

To: EFTA Members

From: Kurt Helwig, President & CEO
Dennis Ambach, Legislative & Regulatory Council Chairman

Date: February 17, 2011

Re: Recap on Today's House & Senate Interchange Hearings

Today, we monitored two hearings on Capitol Hill regarding the Federal Reserve Board's (FRB) proposed implementation Sec. 1075 of the Dodd-Frank Act governing debit card interchange rates and network exclusivity. The Senate Banking Committee took testimony on all aspects of implementing Dodd-Frank, but FRB Chairman Ben Bernanke fielded several questions on the Durbin Amendment. The House Financial Institutions and Consumer Credit Subcommittee focus was entirely on the FRB's proposed rule.

In both the House and Senate hearings, strong bipartisan sentiment emerged to give the regulators more time to consider many aspects of Dodd-Frank, especially the proposed rule on interchange. During the Senate hearing both Chairman Bernanke and FDIC Chairwoman Shelia Bair expressed concerns with the compressed timetable to implement Sec. 1075 and that all points of view may not be taken into account. Bernanke also suggested that ramifications of the \$10 billion small institution exemption require more input and study.

On the House side, FRB Governor Sarah Raskin questioned the effectiveness of the small issuer exemption as well. She acknowledged the FRB did not survey community banks and credit unions as part of its preparatory work. This admission caused great concern among many Subcommittee members. Raskin had few good responses on how fraud factors in interchange pricing, incremental costs versus fixed costs and the impact on consumers. Lastly, she said the FRB used the survey results on interchange costs to determine the definition of "reasonable and proportional."

Overall, Members of Congress believe the FRB doesn't have all the information necessary and the time required to properly implement the Durbin Amendment on interchange. Legislation requiring a delay in implementation has not been introduced at this writing, but seems likely based on today's events.