

UNFAIR CREDIT CARD FEES.COM

FREQUENTLY ASKED QUESTIONS ABOUT INTERCHANGE FEES

What are interchange fees?

Interchange is a percentage of each transaction that Visa and MasterCard banks collect from retailers every time a credit or debit card is used to pay for a purchase. The fee varies with type of card, size of merchant and other factors, but as much as \$2 of every \$100 you spend goes to card issuers. Visa and MasterCard collected more than \$36 billion in interchange fees in 2006, up 17 percent from 2005 and 117 percent since 2001. The average American family is now paying more than \$300 a year in interchange fees. In the case of gasoline, with the price at the pump now more than \$3 a gallon, credit card companies and their banks are collecting as much as eight cents a gallon in interchange fees, even as they continue trying to keep consumers in the dark about how much they are really paying.

How much do hidden interchange fees cost consumers?

Interchange fees add to the price of everything we buy, even if we choose not to use a credit or debit card. Americans paid more than \$36 billion in credit card interchange fees in 2006 alone, more than all other credit card fees combined.

How are interchange rates determined?

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.

How fast are interchange fees increasing?

Visa and MasterCard collected more than \$36 billion in interchange fees in 2006, up 17 percent from 2005 and 117 percent since 2001. The average American family is now paying more than \$300 a year in interchange fees.

Credit card companies and banks are always trying to maximize their profits and collect more revenue from interchange fees when the interchange rate goes up, when more customers use credit and debit cards to pay for purchases, and when total sales volume increases.

Don't these fees just cover the cost of processing transactions?

Even though advances in technology continue to bring down the cost of transaction processing, interchange fees keep going up, even though a recent study concluded that only 13 percent of the interchange fees that the big credit card companies collect actually goes for transaction processing. Most of the money goes toward profits for the banks, rewards programs that benefit mostly affluent cardholders and direct mail marketing campaigns that clog mailboxes with nine billion unsolicited credit card offers every year.



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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.

How do interchange rates in the U.S. compare to other parts of the world?

Visa and MasterCard charge Americans among the highest credit card interchange fees in the world. They collected more than \$36 billion in interchange fees in 2006, up 17 percent from 2005 and 117 percent since 2001. These increases have occurred even though the technology used to process credit card transactions continues to get more efficient and less expensive. U.S. interchange fees average close to two percent, while in other industrialized countries like Australia and the UK the interchange fee averages less than one percent.

Why are interchange fees so high in the U.S.?

Visa and MasterCard each separately work with their member banks collectively to set the price of interchange fees. This is illegal price fixing and hurts Americans. Credit card interchange fees are up 117 percent since 2001 and there's no end in sight, even though the actual cost of transaction processing continues to go down.

Do consumers who pay with cash also pay hidden interchange fees?

American consumers pay the hidden credit card interchange fee on virtually every purchase they make, whether they use a credit card or not. The system is structured so that credit card companies make more money on each transaction when the price of retail goods increases. For example, even though the cost of processing a \$1 transaction is virtually the same as processing a \$100 transaction, the interchange fee paid on that \$100 sale is higher because the interchange fee is calculated as a percentage of the total sale. The higher the sale, the higher the fee.

Do interchange fees increase the price of gasoline?

With the price of gas at more than \$3 a gallon, credit card companies and their banks are collecting as much as eight cents a gallon in interchange fees, even as they continue trying to discourage retailers from advertising discounts for paying in cash. With interchange fees at an all time high, it should come as no surprise that Visa, MasterCard and their banks would like to keep customers in the dark about how much they are really paying at the pump.

Do interchange fees help pay for credit card security?

Only about four percent of the credit card interchange fees that the card companies and their banks collect goes for security. Most of the interchange fee is spent on rewards programs and on marketing, including those nine billion unsolicited credit card offers that clog our mailboxes every year. Many of those unsolicited offers contain so-called "convenience checks" that can easily be stolen and cashed by someone other than the authorized card holder, an open invitation to credit card fraud.

Who pays for all those unsolicited credit card offers and other direct mail marketing I get from credit card companies?

Most of the marketing is paid for by the credit card interchange fee. By adding hidden credit card interchange fees to every credit a debit card transaction they process, the credit card companies and their banks are making consumers pay for the nine billion unsolicited credit card offers that clog their mailboxes every year. And many of those mailings contain so-called "convenience checks" that can easily be stolen and cashed by someone other than the authorized card holder, an open invitation to credit card fraud.

Why does MPC single out Visa and MasterCard more than the other card issuers?

Courts have said that, with about 80 percent of the card purchase volume, Visa and MasterCard dominate the market and each controls a fee system that is broken and fundamentally anti-competitive.

Why does the MPC think the interchange system is anti-competitive?

Rather than competing to set the lowest fees and hold down costs for consumers, Visa and MasterCard and their member banks each set rates as high as possible in order to maximize profits for the banks that issue their cards. They are operating two price-fixing cartels that are in clear violation of federal antitrust laws.

Aren't interchange fees legal because every business establishes a price for the goods and services it provides?

Interchange fees are the result of illegal price fixing by the bank members of MasterCard and Visa. When competitors get together to agree on the prices they will charge, that is price fixing. The card companies themselves each serve as "hubs" to facilitate the unlawful collective price setting by their member banks.

What action is being taken to stop hidden fees?

In the United States the issue of interchange fees has emerged as a major public policy concern. All three branches of the U.S. Government have been asked to look into the unfair credit card interchange pricing system.

The Federal Reserve has held conferences. Congress has held hearings. And more than 50 lawsuits, with plaintiffs representing tens of thousands of merchants, have been filed in federal court charging that interchange fee practices violate federal antitrust laws.

What is the Merchants Payments Coalition?

The Merchants Payments Coalition (MPC) is an organization representing the nation's retailers, department stores, supermarkets, drug stores, convenience stores, gasoline stations, and on-line merchants in payment and transaction issues. MPC represents more than 2.7 million locations and approximately 50 million employees.

MPC members are concerned about increasing interchange fees charged by banks and credit card companies to process credit and debit transactions. The mission of the MPC is to achieve a more competitive and transparent credit card fee system that better serves American consumers and merchants alike.