



May 5, 2010

Members of the United States Senate
Washington, DC 20510

Re: **Credit union and community bank opposition to interchange amendments**

Dear Senator:

On behalf of the 13,000 community-based financial institutions serving more than 200 million American consumers that are represented by our associations, we write to express our strong opposition to a series of amendments intended to alter the electronic payments system and the interchange received by debit and credit card-issuing credit unions and community banks. Specifically, we urge the Senate to oppose Durbin amendments #3769 and #3771.

The financial crisis highlighted the disparities between Wall Street and Main Street. Our institutions—with their exclusive focus on local communities, underserved populations, and rural areas—issue debit and credit cards as a service to their local customers, and they continue to do so fairly and honestly, often with better rates and terms than can be found at larger institutions. The key that makes this possible is the existing interchange system, which allows our member community banks and credit unions to compete directly with the largest banks in the debit and credit card marketplace to ultimately meet the needs of local consumers and small businesses.

ICBA and CUNA oppose Durbin amendments #3769 and #3771 first and foremost because they will increase costs and reduce choice for consumers and will give the largest merchants further leverage to harm small businesses, which are already under significant pressures due to the withered economy. Nothing in these amendments guarantees that consumers will see any savings—in fact, these changes will likely cost consumers more money during these challenging times. Nothing in these amendments would stop a big-box retailer from capitalizing on these changes to further squeeze the margins of independent, small retailers. The consequences of these amendments would make it extremely difficult for credit unions and community banks to continue to provide valuable and responsible debit and credit card services to their customers, and would further the consolidation of market share into the hands of the largest financial institutions.

The electronic payments system is driven by the volume of transactions made with plastic by consumers. As such, it must be understood that these amendments are intended to disrupt the card payment system in favor of big-box retailers by reducing their financial obligation for participating in the system and for the benefits received from accepting debit and credit. Specifically:

- #3769: This amendment would impose government price-fixing and disadvantage consumers who carry credit union- or community bank-issued debit cards. While the amendment directs the Federal Reserve to artificially set prices for one part of an industry (big banks) while “carving out” small issuers, this purported “fix” for our members actually exposes credit unions and community banks to a variety of anti-competitive and anti-consumer realities.

Splitting up a system that works because it is currently *not* bifurcated will place our members and their customers at a significant disadvantage: with government price controls on debit cards issued by big banks, no market mechanism will be in place to prevent merchants from discriminating against consumers who carry the now artificially more expensive debit cards from credit unions and community banks.

- #3771: This amendment takes payment choice away from consumers and gives it to merchants, who would be free to arbitrarily vary the terms of card acceptance. For example, a big-box merchant that has a preferential arrangement with a big bank would be permitted to set high minimum dollar amounts for any competing card (including those issued by our member institutions), forcing consumers to apply for additional cards in order to be able to shop at their preferred stores. The amendment gives further leverage to the largest merchants by encouraging these preferential deals between the largest market players and opening the door to card discrimination.

We hope the Senate will continue to advance focused and sound financial reform legislation to address the bad practices and regulatory gaps that led to this crisis. These interchange amendments, which are not only extraneous to the underlying bill but have also never been explored by any Senate committee, will significantly harm the millions of consumers served by credit unions and community banks. Again, we urge every Senator to oppose these amendments as debate on S. 3217 continues.

Sincerely,



Dan Mica
President and CEO
Credit Union National Association



Camden R. Fine
President and CEO
Independent Community Bankers of America