



March 23, 2026

State of Rhode Island
General Assembly
Senate Commerce Committee
82 Smith Street,
Providence, RI 02903

CCUA Testimony on House Bill S2522—Interchange Fee Restriction Act

The Cooperative Credit Union Association (Association) appreciates the opportunity to testify in opposition to Senate Bill 2522 on behalf of Rhode Island Credit Unions. This Bill would prohibit payment card networks from charging interchange fees on the tax portion of merchants' sales when they accept customers' payments using debit and credit cards. In addition, the Bill would allow merchants to claim a refund of interchange fees based on unverified receipts. As not-for-profit, member-owned cooperatives, credit unions' mission is people helping people, returning profit to members through lower loan rates, higher savings rates, and improved financial services such as reduced overdraft costs. The fourteen credit unions in Rhode Island serve over 500,000 consumer members.

The Association opposes this Bill because, if adopted into law, it would impose significant costs on credit unions, and result in worse rates and/or reduced services for Rhode Island credit union members, who are ordinary consumers. Small merchants also do not pay interchange fees directly. Instead, they typically must pay third-party processors like PayPal or Square a processing fee that can be significantly higher than the interchange fee a credit union receives. In addition to being bad policy, this legislation is flawed



because it does not include rules requiring small merchants' card processors to pass along interchange savings to the merchant. Further, the bill does not include a mechanism to verify the accuracy of rebate claims.

This Bill would impose significant costs on credit unions because they must pay plastic-card processing fees to their own vendors and provide anti-fraud protection on the entire value of a debit card or credit card transaction regardless of the amount of interchange income they receive. A credit union's interchange fee income is contractually independent from the fees credit unions owe their vendors for processing these transactions. Credit unions also must use interchange fee income to satisfy fraud expenses when insurance or payments networks do not cover those costs. Artificial Intelligence, for example, has recently supercharged online fraud, resulting in credit unions experiencing increasingly high credit card and debit card fraud expenses that are often not reimbursed by insurance or a card network even if the credit union must reimburse the member who was the fraud victim.

If interchange fee income is not available to cover these fraud and processing costs, credit unions would have to either increase other sources of income related to plastic cards or reduce expenses. This would entail either raising interest rates and fees on consumers or limiting which members can hold plastic cards to those who present the lowest risks of fraud. Such a scenario could negatively impact credit unions' efforts to



promote the financial inclusion of low- and moderate-income families because fraud expenses are typically higher on plastic cards held by lower income individuals.

In addition, Federal Reserve Board Regulation II¹ sets federal debit card interchange fee price controls at a rate of \$0.21 plus 0.05 percent multiplied by the value of the transaction, plus a \$0.01 fraud-prevention adjustment on debit card transactions. While credit unions below \$10 billion in assets are technically exempt from Regulation II, the interchange fees credit unions receive in practice from PIN-based debit card transactions are not significantly higher than the regulatory rates because Regulation II de facto defines this market. The Association's member credit unions, however, report receiving as little as 7 cents per debit card transaction in practice.

Under Regulation II, merchants should in theory already pay negligible interchange fees on the portions of a purchase representing sales taxes when an individual pays with a debit card. Yet small merchants, in practice, typically must pay much higher processing fees to their own card processors, such as PayPal and Square, who can capture most or all of these savings by exploiting their role as middlemen since small businesses lack negotiating power that large merchants like big box stores can achieve.

In addition to being bad policy that will harm credit unions and consumers, this Bill is fundamentally flawed because it does not contain a mechanism to ensure that small merchants receive the interchange savings this Bill envisions. Fifteen years of experience

¹ 12 C.F.R. pt. 235 (limiting covered issuers' debit interchange fees to no more than \$0.21 plus 0.05 percent multiplied by the value of the transaction, plus a \$0.01 fraud-prevention adjustment).



with the Fed’s Regulation II price controls for debit interchange illustrates this middleman problem for small merchants.

PayPal, for example, currently charges small businesses like mom-and-pop stores and restaurants a processing fee equal to 2.29% of the transaction value plus a \$0.09 per transaction fee on both debit cards and credit cards accepted using PayPal’s point-of-sale (or “POS”) terminals.² These rates can result in PayPal merchant processing fees for debit card transactions that much greater than what the credit union receives in interchange. On a \$100 sale when a customer pays using a debit card via a PIN-based network at a small merchant’s PayPal POS terminal, the small business would pay PayPal a processing fee of approximately \$2.38, or nearly 2.4% of the value of the \$100 transaction, based on PayPal’s published rates.³ In contrast, the amount the credit union would receive under the Regulation II debit card interchange rates would be only \$0.27, or 0.27% of the transaction’s total value.

Plastic card processing markups that companies like PayPal and Square charge small businesses are even more pronounced for higher value transactions. In addition, on card-not-present transactions, PayPal’s “PayPal Checkout” product charges small businesses an even higher rate of 2.99% plus a 0.49% transaction fee on both debit cards and credit cards.⁴

² See PayPal Business Pricing | Transaction and Processing Fees | PayPal US; <https://www.paypal.com/us/business/fees> (last visited Mar. 6, 2026).

³ See *id.*

⁴ See *id.*



Middlemen like PayPal and Square will capture the interchange savings that small merchants expect to receive from this legislation just as they have with the reduction in interchange fees created by Regulation II, the benefits which only flow to big box stores and other large businesses like chain restaurants. Legislation regulating the markups these middlemen plastic card processors can charge would be a more effective and equitable way to reduce small merchants' card processing costs than regulating interchange rates under Senate Bill 2522 would be.

In addition, the Bill's rebate system would give unscrupulous merchants the opportunity to claim false rebates by submitting tax data without a system to verify this data's accuracy. While Subsection (d) in the Bill recognizes this problem with the legalistic solution of prohibiting merchants from altering their receipts or other data—something that would be illegal anyway because it would be fraud—the bill does not include a mechanism to prevent such fraud from occurring. Payment card networks also would have little reason to scrutinize such rebate claims because they would be immune from legal liability under Subsection (c) of the Bill. Credit unions, meanwhile, would be required to absorb these costs and reimburse the payment card networks for all rebate claims issued, in addition to receiving a lower level of debit card and credit card interchange fee income.

Thank you for the opportunity to share the Association's concerns about Senate Bill 2522 to regulate debit card and credit card interchange fees, which would invite fraud and impose significant compliance costs on credit unions as well as result in worse rates



and/or reduced services for Rhode Island consumers. We ask the committee to study this legislation further and not move it forward.

Thank you,

A handwritten signature in black ink, appearing to read "Adrian Velazquez".

Adrian Velazquez, Esq.
Chief Advocacy Officer