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First Data Market Insight

What to Do Next: A Post-Durbin Checklist for Financial Institutions with Less than \$10B in Assets

On June 29, 2011, the Federal Reserve Board (FRB) released the final regulations pertaining to Section 1075 (the Durbin Amendment) of the Dodd-Frank Wall Street Reform Act. Because most of the provisions take effect on October 1 of this year, financial institutions must act quickly to achieve compliance and take the necessary strategic steps to minimize any negative impact on their business and position themselves for the future.

The following are brief summaries of the key provisions of the new regulations, as well as recommendations for responding to them.

This document pertaining to Section 1075 of the Dodd-Frank Wall Street Reform & Consumer Protection Act and its proposed regulations does not constitute legal advice and does not create any attorney-client relationship.

Because of the generality of this summary, the information provided may not apply to your business, should not be treated as legal advice, and should not be acted upon without specific advice from your legal counsel based on the facts and circumstances of your particular situation.

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Network Exclusivity

Effective Date: October 1, 2011 for networks and April 1, 2012 for issuers

Final Regulations: Debit card issuers must participate in two unaffiliated networks without regard to the authorization method (e.g., one signature network and one unaffiliated PIN network, two unaffiliated PIN or signature debit networks).

Applies to: All debit card issuers and general purpose reloadable prepaid issuers, regardless of asset size

Actions for Debit Issuers:

- ✓ Add another PIN debit network, if necessary. Institutions that currently work with a single debit network provider (i.e., Visa/Interlink or MasterCard/Maestro) need to add a second unaffiliated debit network to their existing arrangement. While the regulations do not stipulate the need to replace a network, institutions should consider the potentially significant economic benefits yielded by a network replacement strategy. Selecting a new PIN debit network is an important strategic decision that should take into account many considerations, including merchant acceptance, operational capacity and performance, fraud mitigation, and innovation capabilities and overall strategic value.
- ✓ Take action now. While issuers don't have to comply with the multiple network requirement until April 1, 2012, networks will not be able to enforce existing exclusive arrangements or enter into new exclusive arrangements as of October 1. Further, the network contracting and implementation timeframes require ample lead-time to ensure timely compliance and management of customer and business risk. Take advantage of the extra time to fully research other networks' product offerings and become a member this year to ensure everything is in place before the April 1, 2012 deadline. (see timeline on p. 3)

Merchant Routing

Effective Date: October 1, 2011

Final Regulations: Merchants allowed to control the routing of debit card transactions (limited to the payment card networks enabled on the debit card).

Applies to: Merchants

Actions for Debit Issuers:

- ✓ Issuers should seek out network partners that have strong relationships with merchants and that offer nationwide acceptance. Merchant relationships and acceptance will become increasingly important in the post-Durbin marketplace, so issuers should seek partners that have experience working with all industry stakeholders and a history of expanding PIN debit acceptance and utility (e.g., new verticals, new access methods).

Debit Interchange Rates

Effective Date: October 1, 2011

Final Regulations: Debit interchange composed of a base component capped at \$0.21 per transaction, plus an ad valorem component of 5 basis points on the total transaction value (to offset a portion of each issuer's fraud losses).

Applies to: Only financial institutions with assets greater than \$10 billion

Fraud Standards

Effective Date: October 1, 2011

Interim Final Regulations: Proposes a fraud prevention adjustment to the debit interchange cap of \$.01 per transaction if an issuer meets general fraud prevention standards. (Comments due September 30, 2011)

Applies to: Only financial institutions with assets greater than \$10 billion

Network Exclusivity Compliance Timeline

YOUR TIMELINE FOR STRATEGIC AND COMPLIANCE DECISION-MAKING AND IMPLEMENTATION



July '11 | Aug '11 | Sept '11 | Oct '11 | Nov '11 | Dec '11 | Jan '12 | Feb '12 | Mar '12

Effective October 1, 2011:

- Interchange cap
- Circumvention of interchange
- Fraud adjustment to interchange cap
- Merchant routing
- End of network-imposed exclusivity arrangements

***Implementation Components:**

- Detailed implementation planning
- FI debit volume projections
- Core banking processor readiness
- Telecomm configuration & orders
- Debit processor capacity & readiness
- Debit network capacity & readiness

Effective April 1, 2012:
Issuer compliance with network exclusivity

Network configurations differ and may impact your timetable