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Jamie Dimon, Chief Executive Officer and President JPMorgan Chase & Co. 270 Park Avenue
New York, NY 10017

Dear Mr. Dimon:

In your recent annual letter to your company's shareholders, you wrote a lengthy and dismissive critique of the debit interchange fee reform legislation that I drafted and that Congress enacted last year. You have also been quoted describing my amendment as "counterproductive," "price fixing at its worst," and "downright idiotic." I am compelled to respond, and I ask that you share this response with your shareholders as well as your customers.

Clearly, debit interchange reform has displeased many in the financial services industry. Your industry is used to getting its way with many members of Congress and with your regulators, and my amendment and the Federal Reserve's draft regulations were not written the way you wanted. But that does not mean they were written poorly or that the process that created them was flawed. To the contrary, interchange reform will carefully but firmly rein in the fee collusion that your bank and thousands of other banks currently engage in through Visa and MasterCard. The wisdom of this reform is confirmed by the irrationality of the arguments that your industry raises against it – arguments that are based upon misrepresentations and threats rather than evidence or logic.

The American people deserve to know the real story about the interchange fee system and the ways that banks in general - and Chase in particular - have abused that system. I have said and written much on this topic already, but I will respond to five of your specific criticisms below.

1. Your letter claims that my reform amendment "is an example of a policy that has little basis in fact or analysis." In fact, the amendment was drafted based upon years of Congressional hearings, Government Accountability Office reports, academic articles, and published studies by the Federal Reserve's economists and payment system experts. These analyses showed that the debit interchange system is uncompetitive, inefficient, and harmful to consumers. Your industry often acts like these analyses do not exist, so I will explain what they reveal.

The debit interchange system is not a properly functioning market. For years, card-issuing banks like Chase have agreed to let the Visa and MasterCard duopoly fix the interchange fee rates that banks receive from merchants each time a debit card is swiped. The banks get the fees but they do not set the fees. This system of price-fixing by Visa and MasterCard on behalf of thousands of banks has gone entirely unregulated.

There are two core problems with Visa and MasterCard's fixing of interchange rates. First, centralized rate-fixing does not give card-issuing banks incentive to manage their operational and fraud costs efficiently. This is because all banks in the network are guaranteed the same network-fixed interchange rate whether they are efficient or inefficient. Competition is absent and inefficiency is subsidized when fees are set in this manner.

Second, Visa and MasterCard have incentive to constantly increase interchange rates and there is no countervailing market force to temper these fee increases. Visa and MasterCard want as many of their debit cards to be swiped as possible because they are paid a network fee by merchants each time a card is swiped. By raising interchange rates, Visa and MasterCard can entice banks to issue more of their cards. Because Visa and MasterCard have enormous market power and control around 80 percent of the debit cards in consumers' wallets, merchants cannot realistically say no to accepting Visa and MasterCard and have no leverage to negotiate fee rates with them. There is no naturally-occurring market force in today's interchange system that would ever lead rates to go down.

So merchants are stuck with ever-rising debit interchange fees that add up to more than \$16 billion each year. These fees not only affect merchants, but also universities, charities, government agencies and all others who accepts debit cards as payment. The fees end up getting passed on to consumers in the form of higher retail prices for groceries and gas. Consumers, and particularly unbanked consumers, ultimately bear the cost of subsidizing the interchange system.

We owe it to our nation's consumers and businesses to ensure that the interchange system is efficient, transparent, and subject to competitive market forces. Studies have shown that Americans pay the highest debit interchange rates in the world, and that these rates have continued to increase in recent years. The Federal Reserve has also found that the high interchange rates charged today far exceed what it actually costs to conduct a debit transaction. Nearly every other industrialized country has established reasonable regulation over their debit systems, and these countries have achieved improved efficiency, lower fraud, and consumer benefits. The time has come for reasonable reform of the dysfunctional U.S. debit interchange system, and my amendment will make that reform a reality.

2. You say that "it's a terrible mistake and also bad policy for the government to get involved in price fixing." Of course, my amendment does not create price fixing - it constrains the price fixing that Visa and MasterCard currently perform on banks' behalf. Visa and MasterCard cannot simply be trusted to fix interchange prices in a way that is fair for all participants in the debit card system. They have not proven worthy of that trust.

Last year Congress decided that there should be reasonable regulatory constraints placed on Visa and MasterCard to ensure that they cannot use their market dominance to funnel excessive interchange fees to the nation's biggest banks. A strong bipartisan majority supported my amendment, which said that if Visa and MasterCard are going to fix fee rates on behalf of banks with over \$10 billion in assets, those rates must be reasonable and proportional to the cost of processing the transaction. It is important to make clear that if Chase wants to set and charge its own fees in a competitive market environment, the amendment does not regulate those fees. The only regulated fees are those fees that banks let card networks fix on their behalf.

3. You criticize the law Congress passed because it does not consider "the cost of fraud." Your comment highlights how the current interchange system, which supposedly does consider the cost of fraud, creates exactly the wrong incentives when it comes to fraud prevention. Fraud rates are far lower for PIN debit transactions than for signature debit transactions, but Visa and MasterCard set higher interchange fees for signature debit than for PIN ostensibly to cover the higher cost of fraud. Banks now urge cardholders to pay with signature in order to get the higher fees. For example, on April 21, 2010, the American Banker reported that your own bank sent a mailing to your debit customers that strongly suggested they should "always select" signature.

Chase's practice of steering American cardholders toward fraud-prone signature debit stands in stark contrast to Chase's practices in Canada. The Chase Canada website indicates that "chip and PIN technology will become available for all Chase Canada MasterCard and Visa cards in 2011." Your Canadian-based subsidiary Chase Paymentech Solutions says on its website that chip and PIN technology provides "Enhanced Security and Fraud Reduction – Chip technology is virtually impossible to copy and combining its use with a PIN helps reduce lost, stolen or counterfeit transactions." It is frankly inexcusable that your bank would urge your American customers to "always select" a fraud-prone technology while you provide your Canadian customers with technology that enhances security and reduces fraud.

In contrast to the current U.S. interchange system which rewards banks for promoting fraudprone signature debit, my amendment will allow interchange fee increases only to those banks that successfully prevent fraud. The Federal Reserve can implement this in its final rulemaking by setting target fraud prevention metrics and allowing increased interchange for banks that meet those targets.

4. You say that Chase needs debit interchange fees to pay for the "fixed costs of servicing checking accounts and debit cards" such as "printing and mailing of the cards," "operational and call center support to service the cards," and "the costs of ATMs and branches." Here you are using the old financial industry trick of first conflating the cost of conducting debit card transactions with the cost of offering other checking account-related services, and then arguing that network-fixed debit interchange rates should be used to cover this whole basket of costs. It is a clever argument that aims to justify Visa's and MasterCard's exorbitant price-fixed rates, but the shortcomings of this argument are evident.

The costs you cite in your letter are costs which banks should be incentivized to manage efficiently, and allowing Visa to fix interchange fee rates across all its member banks to supposedly cover these costs is a recipe for inefficiency and excess. Card network companies like Visa are not positioned to know what the appropriate level of cost is for operating "ATMs and branches," nor are they equipped to determine how much of a particular bank's "printing," "mailing," "operational" and "call center" costs are attributable to debit cards instead of ATM cards or credit cards. Further, Visa has no way of knowing if a particular bank is using debit interchange revenue not to cover legitimate costs but instead for rewards, ads, profit, or executive bonuses. Indeed, because Visa itself profits by incentivizing banks to issue more and more of its cards, Visa has every incentive to inflate the interchange fees it fixes to levels that compensate banks far in excess of their costs. In order to correct these incentives for inefficiency and excess, my amendment limits network interchange price-fixing on behalf of the

biggest banks to an amount that is reasonable and proportional to the costs that are necessary to authorize, clear and settle a particular debit transaction over the network's wires.

Also, your claim that interchange fees must be high enough to cover all checking account-related costs is undermined by the fact that banks also charge many other high consumer fees under the premise of covering those exact same costs. Banks like Chase charge consumers many fees for maintaining and accessing funds in their checking accounts - monthly fees, overdraft fees, failed payment fees, ATM withdrawal fees, failure to maintain a minimum balance fees, account closing fees, and more. Bank revenues from these consumer fees have not gone down in recent years as interchange fee revenues have gone up; to the contrary, bank revenues from consumer fees have also reached record highs. I would draw your attention to the November 12, 2008, Wall Street Journal article entitled "Banks Boost Customer Fees to Record Highs" and the July 1, 2009, New York Times article entitled "Bank Fees Rise as Lenders Try to Offset Losses," both of which discuss your bank and other banks' efforts to raise consumer fees long before my amendment was ever written.

5. You say that the amendment "potentially will harm consumers" because "banks will be forced to lose money on debit interchange transactions and likely will compensate by increasing fees in some way for deposit customers." This threat defies both facts and logic.

First, there is no evidence that banks cannot continue to offer debit cards profitably with reduced interchange. As Andrew Martin explained in the excellent January 4, 2010, New York Times article entitled "How Visa, Using Card Fees, Dominates a Market," up through the early 1990s banks used to offer debit cards even though they received no interchange fees. In fact, many banks used to pay merchants for accepting debit cards, because debit cards saved money for banks when compared to the banks' costs of processing paper checks. The current high-fee debit interchange system in this country only developed because Visa entered into and took over the debit market the mid-1990s through an antitrust violation, and Visa then imported credit card-type interchange fees into the debit space. Studies have shown that many other countries enjoy vibrant debit systems with interchange fees strictly regulated or prohibited entirely. In short, past experience in this country and present examples in other countries demonstrate that banks like Chase can easily continue to offer debit card services without the excessive subsidy of high interchange fees.

Second, if Chase follows through on threats to increase consumer fees (beyond those increases you have already made in recent years), market competition would suggest that many of your deposit customers would take their business elsewhere. In fact, many of those customers would likely take their business to the small banks and credit unions who are exempted from my amendment's interchange fee regulation and for whom Visa and other debit networks have already agreed to set a higher tier of interchange rates. And for those who continue to speculate that my amendment will hurt small banks and credit unions, I recommend they read Simon Johnson's excellent analysis in the April 7 New York Times entitled "Big Banks Have a Powerful New Opponent."

In conclusion, I recognize that Chase will likely see decreased revenue from interchange reform, but I urge you to keep some perspective. Last year Chase had \$17.4 billion in profits – up 48 percent from the previous year - and a 15 percent profit margin. Your own personal compensation "jumped nearly 1,500 percent to \$20.8 million in 2010" according to Reuters. In contrast, middle-class American families are struggling to get by in a tough economy – an economy that went south because of the banking industry's unregulated excesses.

There is no need for you to threaten your customers with higher fees when you and your bank are already making money hand-over-fist. And there is no need to make such threats in response to reform that simply tries to spare consumers from bearing the cost of interchange fees that are anticompetitive and unreasonably high.

Interchange reform is necessary and it is long overdue. Right now the Fed is working diligently to craft a set of final regulations that will reflect the comprehensive information it has gathered and that will respond to the valuable comments it has received. In the coming weeks I am confident the Fed will produce a reasonable set of reforms that will enhance the efficiency, competitiveness and fairness of the debit system. This will neither be "counterproductive" nor "idiotic." It will be good news for all Americans.

Sincerely.

Richard J. Durbin United States Senator