

**Testimony of David Seltzer before the Financial Institutions and Consumer Credit  
Subcommittee of the Financial Institutions Committee of US House of  
Representatives.  
Thursday, February 17, 2011**

Good Morning. First, I would like to thank Chairwoman Capito, Ranking Member Maloney and the Members of the Committee for inviting me to testify before the Subcommittee today on an issue that is vitally important to the thousands of small business franchisees that own and operate 7-Eleven stores. My name is David Seltzer, and I am Vice President and Treasurer of 7-Eleven Inc. I am responsible for all treasury functions in the company, including capital-raising, bank and rating agency relationships, cash management and payment acceptance. I am also responsible for overseeing corporate insurance and risk management activities.

I am also testifying today on behalf of the Retail Industry Leaders Association. RILA is the trade association of the world's largest and most innovative retail companies. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of American jobs and more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

By way of providing an overview of our company, there are currently more than 6,700 7-Eleven convenience stores operating in 32 states nationwide. More than 5,000 of these stores are operated by small business franchisees. In fact, sitting behind me today is Dennis Lane who has operated a 7-Eleven in Quincy Massachusetts for over 30 years. I welcome this opportunity to share the perspective of 7-Eleven and more importantly the

perspective of small business owners like Dennis on interchange reform and the Federal Reserve's Notice of Proposed Rulemaking.

I would like to put this issue and its importance to 7-Eleven in perspective. A typical 7-Eleven franchisee owns a single store, employs 8 to 10 people, and works 60 to 70 hours per week in the business. Outside of employee wages and benefits, interchange is the largest single cost for the franchisees. And it is the only cost the franchisees have no control over. The proposed rule is important to our franchisees as it will provide them with relief and greater visibility on interchange fees in running their business.

Before I explain how the current system is broken, I will begin by acknowledging the fact that credit and debit cards are important to 7-Eleven. In essence, credit and debit cards are replacing paper as the nation's currency. **At 7-Eleven, 49% of our sales are paid using plastic; 73% of these transactions are on a Visa / MasterCard.** Credit and debit sales currently make up 70% of our fuel sales, and we believe credit/debit transactions will continue to rise over the next five years. Given that cards have become ubiquitous in our society, 7-Eleven and other merchants simply cannot operate our businesses without accepting credit and debit cards.

We are willing to pay fair and reasonable fees so our customers can use these cards for payment. Unlike virtually all other business expenses, fees associated with these cards are not determined in a competitive manner. The lack of a properly functioning market mechanism spurred Congress to include the Durbin amendment in the Dodd-Frank financial services reform bill last year.

Unfortunately, interchange fees are the fastest growing expense for 7-Eleven and our franchisees. Over the past eight years, 7-Eleven's credit and debit fees have quadrupled from a little less than \$40 million in 2002 to \$177 million per year in 2010 --- that's a 21% average annual increase. **Debit cards are now used for over 80 percent of our card transactions. Average debit card interchange rates have risen 500% over the past 10 years, and without some form of intervention, we see rate increases continuing. In October of 2009, MasterCard increased the interchange rate of one of its most popular debit products by 98%. On small ticket transactions the fee can be more than 20% of the sale. Debit rates imposed by Visa/MasterCard are often above levels charged for credit card transactions, despite the fact that debit transactions do not involve credit risk.** Dennis often says that it's cheaper for him to give away a Boston Globe than it is for him to sell one to a customer using a debit card. On this transaction he actually loses money.

Given the dramatic increases in this expense category, we and many others in the business community decided that we had to take action. Over many years, 7-Eleven attempted to negotiate reductions in interchange rates, without success. The October 2009 MasterCard rate increase of 98% is a great example of what we have experienced over the years. Without advanced notice or consultation, MasterCard published and implemented the new rate. When we spoke with MasterCard executives regarding the change, we were told that interchange rates were non-negotiable. Further, we were advised that MasterCard views banks rather than merchants as their customer and rates are set at levels needed to entice banks to issue MasterCard rather than Visa products. In other words, competition among the card networks translates into higher interchange

fees. This conversation illustrates the fact that interchange rates are not set to cover the reasonable costs of running the clearing system. Rather, they are a tool to encourage banks to issue more and different card products at the expense of our franchisees and our customers. Representatives from other payment networks have cited the same rationale in explaining the need to increase their interchange rates. As the Federal Reserve observed, the financial incentives in the debit clearing services market work to encourage higher costs and more risky debit transactions --- in short, this market is fundamentally broken.

After a decade of continuous rate increases and a refusal by Visa and MasterCard to engage in meaningful negotiations, we recognized that controlling this expense was beyond our control. In 2009, we joined with our franchisees and decided to petition Congress to address this issue. We asked our customers to sign a petition calling for Congress to stop credit card companies from charging unfair transaction fees to businesses in their communities. We were delighted to find that our customers responded with great enthusiasm and nearly 1.7 million signed our petition. In October of 2009, we delivered petition pads to 285 Members of the House of Representatives. (Present the map). Since our petition drive, over 3 million more Americans added their names to similar petitions sponsored by members of the National Association of Convenience Stores and their franchisees from around the country. In total, over 5 million Americans signed petitions calling on Congress to reform interchange fees. Fast forward to May of last year, when at the urging of millions of consumers and small businesses, Senator Durbin offered the first iteration of his amendment to the Senate's version of the Financial Reform package: 64 Senators voted in favor of the amendment including 18

Republicans. Several members of this Subcommittee participated in the comprehensive effort to develop the final package of reforms that became part of the Dodd-Frank Bill. The amendment was examined and compromises were included to provide exemptions for community banks and credit unions, additional safeguards for state-issued debit cards and other changes. It is important to note that the bill does not address the abusive rates charged on credit cards, a significant compromise. Fortunately, a compromise version of the amendment made it into the final bill that passed both Houses and went to the President last July for his signature. Dennis, as a representative of small business, was invited by the White House to attend the signing ceremony on behalf of small business franchisees that will benefit from this change.

In December, the Federal Reserve proposed regulations implementing the Durbin amendment. Most importantly, the proposed regulations included a cap on the interchange fees charged by the largest debit card issuers in the country. If this cap remains in the final regulation, it will lead to tremendous savings for hundreds of thousands of small businesses. These savings will translate into more hiring, more development and more economic activity in communities throughout America. In fact, Dennis has already hired a new employee in anticipation of the savings from the debit interchange language. In contrast to large financial institutions, 7-Eleven and most retailers operate on low single-digit profit margins. These tight profit margins are the result of the intense price competition that retailers engage in on a daily basis. There is no doubt that competitive market forces will also allow consumers to directly benefit from this reduction in debit card rates.

Today, there will be talk of delaying implementation of the proposed Rule. From our point of view such a delay permits the top 100 banks to “double dip.” Many of these giant banks are using the possibility of lower debit rates as an excuse to impose new fees on or reduce services to their customers. **At the same time, they are reaping the benefits of the highest interchange rates in history.** I want to reiterate this point – the debit interchange amendment only affects about 100 banks (and only 2 credit unions) – all others are exempt from the language. According to a recent article in the American Banker, some analyst believe that community banks and credit unions will benefit from this change as it will provide them with a competitive advantage against the large banks. Madam Chairwoman, the facts are clear. First, the credit and debit card clearing system is critical to the U.S. economy and vital to our success as a retailer. As the Federal Reserve concluded, the pricing mechanism for this clearing system is broken. Debit interchange fees have increased by more than 500% over the last decade. Anyone who accepts credit and debit cards, whether small or large businesses, and the more than 5 million consumers that have signed petitions, agree that interchange reform is necessary. Last year, Congress responded to this situation by passing the Durbin amendment to the Dodd-Frank Bill. After careful consideration and significant modification by the conference committee, modest interchange reform became law in July 2010. Now the Federal Reserve has proposed a rate, having received substantial input from card networks, banks, credit unions, and merchants. We believe the data submitted to the Federal Reserve supports a lower rate than what has been proposed, however, the proposed rates still represent a significant savings to anyone that accepts debit cards. **In fact, every day that passes with the current rates in force, American businesses lose**


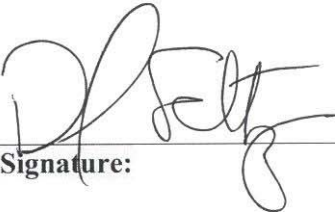
**another \$33 million.** We ask that you ensure that the Federal Reserve can complete its work to provide some common sense to debit fees for businesses, large and small, and most importantly their customers across the nation.

Thank you for the opportunity to appear before the Subcommittee this morning. I would be happy to respond to any questions that the Members may have on this issue.

United States House of Representatives  
Committee on Financial Services

“TRUTH IN TESTIMONY” DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

<b>1. Name:</b>  David Seltzer	<b>2. Organization or organizations you are representing:</b>  7-Eleven, Inc. and RILA
<b>3. Business Address and telephone number:</b>  	
<b>4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</b>  <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<b>5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</b>  <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.</b>  	
<b>7. Signature:</b>	

*Please attach a copy of this form to your written testimony.*