

Credit Unions Oppose State Regulation of Interchange

Credit unions issue debit and credit cards to their members. Interchange revenue—paid by merchants to credit unions/banks that issue credit and debit cards—represent merchants' fair share of using the payment card system. The interchange fee averages about 1.5% of the transaction.

Credit unions incur significant expense in operating their card payment systems. Interchange fees allow business costs, including operating expenses, fraud risk management, and the risk of consumer nonpayment, to be shared by the payments participants. Payment card fraud losses were \$3.56 billion in 2010 in the U.S. from all general purpose and private label signature and PIN payment cards. Fraud losses from cards are a significant cost to credit unions.

Why is state regulation of interchange bad policy?

1. There is no similar interchange law in any other state
 - Iowa becomes an island regarding electronic funds transfer purchase processing requirements.
 - The EFT infrastructure currently does not support what this law would require.
 - Compliance with a state-based interchange law would add significant programming & development costs—for both merchants and financial institutions—in order to separate the tax portion from the balance of the transaction.
2. The inter-state commerce nature of card transactions makes this issue one best dealt with by Congress
 - Congress passed the “Durbin amendment” in 2010 to regulate debit card interchange—it chose to do nothing with credit cards. Iowa shouldn't become a lone ranger at the state level.
3. Interchange is designed to help cover some of the fraud expense borne by financial institutions. Credit unions are liable for the entire cost of any fraudulent card transactions at the point of sale—the total cost of the purchase—not the cost excluding sales tax. Excluding sales tax from interchange is inconsistent with how the electronic payment system is designed to operate.
4. Consumers don't benefit from this legislation—it's a cost shift from merchants to credit unions/banks.
 - Merchants should pay their fair share of costs for the benefits they receive from plastic card payments (guaranteed payment real time, no handling of cash/checks, convenience for customers, etc.)
 - A real benefit to consumers in the area of e-commerce would be to pass strong data breach legislation.

For more information, please contact:



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