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# Interchange fees cost you more than you realize

 **Geoff Williams**  
Mar 4th 2010 at 3:30PM

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It's a fee we pay every day, but it's invisible. And if Robert Johnson is correct, it's strangling the economy.

For those of you who don't know what an interchange fee, a little introduction is in order. Interchange fee, meet the person reading this, whom you already know, if they have a pulse and a credit or debit card. Reader, meet the interchange fee, a charge that's billed to a merchant on every purchase you ever make with a credit or debit card (if you're using that debit card as a credit card).

The interchange fee is **usually around 2%** of the purchase price, although it can be as low as 1% and as high as 5%.

Technically, the store where you make the purchase pays the interchange fee, so if you're buying a TV for \$500, I'm not suggesting you're actually paying more than \$500. You're not. But some would argue that if the interchange fee was reduced to a more reasonable rate, that TV might actually be, say, \$490.

Others would argue that if the interchange fee disappeared altogether, we wouldn't see the savings because businesses wouldn't pass the savings on to their customers. On the other hand, every time an interchange fee is raised, there's some motivation for a merchant to raise prices.

In any case, that's where Johnson comes in.

Robert Johnson is the president of **Consumers for Competitive Choice** and the founder of **The Credit Card Con**, a consumer education Web site dedicated to telling the world just how bad the interchange fee is for the American economy. Visit the site, and you'll learn lots of fun facts, like "Despite technology that has lowered transaction processing costs, credit card swipe fees have tripled in less than a decade."

And "To make matters worse, less than 20% of these fees cover the actual cost of transaction processing, while the remaining 80% funds reward programs for a wealthy few and pads the profit margins of credit card companies and large banks."

Or how about this informational gem? American households pay \$337 each in annual interchange fees.

I recently spoke with Johnson, who rattled off several points on why nobody, save the executives at MasterCard and Visa, should be thrilled with the interchange fee.

### **The interchange fee is too high.**

Last year, American individuals and companies ponied up **approximately \$48 billion in interchange fees**. Less than \$10 billion actually went to the costs of transacting and processing the costs associated with credit and debit cards.

Johnson is quick to say that he believes there should be interchange fees to cover the cost of doing business for MasterCard, Visa and the other credit cards out there. He just feels that the current interchange fees are obnoxiously high.

"We believe the cost of the transaction is roughly one-eighth of the swipe fee that's actually charged," says Johnson. "That has significant implications for everyone, but most certainly for small businesses like a coffee shop or a convenience store that has to take that card for every purchase, no matter how small."

That's right. Visa and Mastercard force businesses to accept their card for every purchase, no matter how small, "and when they do that," says Johnson, "the business owner is essentially losing money. So it works as essentially a regressive tax on them, and it's a cost that they have to try to pass onto consumers, so we all end up paying it, even if you don't use a credit or debit card."

Johnson would like to see America's interchange fees modeled after those in Australia, which regulates interchange fees. There, merchants are charged 0.05% per transaction.

### **True credit card reform probably can't come until interchange fees are regulated.**

The way Johnson sees it, the fact that interchange fees weren't addressed in the Credit CARD Act of 2009 means a big loophole for credit cards to continue harming consumers' pocketbooks.

"Ironically, because the CARD Act does cap fees and makes it more difficult for the credit card companies to raise interest rates and impose new fees on consumers, it does create an incentive for the same companies to find new profit streams, such as raising the interchange fee." That, of course, may mean we'll see rising prices at our favorite stores and restaurants.

### **Regulating interchange fees could improve the job market.**

It sounds crazy until you hear Johnson's reasoning, which was influenced by **a report** by former U.S. Under Secretary of Commerce Robert J. Shapiro and economist Jiwon Vellucci. The report, titled "*The Costs of 'Charging It' in America: Assessing the Economic Impact of Interchange Fees for Credit Card and Debit Card Transactions*," suggests that if the interchange fees were reduced to what it actually costs per transaction and wasn't a profit maker for the credit card industry, "lower interchange fees would lead to the creation of 242,000 new jobs."

The largest gains, the report says, "would come in the finance, insurance, real estate, rental and leasing sector, followed by government, professional and business services, and manufacturing. Some 44,000 of the jobs would be created by small firms, 39,000 by medium-sized firms, and 157,000 by large firms."

"Talk about a stimulus that isn't going to cost us anything," quips Johnson.

But, as noted, **Congress isn't likely to do anything this year** to address interchange fees. That doesn't mean the situation is hopeless, though. Johnson thinks consumers need to start speaking out against the fees, and encourages consumers to visit his Web site, where they'll find letters to send to your Congressperson and/or a petition that you can sign.

"At the end of the day, numbers are the currency that we have to fight back," he said. "People sometimes don't appreciate how powerful a phone call or a letter from a constituent is. When we go into a Congressional office, one of the first things a staff member will tell us, is, 'Well, I haven't gotten any calls on that issue. Or, 'We've received three calls this week.' Being noticed by a member of Congress can ultimately lead to favorable action."

And it's just the fees Johnson has a problem with; he has no beef with credit cards themselves.

"The product is ingenious, solid and makes the consumer experience better. I don't think the solution is to do away with them," says Johnson, who uses plastic for his own purchases. But he points out that Visa and MasterCard control about 85% of the marketplace when it comes to credit cards. "The credit card mechanism isn't broken. The market power of Visa and MasterCard is out of whack."

And while the swipe fee may be named as such because there's a charge every time we swipe our card through the machine, increasingly, these fees are swiping income from businesses and consumers alike with no apparent end in sight.

*Geoff Williams is a regular contributor at WalletPop. He is also the co-author of the new book "Living Well with Bad Credit."*

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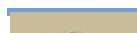
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