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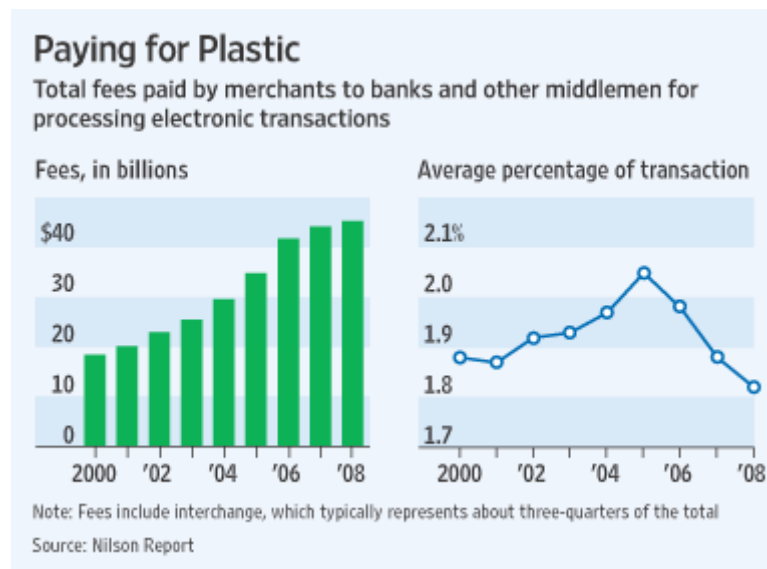
Interchange Fees Step Into the Spotlight

By ROBIN SIDEL

After buckling to pressure on overdraft fees, the banking industry is trying to fend off an attack on an even bigger cash cow.

U.S. banks raked in \$45.3 billion last year from credit- and debit-card fees charged to merchants. About 75% of that comes from interchange fees set by Visa Inc. and MasterCard Inc.

Overall merchant fees, including other revenue collected by banks and processing middlemen, are up 78% from \$25.5 billion in 2003, according to the Nilson Report, a Carpinteria, Calif., newsletter that tracks the payments industry.



In comparison, U.S. banks took in \$39.5 billion in revenue last year from service charges on deposit accounts, according to the Federal Deposit Insurance Corp.

While card companies and merchants have long battled over interchange fees, the feud is intensifying because of the banking industry's political vulnerability in the wake of government bailouts and the passage of tough new rules on credit-card fees and rates set to take effect in February.

At a House Financial Services Committee hearing earlier this month, some lawmakers expressed interest in potential rules on interchange fees; various bills that would set or change limits have been proposed. The Government Accountability Office, the investigative arm of Congress, is expected to release a report on interchange fees next month.

"I would much rather be the retail industry than a member of the credit-card industry at this point," said Mallory Duncan, general counsel for the National Retail Federation, a retail-industry trade group.

Credit-card companies attribute much of the fee surge to the shift to electronic payments from cash. The popularity of debit cards has accelerated the move, especially on purchases of small-ticket items. Merchants counter that the jump in interchange fees reflects higher rates overall and the industry's push toward rewards-laden credit cards that carry higher fees than no-frills cards.

Interchange fees typically include a flat transaction charge plus a percentage of each purchase, varying by the type of merchant and card. Debit cards carry lower interchange fees than credit cards, but fees on those cards are rising as debit cards become more popular.

Merchants in the U.S. paid an average interchange rate of 1.82% per transaction last year, down from 1.93% in 2005, according to the Nilson Report, bolstering the industry's argument that fees are falling.

This year's showdown over credit-card fees and rates pitted banks against consumers and lawmakers, who used taxpayer-funded lifelines during the crisis as leverage to win concessions from the financial industry.

In contrast, consumers aren't in the middle of the interchange-fee battle, though merchants and banks are jockeying to claim they are on the same side as Americans who carry debit and credit cards.

Visa, of San Francisco, recently launched an advertising campaign that emphasizes merchants have the flexibility to negotiate rates from various card processors and can steer customers to multiple payment options.

"We remain confident that our constituencies understand that interchange is pro-competitive and central to expanding electronic payments," said William Sheedy, who oversees Visa's relationships with card issuers, merchants and processors in the Americas.

Visa and MasterCard also have attacked a petition by convenience-store operator 7-Eleven Inc. The petition included 1.6 million signatures urging Congress to address interchange fees.

The two card companies say customers didn't know what they were signing. Keith Jones, head of government affairs at 7-Eleven, a unit of Japanese retailer [Seven & I Holdings](#) Co., said the petition was clear.

"We are going to keep fighting because these fees keep increasing," he said, adding that 7-Eleven doled out \$160 million on credit-card fees last year. That was the Dallas convenience-store chain's largest expense after labor and electricity.

Card-industry executives believe that lawmakers are reluctant to step into what is essentially a business dispute.

"I think it will be very difficult for merchants to push this legislation through given the other priorities that Congress is focused on right now," said Shawn Miles, head of global public policy at MasterCard.

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