

Card Payments Industry

Industry Insights

September 2026

Will a Material Decline in Debit Interchange Threaten Community Bank Survival?

While community banks are exempt from the Durbin interchange cap, they remain vulnerable to market forces that could drive a material decline in debit interchange. And if a material decline occurs, our analysis estimates 12.5% or more community banks could be forced to exit the industry. The effects would be far reaching with potential economic disruption in rural, underserved, and other communities, reduced lending, limited banking options and services, and higher costs for community participants.

Merchants have and will continue to pursue strategies to lower debit and credit card interchange. Large merchants, trade associations, and others aggressively lobbied the Federal Reserve in an attempt to drastically lower non-exempt debit interchange. This outcome is currently on hold as courts resolve appeals and conflicting rulings related to merchant driven litigation, particularly Corner Post, Inc. and Linney's Pizza, LLC. However, the Corner Post ruling, should it prevail, would dramatically change the industry and could cause a 70% or larger decline in non-exempt debit interchange.

Community banks will not be protected and certainly are not protected in any meaningful way today. Once non-exempt debit interchange falls by a substantial amount (whether by litigation outcome and/or Federal Reserve rule), there is no rational reason large merchants, trade associations, or others will support a considerably higher community bank interchange rate. As such, market forces left unchecked will drive a corresponding material decline in community bank debit interchange.

McGovern Smith analyzed year-end 2025 community bank regulatory filings (see Appendix for additional detail). The objective was to narrow the data such that reported interchange data (for those required to report) could be a reasonable estimate or proxy for debit interchange. The data set had 2,201 community banks that reported interchange information and 1,776 community banks that did not. The results of the reported interchange data were applied to the interchange not reported data to arrive at market estimates.

Community Bank Data Set (Under \$10B in Assets) ¹						
Pre-tax ROA	Reported Interchange		Not Reported		Total	
	# of Banks	%	# of Banks	%	# of Banks	%
< 0%	48	2.2%	142	8.0%	190	4.8%
0% to 0.5%	134	6.1%	184	10.4%	318	8.0%
0.5% to 1.0%	416	18.9%	380	21.4%	796	20.0%
> 1.0%	1,603	72.8%	1,070	60.2%	2,673	67.2%
	2,201	100.0%	1,776	100.0%	3,977	100.0%

Our analysis focused on community banks with a pre-tax return on assets (ROA) of 1.0% or less. These banks generally have underperforming assets, very high efficiency ratios, and limitations in their ability to respond to a systemic decline in net income. We arrived at our estimates based on the following:

¹ Data excluded (among others) banks that self-issue credit cards, subsidiaries or affiliates of over \$10 billion asset banks, trust and investment companies, and non-retail banking entities.

Severally Underperforming Community Banks (Less than 0% ROA)

Every year, there is a segment of community banks that severally underperform generating a negative ROA. In 2025, 190 community banks had a negative ROA the majority of which had underperformed for multiple years. The banks largely remained in the industry and were not considered at risk of failure or an imminent threat of failure by the FDIC². Under normal circumstances, these banks are generally allowed to recover even if it takes several years to do so.

With a material decline in debit interchange, these banks cannot withstand the systemic impact as the time horizon for recovery to an acceptable ROA gets extended further or may no longer be attainable. Unable to rationalize costs or operations to offset the revenue decline (which will flow straight through as a decline in net income) or effectively grow revenue and net income due to severally underperforming assets, the result will be 4.8% of community banks could be forced to exit the industry.

Underperforming Community Banks (Between 0% and 0.5% ROA)

The analysis identified 188 community banks that underperformed in 2025 with an ROA between 0% and 0.5%, had an efficiency ratio over 75%, and had debit interchange that was 25% or more of the bank's net income. These banks were also smaller with over 75% having assets under \$500 million.

A decline in debit interchange would have a disproportionately greater impact on these banks given the higher share of net income debit interchange represents. And without the ability to rationalize costs or operations (bank-wide or at the debit program level) or sufficiently grow revenue, each will face continued financial pressure and degradation of shareholder value.

While many may not have practically considered exits in the past, especially those in rural or underserved communities, a systemic material decline in debit interchange and the associated hit to net income would likely be the final straw. Remaining independent risks regulatory intervention that could further diminish or, in a worse case, eliminate shareholder value if placed into receivership. The rational path forward would likely be to exit via a sale process to optimize available shareholder value. The result being another 4.7% of community banks could be forced to exit the industry.

Vulnerable Community Banks (Between 0.50% and 1.0% ROA)

In 2025, we identified 119 vulnerable community banks (mainly under \$500 million in assets) that had an efficiency ratio over 75% and debit interchange that was 25% or more of the bank's net income. While in theory they have slightly more breathing room than the community banks in the prior segment, they still do not have the ability to offset a systemic material decline in debit interchange and net income. And since dividends paid to shareholders are much more prevalent in this segment, a systemic decline in net income would likely cause a systemic decline in shareholder dividends. Shareholders will evaluate their respective situations and likely determine that an exit optimizes available financial value, causing another 3.0% of community banks to exit the industry.

Market Implications

12.5% of community banks exiting the industry would cause considerable economic disruption. Many community banks serve rural areas and small towns, relying on longstanding relationships and community experiences to make lending decisions for small businesses, farms, and community participants. The farther removed from the local community lending and banking decision-makers get, community participants will likely incur reduced lending, more limited banking products and services, and

² The end of 2025, FDIC identified only 60 Problem Banks (CAMELS rating of 4 or 5) across the entire banking industry.

higher costs of banking. The reduced lending or higher cost of lending would lead to considerable economic distribution as the identified 12.5% of community banks provide lending to over 36,000 small businesses and over 10,000 farms.

However, we expect the community bank exits to be much larger than our estimates as the initial exits will likely cause a domino effect and accelerate consolidation across all community banking segments. The largest U.S. banks have considerable product, scale, revenue diversification and other inherent advantages over community banks. It will be difficult for community bank shareholders to accept systemically reduced net income or reduced dividends associated with a material decline in debit interchange and still effectively compete in the industry. Accelerated community bank consolidation would seem inevitable.

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Appendix

2025 Interchange Data Set – 2,201 Community Banks – All \$ in 000s

ROA Category	Asset Size	# of Banks	% Total	Assets	ROA	Est. Debit Interchange	Interchange % Net Inc.	Efficiency Ratio	Net Int. Income	Non Int. Income	Non Int. Expense
< 0%	\$5 to \$10B	0	0.0%	\$0					\$0	\$0	\$0
	\$1 to \$5B	10	1.8%	\$14,963,507	-0.61%	\$10,613	-11.6%	88.56%	\$432,585	\$49,453	\$426,874
	\$500 to \$1B	12	2.3%	\$8,580,471	-0.43%	\$6,688	-18.0%	104.34%	\$228,328	\$33,843	\$273,558
	\$250 to \$500	6	1.1%	\$2,480,104	-0.36%	\$2,572	-28.9%	108.52%	\$60,883	\$16,599	\$84,085
	Under \$250	20	4.1%	\$2,921,178	-1.20%	\$5,203	-14.9%	114.88%	\$86,052	\$18,962	\$120,642
	Subtotal	48	2.2%	\$28,945,260	-0.60%	\$25,076	-14.5%	97.67%	\$807,848	\$118,857	\$905,159
0% to 0.5%	\$5 to \$10B	3	4.8%	\$18,417,462	0.32%	\$6,394	10.7%	79.87%	\$330,904	\$41,931	\$297,770
	\$1 to \$5B	26	4.6%	\$42,609,150	0.29%	\$40,824	33.2%	81.76%	\$1,117,356	\$208,234	\$1,083,758
	\$500 to \$1B	31	6.0%	\$21,937,700	0.27%	\$23,294	38.9%	85.11%	\$571,463	\$93,840	\$566,243
	\$250 to \$500	40	7.1%	\$14,046,585	0.29%	\$14,342	35.8%	86.70%	\$409,701	\$64,476	\$411,123
	Under \$250	34	6.9%	\$5,054,050	0.32%	\$6,305	38.7%	85.33%	\$155,030	\$21,218	\$150,399
	Subtotal	134	6.1%	\$102,064,947	0.29%	\$91,159	30.5%	83.25%	\$2,584,454	\$429,699	\$2,509,293
0.5% to 1.0%	\$5 to \$10B	10	16.1%	\$72,781,427	0.70%	\$98,261	19.4%	75.38%	\$1,964,949	\$483,631	\$1,845,858
	\$1 to \$5B	105	18.7%	\$209,345,689	0.79%	\$274,838	16.7%	74.36%	\$5,913,257	\$1,321,935	\$5,380,248
	\$500 to \$1B	90	17.3%	\$60,323,085	0.78%	\$79,774	17.0%	76.41%	\$1,875,737	\$437,434	\$1,767,462
	\$250 to \$500	111	19.7%	\$40,656,804	0.79%	\$52,419	16.4%	75.59%	\$1,289,649	\$265,861	\$1,175,747
	Under \$250	100	20.3%	\$15,293,104	0.79%	\$20,303	16.8%	76.61%	\$518,788	\$70,968	\$451,839
	Subtotal	416	18.9%	\$398,400,109	0.77%	\$525,595	17.1%	75.10%	\$11,562,380	\$2,579,829	\$10,621,154
>1.0%	\$5 to \$10B	49	79.0%	\$348,804,484	1.75%	\$433,386	7.1%	54.06%	\$11,685,633	\$2,617,532	\$7,731,776
	\$1 to \$5B	422	75.0%	\$897,202,698	1.65%	\$1,298,819	8.8%	57.63%	\$31,355,852	\$6,687,067	\$21,924,955
	\$500 to \$1B	387	74.4%	\$273,720,064	1.68%	\$390,667	8.5%	58.90%	\$10,203,508	\$1,808,162	\$7,074,665
	\$250 to \$500	406	72.1%	\$148,551,516	1.69%	\$230,019	9.2%	59.13%	\$5,624,093	\$980,373	\$3,905,043
	Under \$250	339	68.8%	\$55,267,884	1.63%	\$86,286	9.6%	61.31%	\$2,163,238	\$308,114	\$1,515,187
	Subtotal	1603	72.8%	\$1,723,546,646	1.68%	\$2,439,177	8.4%	57.40%	\$61,032,324	\$12,401,248	\$42,151,626

2025 – All Other (No Reported Interchange) – 1,776 Community Banks – All \$ in 000s

ROA Category	Asset Size	# of Banks	% Total	Assets	ROA	Est. Debit Interchange	Interchange % Net Inc.	Efficiency Ratio	Net Int Income	Non Int. Income	Non Int. Expense
< 0%	\$5 to \$10B	0	0.0%	\$0					\$0	\$0	\$0
	\$1 to \$5B	4	2.7%	\$5,344,349	-1.25%			183.77%	\$66,300	\$4,221	\$129,593
	\$500 to \$1B	5	2.5%	\$3,788,452	-2.23%			131.91%	\$95,396	\$19,114	\$151,048
	\$250 to \$500	17	4.7%	\$6,041,055	-0.65%			113.74%	\$147,113	\$28,464	\$199,709
	Under \$250	116	11.0%	\$10,427,300	-1.14%			120.52%	\$298,525	\$107,417	\$489,253
	Subtotal	142	8.0%	\$25,601,156	-1.21%			126.49%	\$607,334	\$159,216	\$969,603
0% to 0.5%	\$5 to \$10B	0	0.0%	\$0					\$0	\$0	\$0
	\$1 to \$5B	8	5.5%	\$13,932,172	0.29%			84.92%	\$296,853	\$50,458	\$294,922
	\$500 to \$1B	16	8.0%	\$12,219,626	0.31%			73.84%	\$308,838	\$103,520	\$304,503
	\$250 to \$500	34	9.4%	\$11,929,510	0.33%			87.78%	\$334,404	\$43,412	\$331,651
	Under \$250	126	12.0%	\$13,178,996	0.29%			88.24%	\$362,463	\$57,084	\$370,212
	Subtotal	184	10.4%	\$51,260,303	0.30%			83.57%	\$1,302,558	\$254,474	\$1,301,288
0.5% to 1.0%	\$5 to \$10B	1	5.3%	\$7,282,712	0.79%			71.66%	\$205,115	\$81,682	\$205,522
	\$1 to \$5B	29	19.9%	\$53,854,544	0.73%			75.93%	\$1,545,286	\$495,567	\$1,549,599
	\$500 to \$1B	40	20.1%	\$28,488,669	0.80%			74.01%	\$828,328	\$138,792	\$715,762
	\$250 to \$500	71	19.6%	\$24,560,184	0.78%			75.70%	\$747,967	\$118,944	\$656,221
	Under \$250	239	22.7%	\$28,244,995	0.78%			76.24%	\$928,833	\$117,482	\$797,747
	Subtotal	380	21.4%	\$142,431,104	0.77%			75.36%	\$4,255,529	\$952,467	\$3,924,851
>1.0%	\$5 to \$10B	18	94.7%	\$121,824,305	2.02%			52.28%	\$4,445,922	\$1,200,771	\$2,952,341
	\$1 to \$5B	104	71.2%	\$208,651,735	1.90%			52.82%	\$8,049,221	\$1,813,572	\$5,209,885
	\$500 to \$1B	138	69.3%	\$98,723,721	1.71%			57.91%	\$3,702,925	\$681,719	\$2,539,218
	\$250 to \$500	240	66.3%	\$84,294,097	1.77%			58.68%	\$3,232,112	\$667,368	\$2,288,107
	Under \$250	570	54.2%	\$72,087,004	1.70%			60.43%	\$3,028,698	\$426,352	\$2,087,928
	Subtotal	1070	60.2%	\$585,580,862	1.85%			55.33%	\$22,458,878	\$4,789,782	\$15,077,479