



April 3, 2025

The Honorable Carol Hagan McEntee
Chair, House Committee on Small Business
Rhode Island State House
Providence, RI 02903

Re: House Bills 5554 and 5582

Dear Chair McEntee and Distinguished Members of the Committee

On behalf of the Rhode Island Bankers Association (RIBA), representing 21 financial institutions here in the Ocean State, we write in staunch opposition to House Bills 5554 and 5582 which seek to prohibit the collection of certain types of interchange fees on electronic transactions involving debit and credit cards.

General Background

The use of debit and credit cards has become an integral part of our state commerce and overall economy. The convenience they avail to local consumers directly results in millions in revenue for our local retailers – not to mention the subsequent millions to our state in the form of taxes. However, given the complexities associated with such a system/network, the operational burden of facilitating these transactions is not without cost. Most notably, the robust security measures and safeguards in place for consumer protection.

Financial institutions have designated staff and infrastructure in place to monitor customer spending habits and potential misuse. When outliers in behavior occur, the customer is contacted in order to discern if the purchases were legitimate or fraudulent. In the event the transactions are in fact fraudulent, the customer is made whole financially on those expenses. Additionally, a new card is created, synced to the customer account and mailed out in an expedited fashion. This process, while a tremendous asset to our customers, is a significant cost incurred by our member banks, as opposed to the retailer side where the problem typically originates.

In essence, these bills look to maintain the existing conveniences and securities reaped by retailers, while even further diverting cost back onto the financial institutions. It's also worth noting that the entirety of the interchange fee is currently tax deductible at both the federal and state level.

Legal Challenges

Legislation similar to these proposals has been considered and rejected in 30 states over the last 15 years, with one exception. In 2024, the State of Illinois, as part of a budget negotiation and not a publicly vetted stand-alone bill, adopted a similar proposal.

Subsequently, in December 2024, a federal judge issued a preliminary injunction against the budget provision finding that it conflicts with federal law governing federal banks, such as the National Bank Act, which governs national banks. In February, the court expanded the preliminary injunction to include out-of-state, state-chartered banks leaving only Illinois state-chartered banks to be impacted by the new law.

Given how the issue in Illinois has played out in the courts, we would strongly caution against passage of these bills as they are similarly likely to end up in the courts.

Technological Issues

Because the process to separate the sales tax does not exist, implementing either of these proposals would require major programming overhauls across retailers, banks, credit unions, payment processors, networks and card issuers. These major changes would enable point-of-sale systems to capture detailed transaction data, such as item details, prices, coupons, delivery terms and taxes due, to ensure accurate tax reporting and remittals. The more detailed/itemized the data could pose serious consumer privacy concerns.

All the technology and systems that make up the card payment network must be interoperable, requiring extensive coding, implementation, and testing across retailers, processors, networks, and financial institutions.

The system overhaul that would be required to implement these bills would impact both consumers and businesses. Small retailers would need new point-of-sale terminals, while small banks and credit unions would face higher implementation and maintenance costs that may force them to stop offering certain products and services. Without specialized terminals and software, retailers may need to process separate transactions for purchases and taxes, slowing the checkout procedure.

We would welcome the opportunity to discuss these concerns and others with the sponsors, but for the reasons included above, we are opposed to these bills.

Very truly yours,

RHODE ISLAND BANKERS ASSOCIATION

A handwritten signature in dark ink, appearing to read "William Farrell". The signature is written in a cursive, slightly slanted style.

Will Farrell