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On the Eve of Implementation, Fed Chairman Bernanke and FDIC Chairman Bair Still “Concerned” that Debit Card Rule Exemption for Small Financial Institutions Won’t Work

Exchanges with Senator Jon Tester Reiterate Administration’s Concerns about Negative Impact of Durbin Interchange Rule

May 12, 2011 – In testimony before the Senate Banking Committee today, Federal Reserve Chairman Ben Bernanke acknowledged that there is “good reason to be concerned” that the so-called “exemption” for small financial institutions in the Fed debit card rule will not work in practice.

The full exchange, with Senator Jon Tester (D-Montana), went as follows:

Senator Tester [on the proposed interchange rule]: I’m talking about rural America here. I’m talking about community banks and credit unions and if they go away, it’s another nail in our coffin. It’s really important. I think it’s really important. Is it going to work?

Chairman Bernanke: **I can’t say with certainty. There is good reason to be concerned about it.**

Senator Tester: Very good reason to be concerned about it. And if it doesn’t work, what’s the impact on rural America?

Chairman Bernanke: Well, it’s going to affect the revenues of the small issuers and it could result in some smaller banks being less profitable or even failing.

FDIC Chairman Sheila Bair, who also testified at the hearing, said it is “questionable” if the exemption for community banks and credit unions would work.

Senator Tester: Do you think it is possible to exempt community banks from debit interchange?

Chairman Bair: I think it is questionable. We had suggested that the Fed perhaps could use authority under Reg. E to require that the networks accept two-tier pricing, and our lawyers probably have a different perspective on that, and obviously that’s the Fed’s call as it is the Fed’s rule. So, if their view is that there is no reasonable authority to require that, I think it does become even more problematic. **I do think that this is going to reduce revenues at a number of smaller banks and they will have to pass that on to customers in terms of higher fees, primarily for transaction accounts.** That’s going to happen and again, is that the right result, is that the result Congress wanted? You need to determine that but I think that’s going to happen.

Both Chairmen Bernanke’s and Bair’s testimony reinforces [comments made in previous hearings this year](#) expressing concern about potential harm to community banks and credit unions.

“The nation’s senior economic policymakers continue to express concerns that small financial institutions and their customers will be harmed by the Durbin amendment, on the eve of intended implementation,” said Trish Wexler, spokeswoman for the Electronic Payments Coalition. “Why the rush? Slow this down and get it right before it’s too late.”

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About the Electronic Payments Coalition

The Electronic Payments Coalition (EPC) includes credit unions, banks, and payment card networks that move electronic payments quickly and securely between millions of merchants and millions of consumers across the globe. EPC’s goal is to protect the value, innovation, convenience and competition in today’s growing electronic payments system. EPC educates policymakers, consumers and the media on the system’s role in economic growth, and the importance of protecting consumer choice and stability for the continued growth of global commerce.