The Impact of the Durbin Amendment on Banks, Merchants, and Consumers

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Abstract

After the Great Recession, new regulatory interventions were introduced to protect consumers and reduce the costs of financial products. Some voiced concern that direct price regulation was unlikely to help consumers, because banks offset losses in one domain by increasing the prices that they charge consumers for other products. This paper studies this issue using the Durbin Amendment, which decreased the interchange fees that banks are allowed to charge merchants for processing debit transactions. Merchant interchange fees, previously averaging 2 percent of transaction value, were capped at $0.21, decreasing bank revenue by $6.5 billion annually. The objective of Durbin was to increase consumer welfare. For consumers to benefit, banks needed to not offset Durbin losses and merchants needed to pass through savings to consumers. Instead, we find causal evidence that banks fully offset losses by charging higher fees for their products: For example, following Durbin, the provision of free checking accounts decreases by 40 percentage points. On the merchant side, we find that retailers pass-through savings most when debit usage is common and when competitive pressures are highest. However, we find little evidence of across-the-board consumer savings. Our analysis suggests that consumers are not helped by this interchange regulation.