

THE FINANCIAL SERVICES ROUNDTABLE



Financing America's Economy

To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Council, Debit Card Interchange Fee Working Group, All Staff

Fast Facts: DEBIT CARDS - INTERCHANGE FEES – PART 2

In the next several months, the Federal Reserve will establish price controls on 35% of all noncash payments with no Congressional hearing, independent analysis, or any guarantee that the price controls will not harm consumers.

FACT: On December 16, 2010, the Federal Reserve proposed a rule to fix the price of debit interchange, reducing fees by an average of 84%.

FACT: The Federal Reserve's proposal to cap debit interchange fees at \$0.07 to \$0.12 per transaction will force financial institutions to process debit card transactions *well below the cost* of providing them.

- The proposal does not take into account funding costs, overdraft losses, billing and collection, customer service, data processing, protection of customer data and fraud losses that relate to supporting debit services – nor does it take into account the investment and development costs borne by financial institutions to create these electronic payment networks.
- According to the Federal Reserve's previous work on this issue, "determining an appropriate regulated value for the interchange fee can be quite challenging...and calculation of that fee requires knowledge of social costs and benefits that are difficult, if not impossible, to measure accurately."

FACT: It costs \$300 to \$350 annually per customer to maintain a checking account. If fees are significantly reduced, financial institutions will have to recover these costs elsewhere.

- According to the [GAO](#), when Australia capped interchange fees, consumers received fewer benefits and paid more for their cards.

FACT: Low and moderate-income consumers will be disproportionately hurt from increasing fees. "Many low-income Americans will be unable to qualify for free checking under the new <debit> fee regime, meaning they will have to pay higher fees or drop out of the banking system" to payday lenders and loan sharks, according to Professor Todd Zywicki of George Mason University.

FACT: Consumers won't necessarily benefit from lower prices at the store. "Many industry participants acknowledged that it would be difficult to prove a direct link between lower interchange fees and lower consumer prices," according to [GAO](#).

FACT: Merchants receive a variety of benefits—primarily, increased sales—from accepting card payments. These benefits are not reflected in the Federal Reserve's proposal nor were they discussed at the December 16 meeting.

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FACT: The routing and exclusivity rules are significant changes from the original amendment in May and have not been reviewed by the full legislature and/or the payments industry.

- These provisions will pick winners and losers among networks, thereby reducing the number of networks in the US and significantly undermining network competition and innovation.

FACT: The routing rules effectively give retailers (not consumers) the power to control every debit transaction.

- According a survey of debit card users, 67 percent oppose giving retailers the choice about which network to route their transactions. 86 percent of consumers don't want an unfamiliar network processing their debit transaction.

FACT: Federal Reserve Governors expressed hesitation about the impact of their proposed rule and requested public comment at the December 16 meeting:

"Sometimes when we submit a proposed rule we're pretty convinced we have it basically right... <The proposal> suggests to me that we should be more open than usual to a variety of comments." Governor Tarullo

"I think we should be particularly keen to listen to comments and people's perspectives. I would be particularly interested in comments on whether there is a more viable, pro-competitive alternative to setting prices." Governor Warsh

"We will be interested in reviewing commenters' input on the proposal as we determine what refinements should be made when it is adopted as a final rule." Vice Chairman Yellen

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

For more information, please review:

[Regulating Debt Cards: The Case of Ad Valorem Fees](#), by Zhu Wang, Federal Reserve Bank of Kansas City, Economic Review, First Quarter 2010

[Interchange Fees and Payment Card Networks Economics, Industry Developments, and Policy Issues](#), by Prager, Manuszak, Kiser, Borzekowski, Federal Reserve, Finance and Economics Discussion Series: 2009-23.

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