

THE FINANCIAL SERVICES ROUNDTABLE



Financing America's Economy

To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Council, All Staff

Fast Facts: DEBIT CARDS - INTERCHANGE FEES

Currently, debit card usage exceeds all other forms of noncash payments, accounting for 35% of payments. The Federal Reserve's proposed rules capping interchange fee costs for merchants will likely increase the cost of debit cards for consumers and potentially curtail debit card use.

FACT: According to a [recent study from the Federal Reserve](#), the use of debit cards grew by almost 15% from 2006 to 2009.

FACT: Americans made 38 billion debit card payments with a total value of \$1.5 trillion during these four years.

FACT: Nearly 80% of the card transactions processed by TMG the three days following Thanksgiving were debit.

FACT: The Durbin Interchange Amendment (to the Dodd-Frank Act) calls for the limitation of any debit interchange transaction fee to an amount that is "reasonable and proportional to the cost incurred by the issuer with respect to the transaction," but it also requires the Federal Reserve to limit its consideration to only a portion of the total costs required to support debit.

FACT: On December 16, 2010, the Federal Reserve announced its proposed rule for interchange fees -- essentially capping interchange fees at 12 cents per transaction. (See attachment for details).

- The Federal Reserve must issue a final rule by April 22, 2011. The rule will go into effect three months later on July 22.

FACT: For the average \$40 debit purchase, the interchange fee would fall by more than 75% according to MF Global Financial.

If you have questions, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at Abby@fsround.org, or Brian Tate, Vice President for Banking and Securities, at Brian@fsround.org.

Quick Definition

Interchange fees are the business to business fees paid by merchants' banks to card issuing banks.

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Additional Notes about the Fed's Proposal

There will not be one interchange rate. The Federal Reserve will allow each issuing bank to plug in its variable costs directly attributable to debit card authorization, clearance, and settlement to determine its interchange rate. The Board is seeking comment on whether to allow an adjustment to the debit interchange fee to allow for issuer fraud prevention costs and/or network processing fees.

The Federal Reserve has proposed two alternatives for regulating debit interchange fees:

Option 1: Safe harbor. The Fed proposed this at 7 cents per transaction. Banks at 7 cents or less would not need to demonstrate the level of their debit interchange variable costs. Banks that want interchange fees higher than 7 cents based on their variable costs could charge up to 12 cents per transaction if they could demonstrate need.

Option 2: The Fed would set the cap at 12 cents per transaction. It would not provide a separate safe harbor.

The Federal Reserve would re-evaluate the cap and safe harbor every two years.

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