



# INTIMATE PAYMENTS

## WHAT WILL DURBIN DO FOR YOU –

*By Ken Musante/Steve Kimberling*

The Durbin Amendment is an Amendment to the Dodd Frank Wall Street Reform and Consumer Protection Act. It was tacked on to the Bill in the eleventh hour and protested mightily by big banks. Even after it was passed as a part of the Dodd Frank Bill, it was targeted for repeal that was narrowly defeated in early June. The Amendment calls for sweeping reductions in Debit Card Interchange and remains the cause of great consternation among big banks. Regardless, the reduction in Debit card Interchange goes into effect October 1<sup>st</sup>. This article will assist you in understanding how you can benefit from this reduction.

Interchange is the fee the merchant or acquiring bank pays to the issuing or cardholder bank. It is the same for all acquiring banks and is, by far, the single largest component of your merchant processing fees. A typical *credit* Interchange fee for an eTailer is 1.95% + \$0.10. Interchange is typically expressed

in both a percentage and a fixed fee often times making it prohibitive for very low transactions at or below \$5.00. Interchange may be as high as 3.17% + \$0.10. A typical debit Interchange for an eTailer is 1.60% + \$0.15. There are hundreds of different Interchange categories and the most expensive categories include foreign or international cards, business and commercial cards, high value reward cards and cards

processed without the full fraud parameters for that specific transaction. Special programs exist for select merchant types like grocery stores and governmental entities. Interchange is higher for credit card transactions than it is for debit card transactions and differs for the card present industry versus the card not present industry. 70 – 80% of your total discount fees is made up of Interchange costs.

Because of the Durbin Amendment, the Interchange fees on Debit card transactions will be lowered by approximately 50% to a cap of 0.05% + \$0.21\*. Though this is still being expressed in both a percentage and a fixed fee, the fixed fee is much larger than today's typical fee of \$0.15 and the 0.05% is far lower than the current debit Interchange level. Mathematically this will lead to a much greater reduction in rates for the larger transactions as identified in the chart below:

*“Because of the Durbin Amendment, the Interchange fees on Debit card transactions will be lowered by approximately 50% to a cap of 0.05% + \$0.21”*

**Example 1: \$50 average ticket (1.60%+\$0.15)**

**Example 2: \$250 average ticket (0.05%+\$0.21)**

Current I/C:  $(50 \times 0.016) + 0.15 = \$0.95$  (1.90%)

$(250 \times 0.0005) + 0.21 = \$0.1325$  (0.53%)



- In some cases the fee will be 1 cent greater at  $\%0.05 + \$0.22$ .