

# Interchange Fees – Learn How This Impacts Your Debit Card Rewards

In this post, we will uncover the pros and cons of interchange fees legislation in the United States and around the globe.

The policy conversations were in full swing from 2005 with the initial filing from consumers to the final judgment in 2011. We will walk you through the early days of the litigation and bring you forward to today.

Why is this important to you?

Well, it can impact the costs banks pass on to you the consumer in the future, so it's great to have an understanding of the laws on the books.

## 2005 – 2011

The new law known as the Durbin Amendment reduced the interchange fees for debit transactions to a flat 12 cents instead of the ~1.14% average fee of the sales price. In typical fashion, the banks found other ways to recoup these potential losses.

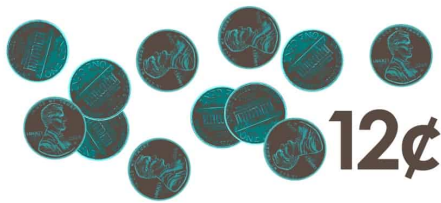
Even though Republican Congresswoman Shelley Moore introduced legislation on March 16, 2011, to delay the [Durbin](#) Amendment until a comprehensive study could be performed, banks went on the offensive. JP Morgan Chase announced on Monday, March 21, 2011, that they will no longer offer debit-card rewards for the majority of its customers in July of that year.

The elimination of the debit-card rewards program by Chase was reported by [Bloomberg](#). The July cutoff is no coincidence as the flat interchange fee becomes law on July 21, 2011.

The below infographic provides both sides of the story. On one hand, there are people that believe the reduction in fees will lead to cost savings for the consumer. In 2003, Australia removed interchange fees and there was no uptick in the economy or reduction of goods and services.

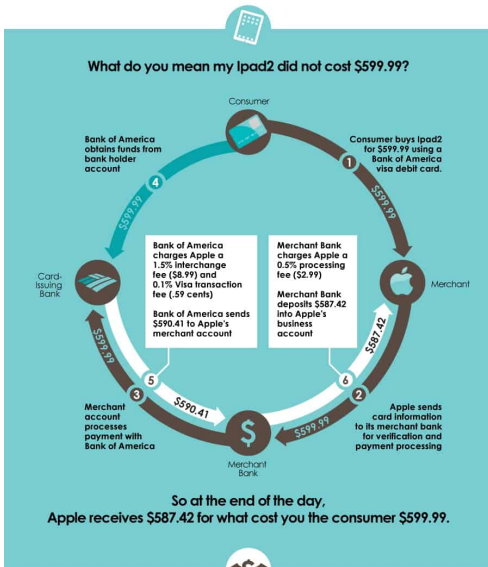
In actuality, many Australians complain that prices stayed the same, while they did see an increase in banking fees, loss of free checking, and the elimination of debit-card rewards programs.

## **Interchange Fees Infographic**



## The Battle Over Loose Change in America

Rep. Shelley Moore Capito, R-W.Va., introduced legislation March 16 to delay the proposed final rule on interchange fees, also known as "swipe fees," in order to allow a comprehensive study of how changes will affect consumers, small financial institutions and merchants.



### Free Market?

While the credit card market in the United States continues to grow, exceeding \$1.3 trillion annually, the number of card-issuing banks has shrunk.



### Interchange Fees



### Determining the Best Cap for Interchange Fees

With average interchange fees currently at 44 cents, the 12-cent cap will cut these charges by up to 70% from 2009 levels. This would apply to laundries, fruit, together with their affiliates, have assets of \$10 billion or more. The Fed's proposed 12-cent cap would be a major victory for merchants, who say higher fees are hurting their businesses and ability to create jobs. To figure out the most aggressive rate, the Fed has considered opinions from groups like the NRF and has evaluated survey data, compiled by merchant processors and financial organizations.

One report found the median total processing cost for debit and prepaid card transactions is 11.9 cents per transaction. It also found the median network processing fees are four cents per transaction. The NRF is trying to get the flat-fee down to the four-cent figure, but would like to see it even lower. "It should be less than that because our studies show that even four cents is a little high," says Duncan. "Debit cards are like checks and checks cost zero."

### Banks Will Simply Find Another Way to Charge

Bank of America started a pilot program of new checking accounts and fee structures in three states this year. It plans to take the program national by the second half of 2011.

States testing fee-based checking accounts	Other fees
MA, AZ, GA	Non-Sufficient Fund (Overdraft) \$35
	Stop Payment Item \$30
	Return Deposit \$35
	Domestic Wire Transfer (Outbound) \$25
	Domestic Wire Transfer (Inbound) \$12
	ATM and Debit Card Fees: Non-BOFA ATM \$2

### Who stands to gain from the removal of interchange fees?

**SMALL BANKS**  
The interchange fee limits that will cost big banks billions won't hit small institutions as hard. Small banks will be exempt from the new rules, meaning they can keep their interchange fees high and take in revenue. But small banks are still worried that retailers might disallow the use of their cards if they do not slash interchange fees.

**JOB GROWTH**  
According to a report by former U.S. Under Secretary of Commerce Robert J. Shapiro, entitled "The Costs of 'Charging It' in America: Assessing the Economic Impact of Interchange Fees for Credit Card and Debit Card Transactions," if interchange fees were reduced to the cost of processing the transactions plus an average profit level, the resulting increase in economic activity would generate nearly 242,000 jobs in the U.S. economy.

**MERCHANTS**  
Merchants will now be able to pass savings onto customers; however, in reality they just keep these profits for themselves! I mean this is capitalism.

SOURCES:  
[http://money.cnn.com/2011/03/11/foad/interchange\\_fees/index.html](http://money.cnn.com/2011/03/11/foad/interchange_fees/index.html)  
[http://www.wired.com/wired/2011/03/10/interchange\\_fees\\_cost\\_you\\_more\\_than\\_you\\_realize/](http://www.wired.com/wired/2011/03/10/interchange_fees_cost_you_more_than_you_realize/)  
[http://www.cnn.com/2011/03/10/interchange\\_fees\\_impact\\_economic\\_growth/index.html](http://www.cnn.com/2011/03/10/interchange_fees_impact_economic_growth/index.html)  
<http://www.enr.com/story/2011/03/10/retailers-rally-swipe-fee-cuts/#ixzz1GWagVlrs>  
<http://www.foxbusiness.com/industries/2011/03/10/retailers-rally-swipe-fee-cuts/#ixzz1GWagVlrs>

## Interchange Fees

### Present Day

Flash forward to today and a judge ruled in favor of both the merchants and customers. How is this possible?

The customers saw a decrease in their fees, while merchants have protection against future class action lawsuits.

While it is painful for consumers, it appears interchange fees are a cost of doing business. Interchange fees are not only in the United States.

The European Union has also put measures in place to curb the fees. In 2015, the Union capped the fees to .2% for debit cards.

The credit card companies are still not going without a fight. As governments further restrict interchange fees, companies are finding ways to leverage processing fees, not on regulator's radar. In addition, American Express has lowered their reward fees in Australia on cards in response to Australia's decision in 2017 to further cap interchange fees.

### In Summary

As a consumer, you should be aware of the fees on your debit cards or credit cards. Continue to ask the tough questions before you sign up for another card.

Also, stay on top of what changes your credit card company may be making to your rewards programs. The last thing you want is to have your points reduced or eliminated altogether. Especially when this is likely the main reason you initially signed up for the card.

Lastly, if you are against these fees, write to your fellow representatives. Remember, it's not just about the interchange fees, but all of the fees. Until governments protect consumers against all fees, companies will continue to use fuzzy math to make up their losses. As you can see from this [infographic of the top bonuses for banking CEOs](#), these fellows always find a way to win.