

Senator Dick Durbin
Chair, Senate Judiciary Committee
Written Questions for Linda Kirkpatrick
November 26, 2024

- 1. With how many merchants does Mastercard negotiate credit card interchange fee rates for transactions in the United States? What is this number as a percentage of all merchants who accept Mastercard credit cards in the United States?**

Millions of U.S. merchants, both brick-and-mortar and online, work with Mastercard to drive sales and offer consumers payment choices. Mastercard works with acquiring banks, which negotiate directly with merchants. Every merchant in the U.S. can choose from hundreds of acquirers, ensuring competitive options. Mastercard interchange rates are used by acquirers that license our network are fully transparent and publicly available on our website.

- 2. Will Mastercard increase credit card interchange fee rates for any merchants or types of transactions in the United States during calendar year 2025? If so, which classes of merchants or categories of transactions will be affected?**

At present, Mastercard does not plan to increase any of the rates contained in the Mastercard 2024-2025 U.S. Region Interchange Programs and Rates schedule during calendar year 2025.¹ Mastercard reviews its interchange rates regularly to balance the two sides of the merchant-cardholder transaction market and to maximize the number of transactions to drive broad economic activity.

- 3. How does Mastercard provide notice to merchants when it changes credit card interchange fee rates? Does Mastercard believe that providing notice of changes to credit card interchange fee rates to merchants is important?**

Mastercard publishes its U.S. Region Interchange Programs and Rates schedule publicly on its website, thus providing and maintaining full transparency for interchange rate changes.² This schedule has been publicly available for decades. In addition, Mastercard sends notices of interchange rates to acquirers biannually, typically with six months' notice. Acquirers, which, unlike the networks, contract directly with merchants in connection with network services, are typically the party responsible for notifying merchants directly of any interchange fee changes and their overall cost of acceptance.

¹ See <https://www.mastercard.us/content/dam/public/mastercardcom/na/us/en/documents/merchant-rates-2024-2025.pdf>.

² See, e.g., <https://www.mastercard.us/content/dam/public/mastercardcom/na/us/en/documents/merchant-rates-2024-2025.pdf>.

Senator Charles E. Grassley
United States Senate Committee on the Judiciary
Written Questions for Linda Kirkpatrick
November 19, 2024

Questions for Linda Kirkpatrick

- 1) *Through Dodd Frank, Congress passed debit card competition mandates similar to those included in the Credit Card Competition Act. Recently, we've seen cases filed by both the DOJ and the Federal Trade Commission enforcing these competition requirements, however, I've also heard concerns that the caps limited benefits for consumers. How should the implementation of the original Durbin Amendment inform today's discussions about the credit card market?*

The original Durbin Amendment increased the cost of banking, particularly for Americans with lower incomes; reduced debit-card-related benefits and rewards for consumers; and failed to deliver any real reduction in retail prices. Research demonstrates consumers paid more for banking services in the wake of the Durbin Amendment, and low income earners have more often faced the brunt of these changes—free checking accounts at banks affected by the Durbin interchange cap fell from 63% to 27%,³ and over 70% of consumers in the lowest income quintile were subject to monthly maintenance fees for having small account balances.⁴ Finally, a Richmond Fed survey found that only 11.1% of merchants reported paying lower transaction costs after the Durbin regulations were implemented, with 57.6% of merchants noticing no change, and 31.3% reporting paying *higher* debit transaction costs.⁵ The reality is even many small businesses suffered under the Durbin Amendment. Research from the Federal Reserve found some small businesses saw their debit fees doubling or tripling, compared to what they had paid previously.⁶ Many press reports after implementation confirmed this reality for countless small businesses.⁷

The Durbin Amendment also had the exact opposite effect on competition. As the DOJ wrote, debit regulation made it even more challenging for other networks to win business, “The interchange cap has a no-evasion rule, which limits a network’s ability to provide incentives to

³ Vladimir Mukharlyamov and Natasha Sarin, “Price Regulation in Two-Sided Markets: Empirical Evidence from Debit Cards” (October 11, 2024). 2. Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3328579.

⁴ Vladimir Mukharlyamov and Natasha Sarin, “The Impact of the Durbin Amendment on Banks, Merchants, and Consumers” (2019). Faculty Scholarship at Penn Carey Law. 2046. Available at https://scholarship.law.upenn.edu/faculty_scholarship/2046/.

⁵ Zhu Wang, Scarlett Schwartz, and Neil Mitchell, “The Impact of the Durbin Amendment on Merchants: A Survey Study” (2014). 100 Fed. Reserve Bank of Richmond Econ. Quarterly 183. 194. Available at https://www.richmondfed.org/-/media/richmondfedorg/publications/research/economic_quarterly/2014/q3/pdf/wang.pdf.

⁶ Tim Sablik and Zhu Wang, “Welfare Analysis of Debit Card Interchange Fee Regulation” (2013). Available at https://fraser.stlouisfed.org/files/docs/historical/frbrich/econbrief/frbrich_eb_13-10.pdf.

⁷ Robin Sidel, “Debit-Fee Cap Has Nasty Side Effect” (December 8, 2011). *Wall Street Journal*. Available at <https://www.wsj.com/articles/SB10001424052970204319004577084613307585768>.

issuers by paying them more than the cap. These limits on incentives made it even more challenging for Mastercard or other networks to win front-of-card placement where Visa was the incumbent network because they often could not fully compensate the issuer for its switching costs.”⁸ Research demonstrates that the collective harm to consumers and merchants resulting from the Durbin Amendment should inform Congress’ current consideration of the proposed Credit Card Competition Act (“the bill”). The bill mirrors many of the Durbin Amendment’s mistakes—it puts corporate giants before consumers, and it picks winners and losers instead of trusting a market that works through more than 157 billion voluntary transactions annually.⁹ Congress should not repeat those mistakes for credit cards.

2) *The original Durbin Amendment required both dual routing as well as direct caps on debit card fees. In your testimony, you raised concerns regarding consumers’ credit availability and rewards. Would the debit card market be different today if Dodd Frank required only dual routing?*

Dual routing deprives consumers of choice and shifts it to a few large players. This results in a decision of cost-cutting versus security for the consumers and will undoubtedly boost fraud and degrade the point-of-sale experience. A regulatory ecosystem that requires dual routing is also largely untested and we are aware of no instances where dual routing is mandated on credit (one that requires transactions can be routed across more than one network).

The Durbin dual routing requirements, later expanded by the 2023 Regulation II changes, did little to benefit consumers or reduce their costs. Instead, the Durbin dual routing requirement has served primarily to raise expenses for multiple participants associated with debit transactions and encourage network free-riding, whereby networks that did not invest in new cybersecurity protections can leverage—by regulatory fiat—the innovations of Mastercard. Adding more supported networks is cost-intensive for both issuers and acquirers, and operational costs for networks will also be increased as cards and systems are reconfigured. That operational burden does not benefit consumers by providing additional coverage or better service; indeed, consumers are more likely to face additional costs for dual network enablement as these expenses are passed down directly by issuing banks, and indirectly by acquirers through higher fees for merchants. Finally, debit fraud is up 124% since passage of the Durbin Amendment, according to the Federal Reserve, so there is no strong evidence it reduces industry’s fraud burden. While consumer costs rise, there would be a reduction in cutting-edge fraud protection and security measures.

⁸ *United States v. Visa Inc.*, Complaint at ¶ 52 (S.D.N.Y.) (filed Sept. 24, 2024).

⁹ U.S. Federal Reserve, “The Federal Reserve Payments Study: 2022 Triennial Initial Data Release,” (2024). Available at <https://www.federalreserve.gov/paymentsystems/2023-April-The-Federal-Reserve-Payments-Study.htm>.