



To: EPX Clients

Date: July 7, 2011

Re: Fed Issues Final Ruling on Debit Card Interchange Fees

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## **DURBIN AMENDMENT UPDATE**

### **Fed Issues Final Ruling on Debit Card Interchange Fees**

On June 29, 2011 the United States Federal Reserve issued their final ruling on debit card interchange fees and issued an interim final ruling on a fraud-prevention adjustment. The ruling is the culmination of comments from card networks, banks, merchants, and consumers received in response to the Durbin Amendment of the Dodd Frank Wall Street Reform and Consumer Protection Act.

Although the final ruling caps debit transaction interchange fees charged by card issuers at a rate higher than previously proposed, the new cap should still lead to interchange cost savings for most merchants. Details of the final ruling are presented below.

#### **The Ruling**

The debit card interchange fee (or swipe fee) charged by a card issuer is capped at 21 cents per transaction, 9 cents higher than the 12 cents originally proposed in December 2010, but significantly lower than the 44 cents that is currently charged on the average transaction. The new ruling also allows issuers to charge an additional five basis points (.05 percent of the transaction amount) for each transaction based on risk. The new rule takes effect on October 1, 2011.

In addition to the cap of 21 cents + .05 percent of the transaction amount, the ruling also allows issuers, on an interim basis, to charge an additional 1 cent per debit transaction to offset fraud prevention costs if the issuer is using fraud-prevention policies and procedures deemed effective by the Fed. The new rule takes effect on October 1, 2011, and may be subject to adjustment. The Fed is asking for feedback on the fraud-prevention fee until September 30, 2011.

Three-party systems, such as American Express, and issuers with assets less than \$10 billion are excluded from coverage under the ruling.

#### **Effect on EPX Clients**

Most merchants who use Electronic Payment Exchange as their payment processing services provider will benefit from the Fed's ruling regarding debit interchange fees. EPX passes through the interchange fees charged by the issuers to our merchant clients with no additional markup, so the cap of 21 cents + .05% of the transaction amount + 1 cent will enable merchants to realize interchange cost savings when compared to the current average interchange fee of 44 cents.