

## NRA Content for State Restaurant Associations:

### How the New Cap on Debit Card Fees Affects Restaurateurs

Debit card swipe fees should begin to come down for many merchants starting Saturday, Oct. 1, National Restaurant Association members were told recently during an explanatory webinar on the new federal regulation on debit fees.

A cap on debit card interchange fees, issued in June by the Federal Reserve, generally limits what large banks can charge merchants for accepting debit card transactions. The Fed scheduled the new cap to go into effect on Oct. 1.

The rule applies to cards issued by regulated banks, or those with more than \$15 billion in assets. About 600 banks are affected by the rule; the other 15,000 banks that issue debit cards have less than \$10 billion in assets. Those 600 large banks, however, issue most payment cards.

#### What it means to you

Many restaurants, especially those with higher tickets, will benefit from the rule. It limits swipe fees for cards issued by the largest banks at 22 cents plus 0.05 percent. Previously, the average interchange fee on debit card transactions was about 44 cents. The average savings is expected to be about \$1,200 a year, says Bob Carr, president and CEO of Heartland Payment Systems.

Restaurants with average tickets of \$13 to \$15 also will save money on interchange fees. Restaurants with average tickets under \$11, however, likely will pay more in interchange fees, Carr acknowledged Sept. 29 in a National Restaurant Association webinar.

“Banks are trying to recover as much revenue as they can by legal means,” he said during the webinar.

Carr says he believes consumers will continue to use signature and pin debit cards. Pin debit transactions are more secure and result in fewer disputes over charges. But fees are the same for pin and debit transactions, so now there’s less incentive for merchants to encourage their use over signature debit transactions, he says.

<b>Visa &amp; MasterCard</b>	<b>Current Rates</b>	<b>Durbin Rates (10/1/2011)</b>
Ticket Amount	\$32.67	\$32.67
Interchange Rate	1.19% + \$0.10	0.05% + \$0.22
Interchange Fee	<b>\$0.49</b>	<b>\$0.24</b>
Net to Merchant	<b>\$32.18</b>	<b>\$32.43</b>
Merchant Savings		\$0.25

Because of the cap, regulated banks can't increase rates several times during the year, as they did before the law went into effect. But Visa and MasterCard can change fees for cards issued by non-regulated banks.

Restaurants with smaller tickets won't be able to pool or delay payments to avoid an increase in fees. Interchange fees are calculated ticket by ticket, Carr says. Merchants would be penalized for delaying transmission of payments.

### **What the NRA is doing to help members**

The NRA is a member of the Merchants Payment Coalition, which continues to fight for more fair, competitive and transparent interchange fees. The coalition includes restaurateurs and other retailers and will continue to work with Sen. Dick Durbin (D-Illinois) on making sure Congressional intent to reduce debit card interchange fees on all transactions is ultimately realized.

As a result of the law, the Federal Reserve must begin to publish annually a list of the fees by regulated and non-regulated banks. The coalition will closely analyze the rates to show policymakers how the fees affect merchants with smaller ticket averages and use the information to pressure them to decrease the rates for those merchants.

### **Background**

The Federal Reserve decision to cap debit card interchange fees follows financial reform legislation enacted in July, 2010. The legislation includes a provision known as the Durbin Amendment, which the NRA and its Merchant Payment Coalition allies fought hard to pass. The amendment authorized the debit card swipe-fee cap.

Payment card companies and large banks continue to try to chip away at the Durbin Amendment.

The financial reform legislation also included provisions that applied only to credit cards. The law allowed merchants for the first time to set minimum limits for credit card transactions, up to \$10. Merchants, however, can't set transaction limits for debit cards. That includes purchases made by entering a security code, known as PIN debits, as well as those that require customer signatures.

The law also allowed merchants to give discounts for cash, checks, credit or debit card purchases.

Although restaurants can't decline debit cards if they set minimum credit card transaction limits, patrons aren't likely to reach for plastic for debit purchases, Carr says. Your notice must say that you don't except credit for purchases under \$10, but it will in effect discourage people from using debit cards for those purchases, he says.

### **For Heartland customers**

Starting with your October statement (which customers should expect to receive in November), Heartland's will show how much money you save in a section called "Durbin Dollars."

Although the Durbin Amendment doesn't require processors to pass savings on to merchants, Heartland will pass 100 percent of savings to merchants, Carr says. If you're not a Heartland customer, Carr advises you to check with your processor to ensure you are getting your full savings.

Heartland has conducted training for its representatives so they can answer merchants' questions about the Durbin amendment and interchange fee changes.

### **For more information:**

If you have other questions, contact David Koenig, the NRA's vice president of tax and profitability, at [dkoenig@restaurant.org](mailto:dkoenig@restaurant.org).

NRA members may gain access to the audio archive and presentation of the Sept. 29 webinar on the new cap on debit fees. Visit [www.restaurant.org/webinars](http://www.restaurant.org/webinars).