

**The Costs and Benefits of Half a Loaf:
The Economic Effects of Recent Regulation of
Debit Card Interchange Fees**

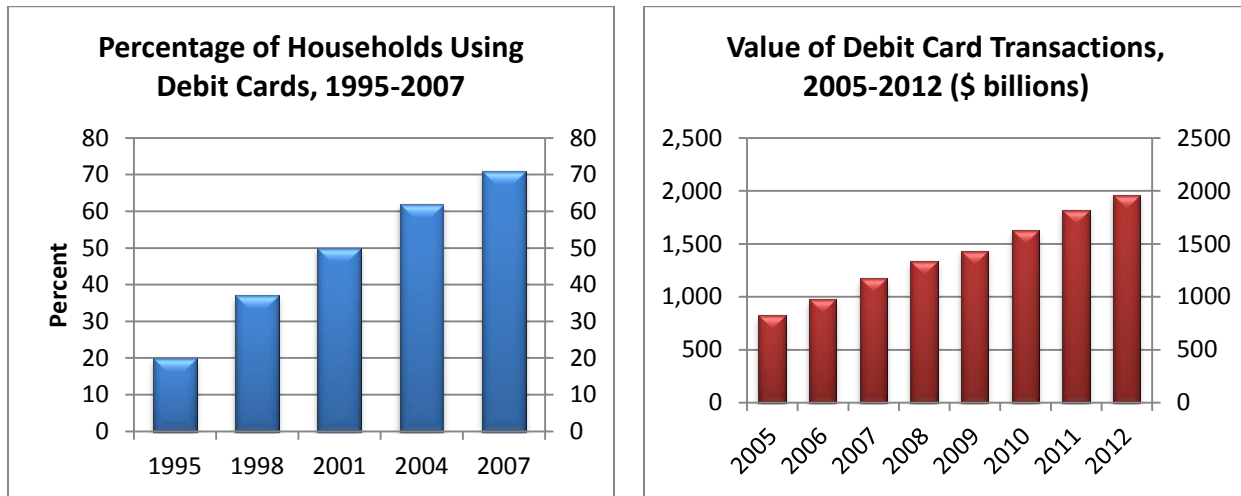
Robert J. Shapiro

October 1, 2013

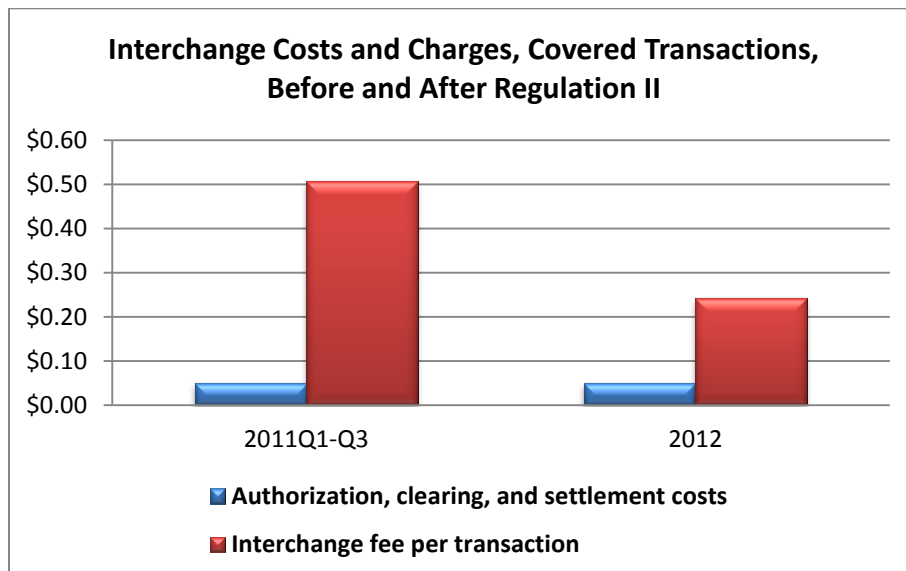
SONECON 

The Costs and Benefits of Half a Loaf: The Economic Effects of Recent Regulation of Debit Card Interchange Fees

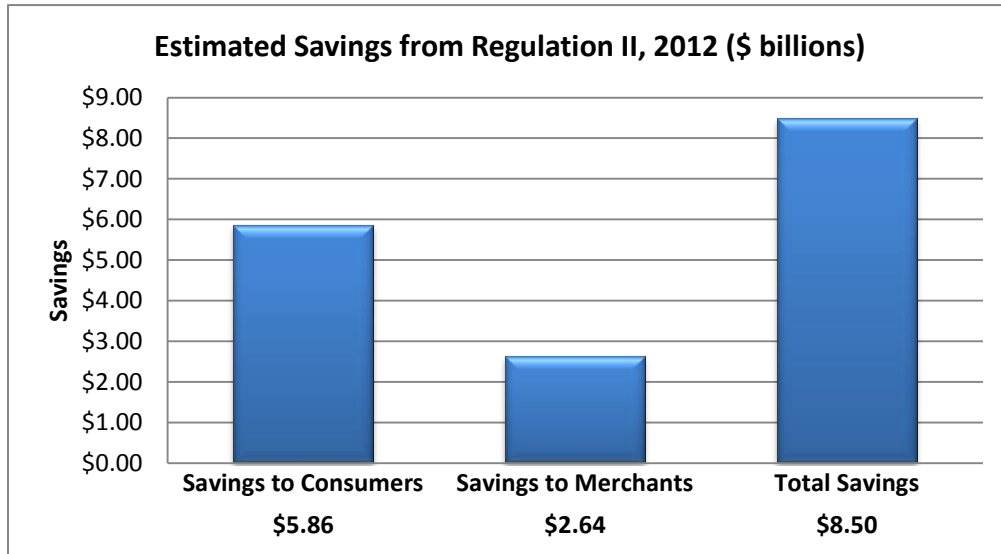
The charges applied by debit card networks and the banks issuing debit cards have become matters of broad interest and import, as the numbers of Americans using debit cards and the value of debit card transactions have both risen sharply and steadily.



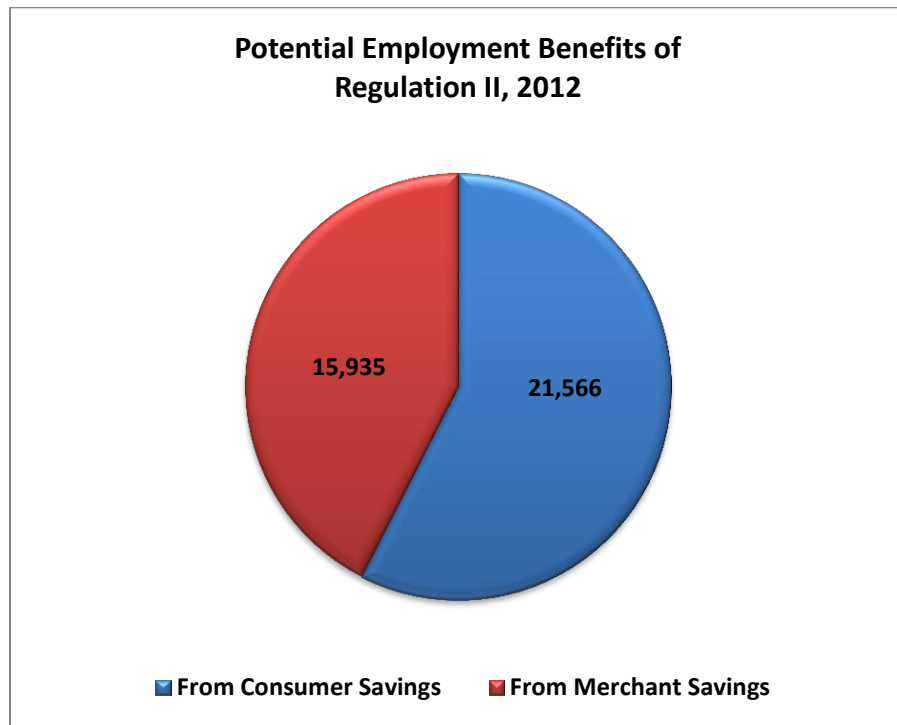
In 2010, Congress directed the Federal Reserve to issue regulations covering the “interchange” fees that debit-card issuing banks charge merchants, fees largely passed on to American consumers through higher prices. Before the Fed’s new rules, “Regulation II,” took effect, it cost the card networks and card-issuing banks an average of \$0.05 to process a debit transaction, or about 10 percent of the average \$0.48 interchange fee they charged merchants to do so. Under Regulation II, the average interchange fee fell to \$0.24 per transaction.



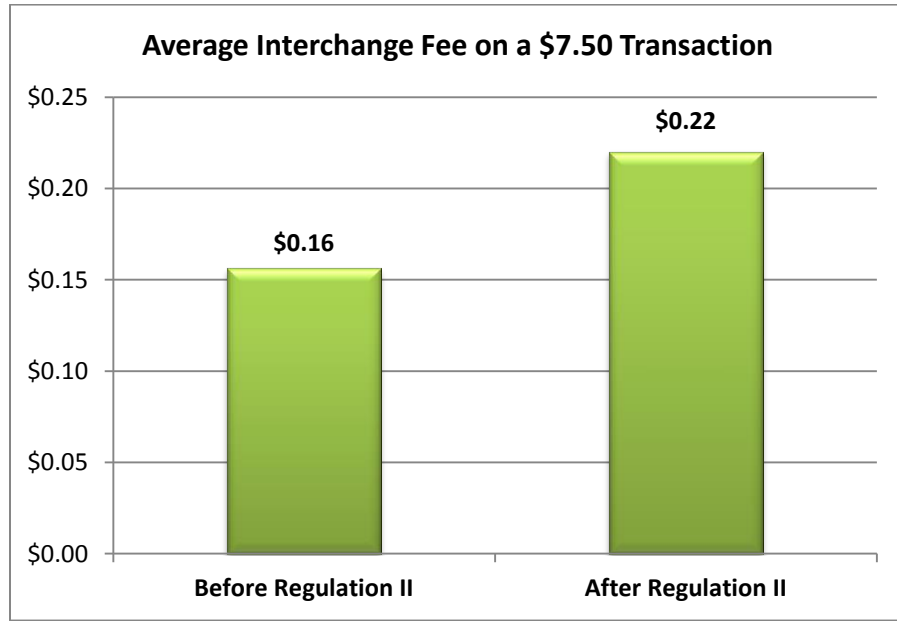
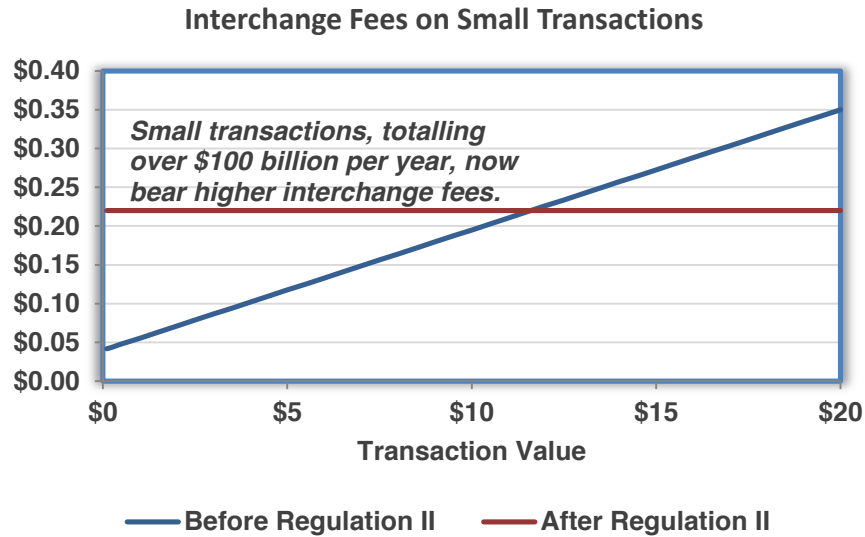
Regulation II saved Americans \$8.5 billion in its first full year, 2012, through lower interchange fees: \$5.86 billion of those savings passed through to consumers in lower prices, and merchants received the remaining savings of \$2.64 billion.



The savings from lower interchange fees have positive economic effects. The savings by consumers expand their consumption and purchases, which supports the creation of new jobs. Similarly, the savings for merchants lead to more purchases, investments and hiring. The \$5.86 billion in Regulation II savings for consumers in 2012 were sufficient to support 21,566 new jobs, and the savings for merchants in 2012 could support an additional 15,935 jobs.

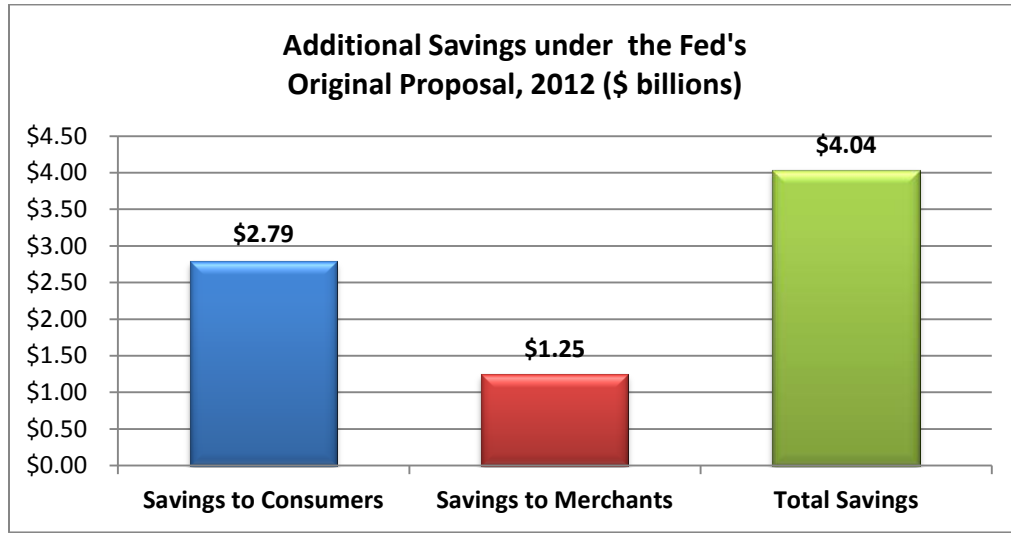


Regulation II also includes features that impose unnecessary costs on American consumers and merchants. First, the terms of the new rules have actually allowed the card networks to increase the fees on more than \$100 billion in small debit transactions every year: Before Regulation II, the interchange fee on a \$7.50 purchase by debit card was less than \$0.16; after it took effect, that fee rose to \$0.22, greater than the profit margin of many merchants on a \$7.50 transaction.

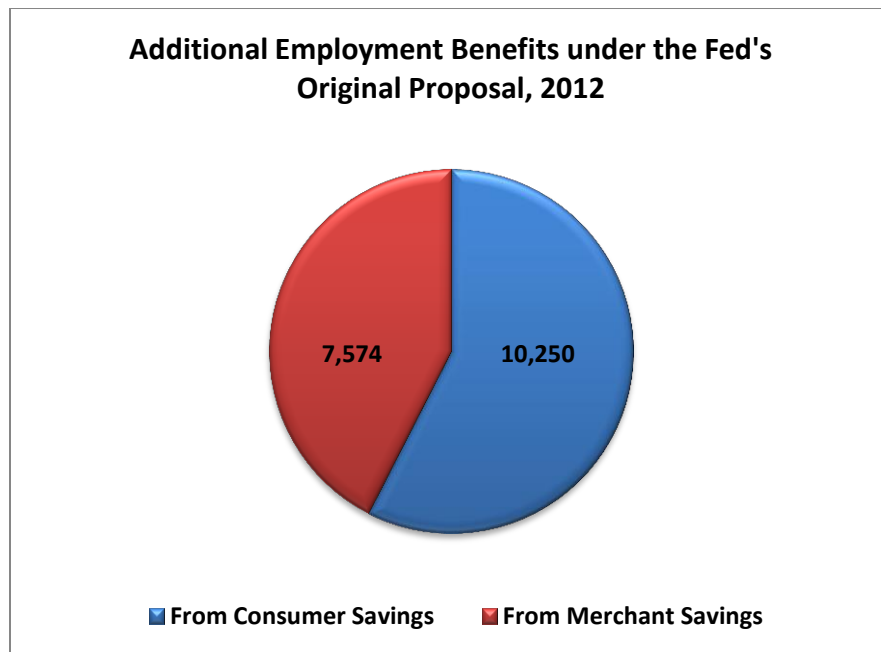


If Regulation II were revised so that interchange fees on small purchases did not increase, Americans would have saved an additional \$690 million in 2012, sufficient to support the creation of an additional 3,044 jobs in that year.

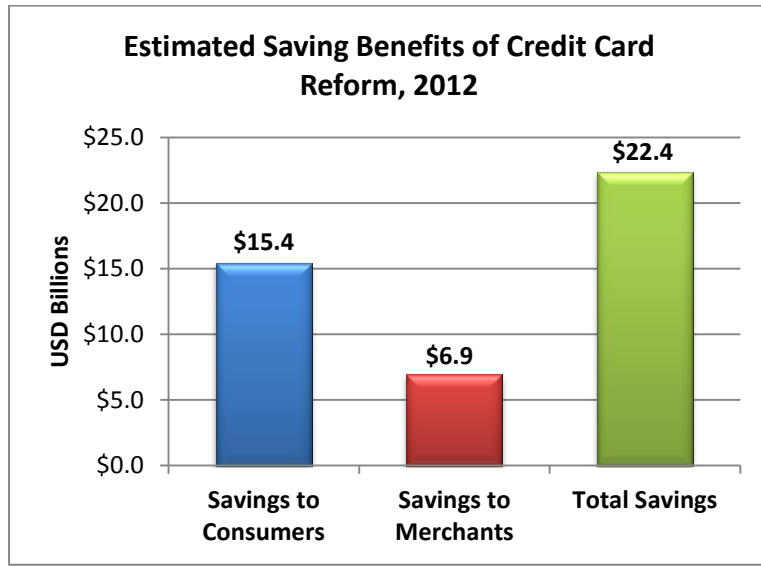
Regulation II also did not follow the terms set down by Congress, which directed the Federal Reserve to limit interchange fees on debit transactions to the costs of processing those transactions. The Fed's proposed rule recommended limiting the fees to \$0.12 per transaction. After lobbying by financial institutions, the Fed issued a new final version that resulted in fees of \$0.24. The original proposal would have saved an additional \$4.04 billion in 2012.



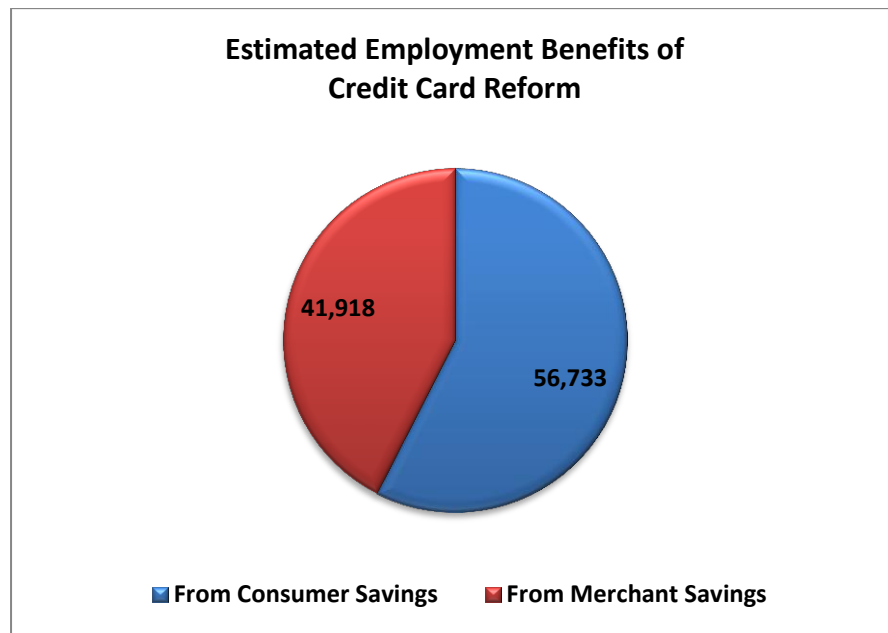
These additional savings would have had additional employment benefits. The additional savings for consumers could have supported another 10,250 new jobs in 2012, and the additional savings for merchants could have supported another 7,574 new jobs.



In addition, Regulation II applies only to debit card transactions: It does not apply to credit card transactions. In 2012, Americans used their credit cards 25.4 million times to charge \$2.4 trillion, paying an estimated \$41.2 billion in interchange fees or \$1.62 per-transaction. If the \$0.24 cap on debit interchange fees covered credit cards interchange fees on four-party payment networks like Visa and MasterCard, consumers and merchants would have saved an additional \$22.4 billion in 2012.



The savings derived from applying the Regulation II cap to credit card interchange fees also would have supported additional employment: The \$15.4 billion in projected savings for consumers in 2012 could have supported an additional 56,733 jobs, and the \$6.9 billion in projected merchants' savings could have supported 41,918 more jobs.



MPC STATE-BY-STATE ANALYSIS OF SAVINGS & JOBS FROM DEBIT & CREDIT CARD REFORM

Study Finds Swipe Fee Reductions Put More Money in Consumers' Hands & Creates Jobs

The chart below reflects a MPC state-by-state analysis of savings and jobs numbers with swipe fees on debit cards as they were by the Federal Reserve rule in 2012. The chart also shows what would happen if debit fees were reduced to 12 cents as originally proposed by the Fed, and if credit card fees were reduced to 24 cents.

The numbers are distributed proportionally to states' share of the U.S. gross domestic product.

State	% GDP	Estimated Savings From Debit Card Reform, Reducing Swipe Fees to 24 Cents (\$ millions)			Jobs Created From Debit Card Reform, Reducing Swipe Fees to 24 Cents	Additional Savings Under Fed's Original 2012 Proposal, Reducing Swipe Fees to 12 Cents (\$ millions)			Jobs Created From Debit Card Reform, Reducing Swipe Fees by 12 Cents	Estimated Savings by Reducing Swipe Fees to 24 Cents for Credit Card Transactions (\$ millions)			Jobs Created by Reducing Swipe Fees to 24 Cents for Credit Card Transactions
		Consumer Savings	Merchant Savings	Total Savings	37,501	Consumer Savings	Merchant Savings	Total Savings	17,824	Consumer Savings	Merchant Savings	Total Savings	98,651
California	13.34	\$781.724	\$352.176	\$1,133.900	5002.63	\$372.186	\$166.750	\$538.936	2377.72	\$2,054.360	\$920.460	\$2,988.160	13160.04
Texas	8.92	\$522.712	\$235.488	\$758.200	3345.09	\$248.868	\$111.500	\$360.368	1589.90	\$1,373.680	\$615.480	\$1,998.080	8799.67
New York	7.68	\$450.048	\$202.752	\$652.800	2880.08	\$214.272	\$96.000	\$310.272	1368.88	\$1,182.720	\$529.920	\$1,720.320	7576.40
Florida	5.2	\$304.720	\$137.280	\$442.000	1950.05	\$145.080	\$65.000	\$210.080	926.85	\$800.800	\$358.800	\$1,164.800	5129.85
Illinois	4.44	\$260.184	\$117.216	\$377.400	1665.04	\$123.876	\$55.500	\$179.376	791.39	\$683.760	\$306.360	\$994.560	4380.10
Pennsylvania	3.97	\$232.642	\$104.808	\$337.450	1488.79	\$110.763	\$49.625	\$160.388	707.61	\$611.380	\$273.930	\$889.280	3916.44
New Jersey	3.42	\$200.412	\$90.288	\$290.700	1282.53	\$95.418	\$42.750	\$138.168	609.58	\$526.680	\$235.980	\$766.080	3373.86
Ohio	3.33	\$195.138	\$87.912	\$283.050	1248.78	\$92.907	\$41.625	\$134.532	593.54	\$512.820	\$229.770	\$745.920	3285.08
Virginia	2.95	\$172.870	\$77.880	\$250.750	1106.28	\$82.305	\$36.875	\$119.180	525.81	\$454.300	\$203.550	\$660.800	2910.20
North Carolina	2.81	\$164.666	\$74.184	\$238.850	1053.78	\$78.399	\$35.125	\$113.524	500.85	\$432.740	\$193.890	\$629.440	2772.09
Georgia	2.79	\$163.494	\$73.656	\$237.150	1046.28	\$77.841	\$34.875	\$112.716	497.29	\$429.660	\$192.510	\$624.960	2752.36
Massachusetts	2.6	\$152.360	\$68.640	\$221.000	975.03	\$72.540	\$32.500	\$105.040	463.42	\$400.400	\$179.400	\$582.400	2564.93
Michigan	2.57	\$150.602	\$67.848	\$218.450	963.78	\$71.703	\$32.125	\$103.828	458.08	\$395.780	\$177.330	\$575.680	2535.33
Washington	2.42	\$141.812	\$63.888	\$205.700	907.52	\$67.518	\$30.250	\$97.768	431.34	\$372.680	\$166.980	\$542.080	2387.35
Maryland	2.07	\$121.302	\$54.648	\$175.950	776.27	\$57.753	\$25.875	\$83.628	368.96	\$318.780	\$142.830	\$463.680	2042.08
Indiana	1.84	\$107.824	\$48.576	\$156.400	690.02	\$51.336	\$23.000	\$74.336	327.96	\$283.360	\$126.960	\$412.160	1815.18
Minnesota	1.84	\$107.824	\$48.576	\$156.400	690.02	\$51.336	\$23.000	\$74.336	327.96	\$283.360	\$126.960	\$412.160	1815.18
Arizona	1.8	\$105.480	\$47.520	\$153.000	675.02	\$50.220	\$22.500	\$72.720	320.83	\$277.200	\$124.200	\$403.200	1775.72
Colorado	1.79	\$104.894	\$47.256	\$152.150	671.27	\$49.941	\$22.375	\$72.316	319.05	\$275.660	\$123.510	\$400.960	1765.85
Wisconsin	1.73	\$101.378	\$45.672	\$147.050	648.77	\$48.267	\$21.625	\$69.892	308.36	\$266.420	\$119.370	\$387.520	1706.66
Tennessee	1.72	\$100.792	\$45.408	\$146.200	645.02	\$47.988	\$21.500	\$69.488	306.57	\$264.880	\$118.680	\$385.280	1696.80
Missouri	1.7	\$99.620	\$44.880	\$144.500	637.52	\$47.430	\$21.250	\$68.680	303.01	\$261.800	\$117.300	\$380.800	1677.07
Connecticut	1.61	\$94.346	\$42.504	\$136.850	603.77	\$44.919	\$20.125	\$65.044	286.97	\$247.940	\$111.090	\$360.640	1588.28
Louisiana	1.47	\$86.142	\$38.808	\$124.950	551.26	\$41.013	\$18.375	\$59.388	262.01	\$226.380	\$101.430	\$329.280	1450.17
Alabama	1.2	\$70.320	\$31.680	\$102.000	450.01	\$33.480	\$15.000	\$48.480	213.89	\$184.800	\$82.800	\$268.800	1183.81
Oregon	1.16	\$67.976	\$30.624	\$98.600	435.01	\$32.364	\$14.500	\$46.864	206.76	\$178.640	\$80.040	\$259.840	1144.35
South Carolina	1.13	\$66.218	\$29.832	\$96.050	423.76	\$31.527	\$14.125	\$45.652	201.41	\$174.020	\$77.970	\$253.120	1114.76
Kentucky	1.11	\$65.046	\$29.304	\$94.350	416.26	\$30.969	\$13.875	\$44.844	197.85	\$170.940	\$76.590	\$248.640	1095.03
Oklahoma	1.11	\$65.046	\$29.304	\$94.350	416.26	\$30.969	\$13.875	\$44.844	197.85	\$170.940	\$76.590	\$248.640	1095.03
Iowa	1.01	\$59.186	\$26.664	\$85.850	378.76	\$28.179	\$12.625	\$40.804	180.02	\$155.540	\$69.690	\$226.240	996.38
Kansas	0.89	\$52.154	\$23.496	\$75.650	333.76	\$24.831	\$11.125	\$35.956	158.63	\$137.060	\$61.410	\$199.360	877.99
Nevada	0.88	\$51.568	\$23.232	\$74.800	330.01	\$24.552	\$11.000	\$35.552	156.85	\$135.520	\$60.720	\$197.120	868.13
Utah	0.81	\$47.466	\$21.384	\$68.850	303.76	\$22.599	\$10.125	\$32.724	144.37	\$124.740	\$55.890	\$181.440	799.07
Arkansas	0.73	\$42.778	\$19.272	\$62.050	273.76	\$20.367	\$9.125	\$29.492	130.12	\$112.420	\$50.370	\$163.520	720.15
District of Columbia	0.72	\$42.192	\$19.008	\$61.200	270.01	\$20.088	\$9.000	\$29.088	128.33	\$110.880	\$49.680	\$161.280	710.29
Mississippi	0.68	\$39.848	\$17.952	\$57.800	255.01	\$18.972	\$8.500	\$27.472	121.20	\$104.720	\$46.920	\$152.320	670.83
Nebraska	0.62	\$36.332	\$16.368	\$52.700	232.51	\$17.298	\$7.750	\$25.048	110.51	\$95.480	\$42.780	\$138.880	611.64
New Mexico	0.52	\$30.472	\$13.728	\$44.200	195.01	\$14.508	\$6.500	\$21.008	92.68	\$80.080	\$35.880	\$116.480	512.99
Hawaii	0.47	\$27.542	\$12.408	\$39.950	176.25	\$13.113	\$5.875	\$18.988	83.77	\$72.380	\$32.430	\$105.280	463.66
West Virginia	0.46	\$26.956	\$12.144	\$39.100	172.50	\$12.834	\$5.750	\$18.584	81.99	\$70.840	\$31.740	\$103.040	453.79
Delaware	0.43	\$25.198	\$11.352	\$36.550	161.25	\$11.997	\$5.375	\$17.372	76.64	\$66.220	\$29.670	\$96.320	424.20
New Hampshire	0.42	\$24.612	\$11.088	\$35.700	157.50	\$11.718	\$5.250	\$16.968	74.86	\$64.680	\$28.980	\$94.080	414.33
Idaho	0.38	\$22.268	\$10.032	\$32.300	142.50	\$10.602	\$4.750	\$15.352	67.73	\$58.520	\$26.220	\$85.120	374.87
Maine	0.37	\$21.682	\$9.768	\$31.450	138.75	\$10.323	\$4.625	\$14.948	65.95	\$56.980	\$25.530	\$82.880	365.01
Rhode Island	0.34	\$19.924	\$8.976	\$28.900	127.50	\$9.486	\$4.250	\$13.736	60.60	\$52.360	\$23.460	\$76.160	335.41
Alaska	0.31	\$18.166	\$8.184	\$26.350	116.25	\$8.649	\$3.875	\$12.524	55.25	\$47.740	\$21.390	\$69.440	305.82
South Dakota	0.27	\$15.822	\$7.128	\$22.950	101.25	\$7.533	\$3.375	\$10.908	48.12	\$41.580	\$18.630	\$60.480	266.36
Wyoming	0.26	\$15.236	\$6.864	\$22.100	97.50	\$7.254	\$3.250	\$10.504	46.34	\$40.040	\$17.940	\$58.240	256.49
Montana	0.26	\$15.236	\$6.864	\$22.100	97.50	\$7.254	\$3.250	\$10.504	46.34	\$40.040	\$17.940	\$58.240	256.49
North Dakota	0.23	\$13.478	\$6.072	\$19.550	86.25	\$6.417	\$2.875	\$9.292	41.00	\$35.420	\$15.870	\$51.520	226.90
Vermont	0.18	\$10.548	\$4.752	\$15.300	67.50	\$5.022	\$2.250	\$7.272	32.08	\$27.720	\$12.420	\$40.320	177.57

View the Full Report:

<http://www.unfaircreditcardfees.com/site/library/>