

The Facts About Debit Reform

One year ago, new reforms took effect that limited price-fixing of swipe fees for debit purchases made with cards issued by the big banks. This is good news for consumers, merchants, and our economy. Here's why:

Lower Debit Swipe Fees Hold Down Prices for Consumers

- A report by Moody's Investors Services concluded that because retailers and other merchants operate in highly competitive markets, they need to keep prices as low as possible to stay in business. The savings from debit reform offset escalating costs of things like gas and food commodities.
- While Moody's conservatively projected that debit savings would counterbalance a normal rise in consumer prices, in fact, debit swipe reform's enhanced emphasis on the ability to provide discounts and other benefits for cash, has resulted in lower prices and savings for consumers in a number of circumstances.
- Other merchants are experimenting with a variety of incentives to get consumers to use debit cards. Some gas stations and other retailers are offering special discounts to customers opting for debit transactions.
- Overall, retailer profits have not increased – in fact retail profit margins have declined – since swipe reform went into effect showing that savings are being passed on to consumers.

. . . . While Small Banks 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, it costs banks an average of 5 cents to process a debit transaction. After debit swipe reform, big banks can still charge merchants at least 21 cents per transaction.

And, overall, big bank profits aren't down – they're up.

According to a study by the California Reinvestment Coalition, bank profits, which exceeded \$51 billion in 2011, are higher now than before the recent financial crisis. The five biggest banks alone cleared profits of over \$12.5 billion.

Meanwhile smaller banks – about 7,300 of 7,436 banks nationwide – are exempt from debit reform and have benefitted from reform.

Reports from the Federal Reserve, GAO, and the FTC have found that banks exempt from debit swipe reform have not seen a decline in debit fees. In fact, in the aggregate, fees for exempt banks have actually increased since swipe fee reform. Additionally, in its 2012 second quarter report, the National Credit Union Administration reports that for the nation's credit unions, "Increases in fee income and other operating income, accompanied by declines in expenses for interest and loan losses, produced a higher quarterly net income. During the second quarter, credit unions earned \$59.7 million more than in the prior quarter."

And fees for consumer bank accounts cannot be linked to swipe reform.

A close analysis of data compiled by moneyrates.com and bankrates.com shows that consumer checking fees have their own market dynamics unrelated to debit swipe fees. For example, small banks that are exempt from swipe reform raised fees more than big banks whose swipe fees were reduced. And, since the mid-year 2011 survey, more large and medium size banks (the only ones impacted by debit reform) do not have monthly service fees according to *moneyrates.com*.

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The Merchants Payments Coalition (MPC) - UnfairCreditCardFees.com - is a group of retailers, supermarkets, drug stores, convenience stores, fuel stations, on-line merchants and other businesses who are fighting against unfair credit card fees and fighting for a more competitive and transparent card system that works better for consumers and merchants alike. The coalition's member associations collectively represent about 2.7 million stores with approximately 50 million employees.