

## Debit or Credit

by [Steve Brown](#)

There is an alternative coming soon to all those cards that make your wallet a fat, ungainly beast. A San Francisco startup called Coin has introduced an all-in-one card that can store information from every card in your wallet. Information from multiple cards is accessed with a magnetic strip that changes depending upon which card you intend to use. Your information then syncs through a smartphone app. Your phone will even let you know if you leave your card behind at a restaurant and the card is disabled if it is away from your phone for more than 10 minutes. We have mixed feelings about the last part and still wonder what happens if you forget to charge your phone and it goes dead. Can this technology work with international chip and pin cards? We are sure some of those questions will work themselves out as the card gains users and experience. For now, Coin is open for preorders for \$55 with expected delivery in summer 2014 - sounds interesting.

Speaking of interesting and cards, we were buying a few items at a favorite local business the other day and gave the cashier our good old-fashioned debit card. The cashier asked "debit or credit" to which we replied "which is better for you"? The sales associate who just moments ago had demonstrated above average knowledge and ability replied "I don't really know as I only work here." In our travels, we have come across local businesses that can't process debit cards with a PIN and instead run every card as a credit card.

Now, we've always had the impression that it is significantly more expensive for a business to run credit charges on a debit card than with a PIN, but we spoke to a credit/debit card provider about the differences and it turns out that it's not that simple. In fact, nothing about debit cards and merchant transaction costs is simple. One rule of thumb applies generally, and that is a threshold around \$50. For charges less than that, there is probably no savings in running the transaction with a PIN. For charges larger than that, it is beneficial for the merchant to run the transaction with a PIN. With that knowledge, it now makes sense for certain businesses to not have a PIN pad - like a convenience store where the transactions are small.

If your bank offers merchant services, it seems like a good outreach to offer training on the pluses and minuses of PIN transactions to your existing merchant service customers. Are you interested in growing that line of business? Offer to train other small businesses in your customer footprint.

We were poking around consumer finance-for-dummies-type web sites to see what they had to say about debit versus credit. They acknowledge that there is no difference in how the money comes out of your account when you use a debit card, regardless of whether it is run as a debit or credit. But the "common knowledge" approach is that consumer should prefer the charge is run as a credit unless the customer is making a cash withdrawal. The reasoning is that there are stronger fraud protections. In reality, the fraud protection on a debit card is identical regardless of whether the charge is run as a debit or credit as mandated by law and common practice.

Once again, there is a certain amount of misinformation or lack of information around, so bankers need to be a resource for their customers, both business and retail.

## BANK NEWS

## **Detroit**

BK filings show 40% of street lights don't work, the population has fallen 63% since 1950 and the assessed property value has declined 77% in the past 50Ys. Yesterday a judge ruled the city could file for bankruptcy.

## **M&A**

NCR will acquire mobile banking provider Digital Insight for \$1.65B, picking up 1,000 financial institutions, 12mm online banking users and 5mm mobile banking users.

## **Pricing**

Hovde research finds average M&A deal pricing has been 1.10x to 1.15x tangible book over the past 5Ys.

## **Huge Number**

S&P says US banks could face up to \$100B in litigation fees to settle mortgage related issues.

## **Loan Growth**

Regulators are warning banks exhibiting faster than average loan growth to be sure to have controls in place to handle it. Areas of focus include increased interest rate risk, related underwriting terms, aggressive pricing, expertise, credit concentrations and ALLL methodologies.

## **Faster**

The Fed is proposing moving posting times for ACH debit transactions processed overnight from 11:00am ET to 8:30am ET (to coincide with the posting time for credits), posting commercial check transactions at 8:30am ET, 1:00pm ET and again at 5:30pm ET and is requesting comment on establishing a same-day ACH service.

## **Branches**

Research by Novarica finds 74% of consumers surveyed say they can imagine a time when they will bank 100% digitally. Other findings: 82% of this group said they must have mobile check deposit, 80% said they must have mobile banking and 66% said they must have free printed checks.

## **Consumers**

Regulators are warning banks to maintain efforts to comply with BSA/AML, evaluate the applicability of new and existing rules, implement appropriate processes and controls, have strong internal audit coverage and develop effective staff training programs.

## **Margins**

The latest FDIC data shows net interest margins for banks have fallen to 3.26%, the lowest level since 2006 and well off the peak of 3.84% in 2010. NIM has declined 13 of the past 14 quarters.

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