



# Interchange Fees

Credit card interchange fees may be the **largest tax you never heard of**.

U.S. merchants paid approximately **\$36 billion in interchange fees** during 2006, up 17 percent from the year before and an increase of 117.5 percent since 2001. This hidden tax passed on to American consumers is more than seven times what they paid in ATM fees. The average household paid approximately \$270.

In America, such fees—charged to merchants for the privilege of accepting credit and debit cards—are among the **highest in the world**, without any evident cost justification. Interchange fees in America are roughly 2 percent, compared with 0.7 percent in the United Kingdom and 0.55 percent in Australia.

Visa and MasterCard, which control about 80 percent of the credit card market, **collude** to ensure that price gouging continues by collectively setting interchange fees with the member banks issuing their cards.

NATO estimates that American theatre owners pay around **\$65 million a year** in interchange fees. The movie theatre industry in this country could save more than \$30 million per year if fee reform reduced interchange rates by half to reflect what is charged in the United Kingdom and other industrialized countries.

Visa and MasterCard withhold their operating rules from retailers, who must sign agreements to comply without even knowing the rules governing the agreement. Among other burdens, these rules **enforce consumer ignorance** by preventing merchants from itemizing interchange fees in sales transactions.

Credit card companies base interchange fees on a percentage of the total sale, even though the cost to process transactions is virtually the same regardless of the product's cost. **Total fees have doubled over the last ten years**—but the technology used to process credit card transactions is more efficient and less expensive.

Federal and state lawmakers are beginning to take a closer look at the anticompetitive pathologies of interchange fees. **Congress held two hearings** during the past year—one in the House in February and the other in the Senate in July. At both hearings, Visa and MasterCard representatives were grilled on their marketing and promotional practices and had a very tough time defending the merits of their fee structure. Senate Banking, Housing and Urban Affairs Committee Chairman Christopher Dodd (D-CT) plans to hold a hearing later this year. The Senate Homeland Security and Government Affairs Committee may include the issue in its investigation of abusive credit card industry practices and fees.

The number of states considering legislation affecting interchange fees has more than doubled since last year. **Nine states have introduced 17 different bills** concerning interchange fees, ranging from proposals to prohibit card-issuing banks from charging interchange fees on the sales tax portion of a retail transaction to requirements that credit card companies fully disclose their rules and policies to merchants and consumers.