

- Cards/Payments
- Community Banking
- Markets
- Mortgages
- National/Global
- Retail Delivery
- Technology
- Viewpoints
- Washington/Regulatory
- Wealth Management
- Mobile Banker
- News by State >
- Blogs & Scans >
- Special Reports
- Company Index
- Resources >
- Customer Service >
- Advertise/Media Kit
- Conferences
- CareerZone
- Marketplace
- White Papers
- Banker of the Year/Best in Banking
- Financial Services Executive Forum
- The FinTech 100
- 25 Most Powerful Women in Banking
- The Innovators

ISOs Will Feel the Interchange Amendment on the Bottom Line

American Banker | Wednesday, July 7, 2010

By [Kate Fitzgerald](#)

[Print](#) [Email](#) [Reprints](#) [Feedback](#) [RSS](#)

New debit card interchange rules that are likely to take effect next year could take a bite out of independent service organizations' profit margins, according to industry watchers.

"The debit-interchange amendment will most likely have far-reaching implications for ISOs and acquirers," said Steve Mott, a principal at BetterBuyDesign, a Stamford, Conn., payments consulting company.

The regulatory reform bill wending its way through Congress authorizes the Federal Reserve banks to set "reasonable and proportional" rates for debit transactions, and this change means ISOs should expect a cut in the portion of the discount rate that they receive from acquirers, Mott said.

Some analysts speculate regulators could cut interchange by 25% to 75% of current levels. The National Retail Federation, a Washington, D.C. retail trade group, said debit interchange costs merchants some \$20 billion annually.

The Federal Reserve would have nine months after the financial-reform bill passes to set new debit-interchange rates, and the rules would become effective 12 months after the bill is signed into law.

The Electronic Transactions Association lobbied against the debit-interchange amendment, sending a letter last month to members of the congressional conference negotiating provisions of the bill. The letter said ISOs' business models typically depend on a portion of fees merchants pay acquirers. "If interchange fees are capped, they are in the undesirable position of experiencing the greatest reduction in income. Quite simply, this can translate into ISOs and other small businesses in the payments chain having to downsize, lay people off or possibly go out of business," the Washington trade group said.

Several players are excluded from the new debit-interchange rules, and observers say this could pose considerable challenges for merchants and processors.

Banks and credit unions with assets of less than \$10 billion would not have to abide by the new debit-interchange rules. Also excluded are governments delivering benefits through debit cards and issuers of reloadable prepaid cards.

The legislation does not specify how merchants would differentiate among these players at the point of sale, and there is debate about the potential complexity the excluded groups pose for merchants and processors.

"We don't know of any system that automatically sorts transactions at the point of sale by the size of the institution," said Mary Bennett, the ETA's director of government and industry relations. "This law is going to cause a lot of headaches, and it may result in greater costs to ISOs and processors to sort out different types of debit transactions."

Though merchants generally applaud the arrival of debit-interchange regulations, at least one merchant-processor consultant is skeptical about the long-term benefits for merchants and processors.

"The term 'interchange' is used pretty loosely in the industry, and not only does it vary a lot, but there are a lot of other fees built into interchange that are not affected by legislation," said Robert Livingstone, president of IdealCost.com, a West Palm Beach, Fla., merchant-processor consulting firm. "Banks set interchange fees, but those are passed on to merchants through a complicated chain, which includes a general processing fee that's built into merchants' payment-acceptance costs. We assume the actual debit-interchange piece

RELATED ARTICLES

- [Green Dot Sets Price Range for IPO](#)
- [Barclaycard US Focusing on Cobranding for Growth](#)
- [Murphy Oil Sets Cobranded Card](#)
- [Fidelity to Offer Senior Notes](#)
- [MasterCard's Free iPhone App](#)

Advertisement

Find out what our team of Prepaid Processing experts can do for you.

[Learn more](#) ▶



Most Popular | **Viewed** | Emailed

1. [Financial Crimes are Getting More Sophisticated](#)
2. [A Fault in Reg Reform: Deciding Who's Accountable When Things Go Wrong](#)
3. [A Fault in Reg Reform: Deciding Who's Accountable When Things Go Wrong](#)
4. [Credit Card Issuers Back on the Prowl for Customers](#)
5. [More Evidence Bank M&A Market Is on the Mend](#)
6. [More Assistance for Jobless Borrowers](#)
7. [For Independent Bank, Credit Stability Comes at a Price](#)
8. [Setting Debit Fees Could Be a Conflict for Fed's ACH Business](#)
9. [ABA's Yingling Stepping Down in Surprise Move](#)
10. [Marshall & Ilsley Extends Moratorium](#)

Advertisement

2nd ANNUAL
**AMERICA'S
BANK
BOARD
SYMPOSIUM**



will be lower, but it doesn't mean overall costs will be substantially lower."

Merchants may be faced with diverse additional costs in accommodating the exempted debit cards. "Merchants may have to invest in new tools not yet on the horizon that would let them know which cards offer higher or lower transactions. And they may end up spending considerable time, especially smaller merchants, trying to find out which card is cheapest to accept, taking time away from sales and service," Livingstone said.

Although merchants have not yet assessed all the potential implications of debit-interchange regulation, few foresee complications. "This is the start of a new way of thinking for the financial community," said Jeff Lenard, a spokesperson for the National Association of Convenience Stores. "For the first time there is going to be some consideration for the actual cost of interchange, and fair competition between debit networks. This may force banks to have to fight for customers with better deals," he said.

Sonja Hubbard, the chief executive of E-Z Mart Food Stores Inc., a Texarkana, Texas, convenience store chain with 300 stores, said she does not anticipate difficulties at the point of sale in handling debit cards from different-size issuers.

"The exemptions won't cause hassles," Hubbard said. "All cards will be treated the same way. While some will cost the retailer, and ultimately consumers, more, that won't make any difference as to how things happen at the point of sale."

Merchants likely "won't know which cards cost more," and the incentives they offer to steer customers to lower-cost payment forms "will be applied in an even-handed way," she said.

[More articles in Cards/Payments](#)

WHITE PAPERS

- [Evolving from Quantitative Risk Management to a High-Performance Risk Management Analytic Framework](#)
- [Loyalty Assurance - How to Leverage Credit Inquiry Programs to Improve Retention](#)
- [Hire Your Customers to Detect Fraud: Empower Cardholders to Immediately Address Fraudulent Card Activity](#)
- [Strategy Guide to Branch Office Consolidation for Midsize Businesses](#)
- [Strategy Guide to Risk Mitigation for Financial Services](#)

WEB SEMINARS

- [Smart Commercial Lending: Transforming Operations to Position for Growth](#)
July 21, 2010
- [Getting a Fix on Small Business: An Avenue for Lending Growth](#)
Available on Demand
- [Meeting the Challenge: How to Implement Enterprise Risk Management](#)
June 22, 2010
- [Finding Lending Opportunities in the New World of Risk](#)
June 10, 2010
- [Unique insights on consumer credit trends](#)
Available on Demand



AMERICAN BANKER.com

Why is AmericanBanker.com the definitive resource for the banking and financial services industries?

[About](#) | [Advertise/Media Kit](#) | [CareerZone](#) | [Contact](#) | [Inquire](#) | [Marketplace](#) | [Register](#) | [RSS](#) | [Site Map](#) | [Subscribe](#) | [White Papers](#)

[American Banker](#) | [Bank Technology News](#) | [Credit Union Journal](#) | [U.S. Banker](#)



[Privacy Policy](#) | [Subscriber Agreement & Terms of Use](#)

© 2010 American Banker and SourceMedia, Inc. All Rights Reserved.
SourceMedia is an Investcorp company. Use, duplication, or sale of this service, or data contained herein, except as described in the Subscription Agreement, is strictly prohibited.

Visit other SourceMedia sites:
[Select Site](#)