

NAMA Statement on New Debit Interchange Rates Effective October 1, 2011

NAMA members and industry supporters are concerned, confused, and challenged by the new debit card interchange rates (Durbin Amendment to Dodd-Frank Act) effective October 1, 2011. While NAMA and its transaction processing partner - Bank of America Merchant Services (BAMS) - has been working diligently with each of the card brands to develop solutions to neutralize the detrimental impact felt by the recently published debit rates, there has not been any postponement or amendments relative to the pending rates for small dollar transactions (purchases under \$15). The new debit transaction rates, adopted by the Federal Reserve Board in June significantly increase interchange fees charged to vending operators whenever a debit card is accepted. The interchange rates for credit card transactions remain unchanged; the change in fees applies to debit card usage only.

The new debit transaction fee ruling allows up to \$0.21 per debit card transaction, with an additional \$0.01 for fraud prevention, along with five basis points for losses due to fraud. The ruling also divides debit cards into two categories based on the size of the issuing financial institution (those under \$10 billion in assets and those over \$10 billion in assets). Primarily, the debit interchange rate assumption that is best for vending operators to use as a guideline for the new rates is 0.05% plus \$0.22 per item. This easily compares to the existing Visa debit interchange rate of 1.55% plus \$0.04 per item. Given the small transaction size in the vending industry, the new fees represent a significant fee increase.

The severity of the problem facing the vending industry is that about two-thirds of all electronic transactions at vending machines are attributable to debit cards. This is the same challenge facing every small ticket merchant, including quick-service restaurants and others.

Under the new rate schedule, debit rates will increase from 1.55% of the sale price plus 4 cents to 21 cents plus 1 cent plus 5%, which yields more than a 300% increase in interchange rates for a \$2 transaction and a 200% increase in fees on a \$5 sale. Many industry observers estimate a \$10.50 average transaction price may be needed to reach a point where the new debit interchange rate becomes neutral; an average transaction amount that is unrealistic at this time for vending. Rather than incur the added expense associated with the new debit rates, many vending operators and a select number of wireless gateway providers have stated they will temporarily curtail acceptance of debit transactions.

NAMA and BAMS remain actively engaged in addressing the debit interchange rate situation. As soon as the new rates were published, the organizations wasted no time exploring possible avenues of assistance aimed at producing a feasible solution for vending operators. Given existing consumers desire to use

their debit cards for payment of small ticket transactions, which has historically been the case for our industry, curtailing acceptance of debit transactions is likely only a temporary solution at best.

While currently there is no immediate fix for the debit transaction fee schedule NAMA remains hopeful that relief may be forthcoming.

Additionally, there are some existing cashless incentive programs for vending operators available through Apriva and Cantaloupe that extend special interchange rates. It is our understanding that those special rates will continue to be honored by the card brand beyond October 1st (through until their original respective expiration dates). Although they are not long term incentives, they are even lower than today's current interchange rates prior to the new debit interchange rule taking effect October 1, 2011. Utilizing these programs may minimize impact on vending consumers while NAMA, BAMS and other industry partners work to seek relief for small ticket merchants. Please contact the respective companies for more information and enrollment.

For additional details on small ticket transactions, please see the Digital Transaction Magazine article at: www.digitaltransactions.net/news/story/3217