

# AMERICANS FOR PROSPERITY

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July 7, 2008

The Honorable John Conyers, Jr.  
Chairman  
Committee on the Judiciary  
2426 Rayburn House Office Building  
Washington, DC 20515

The Honorable Lamar S. Smith  
Ranking Member  
Committee on the Judiciary  
2184 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Conyers and Ranking Member Smith:

On behalf of the hundreds of thousands of members of the Americans for Prosperity, I strongly urge you to exercise prudence with respect to the issue of credit card interchange rates, and in particular the so-called Credit Fair Fee Act of 2008, H.R. 5546. This bill could have serious unintended consequences for consumers and could worsen the country's current economic problems.

Interchange fees are presently determined in a free market — merchants negotiate with the payment networks and choose which cards to accept based on customer demand and what makes sense for their business. This bill would empower a panel of unelected bureaucrats to set fees based on their own arbitrary assessment of a hypothetical free market—a poor substitute for the real thing. The effect would be to impose price controls.

In Australia, where regulators imposed interchange price controls, the result has been a dramatic decline in cardholder benefits — reward programs and the like — and an increase in annual fees. This has driven a double-digit increase in the use of more expensive charge cards from companies like American Express and Diners Club. As a result, merchants are paying more on many transactions, and there is a push for regulation of the three-party payment systems.

If the committee moves ahead with this approach and something like it is ultimately enacted into law, consumers will face higher interest rates, less-generous rewards programs, and could see the return of annual fees as banks scramble to make up for the lost revenue resulting from the interchange price control. Customers would have fewer choices of cards and some customers would be unable to be approved for credit cards.

Interchange price controls may also, by decreasing consumer choice and buying power, ultimately hurt the merchants who are calling for them. No merchant is forced to accept Visa or MasterCard. Their near-ubiquity follows from the value proposition they offer to both consumers and merchants. In fact, credit cards, with their existing fees, are already considerably cheaper for merchants than accepting cash, which has associated costs of theft, security, and handling.

For these reasons we urge you not to move forward on H.R. 5546 or any bill to alter the interchange system until these issues are better understood and the risk of price controls can be avoided.

Sincerely,



Tim Phillips, President  
Americans for Prosperity

Cc: Members of the House Judiciary Committee