

## **The Credit Card Competition Act Only Applies to Giant Banks**

- All community banks and every credit union except one are exempt from the Credit Card Competition Act. No institution with assets of less than \$100 billion is subject to the bill at all.
- The bill does not change anything about how those institutions do business today and will not harm them. It may even help them.
- Debit reforms certainly helped community banks
- The way that credit card swipe fees are fixed disadvantages small banks and credit unions. Those institutions typically have higher costs than do large banks.
  - Credit union representative John Blum, for example, testified on behalf of the National Association of Federal Credit Unions in 2010 and told the House Judiciary Committee: “Credit unions have a higher per-transaction cost for processing card payments.”<sup>1</sup> Community banks have similar disadvantages because of their relatively small size resulting, in many instances, in the need to outsource card operations.<sup>2</sup>
- Because card networks like Visa and Mastercard fix fees for all banks with a uniform schedule of fee rates, however, large banks have for years been guaranteed higher profit margins than their smaller competitors.
- The result is that large banks have a bigger share of both the credit and debit card markets than their share of deposits.<sup>3</sup>
- Debit reforms have helped to level the playing field. The Philadelphia Federal Reserve published a study on the impact of debit reform on small exempt financial institutions in February 2016. The study found that after reform, “the volume of transactions conducted with cards issued by exempt banks *grew faster* than it did for large banks.”<sup>4</sup> The study concluded that “the evidence does not support the claim that competitive forces have effectively imposed the interchange fee ceiling on small banks.”<sup>5</sup>
- The Credit Union Times has reported that debit reform created “a powerful way for credit unions to accumulate market share” and “what some say is a huge opportunity for credit

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<sup>1</sup> John Blum, Hearing before the Task Force on Competition Policy and Antitrust Laws, House Judiciary Committee, May 15, 2008, House Report No. 110-179, at 80.

<sup>2</sup> Dave Carpenter, Hearing before the House Judiciary Committee on the Credit Card Fair Fee Act of 2009, Apr. 28, 2010.

<sup>3</sup> See Adam J. Levitin, *Interchange Regulation: Implications for Credit Unions*, 2010, at 39 (noting that 10 banks alone account for almost 90 percent of the credit card market and 51 percent of the debit card market, even though those 10 banks hold only 36 percent of insured deposits), *available at* [http://www.federalreserve.gov/newsevents/files/levitin\\_filene\\_paper.pdf](http://www.federalreserve.gov/newsevents/files/levitin_filene_paper.pdf).

<sup>4</sup> James Disalvo and Ryan Johnston, “How Dodd-Frank Affects Small Bank Costs,” Economic Insights: Federal Reserve Bank of Philadelphia (Feb. 2016) available at <https://www.philadelphiafed.org/-/media/frbp/assets/economy/articles/economic-insights/2016/q1/eiq116.pdf>.

<sup>5</sup> *Id.*

unions.”<sup>6</sup> According to Texas Trust President and CEO Jim Minge, debit reforms created “...a huge opportunity for credit unions like the Mansfield, Texas Trust Credit Union and everybody else below the \$10 billion threshold...” Debit swipe fee reform “applies only to financial institutions with more than \$10 billion in assets, which has created a huge opportunity for credit unions – especially those that want to attract millennials.”<sup>7</sup>

- A number of credit unions also formed Co-Op Pay to negotiate a better deal with the Star debit network on the fees they pay to complete those transactions.<sup>8</sup> That was only possible because of the competition that exists among debit networks.
- Similar competition among credit networks would improve the bargaining power of smaller banks and credit unions as well.
- Centralized price-setting of credit card swipe fees harms smaller financial institutions. More competition in the market would help give them additional levers to try to compete with the largest banks including by allowing them to negotiate among the different networks.<sup>9</sup>

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<sup>6</sup> “Credit Unions Revive Debit Rewards” (Jan. 22, 2016) available at <http://www.cutimes.com/2016/01/22/credit-unions-revive-debit-rewards>; “Credit Unions Pile Into Debit Rewards” (Jan. 20, 2016) available at <http://www.cutimes.com/2016/01/20/credit-unions-pile-into-debit-rewards?page=1&slreturn=1453333652>.

<sup>7</sup> “6 Winning Credit Union Payments Strategies” (Apr. 15, 2016) available at <http://www.cutimes.com/2016/04/15/6-winning-credit-union-payments-strategies?slreturn=1487974414&page=2>.

<sup>8</sup> John Adams, “Credit Unions Join Forces to Keep Debit Card Costs Under Control,” American Banker (March 13, 2023) (available at [Credit unions join forces to keep debit card costs under control | Credit Union Journal | American Banker](#)).

<sup>9</sup> The two largest networks favor larger financial institutions in the terms of their deals. See “2019 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions,” Board of Governors of the Federal Reserve System (May 2021) at 15, available at [https://www.federalreserve.gov/paymentsystems/files/debitfees\\_costs\\_2019.pdf](https://www.federalreserve.gov/paymentsystems/files/debitfees_costs_2019.pdf).