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May 2, 2022

The Honorable Ben Sasse
United States Senate
136 Russell Office Building
Washington, DC 20510

Dear Senator Sasse:

We have been made aware that Senator Dick Durbin (D – Illinois) is soliciting support for legislation that would establish credit card routing rules. While no bill has been introduced to date, it is our understanding that the proposal would eliminate the ability of banks to contract with third-party vendors of their choosing, by dictating that our members retain at least two credit card routing companies. While the purported objective is to lower merchant credit card costs, similar actions taken with respect to debit card routing activities in the past have not produced such results.

The Nebraska Bankers Association (NBA) encourages you to oppose these proposed changes as we have significant concerns regarding the impact that the changes will have on community banks and their customers. As free-market advocates, the NBA believes that routing mandates constitute unwarranted government interference in a well-functioning marketplace and the imposition of unnecessary costs upon the banking industry. Experience in the debit card arena has shown that government intervention in the private marketplace did not result in consumer savings, but rather merchants pocketed the savings from any reduction in routing costs that may have resulted. Consumers were harmed by reduced network quality, reduced consumer protections, reduced security and increased fraud losses.

As you analyze any legislation on this subject, we would submit the following facts for your consideration:

1) This should not be portrayed as a mega-bank issue. Many Nebraska banks offer credit cards as a service to their customers. Interchange revenue derived from this service is vitally important to banks of all sizes. These revenues offset the ever-rising costs of providing fraud protection and security for credit card customers. Simply put, routing mandates are a type of price controls that establish a cap on bank revenues for this much-valued service. A reduction in revenues derived from credit cards will most assuredly result in reduced profit margins and lead to an exodus of community banks from this line of business.

- 2). **A small bank exemption would be ineffective.** While many community banks are limited in their ability to serve as original issuers of credit cards, many Nebraska banks associate with larger financial institutions and other companies to offer this service to their customers. In this fashion, community banks are able to share in the revenues generated by their customers' card activity. Any adverse impact on the fee revenue for larger financial institutions and other companies with which community banks associate will inevitably trickle down to the community banks.
- 3). **Value versus cost.** Large merchants are driving this issue in an effort to enhance their bottom line. Retail businesses derive great value from the credit card payment system. The value of enhanced sales and reduced losses exceeds the costs associated with accepting credit cards.
- 4). **Increasing routing options do not reduce consumer costs.** Promises of lower prices for consumers when additional routing options were mandated for debit cards did not materialize and there is no evidence to suggest the outcome would be different for credit cards.
- 5). **Consumers value the current system... and it is working.** Consumers benefit and place great value on the safety and security built into the credit card payment system. Transferring the routing choice from financial institutions with a customer relationship into the hands of merchants so they can select the cheapest, and possibly less secure option, will not benefit consumers and will shift the merchant's own fraud costs onto banks. In addition, traditional credit card providers face significant competition from alternative payment providers, such as Square, Venmo, Zelle, Amazon Pay and others. Consumers and retail businesses have multiple options in this growing free market. Placing price controls on one element of the marketplace (debit card routing choices) will not benefit consumers or retail businesses.
- 6). **Compliance with the proposed changes would require massive investments.** Any change to a "dual-message" system would require banks to reissue every credit card using an infrastructure fundamentally different than today's "single-message" system. Compounding the problem is the fact that microchip prices are at an all-time high, with community banks paying two to three times more for card chips now than just a year ago.

In closing, we would respectfully request that you oppose any measure that increases the routing options required for credit card transactions. Such a measure would not result in reduced costs for consumers, but rather would increase costs or reduce revenue for community banks or the companies with which they associate, reducing options for consumers as community banks exit the credit card market.

As always, thank you for your consideration of our position on this issue. Please feel free to contact me should you have any questions.

Sincerely,



Richard J. Baier
NBA President & CEO