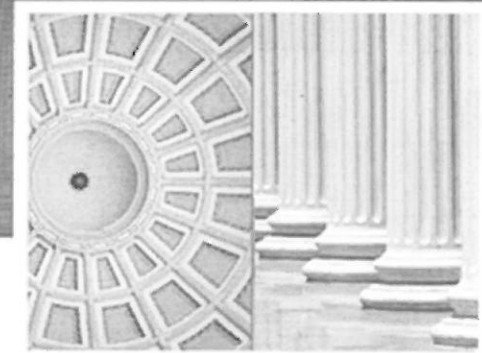




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ELECTRONIC PAYMENT TRANSACTION INTERCHANGE FEES

Electronic Commerce Study Committee
Iowa General Assembly

December 21, 2012

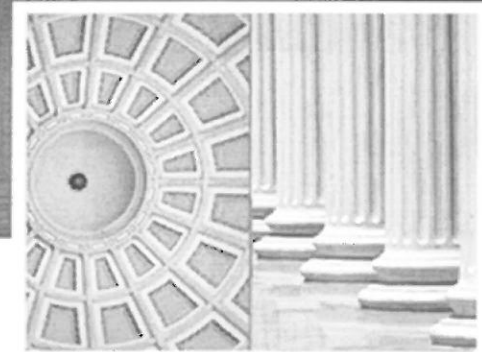
Heather Morton

Program Principal, Fiscal Affairs



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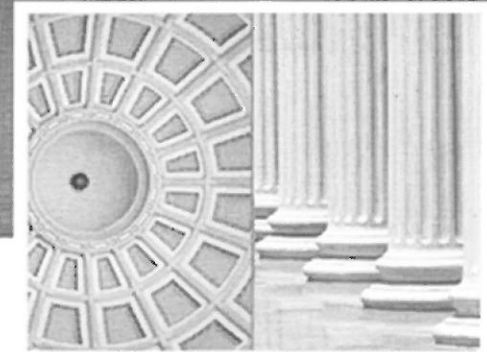
“Our nation’s state legislatures serve as the forum where the ideas of America are crafted, debated and enacted.”

—William Pound, Executive Director, NCSL



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WHAT IS AN INTERCHANGE FEE?

- When a consumer uses a credit card to make a purchase, a portion of the transaction amount is deducted and distributed among three players:
 - The financial institution that issued the credit card,
 - The merchant's financial institution and
 - The credit card network that processes the transaction.

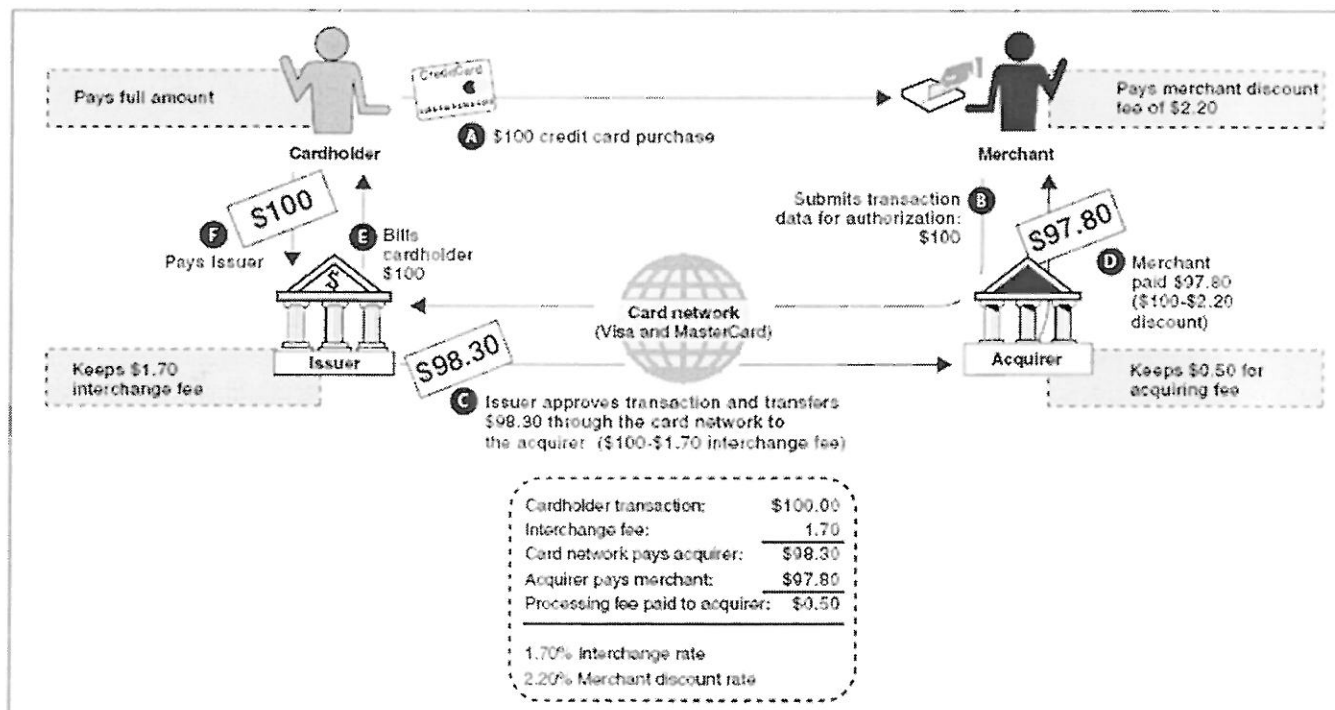


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Figure 2: Transfer of Fees in a Credit Card Transaction

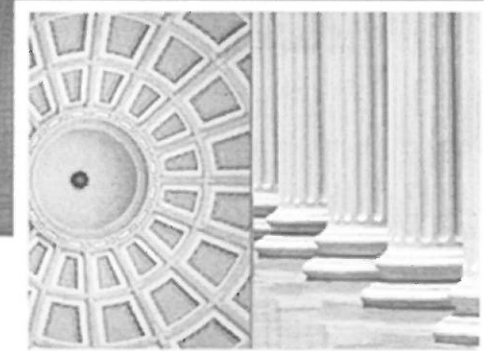


Sources: GAO (analysis); Art Explosion (images).



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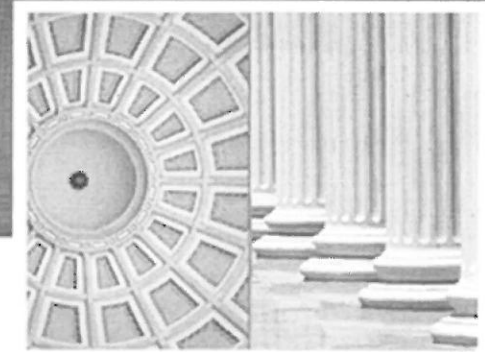
FEDERAL LAW

- Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which became law on July 21, 2010.
 - Section 1075 of the Dodd-Frank Act (Durbin Amendment)



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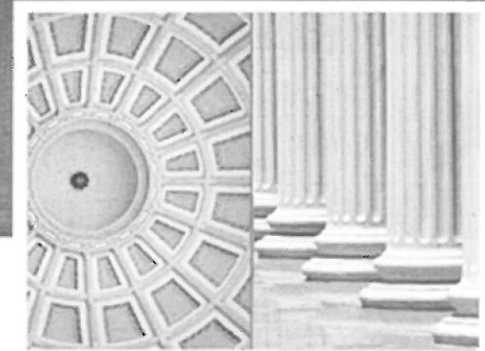
WHAT DID THE DURBIN AMENDMENT DO?

- Gave the Federal Reserve authority over interchange transaction fees
- The fee must be “reasonable and proportional to the cost incurred by the card issuer with respect to the transaction.”
- Limits payment card network restrictions



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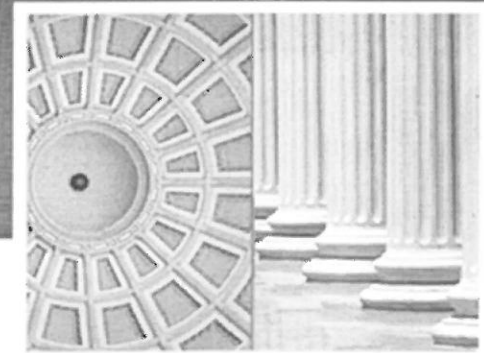
EXEMPTIONS

- Small Issuers
 - Any issuer that has assets of less than \$10 billion
- Government-administered payment programs
- Reloadable prepaid cards



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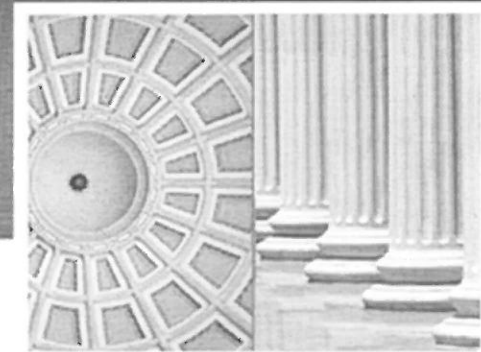
PAYMENT CARD NETWORK RESTRICTIONS

- Prohibits exclusive networks and routing restrictions
- Limits restrictions on offering discounts for using a particular type of payment
- Limits restrictions on setting transaction minimums and maximums



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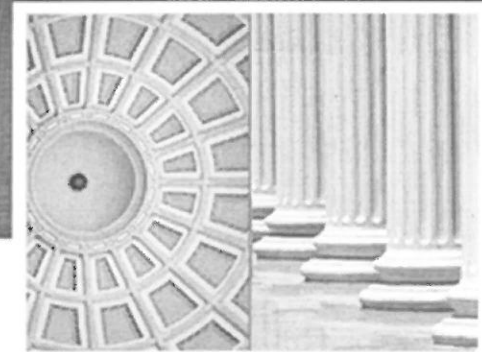
FEDERAL RESERVE ACTION

- In July 2011, the Federal Reserve adopted Regulation II (Debit Card Interchange Fees and Routing) to implement section 1075 of the Dodd-Frank Act



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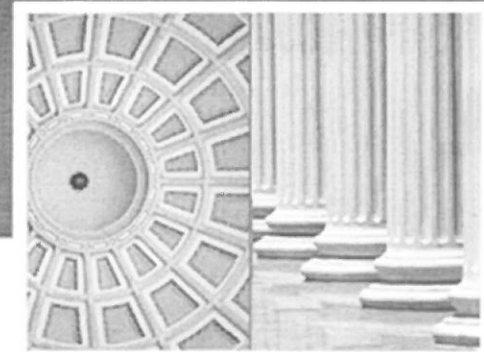
MAXIMUM DEBIT INTERCHANGE FEE

- The maximum permissible interchange fee an issuer may receive for an electronic debit transaction is set at \$0.21 per transaction, plus 5 basis points multiplied by the transaction's value.
- An issuer also can receive an upward adjustment of 1 cent to its interchange transaction fee, if the issuer, acts to identify and prevent fraudulent electronic debit transactions.



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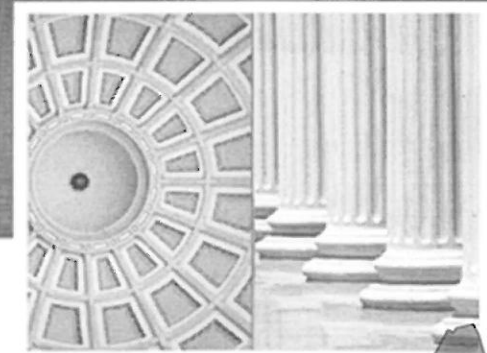
STATE ACTION

- State legislation first appeared in 2005
- From 2005 to 2012, a total of 122 bills and resolutions have been introduced
 - 10 resolutions adopted and 3 bills enacted

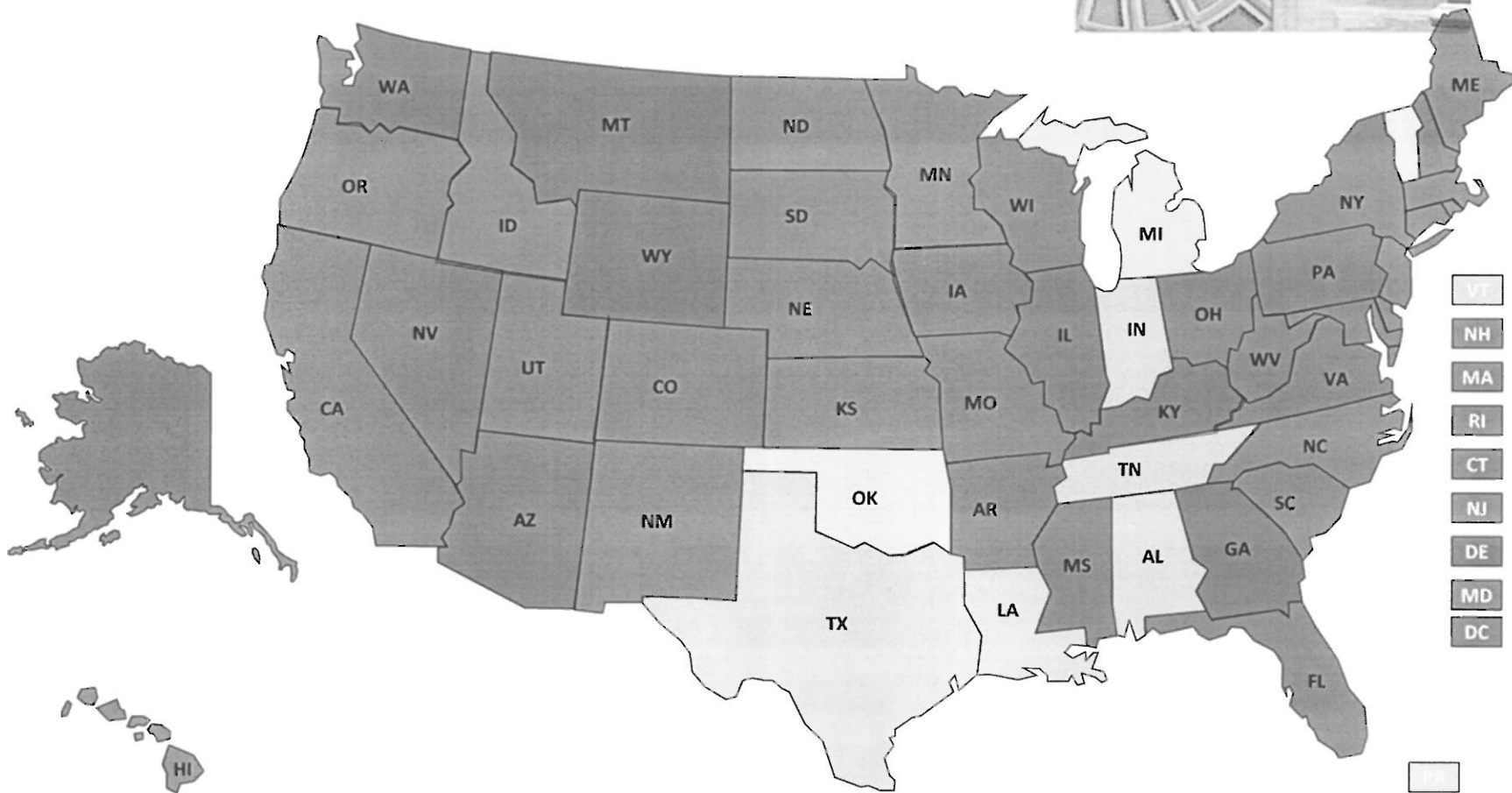


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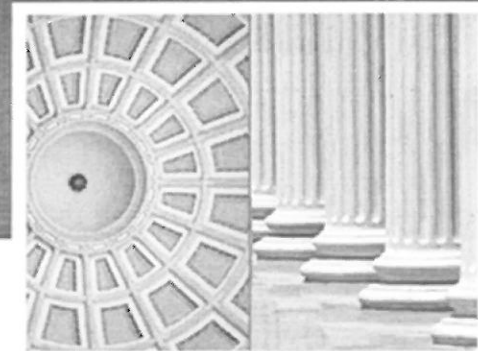
AK





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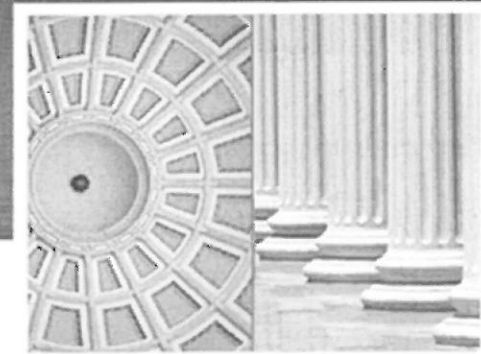
STATE RESOLUTIONS

- 2012
 - Puerto Rico
- 2011
 - Michigan, Oklahoma
- 2009
 - Louisiana, Vermont
- 2008
 - Vermont
- 2007
 - Tennessee
- 2006
 - Alabama



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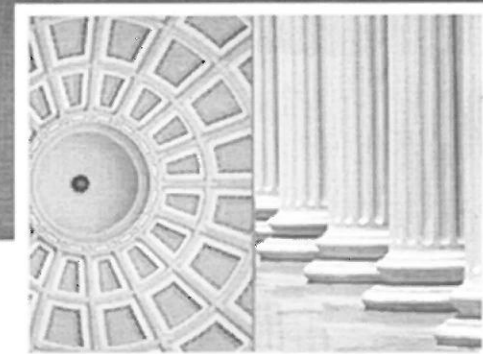
STATE LEGISLATION

- 2011
 - Texas (technical correction)
- 2010
 - Vermont
- 2007
 - Indiana (technical correction)



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VERMONT

- S.B. 138 (2010 Act 116)

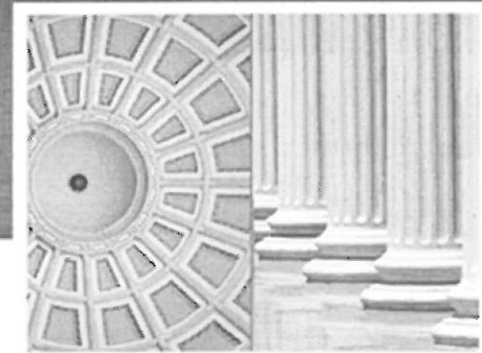
<http://www.leg.state.vt.us/docs/2010/Acts/ACT116.pdf>

Provides that no electronic payment system may directly or through any agent, processor or member of the system impose any requirement, condition, penalty, or fine in a contract with a merchant to inhibit the ability of any merchant to provide a discount or other benefit for payment through the use of other forms of payment or to impose any requirement, condition, or fine to prevent the ability to set a minimum dollar value; requires reimbursement and a civil penalty for a violation.



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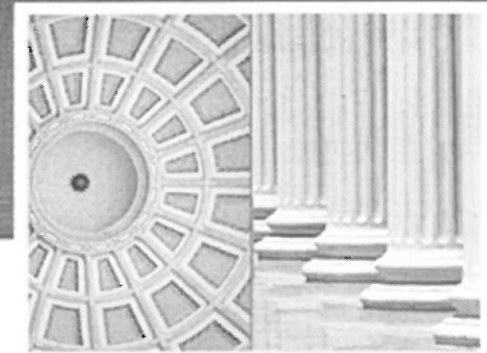
EXEMPTION FOR SALES AND USE TAXES

- 2012
 - Iowa
- 2010
 - New Jersey
- 2009
 - Connecticut, Massachusetts, Nebraska and North Carolina
- 2008
 - Kansas, Louisiana and Rhode Island
- 2007
 - Florida, Kansas, New York, and Washington
- 2006
 - Kentucky and New York



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QUESTIONS

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