



CUNA

Credit Union National Association

cuna.org

DANIEL A. MICA
PRESIDENT & CEO

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | **PHONE:** 202-638-5777 | **FAX:** 202-638-7734

August 14, 2008

The Honorable Tom Harkin
United States Senate
731 Hart Senate Office Building
Washington, DC 20510

The Honorable Olympia J. Snowe
United States Senate
442 Russell Senate Office Building
Washington, DC 20510

The Honorable Benjamin L. Cardin
United States Senate
509 Hart Senate Office Building
Washington, DC 20510

Dear Senators Harkin, Snowe and Cardin:

On behalf of the Credit Union National Association (CUNA), I am writing with regard to your July 30, 2008, request to the General Accounting Office (GAO) to conduct an investigation regarding interchange fees. CUNA is the nation's largest credit union advocacy organization, representing nearly 90% of our nation's 8,200 state and federally chartered credit unions, their state credit union leagues, and their more than 91 million credit union members.

CUNA appreciates your leadership on interchange. Interchange occurs every time a debit or credit card is used by a consumer. Interchange is a fee that flows from a merchant, through its bank, to the financial institution who issued the debit or credit card to the consumer. Because credit unions issue debit and credit cards for their members, interchange is a very important issue to credit unions. In fact, of the approximately 90 million credit union members nationwide, 97% belong to a credit union issuing debit cards and 83% belong to a credit union issuing credit cards. Interchange is used to offset everything from the credit union's initial costs of issuing or activating cards, to ongoing administrative expenses, card replacement, unpaid accounts, and other liabilities.

On July 30, 2008, you submitted a request to the GAO to investigate interchange, "The complexity of interchange markets, and the fact that any regulatory or legislative changes will significantly impact both credit card companies and small merchants, makes it prudent that we seek the GAO's assistance on this issue." In addition, the letter recognizes the unique position of small card-issuing financial institutions, like credit unions, "How do interchange fees assist smaller financial institutions, such as community banks and credit unions, compete against larger financial institutions? How would setting a price-ceiling, or other types of regulatory restrictions on interchange fees, impact the local community banks that collect part of these fees?"



AMERICA'S
CREDIT UNIONS®

PO Box 431 | Madison, WI 53701-0431 | 5710 Mineral Point Road | Madison, WI 53705-4454 | **PHONE:** 608-231-4000

The Honorable Tom Harkin
The Honorable Olympia J. Snowe
The Honorable Benjamin L. Cardin
August 14, 2008
Page Two

Interchange is paid by the merchant's bank to the card-issuing financial institution, like a local credit union. The credit card networks, Visa and MasterCard, do not receive interchange. Each network establishes interchange for transactions on its network, creating a balanced market attracting merchants and card issuers. If the interchange is too high, a merchant may choose to cease the acceptance of debit and credit card transactions; however, if the interchange is too low, a small credit union may determine it can no longer offer debit or credit cards to their members because of the inability to make ends meet.

Therefore, we request your consideration in specifically instructing the GAO to include the following questions in their investigation. These questions focus on the challenges small card issuing financial institutions face in working with the card networks to ensure interchange is balanced to support their continued administration of card programs:

1. For a card issuing financial institution (such as a credit union), what are the costs associated with issuing and maintaining debit and credit cards? Please identify the risks each party takes during a payment transaction, including the risk of non-payment, fraud, and lost or stolen cards. What is the cost of these risks to each party? Please compare the costs for large and small card issuing financial institutions.
2. If interchange were capped by regulation or legislation, from what sources would small card issuing financial institutions be able to offset costs of issuing debit and credit cards? Please identify options available to and restrictions or limitations on smaller financial institutions (e.g., credit unions), such as usury rate ceilings.
3. Would regulatory or legislative restrictions on interchange fees affect the ability of small financial institutions, such as credit unions, to issue debit or credit cards? What impact would this have on a consumer's ability to obtain a debit card or a credit card?
4. How does the current structure of the interchange fee market affect the ability of small card issuing institutions to negotiate interchange fees with the card networks?
5. What options do small financial institutions have to increase the interchange fee associated with merchant card acceptance, including the ability to negotiate with different merchant types? For example, if the risk of fraud is higher where a merchant accepts a card without verifying the signature or identity of the cardholder, are small financial institutions able to negotiate a higher interchange fee to accommodate the increased risk?

The Honorable Tom Harkin
The Honorable Olympia J. Snowe
The Honorable Benjamin L. Cardin
August 14, 2008
Page Three

6. How would the ability of merchants to jointly negotiate interchange affect the short-term and long-term competitive balance among large card issuers, small card issuers, payment card networks, acquirers, and merchants? Would small card issuers be adversely affected by interchange negotiations occurring among merchants, the card networks, and large card issuers?
7. How would the merchants' ability to negotiate different interchange fees for different debit and credit cards affect the acceptance of those cards at merchant locations? For example, could a large merchant refuse to accept a debit or credit card issued by a small financial institution?

In addition to the above questions, we offer ourselves as a resource and invite the GAO to interview the staff of CUNA, and/or our member organizations, to further share our expertise and perspective with regard to interchange and small card issuing financial institutions.

In conclusion, credit unions are proud to offer convenient debit cards and competitive credit cards as part of today's modern financial services marketplace. For every consumer with a credit union-issued debit or credit card in their wallet, interchange is a very important issue. Interchange is critical to the ability of credit unions to offer debit cards and credit cards. We look forward to working with you and the GAO to ensure the credit union voice is a part of this important interchange discussion.

Sincerely,

A handwritten signature in black ink that reads "Daniel A. Mica". The signature is written in a cursive, flowing style.

Daniel A. Mica
President & CEO