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SCHAKOWSKY RAISES CONCERNS ABOUT EFFECTS OF INTERCHANGE FEES ON CONSUMERS, SMALL BUSINESSES

WASHINGTON, DC - U.S. Representative Jan Schakowsky, ranking member on the Subcommittee on Commerce, Trade, and Consumer Protection, today raised concerns about the effects that interchange fees charged by credit card companies have on consumers and small businesses at a hearing before the Subcommittee.

Representative Schakowsky's opening statement is below:

We are entering into a "cashless" society. The year 2003 marked the first time ever that businesses and consumers made more payments electronically than by check. Today, for every one payment in cash, there are two made with bank cards. For merchants, banks, and consumers, a swipe of the card is the way to go.

What most consumers don't realize is that each time a card is swiped, an interchange fee is charged to the retailer. The interchange fee, a percentage of the total purchase, varies on whether a debit or credit card is used, the type of business at which the purchase is made, whether the business is big or small, and whether the card offers bonus programs - like frequent flier miles. Although the varying fee is meant to mitigate the risk to the banks, it is not linked to the cost for Visa or MasterCard - or the issuing banks - for processing transactions.

I'm concerned that merchants offset the interchange fees they are charged by the credit card companies by raising the prices consumers have to pay for the goods on the shelves. The credit card industry also benefits from those higher prices because transaction fees are a percentage of product prices. So, the more a product costs, the more money the banks make through the fees. And, the transaction fee is based on the product price- after tax. So, in effect, consumers are charged a Credit Card tax because their costs come on top of their true product cost and sales taxes. Consumers who spend and contribute to the economy should not be punished with higher fees. Americans are already struggling to contend with out-of-control energy and prescription drug prices. They should not have to empty their bank accounts just to fill their shopping carts. We should be looking for ways to help working families get relief rather than enabling an industry that reaps billions in profits every year.

Considering that the retailers are also responsible for paying interchange fees on the local, state, and federal taxes of every card transaction - on top of the purchase price, I think we are also seeing a Credit Card Tax on retailers. Furthermore, most merchants, with the exception of a few big box stores like Wal-Mart, cannot simply negotiate interchange fees. There is

nothing to stop the banks from setting whatever rate they choose. If stores want to accept debit and credit cards, they have to accept the fees the card issuers set. It is estimated by the National Association of Chain Drug Stores that the interchange fee is the third largest expense for those stores after rent and labor. Because we see so many small businesses struggling to get by, we need to ask tough questions about whether these fees, which are completely unregulated, are putting an undo burden on the corner store.

The interchange fee is a golden goose for the credit card industry. Fifteen percent of Visa's profits come from interchange fees alone. Some make even more. Banks collected an estimated \$30 billion in interchange fees last year - partially from switching consumers to more expensive cards, like the ones loaded with perks that also carry more expensive rates for merchants.

Currently, the merchants are fighting back. There are at least 47 lawsuits in the United States, many of which have been consolidated into one large suit, concerning interchange fees. The suits charge a number of banks and Visa and MasterCard with engaging collusive practices and setting the interchange fees at supra-competitive practices. Whatever the courts decide, I think it is our Subcommittee's responsibility to make sure that consumers are not saddled with higher prices and that the slim profit margins of small businesses are not eaten up by interchange fees.