

July 11, 2011

Durbin Amendment

Understanding the Federal Reserve Board Rules

Overview

On Wednesday, June 29, the Federal Reserve Board issued its final rules on Section 1075 of the Dodd–Frank Wall Street Reform and Consumer Protection Act, typically referred to as the “Durbin Amendment.”

These rules now define the cap for debit card interchange fees on specific PIN and signature debit cards as well as exclusivity choices such as issuer requirement and merchant routing options.

We would like to outline the basic aspects of the rules. The Payment Brands and debit networks have not yet communicated their plans for implementing the rules. Chase Paymentech is working closely with them, and we will communicate just how this will impact your business as soon as possible.

Rule #1 – Establishing Interchange Pricing

The Federal Reserve Board rules capped the debit interchange fee for those issuers regulated by the law at:

- \$0.21 per transaction, plus
- 5 basis points based upon ticket amount, plus
- \$0.01 per transaction for those card issuers who have implemented acceptable fraud prevention procedures

The effective date of this rule is October 1, 2011.

Issuers regulated by the Durbin Amendment’s interchange restrictions are those with \$10 billion in assets or higher. Any financial institution with less than \$10 billion in assets, cards issued in connection with certain government-administered payment programs, and certain prepaid cards are exempt from the interchange cap.

Important points for merchants to consider:

- The rates stated will apply for all types of merchants including card not present.
- You may not see a lower rate on every debit card transaction. Because cards from exempt issuers will not be subject to the interchange restrictions, issuers of those exempt cards may continue to charge interchange at their current rate or another rate that exceeds the limit described above.
- The Federal Reserve will determine which card issuers are exempt or non-exempt from the capped rate. We expect that the Payment Brands will incorporate those determinations into their systems, thus prescribing the interchange rates that Chase Paymentech will be required to implement for each of your transactions.

Chase Paymentech provides the compilations, summaries and other information contained within to serve as general guidelines. While we strive to make sure this information is accurate, Chase Paymentech does not warrant the completeness, timeliness or suitability of this information for your specific needs. In addition, the compilations, summaries and information contained within this document do not substitute for the Association Rules, which are part of your contract with Chase Paymentech.

Rule #2 – Debit Network Exclusivity and Routing

The Federal Reserve Board rules issued this month provided guidance to the Payment Brands and debit networks as follows:

- Debit transactions must be able to be routed through at least two unaffiliated networks.
- Effective October 1, 2011, merchants can designate preferred routing.

Important points for merchants to consider:

- At this time, there are no changes to your debit card acceptance or POS procedures.
- The cardholder still has the right to choose signature or PIN for their debit transactions.
- The merchant can direct that a debit transaction be routed over any network enabled for that card.

Other Applicable Revisions for Merchants

The Dodd-Frank Act already introduced additional rules for payment acceptance effective July 21, 2010, as follows:

- Your company has the right to set a minimum amount (\$10 or less) for which you will accept credit cards. You cannot set a minimum, however, for debit card acceptance.
- You can offer discounts for non-card (cash) payments. You cannot, however, favor one card type over another.

For More Information

Contact the Partner Relationship Management Team at 888.818.5128, option 4 or via e-mail at IntegratorSupport@ChasePaymentech.com.