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Highlights

Highlights of GAO-10-45, a report to congressional addressees

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CREDIT CARDS

Rising Interchange Fees Have Increased Costs for Merchants, but Options for Reducing Fees Pose Challenges

Why GAO Did This Study

When a consumer uses a credit card to make a purchase, the merchant does not receive the full purchase amount because a certain portion of the sale is deducted to compensate the merchant's bank, the bank that issued the card, and the card network that processes the transaction. The level and growth of these rates have become increasingly controversial. The 2009 Credit Card Accountability, Responsibility, and Disclosure Act directed GAO to review (1) how the fees merchants pay have changed over time and the factors affecting the competitiveness of the credit card market, (2) how credit card competition has affected consumers, (3) the benefits and costs to merchants of accepting cards and their ability to negotiate those costs, and (4) the potential impact of various options intended to lower merchant costs.

To address these objectives, GAO reviewed and analyzed relevant studies, literature, and data on the card payment market and interviewed industry participants, including large and small card issuers (including community banks and credit unions), card processors, card networks, large merchants representing a significant proportion of retail sales, and small merchants from a variety of industries, and academic experts.

GAO provided a draft of this report to the Department of Justice, the Federal Trade Commission, and federal banking regulators, and we incorporated their technical comments where appropriate.

View GAO-10-45 or key components.
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What GAO Found

According to Federal Reserve analysis, total costs of accepting credit cards for merchants have risen over time as consumers use cards more. Part of these increased costs also may be the result of how Visa and MasterCard competed to attract and retain issuers to offer cards by increasing the number of interchange fee categories and the level of these rates. Concerns remain over whether the level of these rates reflects market power—the ability of some card networks to raise prices without suffering competitive effects—or whether these fees reflect the costs that issuers incur to maintain credit card programs. Issuers, particularly smaller issuers such as community banks and credit unions, report relying on interchange fees as a significant source of revenue for their credit card operations, and analyses by banking regulators indicate such operations traditionally have been among the most profitable types of activities for large banks.

Some consumers have benefited from competition in the credit card market, as cards often have no annual fees, lower interest rates than they did years ago, and greater rewards. However, consumers who do not use credit cards may be paying higher prices for goods and services, as merchants pass on their increasing card acceptance costs to all of their customers.

For merchants, the benefits of accepting credit cards include increased sales and reduced labor costs. However, representatives from some of the large merchants with whom we spoke said their increased payment costs outstripped any increased sales. These merchants also reported that their inability to refuse popular cards and network rules (which prevent charging more for credit card than for cash payments or rejecting higher-cost cards) limited their ability to negotiate payment costs. Interchange fees are not federally regulated in the United States, but concerns about card costs have prompted federal investigations and private lawsuits, and authorities in more than 30 countries have taken or are considering taking actions to address such fees and other card network practices.

Proposals for reducing interchange fees in the United States or other countries have included (1) setting or limiting interchange fees, (2) requiring their disclosure to consumers, (3) prohibiting card networks from imposing rules on merchants that limit their ability to steer customers away from higher-cost cards, and (4) granting antitrust waivers to allow merchants and issuers to voluntarily negotiate rates. If these measures were adopted here, merchants would benefit from lower interchange fees. Consumers would also benefit if merchants reduced prices for goods and services, but identifying such savings would be difficult. Consumers also might face higher card use costs if issuers raised other fees or interest rates to compensate for lost interchange fee income. Each of these options also presents challenges for implementation, such as determining at which rate to set, providing more information to consumers, or addressing the interests of both large and small issuers and merchants in bargaining efforts.