

HIDDEN CREDIT CARD FEES AND THEIR IMPACTS ON RETAILERS AND CONSUMERS

ISSUE BACKGROUND

Nearly every U.S. retailer faces a common problem, the increasing costs of accepting Visa and MasterCard for payment. These costs known as interchange fees affect every retailer who accepts credit or debit cards, and are borne by consumers every day without their knowledge. Interchange fees are not shown on monthly statements and Visa and MasterCard rules make it virtually impossible for retailers to let their customers know how much they are.

Imagine the outcry that would come if consumers were aware that roughly two to three percent per transaction on a gallon of gasoline was attributable directly to credit card fees. In many cases, credit card issuers and their member banks are collecting a higher percentage on a gallon of gasoline than the retailer (for example in 2005, the net average retail percentage on gasoline was less than one percent).

PMAA and the Merchants Payments Coalition (MPC) continue to pursue a solution to unfair credit card fees. Visa and MasterCard operate like price fixing cartels. Each “oligopolist” sets a “take it or leave it” approach to retailers which enable the card companies to obtain huge profits. Transactional costs should drop with volume, but we have seen the opposite occur. Last year, the credit card industry collected \$48 billion in interchange fees, up from \$42 billion in 2007.

LEGISLATION INTRODUCED DURING THE 111TH CONGRESS

Earlier this year, PMAA along with MPC made significant attempts to add interchange fee language in the Credit Cardholders’ Bill of Rights Act (H.R. 627). Unfortunately, the effort was not fulfilled. However, the bill, which was signed into law in May, does include a study of the effects of interchange fees on retailers, consumers and other parties (to be reported to Congress within 180 days).

Following passage of H.R. 627, Representatives Peter Welch (D-VT) and Bill Shuster (R-PA) introduced the Credit Card Interchange Fees Act of 2009 (H.R. 2382) and Judiciary Chairman John Conyers (D-MI) and Congressman Bill Shuster (R-PA) reintroduced the “Credit Card Fair Fee Act” (H.R. 2695) – with companion language in the Senate introduced by Sen. Dick Durbin (D-IL) – which MPC and PMAA fully support. Congressman Conyers’ bill would grant retailers limited antitrust immunity to band together to negotiate interchange rates across the table from Visa, MasterCard and the banks.

H.R. 2382 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 while the Conyers bill requires any negotiated agreements to be filed with the Attorney General and made public. Furthermore, both H.R. 2382 and H.R. 2695 would increase interchange fee transparency.

PMAA and MPC continue to urge legislators to pass language that will give retailer groups the opportunity to negotiate interchange fees in a transparent environment. PMAA believes these negotiations will put downward pressure on interchange fees and force credit card companies to provide justification for the rates charged.

WHAT ARE INTERCHANGE FEES?

When a purchase is made using 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.

WHAT IS WRONG?

- 80 percent of interchange fees go toward a bank's profit margin, card transaction costs and issuer rewards programs.
- Consumers pay more for goods and services to help cover these fees -- costing consumers \$350 per household every year.
- Although transactions and accounting are administered primarily via computer, credit card interchange fees have risen 117 percent since 2001.
- Visa and MasterCard member banks agree to charge the same prices for their transactions. This price-fixing inflates the cost of nearly everything consumers buy.
- Because of the popularity of credit/debit cards as payment, retailers have no choice but to accept these fees or face losing customers.
- It is not uncommon for interchange fees to exceed a retailer's net profit margin.

WHAT HAPPENS IN OTHER COUNTRIES?

- U.S. interchange fees, around two percent, are far higher than in many other countries. In Europe, fees average .70 percent and Australia fees average .50 percent.

Australia and Europe have both taken action to address the oligopolistic practices card companies use to set interchange fees. Why is it that U.S. consumers with the highest volume of credit sales and the most advanced economy and technology in the world pay the most to use plastic?

APPROACH TO A SOLUTION

The Merchants Payments Coalition is composed of 88 state and national trade associations, which PMAA is a member, was formally announced in 2005. MPC represents 2.7 million locations and 50 million employees. The mission of MPC is to achieve a more transparent and competitive system of interchange fees, which benefits consumers and retailers alike.

The broken market for interchange fees must be fixed. Until policymakers take action to fix this system, we will all pay too much in hidden interchange fees. PMAA urges members of Congress to support H.R. 2382 and H.R. 2695 which will bring much needed relief to retailers and consumers.

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