

In Depth Look at new Bank Fees

Things couldn't be better for Credit Unions right now. Why? Big banks are implementing new checking and/or debit card fees. This is motivating consumers to finally check out a credit union and move all their financial needs to a credit union of their choice. Credit unions have been trying to get the word out about all the great benefits of a financial cooperative for decades. Finally – the secret is out. Let the benefits be known!

Now I have to throw out the proverbial 'but'. Let's take a deeper look at what is going on. It's called the Durbin Amendment. This amendment destroys a system called interchange.

Remember when merchants only accepted cash and/or checks? Then the Debit/Check card was born! The merchants willingly signed up for the ability to accept these cards because they no longer had to deal with large sums of cash or that dreaded returned NSF check. The card system gave them guaranteed funds, less internal theft exposure, less resources paid out to collect on NSF checks and all for a small fee at the time of the sale. Since a portion of that small fee was paid back to the Banks and Credit Unions, the financial institutions were able to absorb the costs associated with the issuance of these plastic cards, accept the risk of fraud losses (so the merchants and consumers weren't exposed to it), and cover the administering costs of the program. The argument for the Durbin Amendment was that merchants would be able to lower prices to consumers if the interchange fees the merchants paid were reduced. However, to my knowledge, there are no controls in place to ensure those reduced prices on goods happen. I haven't noticed any decline on my grocery bill; have you?

In my opinion, our congress approved this without all the research and voted on it blindly. Credit Unions pushed hard at the beginning of the year introducing a bill to them postponing the implementation and asking them to do a two year study before making any changes to the program. Our bill and warnings fell on deaf ears. So the Durbin Amendment changes are here.

We are told this will not affect institutions under \$10 billion in assets. We are only \$31 million, so why am I worried? Well, I am a bit concerned about the trickle-down effect. This amendment will require the networks authorizing the card usage to create a dual system to track the different levels of interchange fees based on the institution size. Hmmm. Every time those large network companies experience large expenses they don't usually just absorb the cost, they pass it on down the line. Hence those trickle-down effects I'm concerned about. In addition, merchants can now entice consumers to use one card over another. Plus, the larger retail merchants are now offering their own debit card where you can assign your own checking account to their card. The merchant promises you price breaks for using their debit card. What they don't tell you is now the merchant will be the receiver of the interchange income without absorbing any of the costs associated with the fraud that may occur. This still falls on the institution your account is with. So – if our members start using these merchant cards, it will be an additional reduction to the interchange income that helps pay for the institution's fraud losses and administering the program you have become so accustomed to using today.

Now – don't get me wrong. I have nothing against merchants. They are only trying to cut expenses where they can and increase revenue just like everyone else in this economy. But is it really the small local convenient stores that are going to win from this or are the mega stores the only ones who are benefiting? Who had the most pull in the political arena on this one? Will consumers really be the ones to benefit as the pro Durbin Amendment fans claimed? No – I think the larger merchants will gain larger profits at the expense of the consumer. But that is just my opinion.

Right now, your large banks are losing some of their profit margin. To make up for it they are passing that loss of income on to you, the consumer, for using their card. That way – they will keep their profit.

We are relishing in the new found love our community is giving us by joining our credit union. We love the new members and love a chance to prove how much we are here for our members.

I would encourage you to call your political representative and voice your concerns. Flooding their offices with calls and questions might be the only way to influence their actions at some point. Get them to see things from a real point of view and not just from the mega business perspectives!

In the meantime, we will do everything possible to absorb that trickle-down effect as much as we can, if it should happen. To help preserve our free checking program, our members should use our debit card and not the big merchant debit cards. Please also look to us for your other financial needs. We have a ton of free or low cost products and some really great low rate loan products. All of this will help preserve the credit union services the way you see them today – that's the beauty of a cooperative. We all work together for something better - now and into the future.