

## Merchants Payments Coalition: Debit Card Fast Facts

### **Fact #15: Visa and the American Bankers Association have misled Congress by claiming debit interchange has not increased when it has gone up dramatically.**

Georgetown professor Adam Levitin pointed out this misrepresentation in a recent blog post where he noted that the American Bankers Association was using a blended rate of credit and debit card interchange. Traditionally, credit card rates have been much higher so decreased usage of credit coupled with increased usage of debit cards at a lower (but nonetheless fast growing rate) has been used to mask consistent rate increases.<sup>1</sup>

Additionally, in testimony before the House Financial Institutions Subcommittee this February, Visa General Counsel Joshua Floum said the following: *“Overall, Visa’s effective debit interchange rate has remained flat, with only a minimal rate of change in interchange rates over the past ten years. In fact, retailer claims of “cost increases” overwhelmingly are driven by increased acceptance and usage of debit cards, rather than increases in the interchange rates themselves.”*<sup>2</sup>

However, the below chart from Kansas City Federal Reserve Economist, Fumiko Hayashi, shows” the average interchange expense for a \$50 PIN-debit sale at a small retailer **quadrupled between 1996 and 2007, from 9.9 cents to 40.1 cents**. With a signature debit card, that same sale would generate about 67 cents in interchange.”<sup>3</sup> Note, this is on a per transaction basis, not because volume is increasing. It is also worth noting that GAO found definitively that Visa and MasterCard misled its staff by claiming its credit card interchange rates were not rising.<sup>4</sup>

| <b>PIN-Debit Interchange Costs Since the Mid-'90s</b>               |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>(in cents, assumes \$50 face-to-face sale at small retailer)</b> |             |             |             |             |             |             |             |             |             |             |             |             |             |             |
| <b>Network</b>  | <b>1996</b> | <b>1997</b> | <b>1998</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| <b>Star</b>   | 7.5         | 7.5         | 7.5         | 7.5         | 17          | 17          | 34          | 34          | 44.5        | 44.5        | 44.5        | 52.5        | N/A         | N/A         |
| <b>Interlink</b>  | 22.5        | 12          | 12          | 20          | 20          | 20          | 44.5        | 44.5        | 44.5        | 50          | 50          | 50          | 52.5        | 52.5        |
| <b>NYCE</b>   | 7.5         | 7.5         | 7.5         | 7.5         | 12.5        | 12.5        | 34          | 40          | 42.5        | 42.5        | 42.5        | 42.5        | N/A         | N/A         |
| <b>Pulse</b>  | 5           | 8           | 8           | 10          | 10          | 10          | 15          | 18          | 18          | 42.5        | 42.5        | 42.5        | N/A         | N/A         |
| <b>Accel/Exchange</b>   | 7.5         | 7.5         | 7.5         | 7.5         | 7.5         | 7.5         | 18          | 31          | 40          | 42.5        | 42.5        | 42.5        | N/A         | N/A         |
| <b>Shazam</b>   | N/A         | 0           | 2.5         | N/A         | N/A         | N/A         | 10          | 10          | 10          | 15          | 24          | 24          | N/A         | N/A         |
| <b>Jeanie</b>   | N/A         | 6           | 6           | N/A         | N/A         | N/A         | N/A         | 11          | 11          | 40          | 40          | 44.5        | N/A         | N/A         |
| <b>Networks</b>   | N/A         | 5           | 15          | 15          | 15          | 15          | 15          | 15          | 15          | 15          | 15          | 15          | N/A         | N/A         |
| <b>AFFN</b>   | N/A         | N/A         | 0           | 10          | N/A         | 12.5        | 12.5        | 14          | 18          | 18          | N/A         | 37.5        | N/A         | N/A         |
| <b>Maestro</b>  | 9.5         | 9.5         | 9.5         | 9.5         | 9.5         | 9.5         | 9.5         | 29          | 45          | 50          | 50          | 50          | 50          | 52.5        |
|   |             |             |             |             |             |             |             |             |             |             |             |             |             |             |

Source: Fumiko Hayashi, Federal Reserve Bank of Kansas City from data from ATM & Debit News, MasterCard, and Visa  
 Published: Geisen, Laurie. "The Narrowing Debit Card Interchange Gap." *Digital Transactions*. September 2009.

<sup>1</sup> More Bogus Lobbying Numbers from the Banks: Debit Card Interchange. Posted by Adam Levitin March 28, 2011 <http://www.creditslips.org/creditslips/2011/03/american-bankers-association-bs-watch-interchange-edition.html>

<sup>2</sup> Testimony of Visa Inc. General Counsel Joshua Floum before the House Financial Services Subcommittee on Financial Institutions. February 17, 2011 at pg.6. <http://financialservices.house.gov/media/pdf/021711floum.pdf>.

<sup>3</sup> “The Narrowing Debit Card Interchange Gap.” *Digital Transactions*. September 2009, page 20. <http://www.digitaltransactions.net/issues/viewer/2307>

<sup>4</sup> GAO 10-45, “Credit Cards: Rising Interchange Fees Have Increased Costs for Merchants, but Options for Reducing Fees Pose Challenges,” (Nov. 2009) at 14.

Another trick the card companies use to hide their increasing fees is changing the number of transactions a retailer has to reach to qualify for certain tiered categories. In doing so, they effectively raise rates for a number of merchants, medium to small businesses in particular, who fall to a lower tier based on their transaction volume.

Lastly, it's important to note that even if debit card rates were in fact remaining steady, the significant increase in volume coupled with improved technology should lead to lower per transaction debit card rates because of efficiencies in the system. Yet, interchange fees are the fastest growing expense for most retailers. This is more proof that the debit card market is broken.