The Facts About Debit Reform

In 2010, as part of the Dodd-Frank bill, Congress enacted the Durbin Amendment, whose purpose was to reform the illegal price-fixing by Visa and MasterCard of swipe fees that banks charge merchants when customers use debit cards. The Federal Reserve originally proposed to follow the language of the Amendment and limit debit swipe fees to the 7- to 12-cent range – about what they already were on small transactions anyway.

Unfortunately, after a widespread lobbying blitz from banks and card companies, the Fed doubled or tripled that number to an average fee of 25 cents per transaction. This raised costs for some retailers while reducing them for others The merchants have sued the Federal Reserve for not following the law, but even the moderate measure of reform the amendment has brought so far has benefited merchants and, through them, consumers (in the form of lower prices) and the broader economy, which could use the help (in terms of more economic growth and jobs.)

This was good news for consumers, merchants, and our economy. Here are some numbers that explain why:

Lower Debit Swipe Fees Lowered Costs for Consumers and Merchants

- A 2013 study conducted for merchants by internationally prominent economist Robert Shapiro of Sonecon LLC found that reforming swipe fees on debit cards saved consumers $5.8 billion in lower costs for goods and services and saved merchants $2.6 billion in 2012 alone. The savings in turn created 37,501 jobs.

- These savings and job gains would have been substantially larger if swipe fees had been cut to 12 cents – the highest level originally proposed by the Federal Reserve Board. That would have meant an additional $2.79 billion in consumer savings, $1.2 billion more in merchant savings and an additional 17,824 jobs.

- Moody's Investors Services concluded in a report that merchants need to keep prices as low as possible to stay in business and, as a result, the savings from debit reform offset escalating costs of products like gas and food, helping consumers save money in uncertain economic times.

Banks—Both Big and Small--Win

- Big banks aren't losing money on debit transactions – they're just losing their windfall profits. According to the Federal Reserve's own survey data, more than 90 percent of debit transactions cost banks less than 2 cents. After debit swipe reform, big banks can still charge merchants an average of 25 cents per transaction. Profit margins of more than 1,000 percent are far more than businesses in competitive markets can expect to make.

- The nation's biggest banks are making record profits, despite claims Dodd-Frank and the Durbin Amendment would hurt them. The six biggest banks earned a whopping $76 billion in 2013, up more than 20 percent, and second only to the precrash year of 2006. The profits would have been much higher but for the billions the banks had to pay out in penalties for bad behavior like misleading investors.

- Meanwhile many large and all medium-size and small banks – about 7,300 of 7,436 banks nationwide – are exempt from debit reform and have benefitted. Reports from the Federal Reserve, the GAO and the FTC have found that exempt banks and credit unions have not seen a decline in debit fees. In fact, in the aggregate, fees for exempt banks have actually increased since swipe fee reform.

And Consumers Win, Too

- Again contrary to bank claims, free checking actually became more available post-regulation. According to a 2013 Kansas City Federal Reserve report, which looked at checking fees before and after debit reform, the share of small banks offering free checking rose from 37% to 44% between 2011 and 2012.