



**MYTH VS. FACT:**

# Fact-Checking the Myths About the Big-Box Bill (S. 1838/H.R. 3881)

**June 2023**

**Myth #1:**

*The Credit Card Competition Act will help curb inflation and rising prices for everyday items.*

**Myth #2:**

*Visa and Mastercard are a duopoly. Merchants cannot realistically refuse to accept Visa or Mastercard and stay in business.*

**Fact:**

**The Big-Box Bill would not lower the cost of goods for consumers, and in some cases, may raise costs for consumers.**

Proponents of the 2011 Durbin amendment, which regulated debit routing and capped debit interchange, argued that merchants would pass along the savings they accrued from lower interchange fees to consumers via lower prices. In practice, study after study has shown that such price reductions never materialized. The Federal Reserve Bank of Richmond’s comprehensive analysis found that while only 1% of merchants reduced prices in the wake of lower debit fee acceptance costs, 22% actually *raised* prices. Most (77%) did not adjust prices at all.<sup>1</sup>

There is no evidence to suggest a credit-routing regulation would be any different. Like with debit regulation, businesses would likely not pass savings from credit-routing requirements to consumers.

**Fact:**

**U.S. payments competition is vibrant and growing. Merchants can and do offer consumers a variety of options to pay for purchases – cash, debit, credit, check, PayPal, Klarna, Affirm, etc. Consumer choice should be honored by merchants – especially for credit cards where consumers select the specific credit card, rewards and benefits they want.**

Credit card networks operate in a robust, competitive, and diverse payments market. Many successful businesses offer a variety of payment options to consumers at the point of sale, and not all businesses rely on Visa and Mastercard to accept payments. Some successful businesses remain cash-only, opting out of credit cards entirely. Most merchants, however, recognize that credit cards provide substantial value to their businesses, increasing the amount that customers spend, saving time, and protecting against theft and fraud.

More importantly, when a merchant offers consumers their choice of payment method, consumers choice should be honored. Credit card customers choose the issuer and network they trust to provide the card benefits, rewards and security features they desire. The Big-Box Bill would eliminate consumer choice. The bill would allow merchants to re-route credit transactions through alternative networks, granting merchants both the ability and incentive to select the network with the lowest fees, regardless of its commitment to security<sup>2</sup>.

<sup>1</sup>Wang, Z., Schwartz, S., and Mitchell, N. (2014). The Impact of the Durbin Amendment on Merchants: A Survey Study. Federal Reserve Bank of Richmond and Javelin Strategy & Research, 194.

Other independent research corroborates these findings.

- University of Chicago concluded that merchants did not fully pass through their savings from swipe fee price controls to consumers. Evans, D., Chang, H., and Joyce, S. (2013). The Impact of the U.S. Debit Card Interchange Fee Caps on Consumer Welfare: An Event Study Analysis. University of Chicago Law School, Coase-Sander Institute for Law and Economics
- MasterCard survey found that only 3% of merchants intended to pass on savings. MasterCard Worldwide, “Interchange and Durbin Amendment,”
- University of Pennsylvania found little evidence of across-the-board consumer savings and concluded that consumers were not helped by the interchange cap. Sarin, N. and Mukharlyamov, V. (2019). The Impact of the Durbin Amendment on Banks, Merchants, and Consumers. Faculty Scholarship at Penn Law. 2046.

<sup>2</sup>Hubbard, B. (2013). The Durbin Amendment, Two-Sided Markets, and Wealth Transfers: An Examination of Unintended Consequences Three Years Later. University of Chicago Law School, 29.

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### **Myth #3:**

***Merchants pay excessively high interchange fees, and the cost keeps increasing***

This could mean that consumers, who have grown to expect that their transactions are being routed over long-established, recognizable, and trusted networks, are more exposed to fraud risk while alternative networks have less incentive to invest in their technology platforms or innovative data security measures<sup>3</sup>.

### **Fact:**

**The average rate that merchants pay to accept credit cards has remained stable for years. This fee pays for a service that merchants value substantially, and it helps them grow and protect their businesses. These fees are essential to the operation of card networks, fraud prevention, and cybersecurity. Consumers also benefit through rewards and other card features.**

The average acceptance rate (merchant discount fees) has remained stable for years, hovering between 2.09% and 2.26% for the past eight years<sup>4</sup>. Interchange is paid to the credit card issuer, who uses the funds to issue cards, support operations and provide the consumer with the benefits and rewards promised. A vast majority of interchange fees is transferred to consumers through card rewards and benefits. The network fee is paid to the card network (often Visa, Mastercard, Discover, or American Express), who uses the fee to support its network and ensure its network is secure and offers innovative features and security that benefit merchants and consumers. The acquirer fee is paid to the merchant's own bank.

Visa and Mastercard froze fees in 2020 and 2021 to help businesses survive the worst of the pandemic. In April, they reevaluated costs and fees to better serve network participants, with some merchants paying lower fees and others paying more. For instance, fees were reduced for smaller merchants. Also, fees were reduced for certain lower risk transaction types like tokenized transactions.

In return for these small fees, which are substantially lower than the costs that merchants pay for buy now pay later transactions, merchants receive all the benefits of electronic payments, including increased sales, guaranteed payments, access to online channels, and lower costs of cash handling. Their customers also benefit through ease of payment, billions in annual rewards, and data security.

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### **Myth #4:**

***The Credit Card Competition Act enhances network competition to reduce credit card costs for merchants without harming consumers, stifling innovation, or compromising the security.***

### **Fact:**

**The manipulation of a competitive market discourages innovation and erodes security. It will put smaller merchants at a competitive disadvantage to giant retailers, who already pay lower acceptance fees. This bill reduces their rates further through routing. The Big-Box Bill simply shifts wealth to large retailers with no benefit to consumers or small businesses. Not only are consumers unlikely to receive any price reductions, but they are also likely to lose credit card rewards and other card benefits, and they may experience higher rates and fees.**

Financial institutions broadly have three card revenue streams: interchange, interest, and fees. Interest and fees will likely increase if the government artificially suppresses interchange through routing

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<sup>3</sup>Statement of Joshua R. Floum on Behalf of Visa Inc., Before the Subcommittee on Financial Institutions and Consumer Credit of the Committee on Financial Services, United States House of Representatives (2011).

<sup>4</sup>Verisk Financial, Nilson Report.

regulation. Issuers could be forced to increase prices on products (like annual fees) and reduce the availability of credit and the rewards and benefits associated with cards<sup>5</sup>.

Credit routing mandates would likely decrease innovation and investment in security and decrease the benefits and rewards associated with credit cards. The original Durbin Amendment debit mandates resulted in the loss of free or low-cost banking services for thousands of consumers<sup>6</sup>.

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### Myth #5:

***Only the largest banks and networks will be impacted by the Credit Card Competition Act.***

### Fact:

**Small banks and credit unions would likely be hurt by proposed credit routing mandates—just as they are hurt today under the debit routing mandates under the Durbin Amendment that they were also allegedly “exempt” from.**

Small financial institutions, including credit unions, were supposedly exempt from the Durbin amendment. However, data from the Federal Reserve shows that community banks and credit unions have lost interchange fee revenue since the implementation of the fee cap and routing mandate<sup>7</sup>. Small community banks have seen average inflation-adjusted interchange fees decline by 2% for dual-message transactions and 30% for single-message transactions from 2011 to 2021<sup>8</sup>. Additionally, costs for small banks to access debt card networks increased significantly<sup>9</sup>.

As a result of the lost interchange revenue due to the Durbin amendment’s debit routing regulations, some small banking institutions were forced to reduce services and increase prices. Expanding the regulation to include credit routing mandates would likely only further reduce the services offered by small banks and further narrow choices for consumers<sup>10</sup>. Small banks and credit unions are strongly against the Big-Box Bill.

Finally, a 2017 Federal Reserve study confirmed that while small FIs were not the intended target of the original Durbin amendment regulation, they were also negatively affected: “From an economic perspective, competition among firms may generate an industrywide response even for a policy that only targets a specific set of firms. Such spillover effects thus serve to magnify the pricing response by banks that was, for many, an unintended consequence of the regulation. Their presence also suggests that policymakers need to take a broad view of an entire industry, even when evaluating policies that directly target only a subset of firms<sup>11</sup>.”

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<sup>5</sup><https://electronicpaymentscoalition.org/resources/the-effects-of-price-controls-on-payment-card-interchange-fees-a-review-and-update/>

<sup>6</sup>Sarin, N. and Mukharlyamov, V. (2019). The Impact of the Durbin Amendment on Banks, Merchants, and Consumers. Faculty Scholarship at Penn Law. 2046

<sup>7</sup><https://electronicpaymentscoalition.org/resources/what-exemption-community-banks-and-credit-unions-lose-under-the-durbin-amendment-2/>

<sup>8</sup>Board of Governors of the Federal Reserve System (2023). “Average Debit Card Interchange Fee by Payment Card Network.”

<sup>9</sup><https://www.icba.org/newsroom/blogs/main-street-matters/2022/03/07/how-expanding-the-durbin-amendment-would-further-harm-community-banks-and-their-customers#:~:text=The%20Durbin%20Amendment%20imposed%20artificial,their%20savings%20on%20to%20customers.>

<sup>10</sup><https://thehill.com/opinion/healthcare/567142-the-durbin-amendment-is-a-disaster-for-banks-dont-expand-it-to-credit/>

<sup>11</sup><https://www.federalreserve.gov/econres/feds/files/2017074pap.pdf>