October 31, 2022

The Honorable Mark Warner
United States Senate
Washington, D.C. 20510

The Honorable Amy Klobuchar
United States Senator
Washington, D.C. 20510

The Honorable Jon Ossoff
United States Senator
Washington D.C. 20510

The Honorable Jack Reed
United States Senator
Washington D.C. 20510

The Honorable Chris Van Hollen
United States Senator
Washington D.C. 20510

The Honorable Rapheal Warnock
United States Senator
Washington D.C. 20510

The Honorable Michael Crapo
United States Senate
Washington, D.C. 20510

The Honorable Mike Rounds
United States Senator
Washington D.C. 20510

The Honorable Steve Daines
United States Senator
Washington D.C. 20510

The Honorable Cindy Hyde-Smith
United States Senator
Washington D.C. 20510

The Honorable Jerry Moran
United States Senator
Washington D.C. 20510

The Honorable Mike Rounds
United States Senator
Washington D.C. 20510

Dear CDFI Caucus Members:

We would like to share the views of the National Bankers Association (NBA) and the Community Development Bankers Association (CDBA). The NBA is the leading trade association for the country's Minority Depository Institutions (MDIs), on the Credit Card Competition Act of 2022. Our members include Black, Hispanic, Asian, Pacific Islander, Native American, and women owned and operated banks across the country who are on the front lines of closing the racial wealth gap by providing access to financial services, mortgages, and small business loans to low- and moderate-income (LMI), minority, and underserved communities. Many of our member institutions are also Community Development Financial Institutions (CDFIs) and have become banks of last resort for consumers and businesses underserved by mainstream financial institutions.

CDBA is the national trade association for banks and thrifts that are US Treasury-designated Community Development Financial Institutions (CDFIs). Our members have a primary mission of promoting community development and target at least 60% of their total lending and activities to Low- and Moderate-Income (LMI) communities and customers that are underserved by traditional financial service providers. Many of our members are also MDIs.

As you know, regulation of interchange was a contested part of financial regulatory reform, as adopted by the Senate during debate of S. 3217, the Restoring American Financial Stability Act of 2010. While the bill and subsequent regulations have primarily been promoted as targeting larger banks and the card networks, there has been significant harm done to smaller institutions such as MDIs, the very financial institutions that the Congress and banking regulators have a statutory duty to preserve and promote under Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act, and to CDFI banks. Simply, regulations written for large institutions frequently have unintended, damaging downstream effects on smaller institutions, regardless of Congress' intent. It is for this reason that the NBA and CDBA respectfully oppose any additional limiting interchange regulations. In particular, we urge Congress to carefully consider the harm that provisions in the "Credit Card Competition Act of 2022" (S. 4674) might cause in communities served by MDIs and CDFI banks. If Congress passes proposed interchange legislation that reduces fee revenue through additional price caps or routing requirements, we believe it will lead to increased consumer costs, reduced services, and is likely to throttle vital capital allocations for community and business development.

MDIs and CDFIs have historically served as engines of economic development due to their concentration in minority and LMI communities, as well as their deeply established relationships in these communities. As community lenders, they are significant providers of mortgages and small business loans, often saying "yes" when mainstream financial institutions say "no" to underserved populations. Given the important role MDIs and CDFIs play in communities, we need to do more to preserve and promote them. Unfortunately, policies proposed by Congress and implemented by regulators have failed to preserve and promote these institutions. In many instances, policymakers are not sufficiently sensitive to the special risk factors associated with the balance sheet and income statement characteristics that result from operating a bank in a LMI, minority or underserved community. Our member institutions often find themselves subjected to broad policy prescripts such as reporting requirements and fees adjustments intended primarily for large banks, that are not only costly to mission-driven banks, but also limit the range of services that they can provide to communities. In this regard, we believe placing limitations on the amount or use of interchange fees risks yet another change that would be a net harm to our institutions and customers.

Reasonable levels of interchange revenue can support our member banks' provision of no- and low-cost banking products and services such as free checking accounts and community programs like financial literacy. It can also help to offset higher than normal operational expenses. In a 2010 survey conducted by the NBA during consideration of debit interchange legislation, we learned just how important interchange revenue is to minority banks and their communities. According to one minority owned bank located in the northeast, "interchange revenue helps to offset some of the cost associated with offering affordable products, convenient distribution points, financial literacy programs, and partnering with city and state agencies around programs to help low to moderate income residents of inner-city communities." A Hispanic owned bank reported that, "modification to the interchange fee system would create financial harm for both the consumer and the banks which provide these services, particularly community banks for which these fees allow them to compete against larger national institutions and provide valuable support to local communities."

Unfortunately, for some MDIs and CDFIs, particularly those that issue only debit cards, current interchange revenue does not even cover the cost of issuance, meaning the bank maintains the account at a loss. Many institutions have seen an erosion of income linked to transaction fees during the years since the Federal Reserve's action on debit card interchange fees. Tragically, the lost revenue has forced drastic cuts in services and even the closure of some institutions.

While we commend the bill sponsors' commitment to protecting consumers, we respectfully urge the Congress to carefully consider the full impact of interchange fee proposals on MDIs and CDFI banks. While it is easy to oversimplify this issue as one of consumer protection, we believe it to be a business-to-business concern that can have dire consequences for banks serving the very customers policymakers seek to protect.

Congress must act deliberatively when the negative impact on MDI and CDFI banks and the communities they serve looms large in the balance. The NBA, CDBA and our members banks look forward to working with you on the solutions being considered to ensure LMI communities do not just survive but ultimately thrive.

Thank you again for the opportunity to comment.

Sincerely,

N Elam

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National Bankers Association

Brian A. Blake
Chief Policy Director
Community Development Bankers Association