

# Summary of the Durbin Interchange Amendment

## The Durbin Fee

### How will it affect you as a Merchant?

- The Durbin amendment would bring regulation to the \$20 billion per year debit interchange fee system. The card-issuing bank in a debit card transaction receives interchange fees. However, Visa and MasterCard 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.
- The amendment will require that for transactions involving debit cards issued by banks with assets over \$10 billion (Regulated Banks), 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. **The Fed has ruled that this amount for Regulated Banks is \$.21 per transaction and .05%. The higher your average charge, the greater your savings (if it is passed on by your processor)!!**
- The amendment will permit card-issuing banks to receive debit interchange fee adjustments to cover reasonably necessary fraud prevention costs. The Fed has ruled this amount can be \$.01 per transaction for Regulated Banks.
- 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 could 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.