

# The REAL Credit Card Swipe



***Huge, hidden credit card interchange fees encourage reckless lending by big banks. Congress can't fix financial services without reforming credit card interchange fees***

FACT: The **10 biggest banks**, the ones that are being bailed out by the taxpayers, are also responsible for over 90% of **credit cards** issued to consumers.<sup>1</sup> Their **credit card business model leads to indiscriminate lending** and largely **ignores delinquencies**.<sup>2</sup>

FACT: How? **It's all in the swipe**. Card issuing **banks** collect **fees** on **every credit card transaction**, regardless of **whether or not** the **consumer** ultimately **pays** their **credit card bill**. The card issuer receives approximately **\$2 of every \$100 spent in stores** in the form of a **hidden fee** known as **interchange**, paid by the merchant and ultimately **all consumers** in the form of **higher prices**, amounting to **\$48 billion** this year alone.

FACT: Because **interchange** is based on transaction volume, it creates a **perverse incentive** for the big banks to **issue as many cards** as possible. By creating a **huge revenue stream unrelated to credit risk**, lucrative **interchange** fees **encourage** big bank **card issuers** to engage in **reckless lending**.

FACT: Just like they did with sub-prime mortgages, the big **banks** have **compounded** this **problem** by **shifting** much of the **credit card loan risk** to investors **through securitization**, transforming the credit card debt into a floating pool of assets used to pay off bonds. If the pool turns out not to be large enough, the bond investors take the loss. And the **big banks** can make **extra money** if they **jack up fees** and **interest rates** – the situation card holders face today -- even if that **puts borrowers at greater risk** so **they default**. This is a **heads I win, tails you lose** situation **for big banks**.

FACT: The **hallmark** of big bank **credit card pricing** is burying **tricks and traps** in long, confusing disclosures **to snarl** even the **wariest consumer**. It's the **same for merchants: thousands** of pages of **complex rules, dozens of skyrocketing interchange fees**, all designed to trip up everyone from the corner **Mom-and-Pop** to the **largest ones**.

FACT: **Congress** should **make interchange** fees and practices **transparent** and **open to negotiation**. It is **time to protect taxpayers** from the **fee-driven mania** behind **reckless big bank credit card lending**.

***"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself included, are in a state of shocked disbelief,"***

~Alan Greenspan, House Committee on Oversight and Government Reform, October 23, 2008



<sup>1</sup> In fact, just 3 of the Top 10 banks, [J.P. Morgan Chase](#), [Bank of America](#) & [Citigroup](#) account for 60%-odd of outstanding credit card debt Nilson Report (6/30/08)

<sup>2</sup> [The Debt Trap: Banks Mine Data and Woo Troubled Borrowers](#), New York Times, 10/22/08