April 29, 2022

The Honorable Rob Portman
448 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Portman,

On behalf of the Ohio Credit Union League (OCUL) and the Ohio Bankers League (OBL) and the collective interests of the aggregated financial institutions we represent, we are writing to make you aware of an upcoming hearing in the U.S. Senate Committee on the Judiciary entitled "Excessive Swipe Fees and Barriers to Competition in the Credit and Debit Card Systems." Banks, credit unions, and consumers collectively benefit from the current interchange system that enables access to easy-to-use credit, guaranteed merchant payments, and, most importantly, protects consumers from fraud.

Interchange fees typically range from 1.5% to 2.5% of an individual transaction, which are paid by merchants to cover the costs of the electronic payments network, fraud prevention, data protection, customer service, and card replacement services provided by banks and credit unions. Financial institutions, merchants, and consumers alike benefit from the current interchange system. Credit unions and banks provide secure access to credit, merchants obtain guaranteed revenue, and consumers receive necessary goods and services with less risk. Historically, merchants seek to retain the benefits of card acceptance without fairly accommodating the increasing costs connected to the electronic payments system. These costs will not evaporate. If all payment system participants, such as banks, credit unions, and merchants, are precluded from supporting the mutually beneficial payments system, costs will inevitably be passed along to consumers through increased fees.

People and families across the country rely on cards and credit to make life happen, from paying for groceries and school supplies to covering emergency car repairs or medical expenses. Accepted nearly everywhere, cards offer robust security, fraud protection, and access to credit that may not otherwise be available. Interchange fees, which are a small percentage of a transaction's cost, enable access to credit and capital while protecting consumers, merchants, and financial institutions from fraud and security threats. Cards, convenience, and coverage are expensive to issue, monitor, and secure. If credit unions and banks are unable to recoup service delivery costs through the current interchange model, some ancillary banking products, such as free checking accounts, will be impacted, and service costs will simply shift from one set of consumers to another.

Interchange fees can also cover the cost of fraud detection, credit monitoring, and fraudulent purchase protection that make consumers and merchants whole when bad actors attack, a threat that continually increases year-over-year. According to a 2021 data breach report by IBM and the Ponemon Institute, aggregated U.S. data breach costs last year totaled $4.24 million, or a 10

percent increase from the $3.86 million average cost in 2019.[1] The increasing costs of data breaches further highlight the current interchange systems' importance to credit unions and banks in maintaining cybersecurity and data protection services provided directly to consumers. The system also suggests the critical need for all consumer payment parties, merchants and banks and credit unions, to be held to equitable data security standards to limit data breaches, better protect consumers, and optimize service delivery costs.

Additionally, it is important to note the distinction between credit and debit cards. Credit card transactions represent a short-term and unsecured loan made by a credit union or bank at the merchant's point of sale. Debit card transactions are payments deducted from a cash-equivalent consumer account. As a credit building mechanism, consumers often rely on credit cards from their bank or credit union to access funds that otherwise may not be available to either cover necessary expenses or improve creditworthiness. Interchange disruption in the credit card market will impact the cost of funds, driving increased fees and impaired access to affordable credit offered by credit unions and banks. Further government interference in the competitive and well-regulated interchange payments system will only add cost pressure to this already strained environment.

Supply change disruptions and increasing costs of goods and services are largely the contributing factors to increased consumer costs. Merchants have long argued that shifting the burden of interchange fees from retailers to banks and credit unions will lower the cost of goods; however, the current inflationary environment suggests this simply is not the case. As evident with across-the-board rising costs for goods and services, disrupting the current interchange environment will simply exacerbate inflation, further impacting the costs borne by merchants, financial institutions, and consumers alike. Credit interchange restrictions will diminish the current payments system that enables both community-based financial institutions and Main Street businesses to serve people, families, and communities through secure, affordable, and accessible goods and services. The initial interchange policy debate pinned Main Street industries against one another in lieu of developing a cohesive and fair payment system that prioritizes consumers' needs, privacy, and financial security.

On behalf of the collective OCUL and OBL membership, we respectfully ask you to empower banks and credit unions to provide affordable access to the people, families, businesses, and communities they uniquely serve. Thank you for your consideration, and please reach out to OCUL Legislative Affairs Director Jared Weiser at (614) 923-9705, or OBL SVP of Government External Relations Evan Kleymeyer at (614) 340-7605 with questions.

Sincerely,

Paul L. Mercer
President, Ohio Credit Union League

Michael J. Adelman
President & CEO, Ohio Bankers League

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[1] https://www.ibm.com/security/data-breach