National Bankers Association
1513 P Street. NW
Washington, D.C. 20005

August 1, 2022

The Honorable Richard Durbin
United States Senate
Washington, D.C. 20510

The Honorable Roger Marshall
United States Senate
Washington, D.C. 20510

Dear Senators Durbin and Marshall:

We would like to share the views of the National Bankers Association (NBA), 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.

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 identified as targeting larger banks and the card networks, there has been significant harm done to 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. It is for this reason that the National Bankers Association respectfully opposes inclusion of any additional limiting interchange regulations. We believe that the impact to MDIs and CDFIs have not been fully considered by Congress, and that the survival of some of our most disadvantaged communities and institutions is at stake.

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. This is especially true in African American communities.

Unfortunately, MDIs' smaller size and declining number, especially among African American MDIs, has not allowed them to respond as quickly or with as much scale as they would like. From 2009 to 2021, the number of MDIs significantly dropped from 215 to 143. In addition, MDIs are far smaller than the average non-MDI bank, with total average assets of $2.2 billion.

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Given the important role MDIs 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 MDIs. 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. MDIs often find themselves subjected to broad policy prescripts such as reporting requirements and fees adjustments that are not only costly to the 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 would represent yet another change that would be a net harm to our institutions and customers.

As noted, MDIs serve economically disadvantaged populations and face numerous economic challenges themselves due to high customer turnover and low account balances associated with the populations they serve, which result in higher than usual operational costs. Interchange revenue, in addition to providing no and low-cost banking products and services such as free checking accounts and community programs like financial literacy, helps to offset higher than normal operational expenses. For some MDIs, particularly those that issue only debit cards, interchange revenue does not cover the cost of issuance, meaning the bank takes an actual 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. As a result, these losses have led to drastic cuts in services and the closure of some institutions.

Minority owned and operated banks are committed to the communities they serve. However, if interchange regulation that reduces fee revenue through additional price caps or routing requirements is adopted, many banks will have no choice but to raise costs for customers, cut back on services, and reduce vital capital allocations for community and business development.

In a 2010 survey conducted by the National Bankers Association 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."

While we commend your commitment to protecting consumers, we respectfully urge the Congress to carefully consider the full impact of interchange fee proposals on MDIs. 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.

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Congress must act deliberatively when the negative impact on minority depository institutions and the communities they serve looms large in the balance. The National Bankers Association and its 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,

Nicole A. Elam, Esq.
President & CEO