Secure Payments Act of 2024

ABA Card Policy Council| cardpolicycouncil1@aba.com January 2024

Issue Update

The Secure Payments Act of 2024 (H.R. 7531), introduced by Rep. Luetkemeyer (R-MO), would require the Federal Reserve to pause its Regulation II proposal and complete a quantitative impact study of the effects of the proposal before moving forward.

The Durbin Amendment (Durbin), passed as part of Dodd-Frank, created a government price cap on what banks with more than $10b in assets could charge for debit card services. Regulation II ("eye-eye"), implements that statutory price cap. The Federal Reserve has proposed to lower the debit interchange price cap by nearly 30% and implement an automatic update mechanism to reevaluate the interchange price cap every two years without taking public comment. The Federal Reserve's proposal is based on a flawed data set and methodology that will drive up the cost of checking accounts for consumers and force dozens of card issuers to operate at a loss.

The commonsense Secure Payments Act would ensure that the Federal Reserve addresses the fatal flaws in its methodology and performs the necessary analysis to determine the rule's impact on consumers and access to affordable financial services, before issuing a final rule.

Why It Matters

Debit interchange price caps, which were first implemented in 2011, have proven to be a bad policy that hurts consumers and community banks.

Debit interchange funds the security and seamlessness of the payment system, and it is also a key source of revenue to offset the cost of offering checking accounts and rewards programs. After the Durbin amendment was implemented, consumers experienced a sharp decline in the availability of debit card rewards programs, decreased availability of free checking accounts, higher minimum balance requirements, and higher fees. These effects disproportionately affected low-income consumers who struggled to meet the more stringent minimum balance requirements, were less able to afford higher fees, and are more likely to be unbanked or underbanked. Despite these lessons learned, the Board is proposing to cut even further, doubling down on the harm of the 2011 regulation, without a full cost-benefit analysis.

Despite efforts to target the rule at only the largest banks, the Federal Reserve's own data also clearly shows that debit card revenue has fallen fastest at banks below $10b in assets, due to Durbin's routing mandate. The Federal Reserve is required to calculate bank costs to determine whether the interchange fee received by a bank is "reasonable and proportional" to the cost incurred by the issuer with respect to the transaction. However, the data used to calculate bank costs does not include the Fed's most recent interchange routing regulation, which will just took effect on July 1, 2023. Understanding the impact that regulation change will have on bank costs is critical to achieving an accurate calculation of an appropriate interchange cap under the requirements of the statute.

Recommended Action Items

- Urge your member of Congress to cosponsor the Secure Payments Act of 2024 (H.R. 7531).
- Urge the Federal Reserve to withdraw its Regulation II proposal and not repropose further rulemaking in this area until it has completed significant additional research that calculates costs to consumers and reflects the real-world experience of covered financial institutions.

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