Debit Card Fee Cap May Get Pushed Back - We Told You So!

February 18, 2011 - Back in December, we told our readers that one of the little gems in the Frank - Dodd financial reform bill passed by the last Congress was a cap on debit card fees that banks could charge merchants. The law directs the FED to place a cap on those fees. And in December, the FED made that proposal. If implemented, it would cut fees by 90%. We knew at the time that if the proposal was ever implemented, it would lead to more banking fees for consumers. Now, it appears that both the FED and the Congress are coming to exactly the same conclusion.

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Merchants have been screaming bloody murder about the rapid rise in debit card fees charged by banks for years. In our opinion, for good reason. The increase in fees has far outpaced inflation and amounts to a multi-billion dollar revenue stream for the banks that issue debit cards. The fed proposal could cut that revenue stream by as much as 90% for some banks.

When we first wrote about this issue late last year, we said that the banks would have to try to make up this revenue and that the most likely target for any new fees would be consumers who maintain bank and checking accounts. It didn't take long for banks to confirm this, telling congress that if the proposal goes into effect they would eliminate free checking account and raise other fees.

In congressional testimony on Thursday, there was bipartisan pushback against the FED; asking the agency to delay implementation of the rules which are scheduled to go into effect in April. Sheila Bair, Chairwoman of the FDIC echoed that sentiment. In her testimony before the Senate Banking Committee she said, "I think the full policy ramifications â€" who's paying for what, who's going to pay more and who's going to pay less under this â€" is something that maybe wasn't dealt with as thoroughly as it might have been."

At the very least, Bair's admission should aggravate just about everyone. This is the sort of thing that was completely predictable really should have been flushed out prior to any congressional vote. Unfortunately, that is not how congress tends to operate.

Whether or not the rule change gets pushed out is up to Congress. The April deadline is currently law. That means that Congress needs to extend it and with everything else being they are dealing with, they may not get an extension done in time. If they don't, start watching your mail for bank notices telling you that this or that fee is increasing. Consumers are likely to start seeing these within 30 days of the time that the new rules go into effect.

byJim Malmberg

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