



On-street Parking in the Post-Durbin Amendment Era

By Michael Mintz

D O YOU KNOW WHAT A REGULATED DEBIT CARD IS? Prior to October 1, 2011, the term didn't exist. Regulated debit cards are the main reason your on-street parking operations merchant processing account has an overall processing rate, or "effective rate," of 8 to 10 percent or more.

A regulated debit card is a debit card attached to a checking or savings account that was issued to an individual by a bank having more than \$10 billion of assets. Basically, any debit card issued by one of the large U.S. financial institutions falls into this regulated debit card category, which means all of your customers using debit cards have them. They represent a significant majority of the electronic payment cards (Visa, Mastercard) used at on-street parking operations in the U.S.

On October 1, 2011, the cost of accepting a regulated debit card at your on-street parking locations—where the average meter transaction is \$10 or less—changed significantly, and not for the better.

The Durbin Amendment is the reason for this change.

The Heart of the Matter

Some basic terms to understand:

- Card association: Visa and Mastercard.
- Interchange fee: Also called Interchange Reimbursement Fee, this is the largest cost component to any merchant that accepts debit/credit cards from customers. It consists of an interchange rate and interchange per-item fee. The entire interchange fee is paid to the issuing bank.
- Interchange per-item fee: A fixed fee per transaction that gets paid to the issuing bank.
- Interchange rate: Percent of the total transaction that gets paid to the issuing bank. Interchange rates and interchange per-item fees are set by the card associations. Merchants and credit card processors do not have any control over interchange fees.

- Issuing bank or issuer: Cardholder financial institution. The customer uses his or her debit card at your single-space or multi-space meter.
- Merchant: A business entity that accepts credit/debit cards from customers for payment of goods and services.
- Small-ticket transaction: Credit/debit card transaction for \$15 or less.

The chart below will show you the pre- and post-Durbin interchange fees to accept a regulated debit card on a \$1, \$2, \$3, and \$4 transaction:

Debit interchange rate pre-Durbin^[1]
= 1.55 percent

Debit interchange rate post-Durbin^{[2][3]}
= 0.05 percent

Debit interchange transaction fee pre-Durbin^[1] = \$0.04

Debit interchange transaction fee post-Durbin^{[2][3]} = \$0.22

Transaction Amount	Interchange Fee = Interchange Rate PLUS Per Item Cost Pre-Durbin ^[4]	Pre-Durbin Effective Rate (Interchange Fee divided by Transaction Amount)	Interchange Fee = Interchange Rate PLUS Per Item Cost Post-Durbin ^[4]	Post-Durbin Effective Rate (Interchange Fee divided by Transaction Amount)
\$1	\$0.06	5.55 percent	\$0.22	22.05 percent
\$2	\$0.07	3.55 percent	\$0.22	11.05 percent
\$3	\$0.09	2.88 percent	\$0.22	7.38 percent
\$4	\$0.10	2.55 percent	\$0.22	5.55 percent

Depending on the size of your on-street parking operations, this post-Durbin increase in interchange fees has driven your all-in effective rate for accepting electronic payments on these small-ticket debit transactions close to or higher than 10 percent. If your average ticket at your parking meters is less than \$1, your processing fees could be very close to the amount you are charging your customers to park their cars.

Calculating Your Effective Rate

Here is a very simple way to check your month-end credit card processing statement and calculate your all-in effective rate on your merchant account:

1. Identify the merchant account your on-street parking operations go through. If you are unsure, call your meter hardware provider and ask them for the merchant I.D. number attached to your account.
2. Pull a recent month-end statement for this merchant account.
3. Find two important numbers that are usually on the first page: total fees paid in the month to the merchant processor and total transaction dollar volume in the month.
4. Divide total fees paid in the month by total transaction dollar volume in the month.
5. Multiply that calculation by 100.
6. That is your all-in effective rate.

Remember, the lower your parking meter average ticket amount is, the higher your all-in effective rate will be post-Durbin.

The high cost of accepting electronic payments from customers may have caused some municipalities and universities to think twice about installing credit and debit card readers at their meters. Implementing pay-by-phone solutions may have been delayed for the same reason. This decision comes at a high price, as your customers are expecting more alternative methods of payment to cash and coin.

Think about it: How many of you pay for your \$2 or \$3 coffee in the morning with a debit card? What about the newspaper and pack of gum for \$3?

The bottom line is this: The U.S. population is moving more and more toward not carrying cash. People walk out of their house or apartment with their smartphone, car keys, and a debit or credit card.

The parking industry has come a long way in providing these types of services to its customers. Advancements in technology now provide a way to conduct transactions in a secure environment that is compliant with the Payment Card Industry Data Security Standard, known as PCI. The conversion from cash and coin to electronic payments is the way of the future. To continue to advance, the merchant processing

costs to municipalities and other on-street parking operators must be kept at a reasonable level. ♦



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References

1. Visa CPS/small-ticket debit interchange category as per Visa interchange programs and rate schedule (Effective April, 2011)
2. Visa CPS/retail, debit—regulated Visa check card as per Visa USA interchange reimbursement fees as of April 2016.
<https://usa.visa.com/dam/VCOM/download/merchants/visa-usa-interchange-reimbursement-fees-2016-april.pdf>.
3. Issuers that certify to Visa their compliance with the interim fraud prevention standards will receive an additional \$.01 as per Visa USA interchange reimbursement fees as of 2016. The table above assumes the additional \$.01.
4. Does not include any other fees, including but not limited to dues and assessments, network fee or profit to acquirer/processor/ISO.
The table shows only the “pure” interchange fees paid to the issuing bank.

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