



SBECouncil EXPLAINER:

## Why the Durbin-Marshall Credit Card Bill is Bad for Small Businesses

### Overview:

The Small Business Entrepreneurship Council (SBE Council) strongly opposes harmful credit card routing legislation, the Durbin-Marshall Credit Card Bill. If enacted, credit card routing mandates would be burdensome for small businesses. The mandates would drive billions of dollars from the credit market and force financial institutions to reduce crucial lending to entrepreneurs and their businesses in need. Additionally, credit card routing mandates would strip small businesses of valuable services, like fraud prevention, that they rely on to protect their business and customers.

### Past is Prologue: Debit Card Routing Regulations Have Hurt Small Businesses:

Routing requirements initially made their debut in 2010 as part of the sweeping Dodd-Frank legislation in which lawmakers, led by Senator Dick Durbin (D-IL), implemented price controls and routing regulations for debit cards. While mega-stores have benefitted from the Durbin Amendment and its restrictions on interchange fees, many small businesses now face higher debit card acceptance costs due to the loss of interchange discounts for small-ticket purchases. Under the Durbin Amendment, payment networks have largely eliminated these discounts and moved to a flatter rate structure, causing debit costs for Main Street stores that specialize in small-ticket items to increase rather than decrease.

### Credit Card Routing Mandates Undermine Services for Main Street Entrepreneurs:

If passed, credit routing requirements would undermine the very system of innovation that provided the small business community with a lifeline during the pandemic. The regulatory initiative would jeopardize the tools small business owners rely upon to compete, weakening their effectiveness and paving the way for more consolidation and market power. Small businesses would lose valuable services provided by card issuers and payments networks such as monitoring and preventing fraud, the development of new fraud prevention technologies, as well as the continuous maintenance and improvement of the U.S. electronic payment system infrastructure. Given the value that small merchants place on high-quality payment processing services, the unfortunate corollary of price regulation is that as regulators limit interchange prices, the quality of service available to merchants will decline.

### Credit Card Routing Mandates Will Reduce Access to Credit:

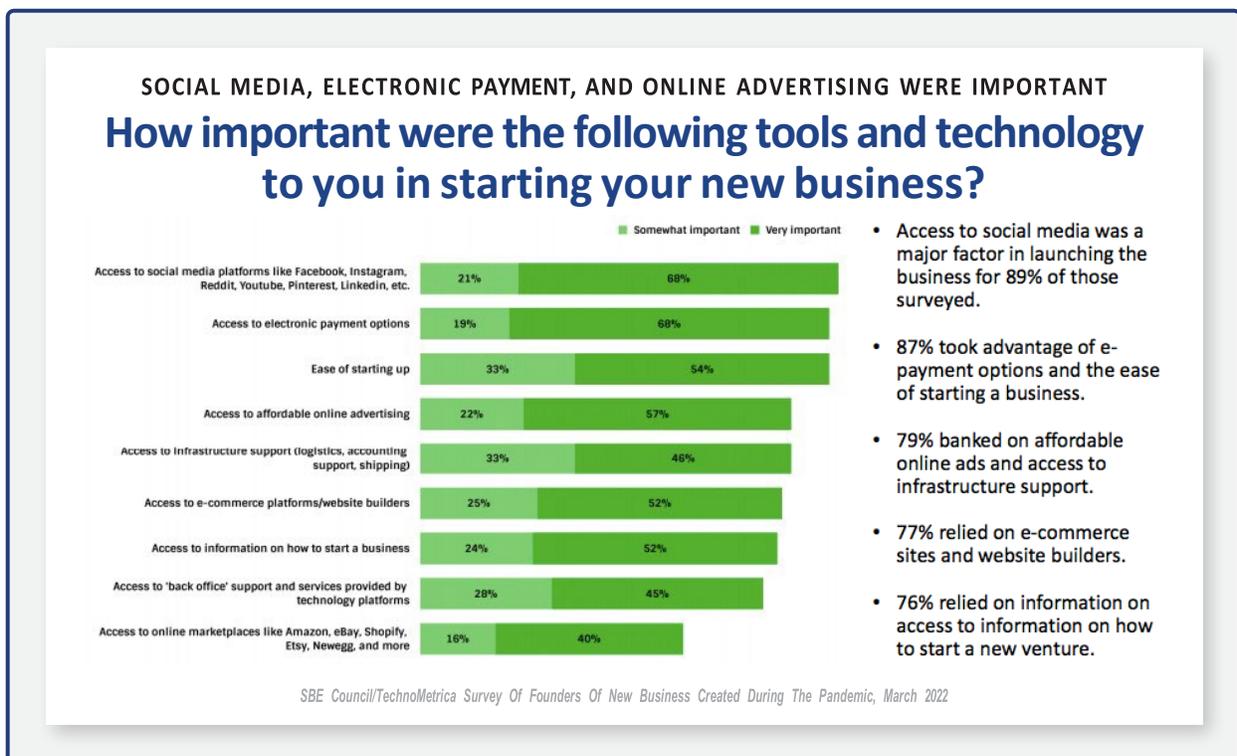
Small financial institutions like credit unions and community banks play an essential role in providing small business loans to entrepreneurs. Routing mandates on credit cards will further reduce interchange revenue for smaller banks resulting in reduced lending for small businesses. Although the Durbin Amendment supposedly exempted community banks and credit unions from debit routing mandates, data from the Federal Reserve shows that interchange revenue fell for these entities as well, for both PIN and signature transactions.

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This means it is more difficult for them to absorb costs compared to larger issuers with a higher number of transactions. Due to reduced revenue resulting from the Durbin Amendment, community banks and credit unions, the so-called “exempt” issuers, have less money to provide for valuable small business loans. Small financial institutions will lose even more revenue if routing mandates are expanded to credit cards.

### Small Business Owners Value Access to Electronic Payment Options:

Data from a SBEC’s business survey highlights the value that entrepreneurs place on the importance of electronic payments. Among new business owners who started a business during the pandemic, 87% said that access to electronic payment options was important to their decision to launch. Additionally, access to electronic payments tied for first (68%) as the most important tool or technology in starting a new business. The Durbin-Marshall Credit Card Bill will undermine the ability of entrepreneurs and startups to access electronic payments and the benefits they provide their businesses.



### Bottom Line:

Federal lawmakers should take steps to encourage continued investment in the electronic payments industry. Doing so will better position Main Street businesses to thrive in a post-pandemic economy, through the economic downturn, and in the global marketplace generally. The routing mandates included in the Durbin-Marshall Credit Card Bill will unduly disrupt and harm this ecosystem that has provided value to small businesses.

## Congress Must Reject Credit Card Routing Mandates and Oppose the Durbin-Marshall Credit Card Bill

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