

**MERCHANTS ACROSS THE COUNTRY  
SPEAK OUT AGAINST SWIPE FEES  
AND  
APPLAUD DEBIT REFORM**

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## Unfair credit card fees cripple local small business owners

**By Darwin Metcalf**, *President and Chief Operating Officer of Western Supermarkets.*

June 11, 2015

I started my career in the supermarket industry bagging groceries for Western Supermarkets over 48 years ago, and while I've seen many changes over the years, there is one that continues to put our business at a great disadvantage: credit-card "swipe fees."

Western Supermarkets pays banks and credit unions \$800,000 each year to process credit- and debit-card transactions, known as swipe fees. This is a service that costs them only a tiny fraction of that to provide.

Because there are so many transactions these days and the technology is so cheap, it costs the banks only a few pennies every time a customer swipes a card to make a purchase.

Yet the banks charge a 500-percent profit margin on debit cards, according to a recent study using the banks' own figures, and up to 10,000-percent on credit cards.

That's a sizable profit compared to those in the supermarket industry, where profit margins are around 1 or 2 percent.

Banks are able to charge such a pretty penny because Visa and MasterCard control most of the credit card market, which lets them price-fix swipe fees in secret for their member banks.

Retailers across the country, big and small, are being gouged every time a consumer uses a card to buy milk or meat, but few even know about these fees.

When I tell people Western Supermarkets pays \$800,000 a year in swipe fees, they gasp; they can't believe it. But it won't surprise any American merchant, from the guy who sells you your coffee in the morning to the gas station on the corner.

At the seven Western Supermarkets stores, swipe fees have tripled in just a little more than a decade, becoming our third-largest operating expense, after only labor and rent. Twenty-two years ago we paid nothing in swipe fees; today, at one store, swipe fees exceed rent and common-area maintenance.

And, because these swipe fees are set in private, it makes it almost impossible to budget for them.

This lack of transparency and wild growth in card expenses is not sustainable. Retailers in Alabama and across the country can't afford it. And neither can consumers. These fees are driving up prices for products from fuel to food, costing the average U.S. household more than \$400 a year.

Further, uncompetitive swipe fees keep business owners from investing in our companies, which hinders our ability to hire and expand, and ultimately hurts our local economy.

As one of Birmingham's largest locally owned supermarket chains, Western Supermarkets has proudly served our community and watched it improve for over 65 years.

From being named one of "America's best cities" to the top 10 happiest places to work list, Birmingham is evolving and thriving, and people are taking notice. Unemployment is only 5 percent and new businesses are sprouting up throughout the city, creating a catalyst for economic prosperity.

Let's not mess that up by hoisting this huge, unfair, uncompetitive burden onto the shoulders of small business people in a major sector of our economy. Instead

let's tell Congress to restore competition to this distorted corner of our free-market system.

In a market as competitive as Birmingham, with major national, regional and local supermarket chains plus independent stores all competing for customers, grocers – and in fact, all retailers – operate under what is clearly an onerous and extremely unfair burden.

**Even modest reform of debit cards under the Dodd-Frank financial-reform law saved customers \$6 billion in its first year alone and supported 37,000 jobs, according to an authoritative study.**

But the market for credit cards remains completely unfair and uncompetitive.

We all want a free, open, and transparent market where competition rules. Imagine what more competition will bring: Everyone will benefit, including the banks. Swipe fees are so high that even huge reductions will still mean healthy profits for bankers *and* lower prices through competition for the rest of us – the way the free market is supposed to work.



# Chicago Sun-Times

## How jacked-up credit card fees rip off retailers and you

*By Ferdia Doherty, co-owner of Farmhouse Tavern in Chicago and Farmhouse Evanston in Evanston.*

02/24/2015



Every time you pay at your favorite restaurant with a credit or debit card, the restaurant owner gets cheated. And customers don't even realize it because the banks that issued the cards like to keep people in the dark.

This is the murky, fixed world of “swipe fees,” the outlandish fees – representing enormous profit margins – that banks charge merchants and restaurants to process credit card and debit card purchases.

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Visa and MasterCard fix these swipe fees for their banks in a way that is highly secretive. They post rate schedules on the Internet, but merchants and customers do not know which rate is being applied to a particular purchase. There is no competition and no market forces to control the fees.

It's amazing that these kinds of anti-competitive, anti-free-market practices still exist. But they do. And they don't just hurt retailers and restaurants. Unlike banks, retail is intensely competitive, with profit margins as low as a percent or two.

That means retailers and restaurants have to pass at least some of these higher costs on to customers in the form of higher prices. And that in turn puts the brakes on the entire economy, since so much of it is retailing.

Look at our business, for instance: My partners and I own Farmhouse Tavern on Chicago Avenue in the city, a tavern that buys as much of its ingredients as possible from farmers in Illinois and neighboring states, and another Farmhouse in Evanston.

Swipe fees are close to a quarter million dollars a year for both restaurants combined. That's a huge chunk of our profits. The lack of competition means swipe fees nationally have tripled in the last decade, to \$50 billion, and at least one entire industry, convenience stores, pays more in fees than it earns in profits.

Opening a restaurant like Farmhouse Tavern has been a dream of mine since I was a kid growing up in Ireland. Yet, swipe fees have swollen into my third-largest operating cost after only labor and rent. That's not unusual; for most retailers, it's their second-highest cost, even more than rent.

The more we pay in swipe fees to the banks, of course, the less there is to pay for health care, a higher minimum wage and all our other costs.

My partners, investors and I would like to open more Farmhouses and employ more than the 150 people we do now. And that's just direct jobs; it doesn't count jobs on the farm or at the other small food businesses, brewers and vendors Farmhouse supports. But it's hard when you're lugging this kind of anvil around. The reduced profitability means it's that much harder to make a case to investors for backing us in opening new restaurants.

Consider this: Some cards carry a swipe fee around 4 percent. But the real kicker is that it likely costs the bank only a few cents to process the transaction, though the bank keeps that a closely guarded secret. The rest is all gravy.

**Congress recognized the problem a few years ago and – through an amendment sponsored by Sen. Durbin – required the Federal Reserve to make fees on debit cards fairer.**

**Although the banks talked the Fed out of making fees entirely fair, even the Fed's half-measure saved consumers almost \$6 billion and supported 37,500 jobs in the first year alone, according to a study by the prominent economist Robert J. Shapiro. In Illinois, consumers saved a quarter of a billion dollars and reform supported more than 1,500 jobs.**

**That's good news for a state with an unemployment rate – at 6.4 percent – at the high end of the states.**

Now we should try to reform credit cards. Card companies and banks using their dominance of the market to fix prices isn't part of the free-market system that gave us the biggest and strongest economy in history.

Outrageous swipe fees hurt small businesses and consumers. They don't do anything for the economy. So why in the world would we want to let the banks continue to subvert our free-market system?



## U.S. needs swipe fee reform

Todd Keyworth, chairman of the Vermont Retail & Grocers Association.

*November 14, 2014*

Many people don't know that the bank which issued their credit card charges the merchant every time they swipe a card to buy something — or that the profits on these fees can run as high as 10,000 percent. That's why we merchants call them "swipe fees."

Why should consumers care about swipe fees?

Because merchants, unlike some banks and especially their card networks, operate in a hyper-competitive environment where profit margins are often no more than a percent or two.

Once merchants have absorbed as much of these egregious swipe fees as they can and still eke out a small profit, they have to pass at least some of these rising costs on to customers in the form of higher prices.

It's of course bad for merchants, too, who must pay these outrageously unfair and exorbitant fees in addition to all the other challenges of running a business, especially a small business.

And it's bad for communities. As a native Vermonter, let me give you an example from my own experience, although the same thing is happening to businesses all across the state.

I own and run a grocery store, the Harborside Harvest Market in North Hero, which has a year-round population of 600.

Every year since I bought the store, swipe fees have risen, despite the fact that new technology and higher volume at the banks and their networks means the fees should be less expensive. Add that to the other challenges of running a small business and it gets harder every year to turn a profit and survive.

Fees are now my fourth-highest operating expense, after labor, rent and utilities. For many retailers, the fees are their second-highest operating expense. The fees are always larger than my profits — last year twice as large. And I am by no means unusual. Many of our Vermont retailers are in the same boat.

Those 600 people — and the summer folk who come to the island every year — would have to go 12 miles to the nearest store for bread or a newspaper if we weren't here. North Hero has been shrinking. What would happen if there were no store anymore?

Retail is a highly competitive business, but it shouldn't be unfair.

The card issuers keep this quiet so consumers won't know how badly the card networks mistreat them and the people who sell them shoes and make their lunchtime sandwich and sell them gardening supplies and shovels and tires.

And the most expensive cards, the ones with the rewards and air miles, can cost up to 4 percent of the purchase in swipe fees. That means that when you buy \$100 worth of groceries, the credit card network takes as much as \$4 right off the top from the merchant, even though it costs only a few cents to process the transaction.

So your dry cleaner or local diner or hardware store is paying for those rewards, not Visa or MasterCard. And ultimately, you are paying, in higher prices.

Think of how many more merchants could expand their businesses, hire more people and boost the economy here in Vermont if retailers weren't staggering under this burden.

Multiply that by the rest of the country and you'd have a substantial gain in the national economy, which is still recovering from the recession.

**Research shows, for instance, that just a modest federal reform for debit cards supported 37,500 new jobs across the nation in its first full year and saved consumers almost \$6 billion.**

In Europe, regulators have made markets more competitive, and swipe fees are seven or eight times less than in the U.S.

We need that kind of equity here in the U.S. It would be better for consumers; for small businesses; for communities; for the entire U.S. economy; and yes, for small towns in Vermont.

Our congressional delegation, led by Rep. Peter Welch, have been very helpful and supportive. However, we need to do more.



## Merchants, consumers get short end of stick

*BILL DOUGLASS, chairman of the board of Douglass Distributing Company.*

11 October 2014

I have been getting on a plane here in Texas and flying to Washington for a decade to talk to legislators or testify before Congress. And what I tell them is that one corner of our economy looks more like the old Soviet Union than the free market that created the biggest economy on earth.

That corner is credit cards. Most people have no idea that the banks gouge merchants every time somebody uses a credit card. They can do this because Visa and MasterCard control the vast majority of the market for credit and debit cards. They each fix rates so that the banks that use their brands can charge these huge fees with little competition to curb their greed.

Most people have no idea these “swipe” fees raise prices for consumers on everything from gas to groceries to garments; hurt small businesses; stifle growth and new jobs; and hurt our broader economy. Because they’re hidden from people — seen only by merchants and the banks that exploit them — and because the banks have so much money and influence, it’s almost impossible to make the banks charge fair and reasonable fees.

With no competition in the card business, merchants simply have no option but to take the haircut.

In my business — among other things, my family owns 20 gas station/convenience stores in the suburbs north of Dallas — the banks take more in these swipe fees out my small chain, \$100,000 a month, than we make in profits. In fact, we have never made more than the banks on my stores, despite the fact that all the risk, all the investment in time and money, all the hard work is mine and my family’s.

It's not just us. The entire convenience store industry pays out more in swipe fees than it earns, a staggering \$11 billion compared to \$7 billion in convenience store operating profits last year.

Unbelievable as it may seem, swipe fees are now my second-highest operating cost, after labor — higher than rent, higher than utilities. And that's true for many merchants these days.

What's more, as the banks rake in bigger profits every year, the cost of processing these transactions — thanks to huge increases in volume and advances in technology — continue to shrink.

It's so bad that as banks charge up to 4 percent of a credit-card purchase in swipe fees, the bank will grab \$4 on a \$100 purchase. Yet it costs the bank only a few pennies to process that transaction.

Meanwhile most retailers face hyper-competitive markets where profit margins run closer to a skimpy percentage point or two than the 10,000 percent the banks are gobbling up.

And with the banks such a monolithic influence, things aren't likely to change soon. **Consider the debit-card reform section in the 2010 Dodd-Frank bill to curb bank abuses: It has brought some fairness to debit-card fees, but would have brought much more had the Federal Reserve not undermined it with the encouragement of the banks.**

I'll tell you an example of the banks' power and arrogance. In 2008 I went to Washington to testify before the Senate Judiciary Committee. I mentioned the banks imposed a 1,500-page contract on merchants that we weren't allowed to read. The chairman demanded the banks produce it. The banks took more than a year to comply with this simple request.

And that's why I'm writing this: Because Americans need to know how the banks are squeezing the stores people patronize — and the people themselves in the form of higher prices. My prices are on a big sign up high over motorists' heads, where even from a long way off they can see and compare them to my competitors'.

Not so in banking.

Perhaps the more light we can shed on this murky industry, the more we can reform it and make it fairer.

Until then, though, we merchants — and you consumers — are stuck with the kind of uncompetitive, unfair and outrageous behavior that goes against everything that is best in our free-market system.

# THE KANSAS CITY STAR.

## **James Eddy: Credit-card swipe fees cost everyone dearly, need oversight**

BY JAMES EDDY

My family has operated restaurants since the 1930s. The Eddys have served Kansas City families and visitors to our town in full-service restaurants, a “white glove” supper club, delis, a bowling alley, stadiums, convention centers, and its Popeyes Chicken locations. Being restaurateurs runs in our blood.

One of the third generation of restaurateurs, I came into the industry when technologies were transforming the way we conduct business and interact with our customers.

There is one technology, however, that has evolved into a great hardship for our business as one of its fastest growing expenses: credit cards. The acceptance of credit cards began as a more convenient way for customers to pay, and there was a competitive advantage for early adopters of cashless commerce.

But over the past two decades, accepting credit cards has morphed from a “service” that provides a competitive edge to a “requirement” (like a utility such as gas, electricity, and water) that a business cannot do without; yet the fees associated with what is now a requirement continue to rise unchecked by competition or regulation.

Credit-card acceptance fees charged to retailers have more than tripled in the last 10 years to an average of 2 to 3 percent of the purchase price. That’s the highest in the world and two to six times the regulated rates imposed on Visa and MasterCard in Australia and much of Europe. There’s no reasonable explanation for this increase other than that two dominant card companies control the market and set the fees banks charge.

Improvements in technology and increased card use should be driving costs and fees down. But since there is no competition, and no regulatory oversight, the

credit card companies and banks raise the fees whenever they want, however much they want.

Restaurant owners and other merchants have no choice when it comes to accepting credit cards or the onerous swipe fees that come with them; it's a take it or leave it deal. We are stuck with the terms, the conditions, and the rates set by card companies.

In 2013, we spent about \$125,000 on swipe fees, which represents approximately 2.5 percent of each sale. If, similar to many other countries, the United States would regulate the cost of accepting credit cards, we would have saved nearly \$100,000 last year, which would have offset rising energy and commodity prices, allowing our company to stave off price increases passed on to our customers.

Growing our business and continuing to serve our friends and neighbors is important to me and my family. But our growth and ability to provide value to our customers is hampered by the unchecked practices of credit card companies.

Just like the utility companies that provide electricity, water, and gas to our locations, we have no alternatives when it comes to swipe fees and no choice but to build them into our pricing. The bottom line is that everything is more expensive because of swipe fees — no matter how you pay.

It's time for a change to the system. Without the prospect of a more competitive market for credit cards and swipe fees, government must step in.

I don't suggest that lightly. I'm a businessman. I believe in free markets. But when the market is broken — when there is no competition and nothing else to keep prices and practices in line — something must be done.

Acceptance of credit cards began as a service which offered a competitive edge. But now that a business is at a competitive disadvantage if it doesn't accept credit cards, the service has become a requirement and therefore needs oversight.

**Congress took a good first step when it passed new rules limiting debit card swipe fees as part of the major financial reform bill of 2010. The reduction in fees over the last year allowed us to partially offset increased costs for commodities, fuel, energy, and**



**wages. That made a big difference to our company and the people who eat in our restaurants.**

Now, Congress needs to look at credit-card fees. It's time to put some restraints on the credit-card companies and the banks and bring competition to the market to make sure fees are reasonable and fair.

*James Eddy is a member of his family's third generation in the area restaurant business.*

# Statesman

## **Bercu: Outlandish credit card swipe fees squeeze consumers, retailers**

Steven Bercu, BookPeople; Aug. 8, 2014

Every month I get statements from MasterCard and Visa that can run to hundreds of pages. They're like big mystery novels, and I don't have the time or resources to decipher the dozens of different fees they charge me to accept credit cards in my store, BookPeople.

What I know for certain, though, is that thanks to these two giant companies, my small business gets mugged every time a customer uses a debit or credit card.

In an obscene distortion of our free-market system, Visa and MasterCard control the vast majority of the card market. Each uses that power to fix the "swipe fees" banks charge to process credit-card purchases, and Visa and MasterCard fix the fees so outrageously high that the banks will want to use the duopoly's brands.

If you're not a merchant, why should you care? After all, most people never see these swipe fees, don't know they exist and so the issue isn't big or well-known.

And the banks like it that way, for the same reason they send me a statement full of hieroglyphics every month: The more they obscure the issue, the longer they can gouge merchants and customers.

But these huge swipe fees do affect you. They raise the prices you pay for gas and groceries and, yes, books; they hurt small businesses that enhance neighborhoods and provide jobs; and they choke the economic growth that benefits us all.

BookPeople has been Texas' leading independent bookseller since 1970 and employs around 100 people. Despite the big book chains, now mostly gone; despite the Internet retailers like Amazon, still very much here; despite the ups and downs of our state economy, we've had four consecutive record years and are looking at a fifth.

Yet so much of our profit goes right into the banks' pockets through these pernicious swipe fees – \$180,000 last year. That's almost as much as our rent,

and for many retailers swipe fees are more than their rent, to the point where swipe fees are their second-highest operating cost after labor.

We think – it's almost impossible for us to know exactly, thanks to those arcane statements – that the swipe fee averages 2 percent per purchase in the bookstore. Think about that for a minute. You buy the latest John Grisham novel for \$25 and a cookbook for another \$25. At 2 percent, that's \$1 in swipe fees we pay the bank on that transaction. It doesn't sound like much unless you know it costs the bank just a few pennies to process the transaction. The rest is pure profit for the bank.

What gives a big bank the right to reach into my pocket and take out money at a profit margin of thousands of percent? I can assure you, my margins aren't anywhere near that lavish. And for some types of retail, the swipe fees runs as high as 4 percent.

That adds up to serious money, about \$50 billion a year for the banks. It's so bad that some industries, like gas and convenience stores, pay out more in swipe fees than they earn in profits. All their investment, all their hard work, all their risk, and in the end the bank reaches in and grabs the biggest share of the reward.

**It's not only unfair; it costs new jobs and pushes up prices. After Congressional reform of debit cards in 2010, a study found that – had the Federal Reserve really done what Congress intended – another \$3 billion would have gone into consumer's pockets and merchants would have created another 18,000 jobs in the first year.**

The nation's merchants have asked the Supreme Court to consider their lawsuit against the Federal Reserve for blunting the effects of reform after heavy bank lobbying.

It's unclear how much that lawsuit and a separate class-action suit will help. And there is no legislation in Congress.

We Texans understand the benefits of keeping government off our backs. We aren't calling for a lot of new rules and regulations that put the banks at a disadvantage. We simply want the banks and the two big credit-card companies to play by the rules of our capitalist system and conform to the principles of the free market, principles that created the world's largest and sturdiest economy.



### **... with each debit transaction**

A customer uses a debit card to buy, say, a Coke and a candy bar for \$2.50 at my store. I make almost 70 cents, and out of that comes 23 cents for the bank to process the transaction. In most cases, the Federal Reserve says, that transaction costs the bank less than 2 cents.

By JEFF MILLER, president of Miller Oil Co. in Norfolk.

**June 2014**

A FEW YEARS ago, Congress decided to end bank robbery. Not the kind where guys in masks go into banks with guns, but rather the robberies banks pulled when they charged merchants like me outrageous fees to process every transaction in which a customer used a debit card.

**The legislation Congress passed — called the Durbin amendment to the Dodd-Frank financial reform law — helped alleviate the banks' utterly unfair stranglehold over merchants.**

But the Federal Reserve, which Congress put in charge of enforcing the law, didn't follow through after heavy lobbying by the banks it is supposed to regulate. And so, in at least one way, the Fed has allowed things to get worse.

It's hard to believe the people at the Federal Reserve didn't know they were siding with credit-card companies and the same big banks that caused the 2008 crash.

That failure to follow Congress' mandate hurts the little guy — the neighborhood florist, the corner convenience store, the small restaurateur.

Here's what happened: The Federal Reserve interpreted the Durbin amendment by limiting to about 25 cents the amount banks could charge on each transaction. Originally, the Fed said 12 cents was a fair number on which the banks could make a nice profit.

**Nevertheless, 25 cents was an improvement. A subsequent study found the amendment saved consumers almost \$6 billion in 2012,**

**the year it took effect, and created almost 38,000 jobs in an economy that needed all the help it could get.**

Of course, it would have been another \$3 billion in savings if the Fed had stuck with the 12-cent cap. But it's still progress in a market where two companies, Visa and MasterCard, control the vast majority of the business and fix fees in secret and without competition.

The big problem for merchants like me is that the Fed allowed banks to increase the fees they charge for small transactions like the ones in my stores.

Before, if a customer bought something like a candy bar or cup of coffee and charged just a few dollars on their debit card, the swipe fee was typically less than a dime, so the merchant might come out with a little profit even on a tiny sale. Now, though, banks are charging almost a quarter even for small items.

So: Somebody comes into one of my stores and uses a debit card to buy, say, a Coke and a candy bar for \$2.50. I make almost 70 cents, and out of that comes 23 cents — or 33 percent of my gross profit — for the bank to process the transaction. According to the Federal Reserve, however, that transaction costs the bank less than 2 cents 90 percent of the time.

That's more than a 1,000-percent profit margin for the bank, dwarfing my own profits, and I've got millions of dollars invested in each of my stores. That is wrong, and it got that way because Visa and MasterCard are allowed to fix the fees that their banks charge.

It's not just unfair for business people. Because Visa and MasterCard control the market and keep raising those swipe fees, consumers pay higher prices for everything from gas to groceries, even if they don't use a credit or debit card.

Outrageously steep credit-card fees right now add about 7 cents to the price of every gallon of gasoline sold in our area. Yet I can't simply raise my prices every time I want, because I operate in a hyper-competitive business where my prices are posted on signs looming above the street.

We are essentially talking about a hidden tax that hurts everyone but the banks. These fees are now my second-highest operating cost after labor, more than rent or utilities. And they never slow down.

We merchants have sued the Federal Reserve to try to make it follow the law. But as the case goes on, the public and small retailers suffer.

It's simply not right, and the Fed is smart enough to know it.