

INDEPENDENT DATA ANALYSIS

The Harmful Effects to Consumers and their Financial Services Providers if the Credit Card Competition Act Passes

Oppose S. 1838 / H.R. 3881



GoWest Credit Union Association joined the Credit Union National Association (CUNA) in requesting an independent report from the financial services consultancy Cornerstone Advisors, to provide a holistic review of the impact of previous interchange legislation – the Durbin Amendment, and the potential impacts of S. 1838/H.R. 3881, the Credit Card Competition Act (Durbin 2.0) if passed in the 118th Congress.

The data-rich Cornerstone Advisors analysis, “*True Impact of Interchange Regulation: How Government Price Controls Increase Consumer Costs and Reduce Security*,” demonstrates beyond a doubt that the Durbin Amendment was costly for consumers and the community financial institutions serving them, which will only worsen if debit interchange price controls and restrictions are expanded to include credit cards.

What the report finds

The Promise of the Durbin Amendment was not Fulfilled.

ONLY 1%

of merchants passed savings from reduced interchange fees onto consumers.

77%

of merchants large and small did not reduce prices at all.

22%

of merchants actually increased prices, which continues through added transaction fees.

IMPACT ON CONSUMERS

They paid \$22-25 billion in higher prices over the years.

*Richmond Federal Reserve and the University of Chicago

IMPACT ON THEIR FINANCIAL INSTITUTIONS

Credit unions and community banks under \$10 billion, who were meant to be exempted, lost 19.3% of interchange revenue. Financial institutions with over \$10 billion in assets lost 25%.

IMPACT ON CONSUMERS

Significant reduction in the availability of free checking, and increases in fees impacted most consumers, especially the unbanked and underbanked.

Consumer Impact Case Study: Free Checking



While not profit motivated, credit unions were STILL forced to reduce service to members as Interchange revenue declined, and fraud increased. For-profit banks were left with few options but to generate revenue from other sources to meet stockholder expectations

*Source: 2023 Cornerstone Advisors

Following Durbin 1.0 the number of \$10 billion + financial institutions offering free checking dropped from 60% to 20%.

- **Average checking fees rose from \$4.34 to \$7.44 a month.**
- **Monthly minimums** on noninterest-bearing checking accounts **rose 25%.**
- **Monthly maintenance** fees on interest-bearing accounts **rose 13%.**

Households without checking or savings accounts are considered “unbanked.”

- **58% of unbanked** consumers reported not having enough money to keep an account or meet minimum balance requirements.
- **36% cited** this as a reason for being unbanked.

Source: FDIC 2013

Your constituents will continue to bear the brunt if the Credit Card Competition Act passes.

Credit cards are a convenience for consumers and merchants. Consumers can make purchases immediately and pay later. And according to a 2022 Federal Reserve Board and 2021 PAYMTS study, 79% of your constituents choose to use credit cards based on data security.

Merchants benefit greatly as they are paid faster, and don't face any risks from bounced checks. Yet they bear little to no responsibility in managing the costs of fraud.



67%

of small to medium businesses will not consider passing savings onto their customers if credit card interchange fees are reduced.

*Cornerstone Advisors survey of small to medium business owners and executives, March 2023

S. 1838/H.R. 3881 Threatens Consumer Safety and Access

Member-owned credit unions use interchange funds to cover the costs of fraud prevention and detection, replacement of compromised cards, and losses due to data breaches.

Merchants will determine which networks card transactions will be processed on. They may select the least expensive, not those networks proven to be more secure. This will require financial institutions to replace existing credit cards at a projected cost of over \$3 trillion.

Impact on consumers

Less funding for their financial institutions to protect them against fraud and to offer attractive rewards programs.

Reduced Access to Consumer Credit = Less available funds to spend with a merchant



Likely and unintended consequences of credit card mandates include reduction or removal of rewards programs, less credit availability, and lower credit limits due to revenue impacts.

*Source: 2023 Cornerstone Advisors

America's not-for-profit, cooperative credit unions serve 137 million consumer-owners, providing them with affordable credit options that help them to build brighter financial futures.

The evidence is clear. The Credit Card Competition Act is not in America's best interests. We ask for your opposition.



DOWNLOAD THE REPORT

"The True Impact of Interchange Regulation: How Government Price Controls Increase Consumer Costs and Reduce Security"

https://protectinterchange.com/wp-content/uploads/2023/06/True-Impact-of-Interchange-Regulation_CornerstoneAdvisors_June_2023-1.pdf



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