

# Industry Wins Payment Card Reforms

## PROFITABILITY & ENTREPRENEURSHIP

Restaurant operators and other merchants have more control over how they accept payment from customers, thanks to recently enacted financial reform legislation. As of July 22, merchants can set minimums for credit card transactions or offer discounts for some forms of payment.

The new law, enacted July 21, includes interchange fee reform, which the National Restaurant Association has worked for years to secure. As a result, restaurateurs eventually can expect more reasonable fees related to debit card transactions.

“The interchange and swipe fee issue is an important economic matter for the restaurant

industry,” says David Koenig, director, tax and profitability, NRA. “Working with our state and coalition partners, we were able to achieve positive change.”

## Merchant benefits

The law authorizes the Federal Reserve Board to issue regulations within a year that ensure interchange fees on debit card transactions are reasonable and proportional to the cost of processing transactions by large banks. It’s unclear how much of a profit margin the Federal Reserve will allow the banks when setting the interchange rates, says Bob Baldwin, president and chief financial officer, Heartland Payment Systems.

Interchange fees are among restaurants’ greatest operating

expenses. Merchants pay about \$48 billion in interchange fees a year. Many people don’t realize the many fees merchants pay or that interchange fees and related contractual obligations benefit banks and card companies at merchants’ expense.

The law also allows merchants to set minimum levels for credit card transactions. That means you no longer have to accept credit cards for purchases less than \$10. But you can’t set higher limits, such as \$15 or \$25. The law also allows you to give discounts for cash, checks and debit or credit cards.

Previously, Visa and MasterCard didn’t allow merchants to set limits on credit card transactions. The law trumps those rules, which are spelled out in card companies’

contracts with large retailers or restaurants or payment processing firms, Baldwin says.

## Grassroots power

The Senate voted 60-39 to approve the final version of the bill. NRA members who responded to an NRA Action Alert helped convince many previously undecided senators to support the bill. Those senators include Scott Brown (R-Mass.), Olympia Snowe (R-Maine), Susan Collins (R-Maine), Maria Cantwell (D-Wash.) and Ben Nelson (D-Neb).

The Association has worked to secure interchange reform for years with the Merchants Payments Coalition, which includes 30 state restaurant associations and 200 other organizations.

## Credit/Debit Card Reform Q&A

### EFFECTIVE DATES

**Q:** *When does the law take effect?*

**A:** The new federal rules took effect July 22, the day after President Obama signed the financial reform bill into law. They allow merchants to set minimum amounts for credit card transactions (not to exceed \$10 per transaction) and provide discounts to guests who pay by check, debit or credit card or cash.

**Q:** *What happens next?*

**A:** Over the next several months, the Federal Reserve will evaluate debit card interchange rates to determine whether they are reasonable and in proportion to the costs incurred by issuing banks with at least \$10 billion in assets. Smaller banks are exempt. The Federal Reserve has until April 2011 to issue regulations that establish standards for those fees. The regulations will go into effect in July 2011.

### CREDIT CARD MINIMUMS

**Q:** *Can I now set a minimum level for credit card transactions?*

**A:** Yes. As of July 22, card companies no longer can stop merchants from setting minimum credit card transaction levels. However, you can’t set a minimum transaction level higher than \$10, such as \$15 or \$25 for credit-card sales. And you can’t differentiate between bank issuers or card networks. For example, you can’t set a \$10 minimum to use a Visa card but not require the same minimum for Discover transactions.

**Q:** *Does the law allow merchants to set the \$10 minimum on debit card purchases?*

**A:** The credit-card transaction limit applies only to payments made by credit cards, not debit cards.

**Q:** *Are merchants required to set credit-card minimums?*

**A:** No. Restaurants and other merchants are not required to set a minimum payment for credit card use. Setting a minimum level is optional.

### PAYMENT DISCOUNTS

**Q:** *What are the new rules on providing discounts for guests who pay by cash, check, debit or credit cards?*

**A:** Starting July 22, merchants can offer customers discounts for payments made with cash, checks, debit/check cards or credit cards. Merchants must clearly disclose the practice and offer the discount to all customers. In the case of discounts for debit and credit card payments, you can’t differentiate between bank issuers or card networks.

**Q:** *Are merchants required to provide discounts for guests who pay by cash, check or debit card?*

**A:** No. It is optional for restaurants to provide a discount for a particular form of payment.

**Q:** *Can guests request discounts if they use cash? If they do, must the restaurant provide the discount?*

**A:** A customer can’t request discounts for cash payment unless the restaurant offers it to all customers.

### POSTING

**Q:** *Are restaurants required to post their policies or minimum spend amounts and discounts?*

**A:** Other than complying with existing laws on pricing displays, the new law doesn’t provide guidance on posting policies for discounts and minimum credit amounts.