

July 11, 2023

The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, D.C. 20510

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

The Honorable Kevin McCarthy
Speaker
United States House of Representatives
Washington, D.C. 20515

The Honorable Hakeem Jeffries
Minority Leader
United States House of Representatives
Washington, D.C. 20515

Dear Majority Leader Schumer, Minority Leader McConnell, Speaker McCarthy, and Minority Leader Jeffries:

On behalf of the Independent Community Bankers of America (ICBA), the undersigned state banking associations, and the thousands of community banks we represent, we write to express our opposition to the Credit Card Competition Act of 2023 (S. 1838/H.R. 3881). If enacted, this bill would force an overhaul of the payments landscape at significant systemic cost – a cost ultimately borne by consumers and the community banks that serve them.

Community banks would be forced to subsidize system-wide costs and their customer data would be at risk. Many would retreat from card issuance in response. The legislation is poorly conceived and would exclusively benefit the largest “big-box” merchants including Amazon, Walmart, and others.

This bill would create new credit card routing mandates by the Board of the Federal Reserve requiring banks with over \$100 billion in assets to offer merchants at least two networks to process credit card transactions, at least one of which cannot be owned by Visa or Mastercard. The new routing requirements would apply to well over 80 percent of the credit card market by volume. This change would shift the choice of network over which a transaction is routed – from the issuer and the consumer to the merchant. The choice of routing network should ultimately remain with the consumer.

Interchange fees directly fund transaction security and innovation as well as consumer rewards programs, features highly valued by consumers. Merchants are not held to the same liability for stolen consumer data and are not subject to the same rigorous data security standards as community banks so their only incentive in routing choice is the lowest interchange rate, regardless of the consequences for the consumer. Allowing merchants to control network routing regardless of the issuing bank or consumers preference will translate into larger and more frequent security breaches, higher incidence of consumer fraud, as well as diminished or eliminated consumer rewards programs. Rewards programs have been valued by consumers for over a generation, from cash-back programs to airline miles to points toward purchases at favored merchants. By depriving consumers of network choice, S. 1838 and H.R. 3881 represents a sweeping change to fundamental consumer behavior.

While the legislation is designed to apply to the largest banks, the new credit card mandates would require significant new infrastructure investments throughout the payments ecosystem – community bank card issuers, processors, merchant acquirers, and networks. The mandates will also likely

require the reissuance of hundreds of millions of credit cards and chip recertification, putting increased pressure on an already stressed chip supply. Compliance with the mandates would be subsidized by new costs across the ecosystem, making community bank card programs more costly and limiting access to credit.

Merchants claim this legislation will result in cost savings for consumers. However, similar claims with regard to the Durbin Amendment, which capped debit card interchange, have not been realized. According to the Federal Reserve Bank of Richmond, 98.8% of merchants failed to pass through savings from the debit card regulation to consumers and over 20% increased prices after the Durbin Amendment was implemented.¹ In fact, since the passage of the Durbin Amendment in 2010, the largest retail merchants have retained over \$106 billion in interchange fees that they failed to pass along to consumers as they had promised. This legislation would further boost the profitability of large merchants at the expense of consumers and the community banks that serve them.

Community banks attract and retain customers by offering a full suite of innovative banking products. Credit cards are a product that customers fully expect from their bank and offering them helps community banks remain competitive and independent. As noted above, the systemic costs entailed by a forced overhaul of credit card routing mandates would be subsidized by all card issuers. These costs would further strain the viability of community banks. A retreat from credit card lending would put community bank independence at risk and ultimately create a less competitive financial system for consumers and small businesses.

We respectfully urge you to oppose this misguided legislation.

Sincerely,

Independent Community Bankers of America	Alabama Bankers Association
Arizona Bankers Association	Arkansas Community Bankers
California Community Banking Network	Independent Community Bankers of Colorado
Connecticut Bankers Association	Florida Bankers Association
Community Bankers Association of Georgia	Idaho Bankers Association
Community Bankers Association of Illinois	Indiana Bankers Association
Community Bankers of Iowa	Community Bankers Association of Kansas
Bluegrass Community Bankers Association	Louisiana Bankers Association
Maine Bankers Association	Maryland Bankers Association
Massachusetts Bankers Association, Inc.	Community Bankers of Michigan

¹ See Wang, Z., Schwartz, S., and Mitchell, N. (2014). The Impact of the Durbin Amendment on Merchants: A Survey Study. Federal Reserve Bank of Richmond and Javelin Strategy & Research (“FRB Richmond Study”). Also See Haltom, R. and Wang, Z. (2015). Did the Durbin Amendment Reduce Merchant Costs? Richmond Fed Economic Brief. Retrieved from: https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_brief/2015/pdf/eb_15-12.pdf

BankIn Minnesota	Mississippi Bankers Association
Missouri Independent Bankers Association	Montana Independent Bankers
Nebraska Independent Community Bankers	New Hampshire Bankers Association
New Jersey Bankers Association	Independent Community Bankers Association of New Mexico
Independent Bankers Association of New York State	North Carolina Bankers Association
Independent Community Banks of North Dakota	Community Bankers Association of Ohio
Community Bankers Association of Oklahoma	Oregon Bankers Association
Pennsylvania Association of Community Bankers	Independent Banks of South Carolina
Independent Community Bankers of South Dakota	Tennessee Bankers Association
Independent Bankers Association of Texas	Vermont Bankers Association
Virginia Association of Community Banks	Community Bankers of Washington
Community Bankers of West Virginia	Wisconsin Bankers Association
Wyoming Bankers Association	

CC: Members of the United States Senate
Members of the United States House of Representatives