

# The Durbin Amendment: A Failed Experiment

## THE FACTS

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### *What is the Durbin Amendment?*

While technically part of the Dodd-Frank Act, the Durbin Amendment was a last-minute addition which had nothing to do with the goals of the overall package. Far from being a structural marketplace reform, the Durbin Amendment required the Federal Reserve to set the price of debit card interchange (the fee paid by a merchant's bank to a card issuer during a transaction) for banks above \$10b in assets and imposed complicated transaction routing provisions on all banks.

### *Why was the Durbin Amendment passed?*

Since this rushed legislation was approved without a hearing or robust debate, the exact public policy rationale is hard to discern. Big box retailers promised at the time that they would pass their "savings" from this government price cap on to consumers in the form of lower prices, such as a "debit discount" at the register. These promises to Congress have failed to materialize.

### *Who benefits from the Durbin Amendment?*

Large retailers have enjoyed lower debit card acceptance prices, but small retailers have actually seen their prices go up, losing their previously lower card acceptance prices. The one-size Durbin approach hardly fits all and illustrates the unintended consequences of arbitrary price controls.

### *What are the costs of the Durbin Amendment?*

Consumers have paid the price of the Durbin Amendment. Low balance checking accounts are often money-losing products for banks and credit unions, and debit card interchange revenues have previously helped support low-cost accounts, including those to low and moderate income individuals. The Durbin Amendment, by reducing revenues, has reduced access to low-cost banking products. Free checking was predicated on the existence of market-rate interchange. At a cut rate, financial institutions must make up the lost revenue through consumer-paid fees and reduced service – a direct result of Durbin.

In fact, studies at the University of Chicago and George Mason University have found that by capturing the mechanism which supports free checking, big-box retailers have enjoyed a boon while underbanked consumers have paid a real price.

### *How does the Durbin Amendment affect smaller institutions?*

Although the law's price controls explicitly apply to banks and credit unions above \$10b, its negative impacts cascade down to smaller banks and credit unions. These smaller institutions must comply with Durbin's inefficient and burdensome "routing exclusivity" provision, which can also reduce the interchange revenue they earn for facilitating debit transactions between consumers and merchants.



### **What Can Be Done to Fix the Failed Experiment?**

- Since the Durbin Amendment has failed to produce any measurable benefit to consumers while imposing great costs, it is a clear deadweight loss for the economy and it must be eliminated.
- House Financial Services Committee Chairman Jeb Hensarling has included language in the Financial CHOICE Act to repeal the Durbin Amendment
- Support Repeal of the Durbin Amendment.