

Debit Interchange Provision

Frequently Asked Questions

The Senate debit interchange provision includes a carve-out for all but a handful of credit unions. Why won't the carve-out work?

Under this provision, the Federal Reserve would be required to determine a debit interchange rate for big issuers based on the proportional cost for processing a single debit transaction, as compared to checks. The carve-out says that small issuers are not required to use this prescriptive debit rate by law; however, in practice, we expect the networks and the merchants will apply the mandated Federal Reserve debit interchange rate to all issuers, regardless of size, because nothing in the amendment requires the networks to operate a two-rate structure and there is no incentive for them to do so.

Why would small issuers get the same debit interchange rate as the big issuers if they are exempt?

The card networks structure the card payment system based on one interchange schedule for all issuers. The networks have no incentive or mandate to justify maintaining two separate debit interchange systems based on issuer size. Even assuming the networks and merchants allowed a higher debit interchange for small issuers, it would result in a noticeable difference to the merchants, their acquirers, the big banks, and the networks. For example, the merchants could discriminate against consumers with small issuer debit cards, because of the different interchange rate. In the end, small issuers would become a part of the government-set debit interchange schedule.

Why do the credit unions think debit interchange would decrease by 90%?

The interchange provision requires the Federal Reserve to set a debit interchange rate by considering only one cost factor, not all of the direct and indirect costs assumed by card issuers. The provision creates a government-set rate that is statutorily limited to consider only a fraction of the expense in running a big issuer's debit card program, with no ability for negotiations.

The language requires debit interchange to be set in a way that is "reasonable and proportional to the actual cost incurred...with respect to the transaction" for the big issuer. The other direct and indirect costs are significant, such as card re-issuance, fraud, and call centers to name just a few. The "actual cost incurred... with respect to the transaction" language means only the cost of the information crossing the card payment system, but not the infrastructure of the actual system itself. The reality is that in the end, small issuers will end up with the same 90% reduction in debit interchange that the big banks will get from the government's price-control mandate. Merchants want the government-set debit rate to ignore all of the credit union's operational costs to support debit cards, and instead make debit interchange only about the cost of moving a signal across the system. As such, a 90% reduction in debit interchange is a fair estimate.

Why is the “honor all cards” language important to credit union card holders, and why doesn’t the language in the amendment protect them?

There is no statutory requirement that merchants honor all cards. Under the card network rules, Visa and MasterCard require merchants to accept any card bearing their logo, regardless of the issuing credit union or bank. This ensures that credit union card holders will not be discriminated against by merchants in favor of cards from the big banks. However, credit unions are concerned that merchants may discriminate against credit union cards if the interchange provision is enacted.

While the interchange provision includes “honor all cards” language in a couple of instances, this language is not included for the most important provision for small issuers – the provision giving merchants the unlimited ability to discount for form of payment. Therefore, the interchange provision would empower the merchants to discriminate against cards issued by a credit union. If a credit union card is not accepted or discounted, but large issuer cards are accepted or discounted, consumers may feel pressure to apply for cards from larger issuers, which generally have terms which are less consumer-friendly than credit union cards.

Does the interchange provision give small businesses the ability to negotiate the interchange rate?

No. The Senate provision does not open up interchange for negotiations to include small issuers or small businesses. It directs the government to set a rate, based only on a sliver of the costs it takes to run a debit card program. It claims to give a “carve out” from the government-set rate for small issuers, but in practice the networks, big banks, and the merchants will make the one rate applicable to all issuers, effectively eliminating the ability of small issuers to offer competitive debit cards. To add insult to injury, the amendment goes on to say that merchants will have the unlimited ability to discriminate against cards issued by credit unions. For every American who holds a debit card issued by credit union, this language will have a negative affect on their wallet.

Does the Senate interchange amendment help consumers?

No. The interchange provision will increase costs and reduce choice for consumers. Nothing in the provision guarantees that consumers will see any savings—in fact, these changes will likely cost consumers more money. Nothing in the interchange provision creates a “carve out” that will actually protect the ability of a small card issuer to run a viable debit card program. The consequences of this provision would make it extremely difficult for credit unions to continue to provide valuable and responsible debit and credit card services, and would further the consolidation of market share into the hands of the largest financial institutions. Small issuers would have to charge fees for debit transactions or for checking accounts, and as a result, likely be at a competitive disadvantage to the big bank down the street.

Consumers will lose if this provision becomes law. The merchant-supported interchange provision is intended to disrupt the card payment system in favor of merchants, to reduce their financial obligation for participating in the system and for the benefits received from accepting debit and credit. Merchants are shifting their costs to the consumer.