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**Implications of the Proposed Credit Card Competition Act of 2023:  
How Durbin 2.0 Could Adversely Impact Credit Unions**

A White Paper

By

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Originally published in 2023, Samaha & Associates has released an updated version of this white paper, which includes the latest industry data as of February 2025.

## Introduction

The Credit Card Competition Act of 2023 (a.k.a. Durbin 2.0) currently being debated in Congress applies to credit-issuing financial institutions with assets over \$100 billion. At the crux of this controversial legislation are merchant-related fee changes and new protocols for card issuers. If the bill were to become law, the rippling effects could adversely impact credit unions and community banks.

The bi-partisan bill was first introduced in 2022 by Senator Richard Durbin (D-Illinois) and Roger Marshall (R-Kansas). When the proposed legislation failed to pass, it was reintroduced in June 2023 with additional bipartisan sponsors. The Federal Reserve Board is currently reviewing Durbin 2.0 requirements, which will likely impact when the legislation is put forth for a vote.

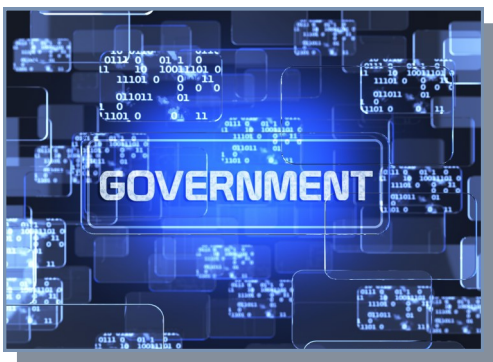
As of February 2025, the bill remains in the Senate Banking Committee and the House Financial Services Committee with no scheduled vote. In a recent statement, Senator Durbin blamed the “aggressive” opposition of Visa, Mastercard, American Airlines, and United Airlines for the failure of his bill to gain traction.

## Lessons from Dodd-Frank

To better understand the possible implications of Durbin 2.0 on the credit card industry, it’s important to study the impact that the Dodd–Frank Wall Street Reform and Consumer Protection Act has had on debit cards.

Soon after Dodd-Frank was passed in July 2010, the Durbin Amendment was adopted requiring the Federal Reserve to limit fees charged to retailers for debit card processing, which had negative repercussions on the debit card industry. Take, for example, research findings from The University of Chicago’s report, *The Impact of the U.S. Debit Card Interchange Fee Caps on Consumer Welfare: An Event Study Analysis* (2013).

“The cost to merchants of taking payment on debit cards declined by more than \$7 billion annually as a result of the Durbin Amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, while the effective cost to issuers of providing debit card services to consumers increased by a corresponding amount,” the report noted.



**If the Durbin 2.0 were to become law, the rippling effects could adversely impact credit unions and community banks.**

Supporters of Durbin 2.0, conversely, believe that the legislation will create more competition between credit card networks and limit merchant discount fees, while providing more savings to the American consumer by breaking up the Visa-Mastercard duopoly. In a summary of the proposed legislation, Senator Durbin offered the following data points to support passage:

- Visa-Mastercard controls over 80 percent of the U.S. credit card network market – more than 576 million cards. Every time a Visa or Mastercard credit card is swiped, approximately 2% to 3% percent is deducted out of the transaction amount the merchant receives (a merchant typically ends up receiving \$98 or \$97 on a \$100 sale).
- In 2022, Visa, Mastercard and respective card-issuing banks charged merchants a total of \$93 billion in credit card fees that were passed onto consumers in the form of higher prices at the grocery store and gas pump, among other retail market increases.

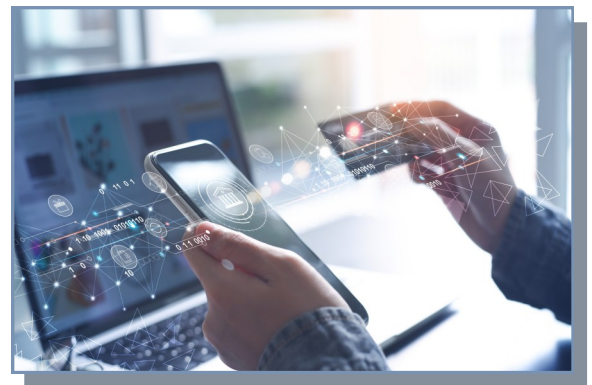
Support for Durbin 2.0, however, wasn't evident in a November 2024 letter penned by Jim Nussle, president and CEO of America's Credit Union. The missive was sent in advance of a hearing, Breaking the Visa-Mastercard Duopoly: Bringing Competition and Lower Fees to the Credit Card System.

"We would like to express the extreme disappointment of our nation's over 4,000 credit unions that a hearing on a topic so important to the industry and the nearly 141 million credit union members in America is being held without a representative of credit unions invited to participate. It is critical for members of the Committee to hear about how government price caps on interchange have harmed working class credit union members. As such, we urge Committee members to view any discussion on interchange and the impact on community financial institutions at this hearing as incomplete," Nussle wrote.

"Credit unions are committed to serving their members and, as such, must be able to make a reasonable return on payment card programs in order to continue to provide important consumer financial services, such as free checking accounts and member help lines when data breaches occur. The proposed changes to the credit card interchange system from the Credit Card Competition Act would have a devastating impact on credit unions and their ability to serve their members," Nussle continued. "If enacted, big box retailers would win and the American consumer would lose. We urge you not to let that happen."

## The Complexities of Dual-Network Routing

Under Durbin 2.0, every credit card transaction will require two unaffiliated networks to route transactions (one of them cannot be Visa or Mastercard). This would require large banks (more than \$100 billion in assets) to select a second competitive unaffiliated network for their credit cards, including, but not limited to, Pulse, NYCE and STAR. The merchant would choose which of those networks to use to process a transaction. Durbin 2.0 proponents contend that by allowing merchants to choose between two unaffiliated networks, the result would be improved service and lower costs.



Two leading dual-network provisions:

- Network exclusivity: Financial institutions will be required to provide a second unaffiliated network.
- Routing restrictions: An issuer or card network will be prohibited from limiting or directly routing merchant transactions over an issuer-enabled network.

The practical implications of this approach, however, are complex and surround the infrastructure of dual-network routing. The point-of-sale devices at the merchant location, for instance, may require programming for two networks. While banks operating with less than \$100 billion would be exempt from the law, costly structural changes to credit card chip technology could likely trickle down to mid-size banks, community banks and credit unions.

The Federal Reserve recently expanded Regulation II of Durbin 2.0. New mandates include that “card-not-present transactions” (such as online purchases) must also be processed on at least two unaffiliated networks. This change intensifies compliance requirements, particularly for smaller institutions, and increases concerns about the financial burden on banks and credit unions.

In certain cases, banks and credit unions could incur the following six point-of-sale (POS) terminal upgrade costs:

1. Hardware: Existing POS systems may need to be upgraded or replaced to support transactions through multiple unaffiliated networks, which involves purchasing terminals compatible with the new requirements.
2. Software: Updating software to enable dual-network routing will require development and testing, which may involve both direct costs and the costs associated with downtime during updates.
3. Programming and Integration: Integrating the dual-network capabilities into existing systems often requires specialized programming.
4. Training: Training will be required to effectively use the upgraded systems and processes.
5. Maintenance and Support: Due to the complexity of managing multiple networks and ensuring compliance with the new regulations, ongoing operational and maintenance costs may increase.
6. Compliance: There could be costs associated ensuring upgraded systems meet regulatory requirements, including security standards.





## Understanding Payment Flow

When a credit union or bank issues a credit card to a member or customer, the member or customer transacts at a merchant's physical or virtual location. The merchant's acquirer will then route the transaction via a network to an issuer that processes and authorizes the transaction on behalf of the cardholder's credit union or bank. The merchant then incurs a cost (a discounted fee) distributed amongst the acquirer, network and issuer. Research findings published in *The Journal of Economic Perspectives* (2024) noted impacts of Durbin 2.0 on consumer spending habits, including that while some merchants could benefit from reduced fees, consumers could also face higher costs if issuers cut rewards and credit limits. Under current laws, the transaction is sent via a single route because the financial institution's identification number (BIN) that is assigned to the issuer is most likely tied to either Visa or Mastercard. Under the proposed legislation, a multi-network routing framework would require that a transaction take the single network route via a different network at the discretion of the merchant or the customer at the point of payment. Issuers would be responsible for ensuring these transactions are routed through two unaffiliated networks.

Changes to existing technology platforms could require entire ecosystem upgrades and the need for a third party to oversee implementation and related project management oversight. Potentially, issuers could be required to reissue their credit cards with updated technologies. Additionally, there could be a potential loss in revenue from interchange should these transactions route through the second network.

## Six Potential Impacts of Durbin 2.0

- 1. Changing Card Technology:** While the proposed law is aimed at financial institutions of \$100 billion in assets and above, credit cards issued today run on one network. Thus, under Durbin 2.0, every issuer, regardless of asset size, may need to upgrade systems to support the additional unaffiliated network. If the entire ecosystem is upgraded to support two unaffiliated networks, for example, all card issuers may need to reissue their entire card portfolio to allow the two networks to operate on a single card.
- 2. Fraud:** With the bulk of the current fraud cases resulting from card-not-present (CNP) transactions, under the proposed legislation fraud rates, and related operational costs, could potentially increase. Additionally, the industry standard "zero liability" offered by Visa and Mastercard could no longer be available to financial institutions. Thus, any network that processes card transactions could be held accountable to a yet-to-be-determined standard for fraud protection and data security.
- 3. Access to Credit:** If the proposition is passed, some credit card volume could be routed through a second unaffiliated network with transactions potentially clearing at a lower cost. As such, financial institutions could lose non-interest income revenue, which, in turn, may cause financial institutions to lower credit limits.

**Changes to existing technology platforms could require entire ecosystem upgrades and the need for a third party to oversee implementation and related project.**

4. **Removal of Rewards:** Currently, consumers and members enjoy using the vast benefits of credit card loyalty reward programs. Under the new proposition, there could be an impact to non-interest income from interchange fees, consequently, this may eliminate rewards program benefits due to revenue losses. As a result, merchants may be impacted as consumers could adjust spending habits when rewards are removed.

5. **Cost of Consumer Goods:** According to Regulation II (Debit Card Interchange Fees and Routing) from the Board of Governors of the Federal Reserve System, offered data demonstrates that despite “so-called” exemptions for community banks and credit unions, interchange revenue for these entities has decreased. Additionally, the report found that “the exemption was not adjusted for inflation, so the banks impacted by these restrictions are now smaller than originally intended back in 2011.”

6. **Data Security:** While Visa and Mastercard have are widely trusted by consumers, under the proposed legislation, Visa and Mastercard may not have the opportunity to participate as a network causing concerns over the security of consumer and member data. Smaller networks, for example, may have fewer fraud protection measures. Additionally, if there is a data breach, the proposed legislation doesn’t indicate if the issuers or acquirers will be held responsible.

## Parting Thoughts on the Credit Card Competition Act

Given the magnitude and complexity of the Credit Card Competition Act, both credit union senior leaders and members should understand the bill’s proposed language and potential impact. While the fate of Durbin 2.0 remains unclear, the concerns raised by the bill’s opponents around data security, fraud, access to credit, changing card technologies and removal of reward programs remain critical topics actively being debated.



What remains clear is that passage of Durbin 2.0 would mandate significant changes for financial institutions, including credit unions whose leaders are vested in educating, advocating and propelling the industry forward for the enrichment of its members. By proactively planning for the forecasted Durbin 2.0 changes with an experienced technology consulting firm, credit union executives can be assured that any required change to their fundamental card operations will be a streamlined, successful process.

*Celebrating its 27th anniversary, the Miami, Fla.–based Samaha & Associates, Inc. is a nationally recognized technology-driven consulting group. Our team of seasoned professionals work collaboratively with financial institutions to develop, manage, and execute technology related optimization strategies. We specialize in vendor searches, negotiations, and comprehensive end-to-end implementations for core systems, cards and payment systems, digital banking, lending systems and much more. Our services extend to mergers and acquisitions, process improvement and implementations, revenue optimization, comprehensive technology planning, business resumption planning and special projects. Samaha & Associates exceeds expectations by creating a tailored approach to technology solutions that ensure seamless and successful outcomes for our clients.*



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