The Merchants Payments Coalition
Frequently Asked Questions

What are interchange fees?
Interchange is a percentage of each transaction that Visa and MasterCard banks collect from retailers every time credit or debit cards are used to pay for a purchase. The fee varies with type of card, size of merchant and other factors, but averages close to 2 percent for credit card and signature debit transactions. Total credit and debit card interchange collected by Visa and MasterCard amounted to more than $30 billion in 2005.

What percentage of a retail transaction do these interchange fees cost?
Credit and debit card interchange fees average close to 2% on each card transaction. That's close to $2 out of every $100 consumers spend.

How much do hidden interchange fees cost consumers?
All Americans pay this hidden fee on virtually every transaction they make, whether they use a credit card or not, in the form of higher prices for consumer goods and services, which adds up to tens of billions of dollars a year. American consumers paid more than $30 billion in credit card interchange fees in 2005 alone – more than seven times what they paid in ATM fees.

How are interchange rates determined?
Visa and MasterCard both meet behind closed doors to establish interchange rates. Typically, new rates are announced in April and October of each year, and when viewed across all of the interchange categories result in higher total fees. Because this is done in secret, we do not know enough about how these rates are set. And Visa and MasterCard wrote the rules that make it virtually impossible to tell consumers how much interchange fees cost them. The bottom line is that the interchange rate is largely based on the dollar amount of the transaction. The more expensive the transaction, the higher the hidden cost to consumers.

How much are interchange fees increasing?
Interchange fees have more than doubled in the last 10 years. Credit card companies can increase interchange rates at any time by any amount. The total fees paid by merchants for interchange increases in three primary ways: (1) an increase in the set interchange rate; (2) the clear trend of card based payments as a preferred tender type; and (3) as a function of transaction totals that increase when the cost of goods and services rise. Visa and MasterCard also raise fees by pushing consumers to use higher cost cards and by increasing compliance requirements for merchants. Compliance requirements make merchants spend more or fall into a category that gets charged more interchange.

Don't these fees just cover Visa and MasterCard's cost of processing the transactions?
That's what consumers might be led to believe, but the truth is that interchange fees are far higher than the actual processing and related costs of the transactions. A 2006 report by Diamond Consulting, concluded that only 13% of interchange fees go toward processing costs. The rest goes to things like bank profits, rewards and the like. In fact, in other countries around the world, interchange rates are established as low as about one-third of what they are in the U.S. The fact that consumers in countries around the world are charged substantially lower credit card interchange fees than in the U.S. clearly indicates that there is room to reduce these rates and still cover the cost of the actual transactions.

International Differences

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. The total interchange cost to U.S. consumers has doubled over the last ten years even though the technology used to process credit card transactions is more efficient and less expensive today. In fact, about two-thirds of all the interchange paid worldwide is paid by the U.S. U.S. interchange fees are close to 2%, while other industrialized countries' fees are less: the UK is about 0.7% and Australia averages 0.55%. This difference translates into hundred of dollars in added costs to the average American family.

Why are interchange fees highest in the U.S.?
Visa and MasterCard have market power in the U.S. and have been willing to exploit it. The prevalence of card use in the US., coupled with antitrust violations by Visa, MasterCard and member banks has led to rapidly rising rates. The fact is the total cost to consumers has doubled over the last ten years even though the technology used to process credit card transactions is more efficient and less expensive today. In fact, interchange fees are far higher than the actual processing and related costs of card transactions. This is supported by the fact that many other countries with significantly lower interchange rates have not experienced disruption in transaction handling processes despite the lower rates in those countries.

Disclosure & Competition

Do consumers who pay with cash also pay a hidden fee?
Absolutely, and it is unfair. In fact, Americans pay a hidden fee on virtually every transaction they make, whether they use a credit card or not, costing consumers tens of billions of dollars a year in the form of higher prices for goods and services. Furthermore, the system is structured such 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 interchange is calculated as a percentage of the total sale. The higher the sale, the higher the hidden fee.

Why does MPC single out Visa and MasterCard more than the other card issuers?
With about 80 percent of the card market, Visa and MasterCard dominate the market and control a system that is 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's idea of competition is to set the highest rates in order to maximize profits for the banks that issue their cards. In addition, the banks that make up Visa and MasterCard have colluded to set these fees, operating in two price-fixing cartels in violation of 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 agree on the prices they will individually charge others, that is price fixing! The card associations, themselves, serve as "hubs" to facilitate the unlawful collective price setting by their card-issuing banks.

U.S. Government Action

What action is taking place to stop hidden fees?
In the U.S., the issue of interchange fees has emerged as a major public policy concern in the past year. All three branches of the U.S. Government have been asked to look into the unfair interchange fee system.

The Federal Reserve held two conferences on the subject in 2006, the House held a hearing in February 2006 and the Senate held a hearing in July 2006. In addition, more than 50 lawsuits, with plaintiffs representing tens of thousands of merchants, have been filed in federal court claiming that interchange-related practices violate federal antitrust laws.

The Merchants Payments Coalition

What is the Merchants Payments Coalition?
The Merchants Payments Coalition is a group of 20 trade associations representing retailers, restaurants, supermarkets, drug stores, convenience stores, gas stations, on-line merchants and other businesses that accept debit and credit cards. MPC is fighting for a more competitive and transparent card system that works better for consumers and merchants alike. The coalition's member associations collectively represent about 2.7 million locations with approximately 50 million employees.