



## We're in danger of backsliding on swipe fees

If debit reform is repealed, there goes the free market. Why risk Minnesota jobs to favor big banks in San Francisco and New York?

By Steve Williams | JANUARY 3, 2017 — 6:08PM

Unfortunately, that's not what we retailers face in our businesses.

Here's why: Every time you swipe a debit or credit card to pay for something, the bank that issued your card takes a huge bite for processing the transaction.

The two major credit- and debit-card companies, Visa and MasterCard, have grabbed so much power that they can price-fix these "swipe fees" at absurdly high levels.

Six years ago Congress said "enough." It told the Federal Reserve to make rules to open the debit-card market to competition.

Visa, MasterCard and the big banks, for instance, had tried to squash competing processing networks.

Visa just recently even used new technology it imposed on merchants at the checkout counter to trick customers into selecting only its processing services.

Without debit reform, the Federal Trade Commission wouldn't have had reason to investigate Visa and embarrass it into scrapping its underhanded ploy.

Reform, in the form of the Durbin Amendment to the Dodd-Frank financial bill, also required banks to quit squeezing merchants on fees.

Even though it limited the fees to prevent the banks from taking advantage of merchants and consumers, the measured reforms still allow banks to mark up their swipe fees 500 percent.

And, for the first time, reform gave banks an incentive to compete. They can charge whatever swipe fees they like as long as they don't use the price-fixed fees set by Visa and MasterCard.

This is starting to look and behave more like a free market. (And, by the way, only the 100 largest banks are subject to any of these rules. Your neighborhood bank or credit union is exempt.)

Yet the big banks, accustomed to years of gouging merchants and consumers, fought back in pursuit of their own narrow interests. In September they persuaded a small majority of the House Financial Services Committee to vote to repeal Dodd-Frank, and with it debit reform.

If debit reform is repealed, there goes the free market. We go back to something more like the old days of the robber barons who ruthlessly ran roughshod over other companies and people — only this time it's the big banks and credit card companies.

Competition not only means lower prices for consumers: It also gives small businesses a fair shake (swipe fees are now retailers' second-largest operating cost after labor, a crushing burden).

And perhaps most important, it creates jobs that can't be shipped overseas.

In my business, gas stations and convenience stores, I employ 400 people at eight locations. As with almost every other convenience store, the banks take more in swipe fees than I earn in profits.

My company is sound — in fact, we're opening a ninth location — but not all small businesses in Minnesota stand on such firm ground.

That's why it's so important to understand that even modest debit reform supported 300 jobs in the state in its first year alone, 2012, according to a noted economist, and saved Minnesota consumers more than \$108 million.

Let's face it: Minnesota's been doing OK, but it could be better. The former chief economist of the federal Commerce Department studied our economy recently and found that over the last 15 years Minnesota has had only average economic growth.

And lately the unemployment rate has been edging up.

Do we really want to load down our small retailers with these outlandish swipe fees at a time when every job assumes even more importance?

That's why people should tell their legislators in Washington we need a fair and free market for debit cards. We can't afford to lose what progress we have

made. The cost in jobs, hardships to families and small businesses, and the dent in our economy would be just too great.

And once we've kept the debit market free, we need Congress to take a hard look at the market for credit cards.

*Steve Williams is president of Bobby & Steve's Auto World.*

# The Augusta Chronicle

## Let's not roll back debit-card reform that helps small businesses get by

Posted December 24, 2016 11:40 pm - Updated December 24, 2016 11:49 pm

By [Wogan S. Badcock III](#) | Guest Columnist

I'll bet you don't know that every time you pay for lunch or buy a pair of shoes using a debit or credit card, your bank takes a huge chunk off the top that raises the price of everything you buy.

It's also the bane of merchants like us, who are constantly struggling with slim profit margins.

And if a fat slice of profit is going right out our doors every time a customer swipes a card to buy a piece of furniture from one of our stores, we can't expand as fast, either. That hurts our economy here in Georgia and nationwide.

For some retailers, these "swipe fees" threaten their very survival.

The bank that issued your debit card gets to snatch up a *500-percent* markup for processing purchases because it doesn't have to compete with other banks. According to the Federal Reserve and the banks' own figures, they're charging almost a quarter for a service that costs them less than 4 cents.

Why? Visa and MasterCard so dominate the debit-card market that, without competition, they can price-fix fees for their member banks.

Congress finally did something about this uncompetitive corner of American business by passing the Durbin Amendment, which took effect five years ago.

Under this reform, there must now be two competitors available to handle transactions, bringing some competition to the market.

And reform also limited price-fixing by cutting somewhat the outrageous fees banks were charging and giving them an incentive to compete instead.

As you can see from the 500-percent markup banks are still getting, debit reform has a way to go to bring unfettered competition to the market.

Still, in our own business, debit reform saved us \$1 million last year in these outlandish swipe fees. We used that money to open over 30 new furniture stores

across our eight-state market. That means new jobs and all the capital investment that go with these openings.

An economist who studied reform, in fact, found that in the first year alone it saved consumers \$6 billion and supported 37,000 jobs.

In Georgia, the numbers were \$163 million and more than 1,000 jobs.

But the big banks have been complaining ever since. (debit reform doesn't cover small banks and credit unions.)

In September they persuaded the House Financial Services Committee to narrowly approve a bill repealing debit reform. Even a little competition was just too much for these gigantic financial institutions.

That's why it's important for consumers – and voters – to know about this obscure \$50 billion swipe-fee business that raises prices for everything from furniture to food, even if you don't use a card.

In fact, swipe fees hurt most the poorest people – the ones who don't usually even have a card, according to a Harvard Business School study.

Now, Georgia's making a nice recovery from the Great Recession. Job growth is strong. Home sales are rising – always good news for people like us who sell furniture – and foreclosures are way down.

Why would Congress want to repeal reforms that lower prices for consumers, help small businesses and bolster the health of our economy? Why would Congress want to hurt the largest creators of jobs in the private market place?

In fact, I can't think of a single reason how this would benefit anyone but banks already making profits that would be the envy of any businessperson – and especially retailers, whose profit margins are usually in the low single-digits.

Congress needs to take debit reform further, not repeal it. And it needs to address credit cards, where profit margins dwarf debit cards, and which Congress and regulators have yet to address.

So now we know what's *really* in our wallets.

*Mr. Badcock is executive vice president of the Badcock & more furniture chain of 330 stores, including 75 in Georgia.*

# PaymentsSource

## PayThink Repealing 'Durbin' would harm free markets for merchants and banks

By John A. Zikias  
November 01 2016, 12:01am EDT

The House Financial Services Committee recently voted with bipartisan opposition to repeal Durbin Amendment reforms.

Repeal is a terrible idea that benefits no one but the nation's largest banks and dominant card companies, while harming consumers.

First, before reform, there is no question this was a market with little competition. Visa and Mastercard paid their member banks to block other companies from processing debit transactions for merchants. The number of companies processing these transactions has plummeted from the triple digits to a mere dozen now.

Under reform, there must now be two competitors available to handle transactions, bringing some competition to the market.

Visa and MasterCard also price-fixed the fees their banks charged merchants to handle transactions every time a customer swiped a debit card to pay for an oil change or lunch in a restaurant or buy new shoes.

Reform limits the banks' ability to price-fix these fees and, for the first time, gives banks an incentive to compete on these fees.

The Philadelphia Federal Reserve, the federal Government Accountability Office and others have studied reform and found that competition has benefitted consumers, merchants, small banks and credit unions, and the economy overall.

It's also indisputable that reform hasn't ravaged big banks. According to the figures they report to the Federal Reserve, they're still getting an average 500 percent profit markup on each transaction. The Fed's figures show that an average debit transaction costs the bank just over 4 cents to process, but the price-fixing limits allow a charge of 24 cents on average. That huge margin is why

the banks still don't take the incentive to charge anything they want by competing on price – even the regulatory limits are a huge windfall.

In fact, those margins would be the envy of any retailer, whose margins are typically in the single digits on high volume products such as gasoline. Retailers have to figure the cost of these fees, which have become the second-largest operating cost after labor on average, into their prices.

And retailing is so highly competitive that as these fees fall under reform, retailers must lower prices in order to compete.

It's also indisputable that even banks are benefiting from reform. For instance, all but 100 of the nation's largest banks are exempt from debit reform. So small banks and credit unions have actually benefitted from reform and gained market share against their large competitors according to Philadelphia Fed figures.

The renewed competition has stirred innovation in other areas, too, such as keeping the banks' cards safe from theft.

Finally, high card fees hurt consumers through higher prices, even if they don't use a card. And especially vulnerable, says Harvard Business School Professor Benjamin G. Edelman, who has studied this issue, are poor people who don't even use cards much.

Don't let Congress turn back the clock to big bank pay-offs to block competition and renewed price-fixing. Let the free market work, and let all benefit.



***John A. Zikias***

John Zikias is COO of Holmes Oil, which operates 25 Cruizers Convenience stores in North Carolina.