Debit and Credit Card Interchange/Durbin Amendment

ABA Card Policy Council| cardpolicycouncil1@aba.com January 2024

Issue Update

The Durbin Amendment (Durbin), passed as part of Dodd-Frank, requires **all banks** to provide merchants with two unaffiliated debit networks in certain situations and it caps interchange on debit card transactions for banks with more than $10b in assets. Regulation II ("eye-eye"), implements those statutory requirements.

Now, Senators Roger Marshall (R-KS) and Dick Durbin (D-IL), and Reps. Lance Gooden (R-TX-5), and Zoe Lofgren (D-CA-18) (among others) are trying to expand the Durbin Amendment routing requirements to credit cards. The Credit Card Competition Act of 2023 (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.

At the same time, the Federal Reserve has proposed to lower the debit interchange price cap in Regulation II by nearly 30% and implement an automatic update mechanism to reevaluate the interchange price cap every two years. These government price caps and routing requirements are nothing more than a wealth transfer from bank customers, who lose access to low-cost financial services supported by interchange revenue, to a handful of large merchants that data has shown do not pass the savings on to consumers.

Why It Matters

The practical 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, due to Durbin's routing mandate. Community banks and credit unions have seen debit interchange revenue decline by over 35% since the Durbin Amendment was implemented in 2011.

Debit 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. While debit cards and underlying deposit accounts are often viewed as distinct products by consumers and policymakers, they are tightly connected.

The Federal Reserve is required to calculate bank costs in order to determine whether the interchange fee received by bank is "reasonable and proportional" to the cost incurred by the issuer with respect to the transaction. It is impossible for the Fed to have current data on debit card costs incurred by banks because the Fed's most recent interchange routing regulation – mandating that all banks offer multiple networks for internet-based card-not-present transactions – just took effect on July 1, 2023. Understanding the impact that regulation change will have on bank costs is critical to achieving an accurate calculation of an appropriate interchange cap under the requirements of the statute.

Recommended Action Items

- Urge your member of Congress to oppose the Credit Card Competition Act and consider repealing the Durbin Amendment and restoring a fair and free market for debit cards.
- Urge the Federal Reserve to withdraw its Regulation II proposal and not repropose further rulemaking in this area 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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