$5 Debit Card Fee: Don't Blame Banks — but Durbin, Dodd, Frank, the Fed

The rules, which took effect on Saturday, October 1, limit the amount banks may charge merchants accepting debit cards to 21 cents per transaction, down from 44 cents previously. Under the Dodd-Frank bill passed in 2010 — initially proposed by former Senator Chris Dodd (D-Conn.) and Representative Barney Frank (D-Mass.) — banks processing the transactions will see their income from those fees drop by about $10 billion a year, all in the name of fairness and equity, according to the Federal Reserve, which determined that the new fees are "reasonable and proportional." According to industry sources, the real cost of handling each debit card transaction amounts to "a penny or two," and so politicians decided this called for action.

One of those was liberal interventionist Senator Dick Durbin (D-Ill.), who sponsored the swipe fee amendment, saying,

> It seems that old habits die hard for Bank of America. After years of raking in excess profits off an unfair and anti-competitive interchange system, Bank of America is trying to find new ways to pad their profits by sticking it to its customers. It's overt, unfair and I hope their customers have the final say.
>
> Earlier this year the Federal Reserve determined that the interchange fees Visa and MasterCard fix for big banks grossly exceed the cost of processing a debit card transaction by some 400%. These hidden fees were designed to boost big-bank profits by charging small businesses and merchants every time a debit card was swiped. And profit they did. Bank of America hauls in billions in debit interchange each year.
>
> Thankfully, on October 1st that flawed system will be replaced by a more transparent and competitive market. Swipe fee regulation will still allow banks to cover the actual costs of debit transactions but will rein in the banks' excessive profit-taking. Small business and merchants will benefit from fee relief and consumers will benefit from lower prices. And banks that try to make up their excess profits off the backs of their customers will finally learn how a competitive market works.

It's obvious that interventions into the marketplace by government officials who are seeking "sound bites" and votes always have unpredictable and unintended consequences. Usually costs for consumers go up. Once Dodd-Frank was implemented and it was clear that one source of income was going to be restricted, banks began to look for other ways to offset those declines. Some severely restricted customer reward programs, while others increased ATM fees and overdraft charges. Several banks did trial runs at raising debit card fees, including JP Morgan Chase and Citigroup, but Bank of America, the country's largest bank by deposits, was the first to formally announce its nationwide intention to start charging after the first of the year.

A close look at Bank of America's numbers is revealing. Assuming that most of B of A's 58 million customers have and use a debit card at least once a month, making a projected $260 billion in purchases next year, the bank will reap about $3 billion a year in new revenue, or about $1 billion *more* than what they are currently making from those transactions. But that's only the beginning. Because so many customers had been using the fee-free debit cards, many will be switching back to using credit cards, which are even more profitable for the bank to process, especially as most balances aren't likely to be paid off at the end of the month. So it's a win-win for the bank and lose-lose for the consumer.

There are options for the consumer, including writing checks or paying cash to avoid the new fees. And since the new rules apply only to banks with more than $10 billion in assets, smaller banks may still offer fee-free debit cards.

Among those complaining about the new fees is Norma Garcia, a lawyer for *Consumer Reports*, who said, "I'm not making business decisions for B of A, but I can only say from a consumer perspective, consumers are tired of being nickel and dimed." This is typical of hypocrites who have pushed for years for more and more government intervention by the government into places where it doesn't belong, and then blamed the consequences on the wrong party. But Garcia wasn't nearly as off-base as was Durbin in his exclamatory remarks that "banks that try to make up their excess profits off the backs of their customers will finally learn how a competitive market works."

Durbin has no idea how a competitive market works, because he never saw one that didn't deserve government intervention. With a Freedom Index rating of just 10 (out of 100), he hasn't the first clue about limiting government to the constraints of the Constitution which, if they were followed, would in fact allow the competitive market to work for the benefit of the customer and help bring their transaction costs *down*. But with government intervention, in debit cards as in nearly everywhere else, the customer gets to pay and pay and pay. While the big banks share the blame for the new fees, let's not forget the real interventionists themselves: Durbin, Dodd, Frank, and especially the chief enabler of all, the Federal Reserve.