More Banking Fees Likely Coming Your Way Courtesy of Congress and the FED

December 20, 2010 - Call it the law of unintended consequences. A proposal by the Federal Reserve to limit the fees that banks can charge merchants on debit card transactions is very likely to negatively impact consumers in other ways. Specifically, the proposal floated by the FED last week to limit those fees to 12 cents per transaction will almost assuredly lead banks to find other areas to add new fees. And consumer accounts are the most likely target.

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The proposed FED rules are a result of Christopher Dodd's and Barney Frank's Wall Street Reform Act. The legislation directs the FED to cap swipe card fees for debit card transactions. These are fees billed to merchants on every single debit card transaction they accept.

Currently, the fees typically range between $1 and $1.30 per transaction; up approximately 300% when compared to the fees charged in 2001. The rate at which these fees have increased over the past decade made them an attractive target for regulators. The proposal to cap these fees was sold as a way to reduce merchant costs, which would in turn reduce the cost of goods at the cash register. Unfortunately, the logic used to justify the fee cap was flawed.

A much simpler, and easier to implement solution would have simply been to include language in the bill that would have allowed merchants to offer discounts for cash purchases. Most merchant debit card agreements currently forbid this practice. That would have left the decision about what method to use for a purchase in the hands of consumers, and would have insured that banks were still free to profit from the services they offer. That didn't happen.

The banking industry had already braced for a cut in swipe card fees. Those following the industry expected a cut of roughly 50%. But the FED's proposal is closer to a 90% cut. For banks, that will mean a revenue reduction of tens of Billions of dollars. Bank of America alone expects to see a $2 Billion revenue reduction. Banks and their stockholders will be looking for ways to make that up.

Over the past couple of years, Congress has tried to pass a variety of banking bills filled with good intentions. Unfortunately, those bills have already led to a number of unintended consequences. Things like fixed rate credit cards have all but gone away. Free checking is another victim for virtually anyone who can't maintain a daily minimum balance of $1,000 or more.

If the FED proposal does go into effect, the first target is probably going to be debit cards themselves. Banks have promoted them for several years as a convenient way to make purchases without having a need to carry cash. You can expect that banks will start to charge consumers for the privilege of having a debit card; much the same way that they now charge for many checking accounts.

When you get hit with those new fees, if you are wondering who you should blame, you can thank Congress. It may have been their desire to protect you, but they are actually fleecing you with legislation that allows this kind of regulatory activity.

byJim Malmberg
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