

# Should the Fed regulate 'swipe fees' for debit cards?

## Yes.

Swipe fees hurt small retailers, drive up costs for consumers.

By John Heavener

Congress currently has the opportunity to throw an economic lifeline to consumers and retailers alike, who are struggling through the recession, by giving them relief from the fees that retailers must pay to issuers of debit cards. That opportunity is the financial reform regulatory package awaiting final passage in Congress.

Georgia Reps. Sanford Bishop (D-Ga.), Hank Johnson (D-Ga.), John Linder (R-Ga.) and David Scott (D-Ga.), along with Sen. Saxby Chambliss (R-Ga.) served on the conference committee which determined the fate of this issue.

The bill would regulate the fees that Visa and MasterCard demand from businesses for debit and credit card transactions. Debit cards, virtually plastic checks, have no risk for banks as money is debited directly from an existing account. And while there is no charge for processing paper checks, debit card transactions have uncapped fees, which sometimes reach 2 or more percent of the amount purchased.

According to Sen. Richard Durbin (D-Ill.), the author of the debit-card language, "There is no meaningful competition or negotiation involved in the setting of interchange fees. In fact, two companies are the dominant electronic payment players with 70 percent of the market, amounting to an estimated \$30 billion in interchange fees last year."

In today's environment, most businesses can't operate if they don't take Visa and MasterCard. But unlike every other vendor retailers deal with, the credit card companies will not negotiate their fees — and



small businesses pay the highest rates. One local grocer says that, "Last year, Visa and MasterCard's fees cost me more than all of my employees' health care costs combined." For many small businesses, Visa and MasterCard take more from a business's revenue than the owners do.

The bill being considered by Congress can make that impossible.

Under the bill negotiated by the House-Senate conference committee, the Federal Reserve would set "reasonable and proportional" fees for the actual costs of such transactions (exempting small card-issuing banks with less than \$10 billion in assets).

The big credit card companies force businesses to take their cards for all purchases no matter how small the purchases. Yet the same card companies have raised minimum fees so high that small businesses actually lose money on such sales. In good times retail margins run 1 to 2 percent for large retailers and 2 to 4 percent for small retailers.

So the bank may be demanding more for a service than the retailer earns for all his efforts to finance, procure, advertise and stock the item. In this economy, where small retailers are fighting to keep their doors open, the banks can take the profits for a virtually no-cost processing of plastic checks.

The retailer is paying salaries, property and income taxes, collecting sales taxes and being an active part of his community, while the biggest credit card companies reap the rewards for little or no effort.

John Heavener is president of the Georgia Retail Association.

## No.

Fees offset risks born by card issuers; lower fees will mean fewer issuers.

By Mike Mercer

A controversial provision in the financial reform bill pending in Congress should be a big concern for consumers and needs to be taken out.

It has to do with debit interchange fees, which are what merchants pay to financial institutions for processing customers' debit card transactions.

These small fees help cover fraud, data security and operational costs of running the program.

At the 11th hour, the U.S. Senate added an amendment to the bill that enables the government to set restrictions on interchange fees with no assurances that consumers would benefit.

We believe that the Senate amendment should be separated from the financial reform bill and debated on its own merits.

Why? There are simply too many unaddressed and unanswered questions in this hastily prepared add-on. Among the issues that need to be considered:

● As long as plastic cards have been utilized, interchange fees have been set by the networks, such as Visa, MasterCard, Discover, American Express and others.

They have to balance the interests of both merchants and financial institutions: Charge too much and stores will not accept the cards; charge too little and financial institutions will not offer cards to consumers.

The amendment calls for the Federal Reserve Bank to set restrictions on interchange fees. What factors will the Fed use to set the interchange rate? Will it cover all operating costs such



as fraud, card issuance and call center operations?

● Merchants receive tremendous benefits when they choose to accept debit and credit cards as a form of payment. They are paid immediately at the point of sale and do not have to handle cash and bounced checks, or wait for a check to clear.

Nothing in the legislation requires these retailers to pass their savings on to consumers. What safeguards exist to ensure that consumers will benefit?

● The interchange fee helps credit unions offset the operational expenses and risk of an electronic payment system that supports popular products consumers want; need and enjoy. As not-for-profits, credit unions generally offer lower-priced card services.

The interchange amendment may destroy the ability of small issuers, such as credit unions, to provide debit card services to their members.

How would passage of this amendment change consumer payment behavior? Would consumers be forced back into the time-consuming practice of writing more checks? Would shoppers be forced to carry more cash?

The very real possibility is that the amendment will actually increase payment costs and decrease convenience for consumers.

We strongly urge our senators and representatives to support separating the interchange amendment from the financial reform legislation so that it can be discussed on its own merits to distinguish its real effects from its perceived benefits.

Mike Mercer is president and CEO of Georgia Credit Union Affiliates.