

Senator Dick Durbin
Chair, Senate Judiciary Committee
Written Questions for Christopher W. Callahan
November 26, 2024

1. During the Committee’s November 19 hearing, Senator Blackburn asked about what she described as the compliance costs small businesses previously faced “chasing bad checks” or “chasing bad debt.” She stated that, for small businesses, “it really is good not to have to take a lot of the bad debt and the returns and those transactions that booted your compliance cost and your loss cost.”

a. Do businesses like yours ever get “charged back” for fraudulent transactions on Visa or Mastercard credit cards?

RESPONSE: Yes, small businesses like ours get chargebacks on a regular basis. These are a burden for these businesses and show why the purported justifications for high swipe fees have no merit. Our particular business is at relatively low risk of chargebacks due to the nature of our store, our business, and our customers. Although we do a mix of in-store and online retail, in our small community refunds are typically transacted directly between the store and the customer. Regardless of the fact that fraud is rare for our business, we still pay high, up-front swipe fees to cover more than all of the potential costs of any fraudulent transactions. The fees are far higher than our risk and any actual cost of fraud to credit card issuers on our transactions.

b. Are you still taking on “a lot of the bad debt” under the current Visa and Mastercard-dominated system?

RESPONSE: We have seen very little bad debt pressure due to “bad checks” or other payment issues. We can count the number of bad checks over the past 10 years on one hand. When it happens, we usually contact the individual directly and the matter is resolved. We are lucky. We know that many other small businesses face the equivalent of “bad debt” in the form of chargebacks from Visa and Mastercard on a regular basis. The way that these companies saddle merchants with costs – making us prepay for the risk of fraud and then pay it again when fraud happens – is not fair.

2. You testified that credit card fees are your fourth-largest business expense, after only rent, payroll, and shipping. We have also seen that Visa and Mastercard regularly increase the credit card fees they charge businesses, including small businesses like yours.

With Visa and Mastercard accounting for more than 80 percent of credit cards in the United States, would a bookstore like yours, as a practical matter, be able to stay in business if you refused to accept Visa and Mastercard for payment?

RESPONSE: We have considered not accepting debit or credit card payments and never found it to be a sustainable path. Our value proposition to our customers is impeccable customer service that supports serendipitous literary discovery. By and large, the public has moved away from cash and most have come to expect the convenience of using debit and credit cards. As I said in my testimony, we aren't against credit cards; more than 75% of our sales are paid for with credit cards. So, no, we conclude that we could not provide the expected customer experience if we did not accept credit cards. As a small, independent bookstore competing against a giant, online bookseller, the customer experience is our key differentiator and limiting payment options erodes that.

We could use more competition in the credit card industry to help our business have more leverage and more options. While we must take credit card payments, if those credit card companies had to compete on service and price like merchants need to compete, there is no question that our business would be better served.

Senator Charles E. Grassley
United States Senate Committee on the Judiciary
Hearing on “Breaking the Visa-Mastercard Duopoly: Bringing Competition and Lower Fees to the Credit Card System”
November 19, 2024

Questions for Chris Callahan

- 1) Through Dodd Frank, Congress passed debit card competition mandates similar to those included in the Credit Card Competition Act. Recently, we’ve seen cases filed by both the DOJ and the Federal Trade Commission enforcing these competition requirements, however, I’ve also heard concerns that the caps limited benefits for consumers. How should the implementation of the original Durbin Amendment inform today’s discussions about the credit card market?

RESPONSE: We don’t have visibility into any limitation of benefits for consumers due to Dodd Frank. There do not appear to be any. It is pretty clear to us, based on the recent cases filed, that the value of consumer benefits such as points and other reward programs pales in comparison to the revenue generated by swipe fees and interest. We believe there has to be a reasonable rate for swipe fees that would both support sustainability of banks and credit card companies while not exploiting small retailers like us. We have no power to negotiate these fees and it seems that legislation is required to protect small business. That is why we support the Credit Card Competition Act. It is clear us that the system is not working well today and harms small Main Street businesses like Battenkill Books.

- 2) In the hearing, several questions focused on the possibility of fee negotiation between the various parties, rather than mandates from Congress. Are there obstacles that prevent such negotiation under the current system?

RESPONSE: As a small business operating in a rural community, we value relationships and dialogue when challenges present themselves. We would welcome the opportunity to negotiate swipe fees and improve the credit card transaction system more broadly.

The reality is that there is a structural barrier to doing so; the intermediary banks. Swipe fees are set by Visa and Mastercard and all the issuing banks agree to charge the same thing. Those fees are all then passed along via merchant service firms who clear the transactions. These businesses work downstream of Visa and Mastercard, but their fees are dictated by these two primary market actors. Visa and Mastercard are insulated from and can ignore any market forces relevant to merchants and their needs. It is a convenient system for the ones setting and charging the fees. It obscures the process and provides barriers to visibility, access, and dialogue for small retailers like Battenkill Books. We have no power or voice in this process – there is no opportunity for negotiation. There is no real competition, so options are limited and the terms of the banks are fixed.

All that said, we believe in the power of community and dialogue and would welcome future opportunities to inform a resolution that leads to secure payment systems and fair fees. The Credit Card Competition Act would deliver that.

