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Federal Reserve Surveys Show U.S. Consumers Have Grown to Love Their Debit Cards

Most Popular Retail Payment Choice Has Displayed Steady Growth and Staying Power, Especially with Young People

BOSTON – August 4, 2011 – Old habits usually die hard. But when high technology, money, and personal financial decisions enter the discussion, traditional behaviors can and do give way to new ones. Case in point: the debit card, now one of the American consumer’s favorite methods of making payments for retail purchases. Although the new rule on debit card interchange fees—effective on October 1 of this year—might change the current picture, for now debit card is the most common consumer payment method.

The three most recent annual Surveys of Consumer Payment Choice (SCPC) conducted by the Federal Reserve Bank of Boston’s [Consumer Payments Research Center](#) (CPRC) reveal that consumers have made more payments per month with a debit card than with any other method. The table below shows that the share of payments made with a debit card has remained relatively constant while cash showed a significant one-year increase and payments by check and credit cards have declined.

Percent Shares of Payments in a Typical Month, by Type of Payment Instrument

	2008	2009	2010	Share Changes	
				08-09	09-10
Debit Card	30.8	29.2	31.7	(1.5)	2.4
Cash	20.8	28.2	28.9	7.4	0.7
Credit Card	21.1	17.3	17.5	(3.8)	0.3
Check	13.9	12.7	10.3	(1.3)	(2.4)
All other instruments*	13.4	12.6	11.6	(0.8)	(1.0)

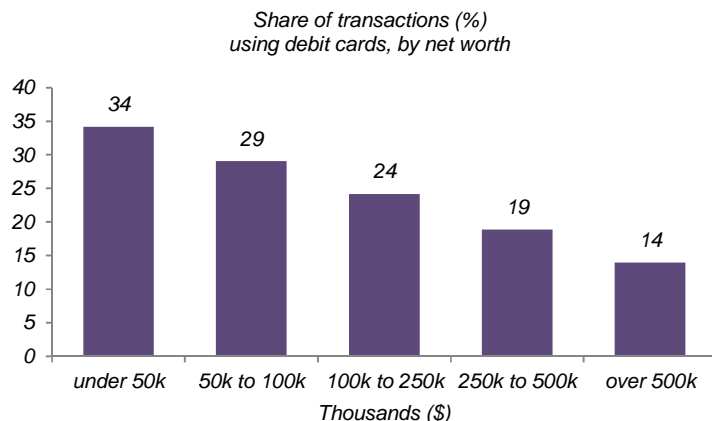
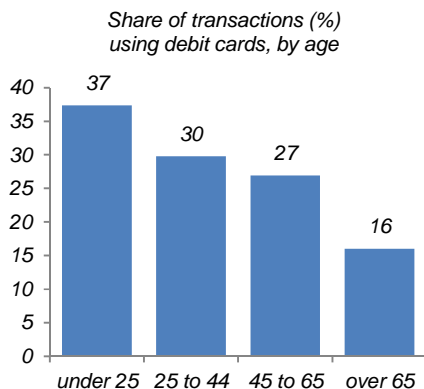
*Money Order, Prepaid Cards, Online Bill Payment, Bank Account Number Payment, Direct Deduction from Income

Approximately 81 percent of respondents to the Boston Fed’s most recent survey have a debit card. Possessing a debit card does not mean that a consumer always uses it, however. Approximately 17 percent of debit card holders are not considered “users”, because they did not make any debit transactions in a typical month.

Young People, Still Building Net Worth, Grew Up with Debit Cards; Older Consumers Had to Be Won Over

In the period from 2000-2010, paper-based payment methods, especially checks, began to give way to electronic means. Based on the [tri-annual Federal Reserve Payments Study](#) conducted by the Federal Reserve Board, the total number of debit card payments in the U.S. increased from 8.3 billion to 37.9 billion, or by approximately 18% a year.

The younger and less wealthy the consumer, the more he or she relies on debit cards for transactions, as the following charts show, using data from the 2009 SCPC. The survey found no significant differences when segmented by race or gender.



A recently published [study](#) based on the 2008 CPRC survey by Columbia University law school professor Ronald J. Mann expands on the above figures. He points out that consumers' age exerts strong influence over their choice of payment instrument. Older people, he finds, are significantly less likely to hold or to use debit cards, even when controlling for other attributes, such as race, income, or education.

Changes in Market Conditions Bring Consideration of Alternative Payment Methods

The new rule on debit card interchange fees, announced by the Federal Reserve Board on June 29, 2011, limits the interchange fees on debit card transactions to approximately 24 cents per transaction for banks with assets over \$10 billion, down from about 44 cents per transaction currently. Because banks stand to lose revenues when the interchange fee rule becomes effective, it is possible that they raise fees, either on consumer bank accounts more broadly, or specifically on debit cards, to recover their losses. The Boston Federal Reserve's survey shows that 28 percent of consumers who had a debit card in 2010 did not have a credit card. But in the under-45 population, 35 percent of debit-card holders did not also have a credit card. That indicates that any potential shifts in payment behavior might vary substantially by demographic group.

According to [Joanna Stavins](#), Senior Economist and Policy Advisor at the CPRC, the debit card's popularity is likely to remain high: "Our preliminary research indicates that any movement away from debit cards to other payment instruments—due to actual or perceived increases in debit card fees—will probably be mainly to credit cards, but the shift might be distributed among other payment instruments as well. Payment instruments like prepaid cards and cash might also show some compensatory increases. Specific response by consumers will strongly depend on the type of price change, for example whether banks raise fees on debit cards specifically, or on bank accounts more broadly."

Convenience and Security Rate High with Debit Card Users

SCPC respondents rated security and convenience as the two most important aspects of their payment instruments in 2009. That suggests that consumers are interested in a secure yet simple payment experience, delivered by plastic cards in retail settings. Debit cards remained popular even when costly overdraft fees became an issue a few years ago and resulted in the Federal Reserve's limits on banks' ability to assess overdraft fees on debit card transactions in July 2010. As Susanne Kapner pointed out in the *Financial Times* of February 23, 2011, a majority of consumers, given the choice to opt-in and, if necessary, pay overdraft fees rather than be unable to make a purchase, chose to opt-in.

"It's always tricky to predict the future, especially in such a dynamic, technology-sensitive environment as consumer payment preferences. But we expect that direct debits from accounts, whether made with a plastic card or with a direct withdrawal from a bank account, are likely to stay," said Joanna Stavins.

About the Consumer Payments Research Center

The Consumer Payments Research Center was established at the Federal Reserve Bank of Boston in 2004 to learn more about the demand side of the payments market, especially by studying the behavior of end users of payments, including individuals, households, firms, and government. A unit of the Bank's research division, the Center conducts economic research and evaluates and develops public policies for the benefit of citizens, companies, and organizations that rely on America's banking institutions and payments system.

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