

FREQUENTLY ASKED QUESTIONS

What are swipe fees?

Banks collect from merchants a percentage of each transaction every time a customer uses a credit or debit card to pay for a purchase.

How much do swipe fees cost merchants?

Merchants usually pay from 2 to 4 percent of the amount charged. So between \$2 and \$4 on every \$100 purchased on a credit card goes to the banks. Merchants pay \$50 billion annually in credit and debit swipe fees, much of it a windfall for the banks because it costs them only a few pennies to process the transaction, making for huge profit margins.

How much do swipe fees cost consumers?

Swipe fees add to the price of everything we buy, even if we don't use a credit or debit card. They cost the average family more than \$400 every year.

How are credit card swipe fee rates fixed?

Visa and MasterCard, which control 80% of the market, dictate the amount of fees their member banks charge. The fees, fixed secretly and hidden from consumers, cannot be negotiated and are not adequately disclosed to merchants or consumers. In fact, swipe fee rates vary by card, so a merchant never knows what the fee will be for any transaction. Visa has more than 70 swipe fee categories; MasterCard has more than 240.

Because there is no competitive market for these fees, Visa and MasterCard can raise them as they see fit. This is illegal price-fixing that hurts consumers and merchants.

Don't these fees just cover the cost of processing transactions?

This is what the banks would have you believe. The truth is that with advances in technology and the rapidly rising use of cards, each transaction costs the banks mere pennies. So they are reaping profit margins of thousands of percent. Often, the swipe fee is higher than what merchants – in a highly competitive industry with skimpy profit margins – earn on a sale. Nevertheless, swipe fees keep rising. In fact, they have tripled since 2004 even though technological improvements and increasing volume have driven down the cost of processing a transaction.

Are swipe fees in the U.S. the same as in other parts of the world?

No. The U.S. has the highest swipe fees in the world, seven times higher than the standard European rates and more than four times larger than in Australia, even though there is higher volume and low technology costs here.

How is the E.U. keeping these escalating fees in check?

The European Union has been challenging Visa and MasterCard for years over exorbitant swipe fees. The EU, for instance, brought antitrust charges against Visa Europe in 2009, and, in 2012, the EU's second highest court upheld a European Commission finding that MasterCard's cross-border interchange fees ran afoul of EU competition rules.

In April 2014, the European Parliament approved a 0.3-percent cap on credit-card swipe

fees. Members of Parliament also put a seven-Euro-cents cap (around a dime in U.S. currency) on debit card transaction, or 0.2 percent of the transaction value, whichever is lower. The commission estimates the caps will cut European swipe fees in half when the law becomes final after the 28 E.U. countries ratify it.

How did the Durbin Amendment to the Dodd-Frank financial reform law of 2010 affect swipe fees?

The Durbin Amendment only applied to debit-card swipe fees charged by the largest banks in the nation – those with more than \$10 billion in assets. When this reform aimed at making swipe fees reasonable went into effect in October 2011, the average swipe fee on debit cards from covered banks dropped from 48 cents to 25 cents per transaction.

According to a 2013 study conducted by the prominent economist Robert Shapiro of Sonecon LLC, the reform saved consumers \$5.8 billion in lower prices on goods and services and saved merchants \$2.6 billion in 2012, the first full year under the reform. The savings in turn created 37,501 new jobs. (The report is at <http://21353cb4da875d727a1d-ccea4d4b51151ba804c4b0295d8d06a4.r8.cf1.rackcdn.com/SHAPIROreport.pdf>)

These savings and job gains would have been substantially larger if swipe fees had been cut to 12 cents, the largest amount that the Federal Reserve originally proposed as a possibility. That would have saved consumers an additional \$2.79 billion, saved merchants \$1.2 billion in excessive fees and created an additional 17,824 job. Unfortunately, the Federal Reserve scrapped that proposal and did not follow the Amendment as passed by Congress. That issue is currently being pursued in the courts in the hopes that the fees can be reduced so merchants and their customers can see more savings.

If swipe fees for all credit card transactions were also held to the same level as debit fees under the Durbin Amendment, how much would consumers and merchants save?

According to the Shapiro study, if swipe fees for all credit card transactions had been held to the same level as debit fees in 2012, consumers would have saved an additional \$15.4 billion and merchants would have saved another \$6.9 billion, which could have supported 98,600 additional jobs per year.

Did the lower swipe fee cost mandated by the Durbin Amendment force banks to do away with free checking options?

No, in fact, just the opposite happened.

Ever since the idea of reforming debit swipe fees came to the fore, the banking industry has been peddling doomsday scenarios about how lower caps would hurt consumers. But a comprehensive report released by the Kansas City Federal Reserve in 2013 punctured that claim, exposing it as nothing more than a bogus threat. (See the report at <http://www.kansascityfed.org/publicat/econrev/pdf/13q4Sullivan.pdf>)

According to the report, which looked at checking fees before and after debit reforms, free checking actually increased after reform took effect. In fact, the share of small banks offering free checking rose from 37% to 44% between 2011 and 2012, the Kansas City Fed found.

What is the Merchants Payments Coalition?

The Merchants Payments Coalition, or MPC, represents the nation's retailers, department stores, supermarkets, drug stores, convenience stores, gasoline stations, on-line merchants and others on the issue of exorbitant swipe fees. MPC represents more than 2.7 million businesses and approximately 50 million employees.

The mission of MPC is to achieve a more competitive and transparent credit card fee system that better serves American consumers and merchants alike.

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