

July 28, 2010

To: Members of the U.S. Senate Committee on Appropriations

From: Floyd E. Stoner, Executive Vice President, Congressional Relations & Public Policy

Re: Strike Durbin Interchange Language on Financial Services and General Government Appropriations Bill; Support Collins Study Amendment

On behalf of the members of the American Bankers Association (ABA), I am writing to express our strong opposition to interchange language in the Financial Services and General Government Appropriations bill.

The language placed in the underlying text by Senator Richard Durbin (D-IL) would dictate and artificially set the interchange fees on credit cards paid by the federal government for products and services it provides. Financial institutions already are subject to severe restrictions on interchange with respect to debit card transactions. This new language is another effort to enact federal price controls on interchange which will further undermine the ability of financial institutions to serve their customers.

Specifically, the amendment states that the federal government must get the lowest credit card interchange rate – the processing fee a seller (the federal government) of a product or service pays to process an electronic payment – that is otherwise available in the marketplace. It mandates such pricing merely because the federal government is involved and irrespective of typical factors that help establish prices in a free market, e.g. negotiated terms between parties, costs, benefits, and other services involved.

This amendment has not come before the committee of jurisdiction – the Senate Banking Committee – or any committee with legislative jurisdiction over the payment system. In fact, it was inserted into this appropriation bill with minimal notice. The consequences of enacting such an approach have not been studied and the impact this legislation will have on financial institutions and the payment system are very unclear.

Senator Susan Collins (R-ME) will be offering an amendment to strike the Durbin language and insert a provision requiring a study of the issue and the appropriateness of permitting convenience fees. ABA strongly urges Members of the Committee to support the Collins amendment.