Debit and Credit Card Interchange/Durbin Amendment

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Issue Update

Debit Card Interchange. The Durbin Amendment caps interchange on debit card transactions for banks with more than $10b in assets and requires all banks to provide merchants with two unaffiliated debit networks in certain situations. Regulation II (“eye-eye”), implements those statutory requirements.

The Federal Reserve’s pending Regulation II proposal would (1) lower the debit interchange price cap by nearly 30% and (2) implement an automatic update mechanism to reset the interchange price cap every two years. These government price caps, and routing requirements, are simply a wealth transfer from bank customers, who lose access to low-cost financial services, to large corporate megastores that the FRB’s own research demonstrates do not pass the savings on to consumers.

Credit Card Interchange. Senators Roger Marshall (R-KS) and Richard Durbin (D-IL), among others, have tried to expand the Durbin Amendment routing requirements to credit cards. The Credit Card Competition Act (CCCA) would require banks with more than $100b in assets to offer merchants multiple credit card processing networks from among a list of networks determined by the Federal Reserve, not the card issuer.

Why It Matters

Interchange funds the security and seamlessness of the payment system, and it is also a key source of revenue to offset the cost of offering checking accounts and rewards programs.

The impacts of interchange price caps and routing mandates are not limited to the largest issuers. The Federal Reserve’s own data clearly shows that debit card revenue has fallen fastest at banks below $10b in assets and the Durbin routing mandate has also resulted in increased costs largely due to increased fraud and operational costs. Community banks and credit unions have seen debit interchange revenue decline by over 35% since the Durbin Amendment was implemented in 2011.

In setting the debit interchange cap, the Federal Reserve is required to calculate “bank costs” in order to determine whether the interchange fee is “reasonable and proportional”. Because the Fed’s interchange routing regulation just took effect on July 1, 2023, meaningful debit card costs are not yet available. Understanding the impact of that regulation on bank costs is critical to achieving an accurate calculation of an appropriate interchange cap under the requirements of the statute. Additionally, the Fed is not including other components of running a debit card program such as cardholder inquiry costs and NSF handling costs in the calculation.

Recommended Action Items

- Urge your member of Congress to oppose the Credit Card Competition Act.
- Urge the Federal Reserve to withdraw its Regulation II proposal and not repropose further rulemaking until it has completed significant additional research that calculates costs to consumers and reflects the real-world experience of covered financial institutions.

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