

Who Paid for the Debit Card Cap

Fifteen years into the debit card cap, Federal Reserve research finds that few merchants cut prices and that banks recovered much of the lost revenue from checking customers, a record that argues against extending the approach to credit cards.

24¢

LARGE BANKS' FEE CAP ON A \$40 DEBIT SALE, ABOUT HALF THE PRIOR AVERAGE ¹

1.2%

SHARE OF MERCHANTS SURVEYED THAT CUT PRICES AFTER THE CAP TOOK EFFECT ¹

30%

LARGE BANKS OFFERING FREE BASIC CHECKING AFTER THE CAP; AN ESTIMATED 65.2% WITHOUT IT ²

THE ISSUE

Fifteen years ago, on October 1, 2011, the Federal Reserve Board's Regulation II began capping debit card fees under the Durbin Amendment.¹ For banks with \$10 billion or more in assets, the interchange fee may not exceed 21 cents plus 0.05% of the sale, plus a cent for fraud prevention, and every debit card must run on at least two unaffiliated networks.³

The cap did what it was written to do, holding the fee on a \$40 purchase to 24 cents, about half the earlier average. The goal was to pass that saving to shoppers through lower retail prices.¹

That part did not happen. In a Federal Reserve Bank of Richmond survey of 420 merchants two years later, an estimated 77.2% had left prices unchanged, 21.6% had raised them and 1.2% had cut them. For purchases of \$10 or less, 31.8% had higher debit costs: networks dropped their small-sale discounts and charged the maximum on every transaction.¹

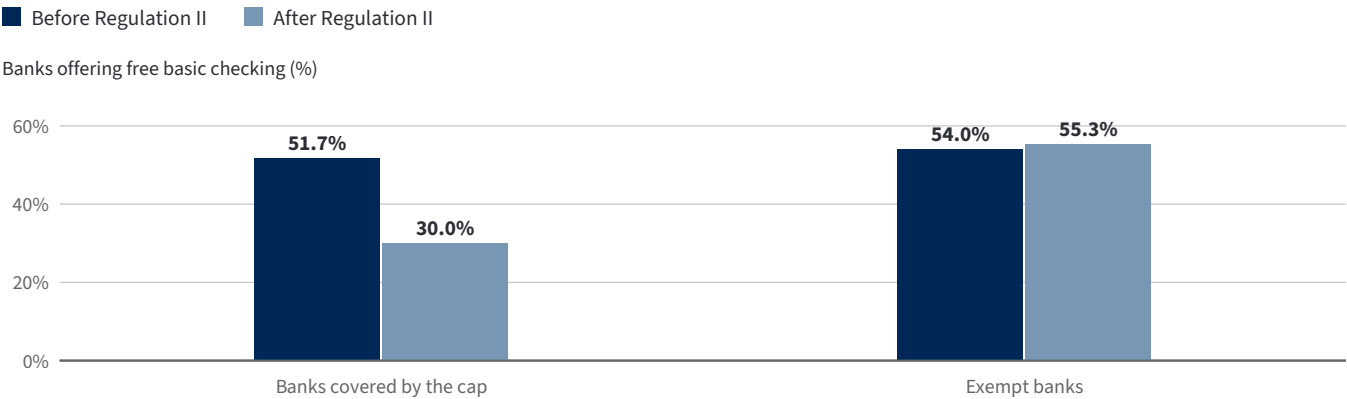
Bank customers paid for much of what banks lost. Federal Reserve Board economists found that banks covered by the cap raised the monthly fee on basic checking by \$1.34 and the balance needed to avoid it by more than \$400. The share of those banks offering free basic checking fell to 30.0%, against an estimated 65.2% without the cap, while the share at exempt banks held steady² (Figure 1). A 2025 study in the *Journal of Financial Economics* reaches the same finding and adds that a shift to higher-fee credit cards likely eroded merchants' savings.⁴

The Credit Card Competition Act would extend the Durbin Amendment's routing rules to credit cards. S. 3623⁵ and H.R. 7035⁶ would bar issuers with more than \$100 billion in assets from limiting a credit card to one network, to affiliated networks or to the two largest, Visa and Mastercard.⁷ The bill sets no fee cap.⁶ Its sponsors expect competition to lower swipe fees and pass the savings on to consumers.⁷ Fifteen years of debit card data have tested that expectation.

WHAT WE RECOMMEND

- 1. **Reject the Credit Card Competition Act.** Congress should not pass S. 3623 or H.R. 7035, which would extend the debit card routing rules of 15 U.S.C. § 1693o-2(b) to credit cards issued by the largest banks.
- 2. **Hold hearings before any vote.** The Senate Banking and House Financial Services committees should examine the debit record before acting on credit card routing, not attach it to another bill, as its sponsors proposed for the 2025 stablecoin bill.⁸
- 3. **Withdraw the proposal to lower the debit cap.** The Federal Reserve Board should withdraw its 2023 proposal⁹ to cut the cap’s base from 21 cents to 14.4 cents; its own economists found that banks met the first cut by raising checking account prices.²

FIGURE 1 Banks offering free basic (noninterest) checking accounts, before and after Regulation II



From Manuszak and Wozniak (2017), Table I. Sample means of RateWatch bank-quarter data for the 11 quarters before (Q1 2009–Q3 2011) and after (Q4 2011–Q2 2014) Regulation II took effect. Covered banks are those with \$10 billion or more in assets.

SOURCES

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6. Credit Card Competition Act of 2026, H.R. 7035, 119th Cong. (2026).

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9. Board of Governors of the Federal Reserve System (2023). Debit Card Interchange Fees and Routing. *Proposed rule*, 88 Fed. Reg. 78100 (November 14, 2023).

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