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NAFCU TESTIFIES BEFORE HOUSE JUDICIARY TASK FORCE ON THE IMPACT OF PRICE CONTROLS ON CREDIT CARD INTERCHANGE FEES

WASHINGTON — John Blum, vice president of operations for Chartway Federal Credit Union, headquartered in Virginia Beach, Va., testified today before the House Judiciary Committee’s Antitrust Task Force on behalf of the National Association of Federal Credit Unions (www.nafcu.org). Blum testified on the detrimental impact of H.R. 5546, “Credit Card Fee Act of 2008,” on consumers and credit unions since it seeks to set price controls on credit card interchange fees.

“NAFCU strongly opposes H.R. 5546,” Blum said. “If caps are imposed on interchange fees, it will enrich merchants while harming credit unions and consumers. The electronic payments system has proven incredibly beneficial to merchants. Retailers, however, want all of the benefits of the system, while at the same time they are asking Congress to simply cut their costs of doing business.”

Blum argued that “[t]he electronic payments system has proven to be one of the most important advances in the financial services marketplace in the last century. The system is tremendously beneficial to consumers, as well as merchants,” he added.

“The proof of the system’s success lies in its popularity among consumers and merchants. Last year, there were more than 40 billion electronic payment transactions,” Blum stated. “Likewise, more and more merchants are also signing on to use the Visa and MasterCard networks. The system is working exceedingly well. Introducing price controls into the electronic payments system is unnecessary and potentially very harmful.”

H.R. 5546 would create a three-judge interchange panel to “establish rates and terms that most closely represent the rates and terms that would be negotiated in a hypothetical perfectly competitive marketplace for access to an electronic payment system between a willing buyer with no market power and a willing seller with no market power.”

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Blum said H.R. 5546 would handicap credit unions, which must compete with much larger financial institutions. “The current structure allows credit unions to compete with even the largest national banks...Capping interchange fees, however, would ultimately provide an advantage to large financial institutions at the expense of credit unions and other small financial services providers.”

As an example, Blum highlighted his own credit union’s transaction process. “In 2007, Chartway processed over 14 million transactions for more than 43,000 credit card users and 85,000 debit card holders. On average, Chartway made 24 cents on each transaction it processed last year,” he said.

However, he added, “In order to understand the importance of interchange fees, it is critical to also understand the costs associated with maintaining the system. Simply put, the 24 cents per transaction that Chartway made in 2007 is not pure profit.”

Blum said Chartway FCU employs 11 people internally for debit card support and a large service provider externally for credit card support. On average, it spends nearly \$425,000 a year to cover fraud losses and insurance for fraud.

Blum also detailed a number of other costs associated with each instance of fraud, including employee time contacting and working with members to resolve problems; closing of accounts and new account numbers issued; and new cards that need to be printed.

“If interchange fees are capped, consumers will almost certainly see no corresponding decrease in the price of the goods and services they purchase but will likely face fewer options for obtaining credit,” Blum said. Credit unions have been good actors with their members in terms of credit card rates (federal credit unions have a usury ceiling of 18 percent). Driving credit unions out of this market could result in higher interest rates and more predatory practices.”

NAFCU is the only national organization that focuses exclusively on federal issues affecting credit unions, representing its members before the federal government and the public.

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