



FOR IMMEDIATE RELEASE
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CARDIN, SNOWE, HARKIN ASK GAO TO INVESTIGATE CREDIT CARD INTERCHANGE FEES

WASHINGTON DC – U.S. Senate Small Business and Entrepreneurship Committee Members **Benjamin L. Cardin (D-MD)**, Olympia J. Snowe (R-ME), Tom Harkin (D-IA) have requested that the Government Accountability Office (GAO) investigate the structure of credit card interchange fees, which are used to reimburse credit card companies for processing transactions. While credit card companies contend that consumers and businesses receive great benefits from the current system, merchants are concerned that card issuers are pushing the cost of credit card incentives and rewards programs onto businesses and consumers through interchange fees. To examine both sides of the issue, the Senators asked GAO to take a balanced look at whether fees are properly disclosed, how the fees are set, and the level of competition in the marketplace.

“Interchange fees constitute significant surcharges which are passed on to Maryland businesses and consumers,” said **Senator Cardin**. “We need a balanced review to determine if merchants have appropriate bargaining power to negotiate fair and reasonable rates with companies like Visa and MasterCard, who control the majority of the market. Greater transparency, negotiation, and competition can only be of help to the credit and debit payment system.”

To bring clarity to how complex interchange markets work, Senators Cardin, Snowe, and Harkin have asked GAO a number of questions, including:

- Under existing U.S. laws, to what extent are interchange fees required to be disclosed to consumers and merchants and how are these disclosures overseen by federal banking or other regulators?
- What is the level of competition in the interchange fee market?
- What options do small merchants have to reduce the cost associated with payment card acceptance?

Finally, the Senators asked that GAO provide recommendations, which Congress, Federal regulators, and the private sector may consider, on the current structure of the interchange markets and how small merchants can better negotiate fees.

The text of the letter is below.

July 28, 2008

Mr. Gene L. Dodaro
Acting Comptroller General of the United States
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro:

We would like the Government Accountability Office (GAO) to investigate the structure of credit card interchange fees and markets. Currently, Congress is hotly debating credit card interchange fees. The credit card companies argue that consumers, businesses, local regional banks, and small merchants receive great benefits from the credit card system which is supported by interchange fees. They assert that because of interchange fees, and the credit networks they support, small merchants do not directly bear the cost of issuing credit, collecting on accounts, covering card defaults, and finding consumers and banks willing to accept their cards. Comparatively, many small merchants are concerned that the credit card companies are pushing the cost of credit card incentives and rewards programs, such as airline miles, onto merchants and consumers through interchange fees. They assert that the current structure of credit card markets limits merchants' ability to negotiate lower interchange fees and allows credit card companies, card issuing banks, and the consumers who collect card benefits, to keep from paying the full costs of their rewards.

Interchange fees reimburse credit card issuers for a portion of the costs they incur when providing card services. Merchants can pay different interchange fees depending on the rewards and rebates that are provided by the cards their clients use. Cards that provide rewards to card holders tend to be more expensive for merchants to process than non-rewards cards or debit cards. For example, if two consumers purchase the same amount of gas from a service station and one consumer pays with a rewards credit card, and the other pays with a debit card, the gas station owner will likely incur two different interchange fees for accepting these payments.

The complexity of interchange markets, and the fact that any regulatory or legislative changes will significantly impact both credit card companies and small merchants, makes it prudent that we seek the GAO's assistance on this issue. In your investigation into the costs and benefits of interchange fees please answer the following questions:

1. Under existing U.S. laws, to what extent are interchange fees required to be disclosed to consumers and merchants and how are these disclosures overseen by federal banking or other regulators?
2. What is the level of competition in the interchange fee market? Based on existing evidence, how does the current structure of the interchange fee market impact small firms' ability to negotiate lower interchange fees? To what extent have federal antitrust authorities addressed competitive concerns in this marketplace?
3. What options do small merchants have to reduce the cost associated with payment card acceptance, including negotiating merchant discount fees with acquirers, co-branding card arrangements, or entering into incentive agreements? How effective are these methods at increasing small merchants' negotiating ability and reducing their interchange fees?

4. How is the market for merchant acquiring and processing services structured, how does this structure affect competition and small merchants' ability to negotiate with the card associations and banks for better terms? Do all merchants pay the same amount to have card transactions processed? If not, what accounts for the difference?
5. How do restrictions on price discrimination, such as setting minimum purchase amounts, and discriminating against high cost cards, impact small firms' negotiating power and profitability?
6. What costs and factors are incorporated into interchange fees, such as advertising, bonus miles, and rewards? How do these factors vary across cards and impact interchange fees? In answering these questions, please compare how the practice of including card rewards in interchange is regulated in the United States versus internationally.
7. How would regulating the costs associated with payment card impact the amount that consumers pay for having and using payment cards?
8. How do interchange fees assist smaller financial institutions, such as community banks and credit unions, compete against larger financial institutions? How would setting a price-ceiling, or other types of regulatory restrictions on interchange fees, impact the local community banks that collect part of these fees?

In addition, we ask the GAO to provide options, which Congress and the private sector may consider, as well as recommendations to Federal regulators on the current structure of the interchange markets and how small merchants can better negotiate interchange fees.

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