

**Durbin and DOJ Settlement
The impact to card-acceptance practices**

Making sense of how the Durbin Amendment and Department of Justice (DOJ) settlement with Visa® and MasterCard® impact your business may seem a little like learning a foreign language in a foreign land without a guide book. As your payment processor, we do our best to ensure you have the information you need to do what you do best – run your business.

Terms	
Regulated/Non-exempt	Banks/issuers with over \$10 billion in assets
Non-regulated/Exempt	Banks/issuers with under \$10 billion in assets
Issuer	Bank that issues consumers and businesses a debit or credit card
Card Brands	MasterCard, Visa, Discover® Network, American Express®, JCB®
PIN Debit Network	An Electronic Funds Transfer Network such as PULSE®, Star®, NYCE®, Interlink® or Shazam®
Interchange	Fees established by the card brands that are paid by businesses accepting cards. 100% of interchange charged goes to the card issuer
Debit Card	A payment card tied to a bank account. Funds available are the funds in the account. Transactions may be authenticated utilizing either the cardholder's signature or a Personal Identification Number (PIN)
Credit Card	A payment card with a line of credit issued by a bank

What is the Durbin Amendment?

Senator Dick Durbin introduced a bill into Congress as an amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Durbin Amendment asked Congress to establish “reasonable fees and limits” to the amount of interchange charged by issuing banks for debit card transactions. The Amendment also addressed network exclusivity – which is only routing debit transactions through one network. The Amendment was signed into law by the President in July 2010. Since it was enacted, businesses accepting card-based payments could:

- Set a minimum transaction amount for credit cards
- Set a maximum transaction amount for credit cards at Federal Agencies and Institutions of Higher Education
- Offer discounts for payment by cash, check, debit, credit or prepaid. Discounts must be universal and cannot be based on issuer or payment card network

The Federal Reserve Board had until June 2011 to set debit card interchange rates and finalize the remaining details of the ruling. In June 2011, the Federal Reserve announced the following:

- Debit interchange is set at 0.05% + \$0.22. The \$0.22 includes \$0.01 per transaction for issuers with fraud prevention programs
- Issuers are required to enable two unaffiliated networks for electronic debit transaction authorization and processing. For instance, one network for PIN debit, one network for signature debit prior to April 2012
- Health benefit cards and certain prepaid cards are not included in the network routing and excluded until April 2013 due to challenges with technology

The Durbin Amendment applies to Discover, MasterCard and Visa and the PIN Debit Networks.

DOJ Settlement

A separate Department of Justice Ruling effective in July 2011 updated the Visa and MasterCard rules and regulations to allow businesses accepting card-based Visa and MasterCard (Discover and American Express were not included) payments to:

- Issue a discount for cash
- Inform consumers of the cost of taking a particular type of card. For example, informing a customer who presents a rewards card for payment on a large ticket transaction that it will cost a business an additional \$xx to accept their rewards card instead of a debit card or regular credit card
- Ask for a different type of card which may be cheaper

Certain card acceptance practices are still prohibited under the legislation. A business cannot:

- Establish a minimum for debit or prepaid cards
- Surcharge for card-based payments
- Refuse to accept the card if the consumer still opts to pay with it
- Exclude cards from a particular issuer

TSYS Merchant Solutions Analysis

Following the ruling by the Federal Reserve, the card brands and PIN Debit Networks released their implementation plans.

After analyzing the card brand plans, TSYS Merchant Solutions updated the bundled pricing structure to properly categorize the interchange programs into regulated and non-regulated categories. The updated pricing structure ensured our customers could be priced fairly. We had to look at elements of our customers pricing structure differently in order for the change to be beneficial where possible.

- Rate 1 was split into two categories:
 - Rate 1 – comprised of debit charge types for non-regulated transactions
 - Rate 1D – comprised of debit charge types for regulated transactions
- Analysis was based on the debit average ticket accepted at the business
- Created over 700 new rate categories and charge types to properly identify transactions

Only Rate 1D is being adjusted at this time based on the debit average ticket. The Durbin changes apply only to debit interchange rates. Our analysis showed there is typically a variance between a debit average ticket and a credit average ticket. To review your debit average ticket, use the *How to Read Your Statement* detail following your statement to determine your debit volume and average ticket.

Small-ticket transactions may cost more because of the Durbin changes. Businesses with an average debit ticket of less than \$10 will most likely pay more per debit transaction.

In most instances, PIN debit rates are now the same as signature debit rates. However, a few PIN debit networks retained small ticket pricing for transactions less than \$10.

Below is an example of the difference in interchange expense:

Visa Transaction Amount	Visa small ticket rate Pre-Durbin 1.55% + \$0.04	Visa Regulated Rate Post-Durbin 0.05% + \$0.22	Visa Non-Regulated Rate Post Durbin 1.60% + \$0.05
\$3 Transaction	\$0.09	\$0.22	\$0.10
\$7 Transaction	\$0.15	\$0.22	\$0.16
\$10 Transaction	\$0.20	\$0.23	\$0.21
\$15 Transaction	\$0.27	\$0.23	\$0.29

Further evaluation required for some customers

In some cases, we either did not have enough information to adjust Rate 1D for your business or it was not certain what the change would be at the time statements were released. For instance, your business may not have had any debit volume or not enough debit transaction volume to analyze. A thorough analysis of the transaction volume and the new pricing structures is needed to fairly price each business. We anticipate the exact adjustment will be on your October statement.

Thank you for your business

We appreciate your business and want to do everything we can to help you understand the industry changes that impact your business. The Durbin changes apply only to debit card transactions for Visa, MasterCard and Discover and the PIN Debit Networks. The DOJ settlement applies only to Visa and MasterCard. Based on your debit average ticket you may

see a rate adjustment that is an increase or a decrease. Interchange expense is a cost that is out of our control and makes up on average 90% of the cost of card acceptance.

The other fees include assessments, authorization and processing. Learn more about the Transaction Flow and Payment Processing: at our Merchant Processing Academy in the [Resource Center](#) section of our website. Please email us at customerservice@tsys.com with any questions regarding payment processing, industry changes or your account.

There is abundant information available on the Internet. Here are a few resources:

<http://www.bloomberg.com/news/2011-09-23/visa-mastercard-risk-mom-and-pop-ire-with-debit-fee-increase.html>

[Debit Interchange Fee Reduction Becomes a Reality](#), Client Advisory on the Durbin Amendment by Hughes Hubbard & Reed, LLP

<http://pymnts.com/BoA-to-Instate-5-Monthly-Fee-for-Debit-Card-Purchases/>

A list of exempt or non-exempt issuers is available from the Federal Reserve:

<http://www.federalreserve.gov/paymentsystems/debitfees.htm>