KANSAS BANKERS ASSOCIATION

WHY CONGRESS SHOULD OPPOSE THE DURBIN-MARSHALL CREDIT CARD BILL

Summary

In July of 2022, U.S. Senator Dick Durbin (D-IL) and Senator Roger Marshall (R-KS) introduced legislation that would enact harmful credit card routing mandates. Senator Durbin reintroduced his credit card bill (S. 1838) in June of 2023. A companion House version (H.R. 3881) was introduced in the House by Representative Lance Gooden (R-TX) and Representative Zoe Lofgren (D-CA). This legislation would allow corporate mega-stores, like Walmart and Target–to process credit card transactions based solely on what is cheapest for them without regard to the value that consumers derive from rewards and many other benefits. This would add billions of dollars to the bottom lines of mega-stores every year while eliminating almost all the funding that goes towards popular credit cards rewards programs, weaking cybersecurity protections, and reducing access to credit.

The Value of Interchange

Interchange is an essential part of the electronic payments ecosystem that ensures its functionality. Interchange is a 1-2 percent fee that merchants and retailers pay to accept electronic payments. Payment networks and card issuing banks use interchange to invest back into the payment ecosystem for rewards, card security, innovation, and more. This critical component of electronic payments benefits consumers and merchants alike.

Consequences of the Durbin-Marshall Credit Card Bill

Durbin-Marshall would prevent consumers from choosing a network that works best for them. Instead, it would give mega-stores the power to pick the cheapest network without considering consumers' needs.

- **Eliminates Credit Card Rewards**

  Not only would this policy rob consumers of their network choice, but it would eliminate funding for credit card rewards programs and cashback options that American families rely on. In 2022, U.S. card rewards programs returned roughly $68 billion to consumers of all income levels, helping working class families pay for groceries and back to school shopping. Credit card routing mandates would effectively eliminate credit card rewards as we know it.

- **Fraud Protection & Cybersecurity Will Decline**

  Financial services companies bear the cost of fraud to ensure that consumers can be confident using credit cards. They also spend billions of dollars each year to bolster cybersecurity, leading to technological advancements like tap-to-pay and contactless payments. But under the Durbin-Marshall Credit Card Bill, providers wouldn't have the interchange revenue to invest in the protections and innovations that

Credit Card Facts:

Number of Credit Cards in America:

486 Million

Number of Americans Who Hold at Least One Credit Card:

196 Million

Cost to Reissue Credit Cards:

Up to $5 Billion

Actions of Merchants Following Debit Card Fee Mandates:

22% Raised Prices

1.2% Reduced Prices

Amount Retailers Retained After Debit Card Fee Mandates:

More than $145 Billion

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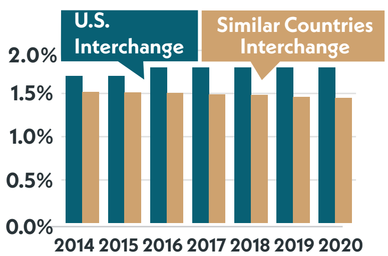
cardholders deserve. Additionally, the bill has a hollow carve-out for foreign networks like China UnionPay, which won't stop American consumer's transaction information from being routed through less secure foreign countries.

- **Reduces Access to Capital and Credit** If interchange revenue is reduced for financial institutions, millions of consumers would see their credit-card costs increase, while some could lose access to credit altogether, as the economics that support the current system are upended. The GAO, an independent, non-partisan government agency, has labeled similar regulations on interchange as "having significantly a¸ected the cost or availability of basic banking services." Reduced access to credit cards would push low-income borrowers to more costly credit products, such as payday loans.

The average U.S. credit interchange rate has only risen 0.1% from 2014-2020



Source: Verisk (Credit) and Federal Reserve (Debit)

Winners and Losers

- **Winners: Corporate Mega-Stores like Walmart, Target, and Kroger** This legislation would give these mega-stores the power to decide which credit card network a consumer's purchase transaction would be routed to. Instead of passing the remaining savings onto consumers, retailers claim these profits for themselves.
- **Losers: Consumers, small financial institutions, and small businesses** While mega-stores reap the benefits of this legislation, consumers, community banks, credit unions, and small businesses are left to pay the price. Credit card routing mandates would rob them of the security, effciency, and convenience they receive from choosing which credit card networks are best for them.

The Failures of the Original Durbin Amendment

The original Durbin Amendment, passed in 2010, has continuously failed consumers, small businesses, and credit unions for far too long. Mega-stores and corporate-owned convenience stores promised to pass savings from debit card interchange fee caps on to consumers — then never did. A study found that more than three-fourths of retailers did not change their prices post-Durbin, and many even raised their prices instead of lowering them. As a result, they pocketed more than $145 billion in Durbin Amendment profits since 2011. Additionally, Federal Reserve data clearly shows that interchange revenue fell for community banks and credit unions.

Conclusion

If Walmart, Target and other corporate mega-stores are able to get Congress to pass the Durbin-Marshall Credit Card Bill, it will undermine fraud security and hurt consumers, small businesses, and community banks. Congress should avoid repeating history and instead work to stop routing mandates from expanding to credit cards.

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