

UNFAIR CREDIT CARD FEES.COM

CREDIT CARD INTERCHANGE FEES

Background

Each year, in addition to interest, late fees, over-the-limit charges and other fees charged by credit card companies and their banks, consumers pay billions of dollars in hidden fees that never appear on their monthly statements.

These hidden charges are called credit card “interchange fees.” Credit card companies and their banks charge them to merchants every time a credit or debit card is used to pay for a purchase. As much as \$2 of every \$100 you spend goes to card issuers.

Interchange fees are fixed in secret

There is no real competition in the credit card business. Visa and MasterCard control 80 percent of the credit card purchase volume. Visa and MasterCard each separately work with their member banks collectively to set the price of interchange fees. This is illegal price fixing and it hurts consumers and merchants. Because banks benefit from higher interchange fees, Visa and MasterCard compete to charge the highest rate.

Interchange fees are hidden from consumers

Consumers have a right to know how much they are really paying when they use a credit card, just as they do when they use an ATM machine. But the credit card interchange fee is the biggest fee you've never heard of. Unlike other credit card fees that show up on your monthly statement, the credit card interchange fee is hidden, and credit card company rules make it practically impossible for merchants to tell customers how much they are really paying.

Interchange fees are too high

Credit card companies and their banks collected more than \$36 billion in interchange fees last year alone, up 17 percent from 2005 and 117 percent since 2001. The average American family is now paying more than \$300 a year in hidden credit card interchange fees. Merchants are effectively left to pass along the credit card interchange fee to consumers in the form of higher prices. The credit card interchange fee increases the price of everything consumers buy, even those who don't use plastic and choose instead to pay for their purchases in cash or by check.

With the price of gas at more than \$3 a gallon, credit card companies and their banks are collecting as much as 8 cents a gallon in interchange fees, even as they continue trying to keep consumers in the dark about how much they are really paying. Americans are paying the highest interchange fees in the world, an average of two percent, compared with less than one percent in most other industrialized countries.

Card companies and their banks collect more revenue from interchange fees by increasing the interchange rate and by pushing consumers into higher-rate premium and



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rewards cards that carry a higher interchange rate. The card companies and their banks also increase their revenue from the interchange fee when more customers use credit and debit cards to pay for purchases and when total sales volume increases.

The system is structured so that credit card companies and their banks make more money on each transaction as prices increase. For example, even though it costs essentially the same to process a \$1 transaction and a \$100 transaction, the card companies and the banks collect a much higher interchange fee on the \$100 transaction because the fee is based on a percentage of the total sale.

Interchange fees only benefit card companies and banks

The credit card interchange fee was originally intended, among other things, to pay for transaction processing, but even as new technology continues to lower the cost of credit card processing, credit card interchange fees keep going up.

In fact, according to a recent study, Visa and MasterCard spend only 13 percent of the credit card interchange fees they collect on card transaction processing. Most of the rest goes to profits, rewards programs that benefit primarily more affluent cardholders and for all those unsolicited credit card offers that fill our mailboxes every day, a total of nine billion pieces of junk mail every year.

Many of those unsolicited mailings include so-called "convenience checks" that can be stolen and cashed by someone other than the authorized card holder. Yet the card companies and their banks spend only four percent of the interchange fees they collect on measures to protect consumers from this and other forms of credit card fraud.

Action is required

Americans have a fundamental right to know about the credit card fees they are forced to pay. Visa and MasterCard have kept interchange fees hidden for years, but the issue has now emerged as a major public policy concern.

Congress is looking at interchange fees and other unfair credit card practices, and nearly 50 lawsuits have been filed in federal court charging that current interchange practices violate federal antitrust law. We need full investigations of the broken interchange fee system and reforms to make the system more competitive and transparent so that it better serves consumers and merchants alike.