



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

Fast Facts: DEBIT CARD INTERCHANGE FEES, Part III

This week's Fast Facts highlights the report released today by Dr. Clifford Rossi and Dr. William Longbrake of University of Maryland regarding debit card interchange fees.

FACT: Dr. Rossi and Dr. Longbrake developed a simulation of a two-sided market, which describes the structure of a debit card market, to determine the impact of regulating interchange fees. From economic theory and the numerical simulation, they reach the following conclusions:

- The interchange fee is a mechanism for allocating costs collectively across both consumers and merchants in a way that maximizes participation and value.
- There is no evidence of card overuse or market failure in the current debit card market.
- In the two-sided, multiple issuer and acquirer market, there is not a single interchange fee that aligns the optimum values of profits, output, utility, and economic welfare.
- Imposing a cap on interchange fees introduces economic distortions that benefit merchants, harm consumers, and lead to overall suboptimal levels of economic and social benefits.
- The Federal Reserve's proposal to cap debit card interchange fees at "allowable costs," which limits fees to direct variable costs of production, will exacerbate the negative and potentially far-reaching consequences of market pricing intervention.
- A restriction in consumer payments could have a procyclical impact and slow down the economic recovery at a time when the economy is still fragile.

The full report by Dr. Rossi and Dr. Longbrake, including a technical description of their numerical modeling, can be accessed [here](#). Additionally, conversations with the study's authors can be coordinated upon request.

Previous Fast Facts on debit card interchange fees can be found [here](#) and [here](#).

As always, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at Abby@fsround.org, or Scott Talbott, Senior Vice President of Government Affairs, at Scott@fsround.org.

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