

Durbin Credit/Debit Card Interchange Reform Amendments

As the Senate considers legislation to keep Wall Street and the big banks from rigging the financial system in a way that hurts businesses and consumers on Main Street, we should also consider reforms to the credit and debit card industries. Those industries are dominated by two companies, Visa and MasterCard, whose cards are used in nearly 80 percent of debit and credit card transactions.

Visa and MasterCard have imposed a system of fees and contractual restrictions on everyone who accepts their cards as a form of payment — from small businesses to public charities to government agencies that pay the fees using taxpayer dollars. Many of these fees and restrictions are designed to benefit the card networks and big card-issuing banks, and have proved anti-competitive and unfair for small businesses, merchants, consumers and taxpayers.

Senator Durbin has filed three amendments that would make reasonable reforms to the credit and debit card systems. Below is a short summary of the amendments.

Summary of Amendments

1. **Durbin-Leahy-Landrieu Amendment (#3771)** to stop credit/debit card networks from imposing anti-competitive restrictions on the small businesses, merchants and government agencies who accept their cards.

- With this amendment, Visa and MasterCard could no longer use their dominant market power to force those who accept their cards to also agree to anti-competitive restrictions on the discounts they can offer and on their ability to choose the forms of payment they accept.
- The amendment would say that sellers can do the following things without being threatened or punished by card networks like Visa and MasterCard:
 - Offer discounts to customers to use a competing card network (e.g., the amendment would let a store that accepts Visa offer a discount for a customer to use MasterCard or Discover. Visa currently prohibits such discounts);
 - Offer discounts for use of cash, check, debit card or stored-value card (current law does not fully ensure that merchants can offer these discounts); and
 - Set a minimum or maximum transaction amount for payment by card (small businesses lose money on transactions when they cannot set these amounts).
- This amendment does not involve any government regulation of interchange fees. All it does is allow more market-based competition and more discounting options for consumers.

2. **Durbin Amendment (#3769)** to ensure that interchange fees charged for debit card transactions are reasonable and proportional to the costs incurred in processing the transaction.

- With this amendment, Visa and MasterCard will be prevented from continuing to increase debit card interchange fee rates, which currently amount to 1% — 2% of the transaction amount even though the actual cost of processing a debit transaction is far less.
- The amendment would direct the Fed to issue regulations to ensure that interchange fees imposed on debit card transactions be "reasonable and proportional" to the cost incurred in processing the transaction. (The rules would have a carve-out for small bank debit cards).
- Without this amendment, Visa and MasterCard (which control nearly all of the debit card market) will continue to raise debit interchange fees simply because their enormous market power means that merchants can do little to fight back. Reducing debit interchange fees would be like a tax break on every debit card sale a merchant makes.