

October 4, 2011

To: Members of the U.S. Senate
Members of the U.S. House of Representatives

From: Frank Keating, President and CEO, American Bankers Association

Re: Imposition of Fees for Debit Card Use

Recent changes in the marketplace have led some institutions to increase bank debit card fees. On behalf of the members of the American Bankers Association (ABA), I wanted to provide you with an explanation as to why these fees are coming about.

Congress is well aware of the concerns ABA has raised over the so-called “Durbin Amendment” and the negative implications that such legislatively imposed price controls have for consumers and the broader economy. Though the “Durbin Amendment” was enacted with little debate and no hearings, subsequent hearings in both the Senate and the House of Representatives demonstrated that price controls on debit card interchange would do little more than bring higher prices for consumers for bank services without any corresponding increased benefit to those consumers. As the Federal Reserve Board’s rule implementing the “Durbin Amendment” took effect on October 1, we are now seeing that very result.

By capping the fees merchants pay for the value and efficiencies that debit card use brings to their operations, government intervention into this functioning market has fundamentally altered the economics of offering debit cards to consumers. Banks that are losing money on every debit transaction must move away from offering low cost debit choices. Critics of the amendment repeatedly warned of the consumer harm that is now taking place. This policy choice means that consumers are paying more today for a product that is no different to them than it was just a few days ago, and the only beneficiaries appear to be big-box retailers who will see their profits significantly increase.

The “Durbin Amendment” and its consequences stand as a prime example of the problems that result when massive amounts of new government regulation and government limits on revenue are coupled with a struggling economy. For banks of all sizes, these myriad challenges are constraining the lending environment and inhibiting the ability of banks to help get our economy back on track.

Policymakers should acknowledge the negative impacts of this and other aspects of financial services reform and find ways to reduce the impact they are having on banks and our nascent economic recovery. ABA and the entire banking industry, both large and small, stand ready to assist you in these efforts.