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United States Senate

Washington, DC 20510–1304

COMMITTEE ON APPROPRIATIONS

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AND ADMINISTRATION

October 19, 2011

John G. Stumpf
Chairman, President and CEO
Wells Fargo & Company
420 Montgomery St.
San Francisco, CA 94163

Dear Mr. Stumpf:

On October 14, your bank reportedly began charging your customers a $3 monthly fee to access their own deposited money using a Wells Fargo debit card. This $3 monthly fee is being imposed on your customers in five states: Georgia, Nevada, New Mexico, Oregon and Washington. It is certainly surprising that your bank would pursue this fee strategy in light of the consumer reaction that has been prompted by Bank of America's recent imposition of a monthly debit fee on its customers. If you were hoping that your new fee would go unnoticed, it has not.

It is unfortunate, though not surprising, that your bank is now blaming swipe fee reform for your decision to impose this significant new fee on your loyal customers. On October 17, the Daily Times of Farmington, New Mexico reported that "Wells Fargo blames its new fee on the federal Dodd-Frank law that cuts the amount large banks can charge for debit card transactions, known as an interchange fee." A Wells Fargo spokesperson is quoted in the article saying that "Even if we rolled out the $3 (nationwide), we still wouldn't make up the cost of providing debit cards." Based on public data, that statement is false.

Because Wells Fargo has not made publicly available any of its own cost or revenue data regarding debit transactions, I will inform you what the publicly-available data reveals. As an initial matter, it is important to point out that Wells Fargo does not set the interchange fee rates that it receives on debit transactions. Instead, interchange fee rates are uniformly and centrally fixed by the card network companies Visa and MasterCard on behalf of Wells Fargo and thousands of other banks. The Federal Reserve found that prior to the reform that took effect on October 1, Wells Fargo received an average interchange fee of 44 cents per debit transaction under the networks' fee rates.

According to the payments industry analyst the Nilson Report (Issue 970, April 2011), Wells Fargo debit cards were used in 5,070,400,000 purchase transactions in 2010. Multiplying this figure by the Fed's 44 cent average results in an estimated $2,230,976,000 in debit interchange revenue for Wells Fargo in 2010.

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Under the Fed's rule that went into effect on October 1, the interchange rates that Visa and MasterCard fix on behalf of Wells Fargo will be limited to an estimated average of 24 cents. Multiplying 5,070,400,000 transactions by 24 cents equals an estimated $1,216,896,000 in annual debit interchange revenue for Wells Fargo under the Fed's rule (and this does not even count the fact that Visa and MasterCard on October 1 dramatically and unreasonably increased the interchange rates that merchants will pay to Wells Fargo on small ticket and prepaid card transactions).

In short, according to this calculation Wells Fargo will make at least an estimated $1.22 billion in annual debit interchange revenue after swipe fee reform. This amount far exceeds any reasonable measure of the cost to Wells Fargo of conducting debit transactions. The Fed calculated the average costs of processing debit transactions by various measures, coming up with figures ranging from around 4 to 12 cents. At a 4 cent cost, the cost to Wells Fargo to do 5.070 billion transactions is $202,816,000. At a 12 cent cost, the cost to Wells Fargo to do 5.070 billion transactions is $608,448,000.

Under either measure, Wells Fargo will still profit lucratively on debit transactions simply through the interchange revenue you will receive under the Fed's regulation. Your spokesperson's claim that Wells Fargo needs to charge all its customers an additional monthly fee of more than $3 in order to make up the "cost" of providing debit cards simply does not add up. Instead of making up costs, your new consumer fee appears to be a plain attempt to increase your profits- even though your bank just reported third quarter profits that hit a record high.

I know that you have consistently opposed swipe fee reform, stating in your last annual shareholder letter that these reforms "make no sense" and "distort our market-based, free-enterprise economy." I also recognize that banks like yours are upset at the prospect of losing some of the billions in annual debit interchange fees you received under the old unregulated swipe fee system. But you did not earn these fees by bettering your competitors in a free market, which is how Main Street businesses have to make their money. Rather, you made this lucrative revenue stream because the Visa and MasterCard duopoly fixed the same high swipe fee rates for your bank that they did for every other bank - thus immunizing this revenue stream from competitive pressure and enabling fees to keep going up even as processing costs went down. It is disingenuous for banks to claim they are somehow entitled to make up reductions to a revenue stream that they never would have received in the first place in a transparent and competitive market.

The only fees that Congress stepped in to regulate last year were interchange fees that banks let Visa and MasterCard charge on their behalf. It remains your prerogative to set your own fees that you charge to your own customers. However, it also remains appropriate for members of Congress to ensure that all bank fees are set in a transparent and competitive market environment so consumers can make informed choices and vote with their feet. Instead of issuing inaccurate public statements about your fees, I urge you to join me in promoting these goals of transparency, competition and choice.

Sincerely,

Dick Durbin

Richard J. Durbin
United States Senator