

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

Vladimir Mukharlyamov\* and Natasha Sarin†

\*Georgetown McDonough School of Business †University of Pennsylvania Law School and Wharton School of Business

## Question

***When is financial regulation effective?***

- Study Durbin: Caps debit swipe fees for large banks
  - ➔ Bank revenue decreases
  - ➔ Merchant costs decrease
- Goal of Durbin: Consumer savings
- Goal of this paper: Are savings realized?

## Background

- Merchants pay banks to process electronic transactions.
- Interchange explodes pre-Crisis → Durbin
- What Durbin does...  
Example: \$100 debit transaction
  - ➔ Pre-Durbin, interchange fee = 2% = \$2
  - ➔ Post-Durbin, interchange fee capped at \$0.21
  - ➔ **Banks lose (merchants gain) \$1.79**

## Data

- Use novel data to analyze Durbin incidence.
  - ➔ Bank regulatory filings
  - ➔ Account-level pricing at branch level (Ratewatch)
  - ➔ Actual merchant interchange fees
  - ➔ Daily gas prices (OPIS)

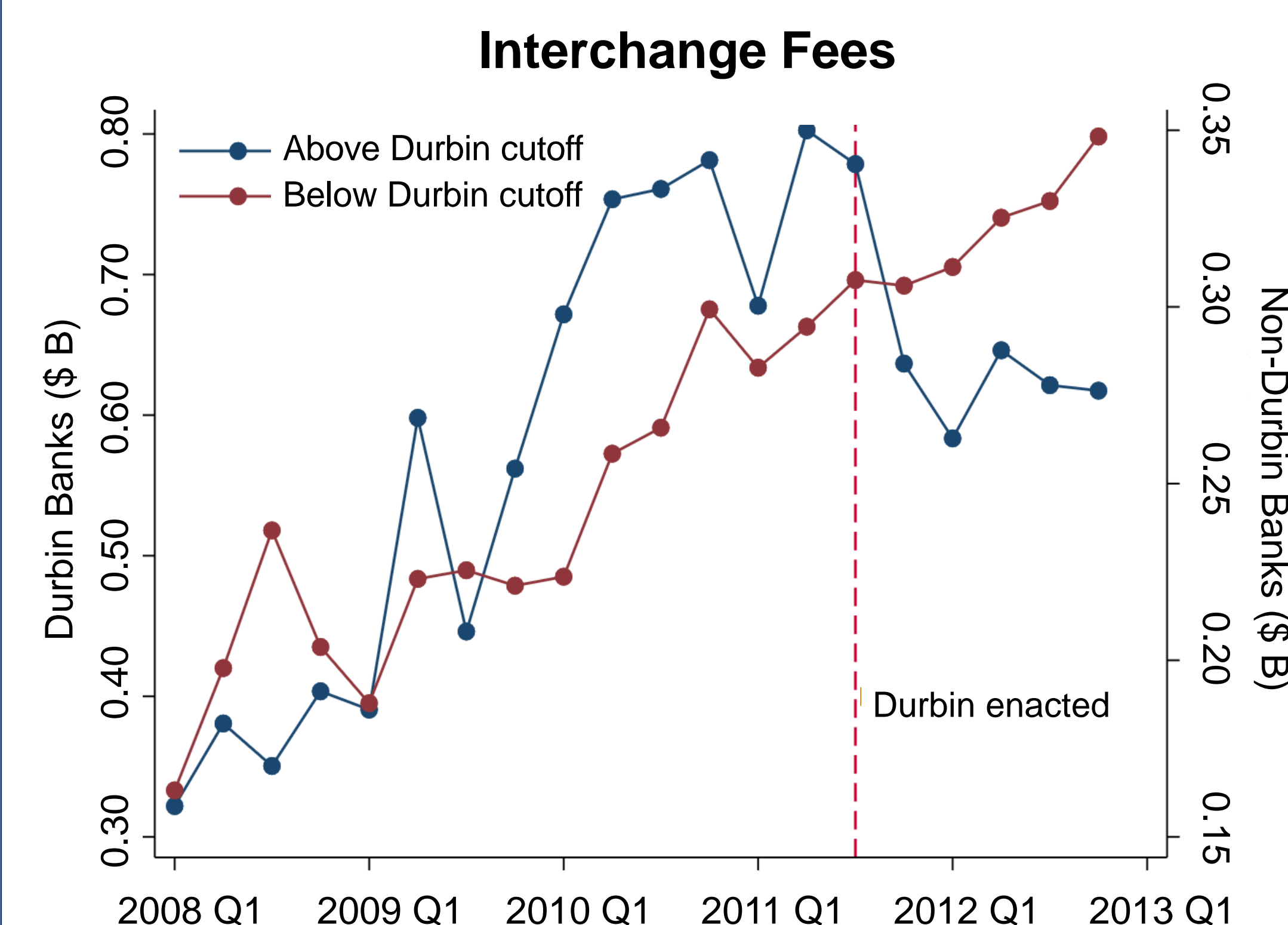
## Methodology

- Bank response
  - ➔ Compares banks whose revenue falls post-Durbin (>\$10B) to those exempt.
  - ➔ In math:  $Y_{i,t} = \alpha_i + \phi_t + \sum_{s \neq 10Q2} \beta_s \times \text{Durbin}_i \times 1[s = t] + \epsilon_{i,t}$
- Merchant response
  - ➔ Compares merchants whose interchange revenue falls post-Durbin to those less-helped.
  - ➔ Fewer debt cards → fewer large bank customers

## Main Results

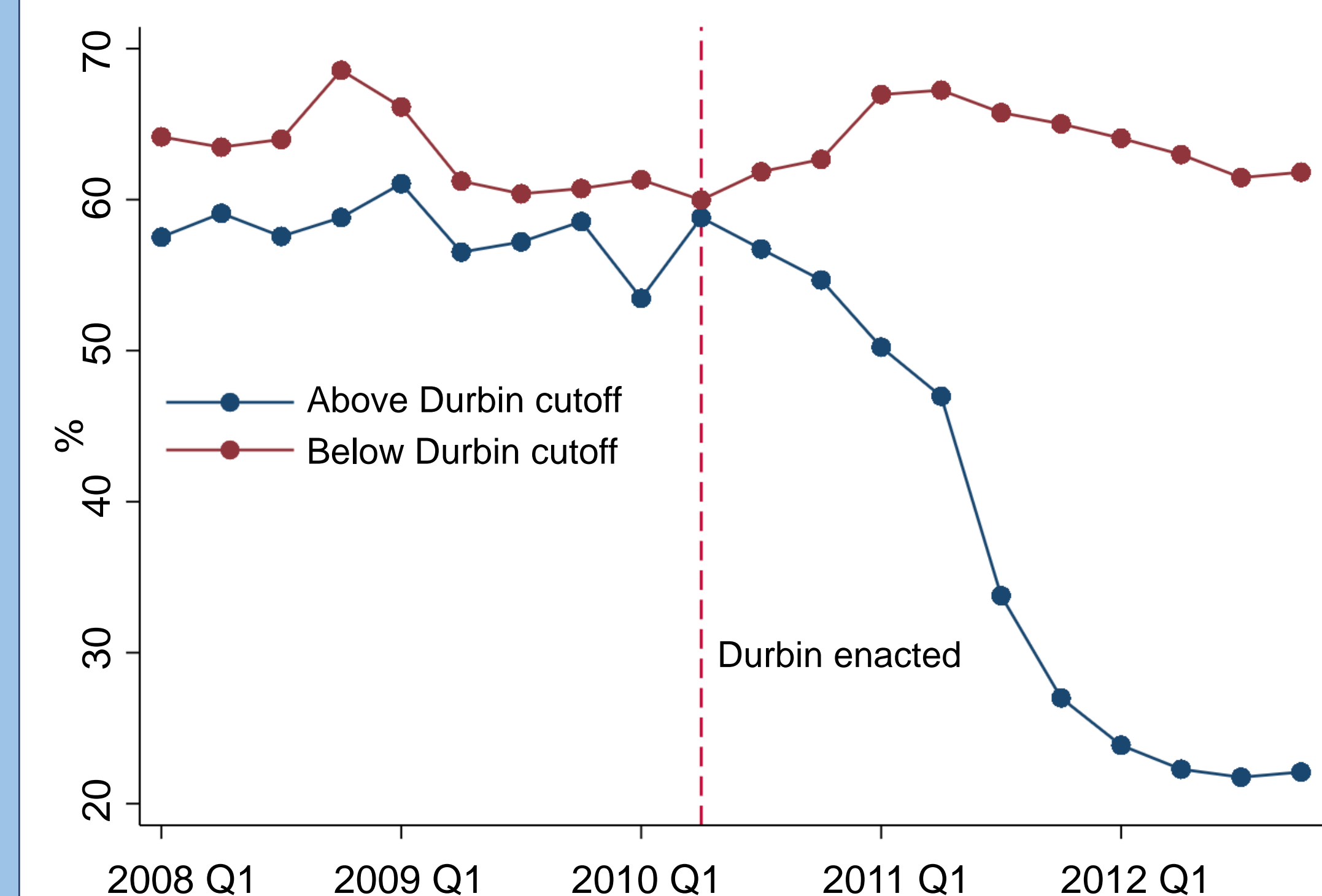
- Use novel data to analyze Durbin incidence.
  - ➔ Bank interchange revenue falls post-Durbin.
  - ➔ Banks eliminate free checking post-Durbin.
  - ➔ Durbin results in greater credit usage.
  - ➔ Little evidence merchants decrease prices, except for those whose interchange expense falls by most.

### 1. Interchange revenue falls post-Durbin



### 2. Banks eliminate free checking in response

Free Checking (%), Durbin vs. Non-Durbin Banks



### 3. Only gas retailers whose interchange expense decreases must lower prices

	(1)	(2)	(3)	(4)
Impact	0.012			
	[0.024]			
Impact: Above vs Below Median		0.001		
		[0.001]		
Impact: Top vs Bottom Quartile			-0.003	
			[0.003]	
Impact: Top vs Bottom Decile				-0.011**
				[0.005]
Observations	30,018	30,018	14,986	6,035
R-squared	0.247	0.247	0.236	0.270