Comments of the
National Lumber and Building Material Dealers Association
February 22, 2011

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Regarding: Debit Card Interchange Fees and Routing; Proposed Rule
Docket No. R–1404 (RIN No. 7100 AD63)

Founded in 1917, the National Lumber and Building Material Dealers Association (NLBMDA) has over 6,000 members operating single or multiple lumber yards and component plants serving homebuilders, subcontractors, general contractors, and consumers in the new construction, repair and remodeling of residential and light commercial structures. Lumber and building material retailers and dealers play an essential role in the supply chain between manufacturer and consumer.

NLBMDA members have witnessed increased debit card payments. Dealers have also seen increased fees imposed by the issuers. As merchants throughout our economy, NLBMDA members have no role in the choice customers as payment methods, they have no opportunity to negotiate discount rates with issuers, and must absorb or pass on the costs associated with debit card payment. Of the parties in a typical transaction, merchants and consumers have no ability to negotiate rates or influence fees.

It takes little imagination to determine what parties set fees and to whose advantage. Consider the simple explanation of how electronic transactions are processed:[1]

Step 1: Customer presents the card to the Merchant for payment.
Step 2: Merchant's bank—the Acquirer—sends an authorization request to the payment card company whose name appears on the card, generally Visa or MasterCard.
Step 3: Visa/MasterCard matches the Acquirer with the Cardholder's bank—the Issuer—and charges the Issuer an Association Assessment Fee.
Step 4: Issuer authorizes the transaction, debits Customer's account, credits Acquirer, and charges Acquirer an Interchange Fee.
Step 5: Acquirer places payment in Merchant's account and charges a Processing Fee.
Step 6: Merchant pays the Acquirer a Discount Rate—which is a percentage of the total transaction—that ultimately covers the Processing Fee, Interchange Fee, and Association Assessment Fee.

[1] See "Credit Card Fair Fee Act of 2008, House Report 110-913 (October 3, 2008), page 6.

Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act added new section 920 to the Electronic Fund Transfer Act to require that the amount of any interchange transaction fee that an issuer receives or charges with respect to an electronic debit transaction must be reasonable and proportional to the cost incurred by the issuer with respect to the transaction.

NLBMDA supports a framework that allows card issuers to recover reasonable costs for interchange transactions, but not to charge exorbitant fees. We also support a framework that allows for competition. Competition need not drive small issuers out of the market; in fact, competition should allow greater opportunities for all financial institutions and intermediaries, encouraging greater efficiencies and new innovations that should keep interchange transaction costs at reasonable levels in the future. To achieve this, we believe the Board must establish clear and a transparent pricing regime. We also believe the Board must maintain a vigilant stance once the appropriate framework is established. Oversight must ensure fees do not creep upwards when the urgency of Dodd-Frank implementation has passed.

The Board has requested comment on two alternative interchange fee standards that would apply to all covered issuers: one based on each issuer's costs, with a safe harbor (initially set at 7 cents per transaction) and a cap (initially set at 12 cents per transaction); and the other a stand-alone cap (initially set at 12 cents per transaction).

Given the experience to date in a now mature market – no competition, monopoly-like pricing, and lack of transparency – NLBMDA believes that a framework of a safe harbor and cap will bring rationality to the fee system. The safe harbor is reasonable as a simple system for merchants and small businesses to understand and audit, and we believe the cap allows issuers reasonable means of recovering costs in a competitive environment. We believe a cap is essential to ensure that fees are not used as excessive profit centers.

We further urge the Board to be informed by the past as it establishes a framework for the future. As one recent editorial noted[2] –

> The current system of unchecked central price-fixing by the card companies has led to an inefficient market with complex and unpredictable rates. The inability to negotiate rates and terms of card acceptance is unlike any other business relationship merchants have – some would not say it's not a relationship at all when one side dictates all the rules.
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> With cutting-edge technology and an increasing number of transactions, one

[2] See "Reforming swipe fees is critical for the economy and job creation," by Leslie G. Sarasin, published in The Hill, February 9, 2011, and found at: http://thehill.com/blogs/congress-blog/economy-a-budget/142937-reforming-swipe-fees-is-critical-for-the-economy-and-job-creation.

would expect the cost of a transaction to decrease due to efficiency. However, that has not been the case. Additionally, there is no payment guarantee when a customer swipes a debit card in one of our grocery stores. The bank card network can reverse the transaction due to a processing errors or fraud so there are times when merchants never get paid for the products they sell.

"The payments industry has a strong vested interest in interchange fees. They are a major portion of costs that merchants pay for processing debit and credit card payments and are a major source of revenue for banks that issue the cards."[3] Nevertheless, virtually every American is a stakeholder in this matter. Interchange transaction fees are passed on to consumers in the form of higher prices. To the extent consumers do not bear the costs, then merchants, retailers, and dealers do.

Issuers, while providing a vital service to everyday commerce, have created a profit center on every card transaction in America. Ironically, the payments industry warns that the consequences of lower fees will be fewer "rewards" for consumers – acknowledging that interchange fees are intended to cover more that reasonable and proportional costs incurred.

The payment card industry, however, warns that a substantially greater harm to consumers will result if interchange fees are artificially lowered. They claim that if the fees are too low, consumers will ultimately suffer, because payment card companies will offer fewer rewards, and will charge higher annual fees and interest rates.[4]

NLBMDA supports a framework that allows issuers to charge reasonable and proportional interchange fees. The Dodd-Frank Act has rejected the status quo and the Board has years of research and consideration of electronic payments systems. Now is the time to move the U.S. electronic payments system into a more transparent and competitive position. These fees should no longer serve as profit centers for issuers at the expense of local commerce; instead, transactions that drive everyday commerce should benefit the consumer first.

Respectfully submitted,

National Lumber and Building Material Dealers Association
By Frank Moore, as its Regulatory Counsel

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[3] See "Interchange Fees in Credit and Debit Card Markets: What Role for Public Authorities?" by Barbara Pacheco and Richard Sullivan (A Summary of a Federal Reserve Bank of Kansas City Conference) found at: http://www.kansascityfed.org/PUBLICAT/ECONREV/PDF/1q06pach.pdf.

[4] See "Credit Card Fair Fee Act of 2008, House Report 110-913 (October 3, 2008), page 6.