reducing Interchange Fees Will Cost Consumers

Without debate or hearings, the U.S. Senate added an amendment to S. 3217, the financial reform bill - "Restoring American Financial Stability Act," that alters the interchange fees merchants pay when consumers use debit cards. This provision will have negative unintended consequences for all consumers using debit cards.

Merchants receive tremendous benefits when they choose to accept debit as a form of payment. First, they attract more business because debit cards are more convenient and are preferred by consumers because of their wide acceptance and for the security of not carrying cash. Second, merchants are guaranteed payment when the transaction is approved; therefore the risk associated with accepting a check and not knowing whether it will clear is eliminated. Interchange fees are charged to merchants to process the transaction, and offset the risks associated with electronic payments. If a transaction is approved at the point-of-sale, any risk associated with non-payment by the consumer by using a debit card is borne by the financial institution that issued the debit card- not the merchant.

Before debit cards, people used checks. For a small merchant, a bad check could be a serious threat to their ability to do business because of the cost of collection and the loss of income. The interchange fee that merchants pay helps offset the costs such as fraud, merchant data-security breaches, reissuance of cards, consumer problem resolution contact centers, to name a few. Financial institutions that issue debit cards, including credit unions, assume expenses and risks for electronic payments to offer the convenience of debit cards to their customers.

As it is written, the interchange amendment would have the Federal Reserve set a debit interchange rate based solely on the cost of the transaction, without consideration of the total direct and indirect costs of offering debit cards to consumers. The merchants do not share in the all the expenses associated with electronic payments and do not assume any of the risk, but continue to benefit from prompt payment and additional business from the convenience of accepting cards. Who will cover the merchants' share of the expenses? You, the consumer will bear the cost. You may see fewer financial institutions offering debit cards, less access to a convenient payment options, monthly fees to have a debit card or per-use charges when using your debit card.

Credit unions understand the costs associated with issuing and accepting debit cards and welcome an open discussion about interchange fees and their impact on consumers, financial institutions, credit card processors, and retailers. However, this amendment was added to the regulatory reform bill without any public hearing, a study on its impact on all stakeholders or debate.

An effort to target the Wall Street banks responsible for the financial crisis will end up hurting consumers on Main Street if interchange is included in regulatory reform. Interchange was not part of this problem and does not belong in this bill. Contact your senators and representative and ask them to leave interchange out of the current regulatory reform bill.

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