

## New Rules on Electronic Payments Lower Costs for Retailers

If your business accepts payment by credit or debit card, some new rules of the road may help you lower your costs. The rules, part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, deal with interchange fees for debit card transactions, the discounts on the purchase price you may offer your customers when they pay in certain ways, minimum dollar amounts for credit card purchases, and the networks available on a debit card for routing transactions.

### The New Rules

- **Interchange Fees for Debit Cards.** Beginning October 1, 2011, interchange fees for certain debit cards are capped at 21 cents plus 0.05% of the transaction value. If the issuer meets specific fraud prevention standards, the fee may go up a penny. The cap applies only to large issuers — banks and other card issuers with \$10 billion or more in assets (including assets of affiliates). The Federal Reserve Board keeps a list of institutions exempt from the cap, available at [www.federalreserve.gov/paymentsystems/debitfees.htm](http://www.federalreserve.gov/paymentsystems/debitfees.htm).

Which fees aren't subject to the cap?

- Credit card fees.
- Fees for debit cards issued by smaller issuers.
- Fees associated with government benefit cards; with certain reloadable, general-use prepaid cards; with prepaid store cards; and with transactions at automated teller machines (ATMs).
- Other fees charged to the merchant by the acquirer that may be included in the merchant discount.

## The Players and The Process

Every payment card transaction involves:

- the **cardholder**, who uses a debit or credit card to pay for a product or service.
- the **issuer**, which provides a payment card to a cardholder and usually maintains the cardholder's account.
- the **merchant**, which provides the product or service for a price.
- the **acquirer**, which provides payment card services to the merchant and maintains the merchant's account. Sometimes, the merchant or the acquirer may use a third-party processor for certain processing services.
- the **payment card network (PCN)**, which coordinates the information routing and money transfer between issuers and acquirers. PCNs may be debit card networks, credit card networks, or both.
- **interchange transaction fees**, which include fees established, charged, or received by a payment card network and paid by a merchant or an acquirer to compensate an issuer for its involvement in an electronic debit transaction.

Here's how the players interact:

A customer who wants to buy something presents his card to a merchant. The merchant generates an authorization request with a dollar amount and information from the customer's card. The request is routed electronically along a path like this:

**Merchant → Acquirer (or Processor) → PCN → Issuer**

The issuer gets the request, checks its file of active card accounts, and sends an electronic message authorizing or declining the transaction:

**Issuer → PCN → Acquirer (or Processor) → Merchant**

The authorization process usually takes seconds to complete. Then, the issuer posts a charge for the transaction to the customer's account, and the acquirer posts a credit for the transaction, minus fees, to the merchant's account. The amount deducted from the transaction value is known as the "merchant discount" and includes the interchange fee and other fees for processing the transaction.

- **Discounts to Customers.** A PCN cannot stop you from offering your customers a discount or another incentive for using a certain method of payment, as long as you offer it to all your customers and disclose the offer clearly and conspicuously. For example, you can offer your customers a discount or a coupon if they pay with cash or a debit card rather than a credit card. But the new rules do not address other PCN restrictions that may prevent you from offering discounts or similar incentives that vary based on the use of a card from a particular issuer or a particular PCN.

*What's new about that?* In the past, PCNs may have prohibited you from offering a discount to a customer who used one kind of payment — say, a debit card — rather than another, like a credit card.

A recent Department of Justice settlement also changed Visa and MasterCard rules that prevented merchants from offering consumers certain discounts, rewards, and information about card costs. For more information, read the DOJ news release at [www.justice.gov/atr/public/press\\_releases/2010/262867.htm](http://www.justice.gov/atr/public/press_releases/2010/262867.htm).

- **Minimum Dollar Amount for Credit Card Purchases.** A PCN cannot stop you from setting a minimum dollar amount for accepting credit cards for payment as long as the minimum is the same for all credit card issuers and PCNs, and isn't more than \$10.

*What's new about that?* PCNs sometimes prohibited merchants from refusing to accept a

credit card as payment if the customer's purchase didn't exceed a certain amount. For example, if you accepted credit cards at all, the PCNs or banks might have said you had to accept a credit card for even the most minimal purchases.

- **Network Availability and Routing for Debit Card Transactions.** Beginning October 1, 2011, PCNs and issuers can no longer dictate the network you use for processing debit card transactions among the networks available on a debit card. You (or your acquirer) may choose to route debit card payments in a way that reduces your costs. For example, you could arrange with your acquirer to have payments routed over the network available for that card that has the lowest interchange fee. By April 2012, you must be given a choice of processing debit card payments through at least two different networks for most electronic debit transactions. Many issuers already offer a choice.

*What's new about that?* Sometimes PCNs and issuers have restricted the networks available to merchants for routing transactions. For example, some PCNs and issuers had arrangements in which a debit card could be used on only a single debit card network or a set of affiliated debit card networks. In addition, in the past, PCNs and issuers — not merchants or acquirers — generally specified the network that would be used to process a transaction when multiple networks were available on a card.

Talk to your acquirer or processor about how you can take advantage of lower debit card interchange fees. Go over your invoice together to see how these and other fees are reflected in your monthly statement, and discuss what you can do to reduce them. And shop around; you may find a better deal.

The FTC works to prevent fraudulent, deceptive, and unfair practices in the marketplace and to provide information to businesses to help them comply with the law. The FTC and other government agencies will enforce various provisions of the Dodd-Frank Act, including the new rules governing debit card interchange fees and routing. For example, the National Credit Union Administration is responsible for enforcing the rule with respect to federally insured credit unions; the Office of the Comptroller of the Currency is responsible with respect to national banks and federal thrifts; the Federal Reserve Board is responsible with respect to state member banks; and the Federal Deposit Insurance Corporation is responsible with respect to state nonmember banks and state-chartered thrifts. The Federal Trade Commission is responsible for enforcement with respect to other entities not covered by the above regulators. If you have questions about these rules or comments about how financial institutions are implementing them, contact the FTC at [paymentcard@ftc.gov](mailto:paymentcard@ftc.gov). Remember that email is not secure, so don't include any confidential information.

