Dynamics of Durbin Debit

Michael Wilson, Manager of Payment Processing
Ryan Bunch, Regional Sales-North Central
TouchNet
Durbin Debit Dynamics

- Interchange 101
- Review Merchant Contracts
- Unintended Consequences
- Convenience Fees
- Next Steps to Savings
Durbin Amendment 101
Senator Durbin’s Primary Issues

- Debit Growth
- High Fees (1.4%)
- Rewards (44%)
- Interlink Monopoly

Senator Richard Durbin (D-IL)
Interchange Fees

VS.

Discount Rate
The Debit “Card” Players

Card Processor
Acquiring Banks
Discount Rate

Card Networks
Card Brands
Dues & Assessments

Card Issuer
Member Banks
Interchange Fees

Fed Regulated
Merchant Discount Fees
Not Regulated

Goes to card issuing bank
Regulated for Debit

Up to 6% - Admin and Access Fees – for Associations
Not Regulated
Durbin Amendment
Key Components (for Merchants)

1. FRB regulated debit interchange
2. Issuers must provide access to 2 unaffiliated debit networks
3. Merchants have the right to route transactions
4. Discount for “cash-like” payments
5. Min / Max for credit cards
1. Debit Card Interchange Regulation

- 21 cents for allowable costs
- 1 cent for fraud prevention
- 5 basis points ad valorem
  - 5 cents per $100

Effective October 1, 2011
# Interchange Examples

## $1,000 Tuition Transaction

<table>
<thead>
<tr>
<th>Description</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interchange for card issuer (1.2%)</td>
<td>$12.00</td>
<td>$.72</td>
</tr>
<tr>
<td>Card processor fees (20 bps)</td>
<td>$2.00</td>
<td>$2.00</td>
</tr>
<tr>
<td>Total discount fees</td>
<td>$14.00</td>
<td>$2.72</td>
</tr>
</tbody>
</table>
2. Merchant Routing Rights

- Merchants have the right to route transactions to the network of least cost
- Taking the routing issue out of the hands of consumers (and processors)
3. Minimum of Two Unaffiliated Networks

- All cards now (as of April 1) must have two unaffiliated networks
- Provides choice and prevents monopolies
- Visa and MasterCard
- STAR, Pulse, NYCE
4. Discount for Cash

- Allows merchants to discount for cash-like payments

Cash-like payments may include:

- Signature and PIN Debit
- ACH
- Checks
- Cash
- Student ID Cards
5. Min/Max for Credit Cards

- Credit Card – Minimum
  - $10.00
- Credit Card – Maximum
  - Government
  - Higher Education

Take the Banana!
Exceptions to the Rule

Not every transaction or merchant is experiencing savings! Three key exceptions:

1. Cards issued by small banks or credit unions
2. Government-administered prepaid and debit cards
3. Prepaid cards
Cards issued by exempt banks

- Less than $10 billion in assets
- Over 15,000 banks and credit unions exempt (~35% of debit cards)

[Link: touchnet.com/durbin]
Government-Administered Prepaid and Debit Cards

- Direct Express
- U.S. Debit Cards
- Navy/Marine Cash Cards
Introducing The Approved Prepaid MasterCard®

“I DIDN’T JUST APPROVE THIS CARD. I CREATED IT.”

It’s unlike any other prepaid card out there:

- LOW $3.00 Monthly Fee!
- FREE use of over 35,000 AllPoint® ATMs nationwide when you enroll in direct deposit.*
- FREE Identity Theft Monitoring
- FREE TransUnion® credit report and score with UNLIMITED updates
- FREE Activity Alerts and Balance Updates by text and/or e-mail**
- FREE Online Bill Pay
- FREE Emergency Fund Account
- Your deposits are individually insured up to $250,000 The Bancorp Bank; Member FDIC

*See The Approved Card Cardholder Agreement for details. **Standard text messaging rates from your service provider may apply. The Approved Prepaid MasterCard is issued by The Bancorp Bank pursuant to license by MasterCard International Incorporated. MasterCard is a registered trademark of MasterCard International Incorporated.
Review Merchant Agreements

- Bundled Rate
- Flat Rate
- Cost Plus
- Buy Out Clause
Are your rates unbundled?

- V338 VISA DEBIT & PREPAID REGULATED
- MRPF MC REG POS DEBIT-FRAUD ADJST

The more confusing acronyms and the longer the monthly statement… the more likely you are saving money!
# Durbin Debit Impact Examples
(Student Receivables Account)

<table>
<thead>
<tr>
<th>School Profile</th>
<th>Pre-Durbin Eff. Rate</th>
<th>Post-Durbin Eff. Rate</th>
<th>Debit Ratio (as % of total $)</th>
<th>Durbin : Exempt ratio</th>
<th>Annual Savings (Projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small South region</td>
<td>1.52%</td>
<td>1.05%</td>
<td>50% (half sig. debit, half credit)</td>
<td>80:20</td>
<td>$12,000</td>
</tr>
<tr>
<td>Midsize NW region</td>
<td>2.67%</td>
<td>2.46%</td>
<td>20%</td>
<td>55:45</td>
<td>$14,000</td>
</tr>
<tr>
<td>Large SE region</td>
<td>1.71%</td>
<td>1.55%</td>
<td>30%</td>
<td>75:25</td>
<td>$135,000</td>
</tr>
</tbody>
</table>
Unintended Consequences

For Consumers

● Free checking harder to find
● Debit rewards diminished
● Possible debit transaction fees
Unintended Consequences

For Merchants

- New monthly account fees
- MSPs capturing savings
- Micropayments (vending machines)
- Higher credit card interchange
- Increased credit card usage
Credit/Prepaid Booming!

- Credit card mailings
- Delinquency rates
- Overall credit portfolio growth
- Shifting from debit to credit
Turning Tides – Debit → Credit

Y/Y Growth Rates ($ volume)

-20.00%  -15.00%  -10.00%  -5.00%  0.00%  5.00%  10.00%  15.00%  20.00%  25.00%


Credit  Debit
The Convenience Fee Strategy

- A fee applied to a payment method to help offset the cost of processing
- 25% of schools using a convenience fee
- 99% of these merchant accept MasterCard, Discover, and Amex only.
Payment Mix and Convenience Fees

Before

After

- Credit
- ACH
- Debit
## Convenience Fee Compliance

<table>
<thead>
<tr>
<th></th>
<th>VISA</th>
<th>MasterCard</th>
<th>Discover</th>
<th>American Express</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat Fee</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Tiered (Scale)</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Percentage</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Required for all Pmt Types</td>
<td>X</td>
<td>X*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permitted in 3rd Party Services</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Allows In-line Payments</td>
<td>X*</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* MasterCard current program is making an exception for this. Certain restrictions apply.
To Fee or Not to Fee

Fee

- Save BIG money
- Save students from credit woes

No Fee

- Visa is eliminated
- Backlash on campus
The Visa factor

- Schools have done it without big problems
- Now you can accept Visa Debit to soften the change
# States with “Surcharge” Statutes

<table>
<thead>
<tr>
<th>State</th>
<th>Statute</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>CA CIVIL 1748.1</td>
</tr>
<tr>
<td>Colorado</td>
<td>CO ST 5-2-212</td>
</tr>
<tr>
<td>Connecticut</td>
<td>CT ST 42-133ff</td>
</tr>
<tr>
<td>Florida</td>
<td>FL ST 501.0117</td>
</tr>
<tr>
<td>Kansas</td>
<td>KS ST 16a-2-403</td>
</tr>
<tr>
<td>Maine</td>
<td>ME ST T 9-A 8-303</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>MA ST 140D 28A</td>
</tr>
<tr>
<td>New York</td>
<td>NY GEN BUS 518</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>OK ST T 14A 2-417 and OK ST T 14A 2-211</td>
</tr>
<tr>
<td>Texas</td>
<td>TX FIN 339.001</td>
</tr>
</tbody>
</table>
Steps to Savings – Dealing with MSPs and Banks

Contact Your Merchant Service Provider

- Unbundle debit from credit in agreements
- Ask for “Cost Plus” pricing
- Keep low $$$ payments in mind
Steps to Savings – Setting up Payment Options and Apps

Contact Campus Commerce Provider

● Make sure you can take advantage of intelligent routing at the system

● VISA Debit is back in the conversation for tuition payments
Steps to Savings – Reviewing Policies and Trends

- Push PIN and PINless, as the exempt numbers continue to grow
- Plan for an increase in credit card usage
- Re-consider using a Convenience Fees Strategy to boost ACH and Debit
Thank You!

Michael Wilson, Payment Processing
mwilson@touchnet.com
913.599.6699
Percentage of Chart Which Resembles Pac-man

- Yellow: Resembles Pac-man
- Purple: Does not resemble Pac-man