

Summary of the Durbin Interchange Amendment As Modified for the Wall Street Reform and Consumer Protection Act Conference

- The Durbin amendment would bring reasonable regulation to the \$20 billion per year debit interchange fee system. Interchange fees are received by the card-issuing bank in a debit card transaction. However, Visa and MasterCard, which control 80% of the debit market, set the debit interchange fee rates that apply to all banks within their networks. Every bank gets the same interchange fee rate, regardless of how efficiently a bank conducts debit transactions. Visa and MasterCard do not allow banks to compete with one another or negotiate with merchants over interchange rates, and there is no constraint on Visa and MasterCard's ability to fix the rates at unreasonable levels. This system is effectively an unregulated \$20 billion per year transfer of wealth from merchants and their customers to card-issuing banks.
- The amendment will require that for transactions involving debit cards issued by banks with assets over \$10 billion, any interchange fee charged on the transaction must be reasonable and proportional to the cost incurred in processing the transaction. Visa and MasterCard currently charge debit interchange fees of around 1-2% of the transaction amount. These fees are far higher than the actual cost of processing debit transactions, and they mean that small businesses and merchants always get shortchanged when they accept a debit card for a sale.
- The amendment will permit card-issuing banks to receive debit interchange fee adjustments to cover reasonably necessary fraud prevention costs. However, as opposed to the current interchange system where banks receive a guaranteed level of interchange revenue no matter how effectively they deal with fraud, the amendment will require banks to demonstrate that they have met fraud-prevention standards and taken effective steps to reduce fraud in order to receive an issuer-specific interchange adjustment that will cover their necessary costs.
- The amendment exempts government-administered debit cards and reloadable prepaid cards from debit interchange regulation so long as abusive cardholder fees are not charged. The amendment would rescind this exemption for government-administered cards and reloadable prepaid cards if consumers using these cards are charged overdraft fees or fees for their first monthly ATM withdrawal by the card-issuing banks.
- The amendment allows merchants to offer customers discounts for use of cash, checks and debit cards, and to set a \$10 minimum for credit card transactions, without penalty from card networks. These provisions will enable small businesses to bring their interchange costs under control and to pass savings on to consumers in the form of discounts.
- The amendment prevents card networks from requiring that their debit cards be transacted exclusively on one debit network. There are a number of PIN debit networks that merchants can use to conduct PIN debit transactions, and until recently most PIN debit cards were able to be used on multiple PIN networks. This fostered price competition between the PIN networks. Recently, however, price competition has diminished and PIN debit fees have gone up because large networks like Visa have increasingly required banks to sign exclusive agreements under which they become the sole PIN network whose logo appears on the banks' cards. The amendment would enhance competition by directing the Fed to issue regulations providing that a card network cannot limit a debit card to only be allowed to run on one exclusive network.
- Nothing in the amendment would enable discrimination against debit or credit cards on the basis of the bank that issued the card.