

HIDDEN CREDIT CARD FEES HARM CONSUMERS

BACKGROUND

Nearly every U.S. retailer faces a common problem, the increasing costs of accepting credit cards for payment. These costs known as interchange fees affect every retailer who accepts credit or debit cards, and are borne by customers' everyday without their knowledge. Consumers pay more for goods and services to help cover these fees, approximately \$350 per household annually.

When a purchase is made with a credit or debit card, the payment is processed through both the retailer's bank and the bank that issued the card. The issuing bank charges the retailer's bank a fee to process the transaction. In turn, the retailer's bank then adds its own transaction processing fee and passes both fees along to the merchant. Although transactions and accounting are administered electronically, credit card interchange fees have risen 117 percent since 2001.

Currently, the interchange fee is the only cost a retailer cannot negotiate. It is not uncommon for interchange fees to exceed a retailer's net profit margin.

Consumers who pay with a debit card pay for interchange fees even though the debit card is linked to the consumers' checking account. Processing a debit card transaction should be treated like an electronic check. Retailers can negotiate the cost of processing e-checks with banks. Currently, the interchange fee is the only cost a retailer cannot negotiate.

PMAA and the Merchants Payments Coalition (MPC) support comprehensive interchange fee reform that includes e-check parity. MPC is composed of 88 state and national trade associations, which PMAA is a member, represents 2.7 million locations and 50 million employees.

LEGISLATION

The Credit Cardholders' Bill of Rights Act (H.R. 627) which was signed into law in May 2009, required a Government Accountability Office (GAO) study on the effects of interchange fees on retailers, consumers and other parties. The report which was released in November 2009, disputed Visa and MasterCard officials' account that average interchange rates have remained fairly constant the last 20 years. GAO said Visa and MasterCard's anti-competitive practices have actually led to dramatically increased interchange rates. For instance, both networks' corporate card's swipe fee rates have increased considerably – Visa by 36% and MasterCard by 82%. GAO highlighted that “if negotiations resulted in lower interchange fees for merchants, then merchants could pass these savings to consumers through lower prices.” PMAA praises this statement because it highlights the competitiveness of the motor fuels industry.

Additionally, Reps Welch (D-VT) and Shuster (R-PA) introduced H.R. 2382, the “Credit Card Interchange Fees Act of 2009.” This legislation would eliminate anticompetitive contract rules, such as the Honor All Cards rule that Visa and MasterCard impose on the merchants who accept their cards. The bill also requires disclosure of interchange fees to the FTC, Federal Reserve, and consumers.

Last week, Sen. Durbin (D-IL) introduced amendments to the financial regulatory reform legislation to address interchange fees on debit card transactions and allow retailers to offer discounts based on payment type and which credit card is used. Recently, Rep. Welch (D-VT) introduced legislation similar to Durbin's amendments.

“THE ASK”

Urge your Senators to pass Sen. Durbin's amendments to the Financial Regulatory Reform legislation (S. 3217) to reduce the burden interchange fees have become to retailers/consumers.

- 1. Durbin-Leahy-Landrieu Amendment (#3771) to stop credit/debit card networks from imposing anti-competitive restrictions on the small businesses, merchants and government agencies who accept their cards.**
 - Visa and MasterCard could no longer use their dominant market power to force those who accept their cards to also agree to anti-competitive restrictions on the discounts they can offer and on their ability to choose the forms of payment they accept.
 - The amendment would say that sellers can do the following things without being threatened or punished by card networks like Visa and MasterCard:
 - Offer discounts to customers to use a competing card network;
 - Offer discounts for use of cash, check, debit card or stored-value card (current law does not fully ensure that merchants can offer these discounts); and
 - Set a minimum or maximum transaction amount for payment by card (small businesses lose money on transactions when they cannot set these amounts).
 - This amendment does not involve any government regulation of interchange fees. All it does is allow more market-based competition and more discounting options for consumers.
- 2. Durbin – Specter - Whitehouse Amendment (#3769) to ensure that interchange fees charged for debit card transactions are reasonable and proportional to the costs incurred in processing the transaction.**
 - Will prevent Visa and MasterCard from continuing to increase debit card interchange fee rates, which currently amount to 1% - 2% of the transaction even though the actual cost of processing a debit transaction is far less.
 - Direct the Fed to issue regulations to ensure that interchange fees imposed on debit card transactions be “reasonable and proportional”. (The rules would have a carve-out for small bank debit cards).
 - Without this amendment, Visa and MasterCard (which control nearly all of the debit card market) will continue to raise debit interchange fees simply because their market power means that merchants can do little to fight back. Reducing debit interchange fees would be like a tax break on every debit card sale a merchant makes.

Urge members of the House to support Rep. Welch's (D-VT) bill, H.R. 5199, the Electronic Check Parity Act of 2010. Like Sen. Durbin's amendments, the bill would give the Federal Reserve the authority to regulate interchange fees on debit cards and permit retailers to discount for payment type and card.

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