The Credit Card Competition Act (H.R. 3881 and S. 1838) Harms Community Banks and Their Customers

If passed, this legislation will hurt all credit card issuers (including community banks) and their customers:

- H.R.3881 and S. 1838 allows merchants to choose cheaper, less secure card networks that would expose customers and their credit card data to weaker cybersecurity protections and increased fraud vulnerabilities.
- Credit card fraud would also be harder to detect, likely leading to more successful fraud.
  - Have you ever received a text/call in real time while checking out at a merchant asking you to confirm the transaction as valid or fraudulent? That ability may cease if an alternative network is in use.
  - By splitting transactions over two or more networks, the cardholder's payment patterns will be unclear, making it more difficult for machine-learning algorithms to detect unusual spending patterns in order to flag potential fraud.
  - To the extent that cardholder rewards programs and fraud prevention tools such as card usage blocks are tied to a particular network, they may not be available to consumers if the merchant chooses not to route transactions over that network.
- H.R. 3881 and S. 1838 would cause consumers to see reduced card rewards (i.e. cash back payments, frequent flyer miles and other perks), reduced free checking opportunities, higher minimum balance requirements, and higher fees. At the same time, consumers would likely see no savings from the windfall merchants receive from this legislation.
  - These assertions are based on numerous studies related to past experience with the Dodd-Frank Act's "Durbin Amendment", which imposed a government mandated reduction of debit card interchange fees. A good reference document with cited sources is "*Out of Balance: How the Durbin Amendment has Failed to Meet Its Promise*." https://electronicpaymentscoalition.org/wp-content/uploads/2022/05/EPC.DurbinStudiesPaper.pdf
  - The above assertions are also supported by feedback from our member institutions, and are consistent with basic economic principles when government intrudes into the free market system.
- Complying with this legislation would require extensive and expensive new payment card network technology and infrastructure, as the infrastructure does not currently exist today. These additional costs will flow downstream to all participants in the payments system, including community banks and their customers.
- **Don't be fooled by so-called "community bank exemptions".**

- **This legislation would hurt all banks issuing credit cards, including community banks. LBA-member community banks have consistently told us they saw a 20-30 percent reduction in debit card interchange fees after the Dodd-Frank Act's Durbin Amendment passed, despite having an "exemption".**

Additional reasons Congress should not intervene on this issue:

- Congress would be picking winners and losers by shifting legitimate costs of doing business from merchants to financial services providers, thereby making it more difficult and more expensive for consumers to obtain banking services. This abandons free market principles.
- The payments card system is governed by private contracts entered into between merchants, networks and financial institutions. It is not appropriate for retailers to ask members of Congress to disrupt free enterprise by wading into this complex issue.
- There has not even been a hearing on this very important and complex issue, which would change the entire landscape of the payments system.
- Merchants receive great benefits from the current payments system, including increased sales, faster transactions, reduced costs of cash, new retail channels, and prompt, guaranteed payments.
    - Card acceptance reduces costs associated with counting, storing, safeguarding, and transporting cash, and it limits losses from mislaid or stolen cash – all of which are significant expenses that merchants sometime overlook.
    - Electronic payments allow merchants to access other sales channels through e-commerce and mobile commerce avenues, which are growing rapidly.
    - Electronic payments reduce the risks to merchants associated with credit loss by providing prompt, guaranteed payments. Electronic payments are deposited directly into the merchant's account, and card issuers, not merchants, take responsibility for losses if a customer who uses a credit card ultimately is unable to pay. **Keep in mind that credit card issuers are making unsecured loans to cardholders, and those loans are not always paid back**.
- Merchants are also free to create their own credit cards for customers.
- Card network rules allow merchants to surcharge customers for credit card interchange fees.
- Merchants are seeking a market intervention that allows them to both have the advantage of accepting credit cards while not paying the market-defined price of the service.