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Hayden Consulting, Inc.

Last Month:

- **Small Business Credit**

Important Links:

Internal Revenue Service

Indiana Department of Revenue

Know someone who would benefit from this Newsletter? Send us an e-mail address.

FOR SALE

BUSINESSES AVAILABLE

1. BRAND NAME garage door installation and repair

Debate over Credit Card Fees Heats Up

Banks, businesses, and individuals have a huge stake in the result of this dispute, which explains th reasoning for retailers to offer incentives for paying cash for purchases. A local restaurant might g a customer a free drink in exchange for cash payment to avoid monstrous credit card fees.

Every time a debit or credit card is swiped, a percentage of the sale is funneled into the hands of a bank or credit card company. Typically each year on average, one to two percent of each sale is diverted and retailers pay 12 to 16 billion dollars in payments to these institutions.

In 2010, Chris Dodd (D, CT) and Barney Frank (D, MA) authored the Financial Reform Bill. This included a provision to curtail credit card fees, which have been steadily rising for years. This provision is backed by Fed Chairman Ben Bernanke, and would establish the maximum fee allowed 12 cents of each purchase.

With the provisions set to go into effect soon, Washington is lined up with people on both sides of t argument. Retailers claim the drop in fees would help businesses and consumers. This is a signific expense for business, and with retail prices based on the cost of a product, if these costs decrease prices will follow.

Some members of Congress are attempting to pass legislation that would delay implementation of fee caps. Banks and credit unions argue that the new rules could cause a loss in revenue that woul have to be replaced by taking some unpopular actions, such as eliminating free checking and limiti debit transactions under $100.

Any outcome will affect retailers large and small, and without intervention, the proposed changes a set to go into effect.

Banks Swimming in Cash

If banks are so big on lending, why does their book of loans keep shrinking? U.S. banks tel they have spent the past quarter writing loans, renewing credit lines and generally being g economic citizens. The three largest bank, Bank of America, Wells Fargo, and Chase claim to h provided consumers and businesses with $745 billion in credit in the first quarter, Yet, l

company - Marion County and surrounding counties.
2. "C" store
3. Beauty shop – Fishers
4. LAUNDROMAT – Indy East Side
5. Dry Cleaner

balances have actually shrank from a year ago at all three banks. This also occurred at Citiba although deposits at all banks have increased.

On average, loans outstanding at the top four banks dropped 7% from a year earlier, a declin $210 billion, although deposits rose 5%. If this is what the bailed-out of the financial sector c supporting a recovery, no wonder the economy is stagnate. Banks, of course, protest there are g reasons the loan balances have dropped.

Good customers aren't exactly banging down the door demanding loans, they say, and won't till recovery really gets rolling. And making loans for the sake of it doesn't pay off, as we may h learned during the financial meltdown.

And yes, even with all that shrinkage there are pockets of loan growth. Chase reports loans to m size companies rose every month last year, and Wells Fargo is showing strength in the auto de and commercial lending. But the loan portfolios are shrinking because banks must put the wo mistakes behind by taking losses on bad loans and letting others of low-quality run out. Both of th scenarios lead to lower loans outstanding.

It's clear the banks are not lending quite as freely as press releases claim, and the declines are m conspicuous because they come at a time when banks are flush with cash. Average deposits at four biggest banks rose by $154 billion over the past year, with Bank of America breaking $1 tril in deposits for the first time and Chase just $4 billion short of that mark.

As a result, all the big banks now have at least $1.06 in deposits for every dollar in loans outstandin

There is something to be said for banks having a lot of cash on hand. Running out of money make hard to persuade others of a company's value, but it's hard to grow without new customers.

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