

Debit Card Fast Facts: Low Income Consumers Hurt Most by Swipe Fees

Fact # 7: Credit and debit card swipe fees are having a negative impact on all consumers, but particularly the unbanked who are subsidizing card use by high-income cardholders because the price of credit and debit card fees is buried in the cost of all good and services customers buy.

The **Hispanic Institute** found that the business model by which fees are embedded in retail prices (with hidden fees and rewards for affluent cardholders), leads to a regressive transfer of wealth from low-income consumers to high-income consumers of more than \$1 billion per year.¹

The **Boston Federal Reserve** came to a similar conclusion: “What most consumers do not know is that their decision to pay by credit card involves merchant fees, retail price increases, a nontrivial transfer of income from cash to card payers, and consequently a transfer from low-income to high-income consumers.”²

The **Federal Reserve Payments staff** when asked about the potential impact of the interchange proposed rule on consumers (12/16/10 Board of Governors meeting) said the following: “So we think the effect of this rule on consumers is difficult to predict, but we do have some observations. Today merchants generally pass on the cost of debit card acceptance, which includes interchange transaction fees, to consumers for higher prices for their goods and services because merchants generally don't distinguish between various forms of payments in their pricing. Consumers that use cash or checks may pay more than if the cost of card acceptance were not reflected in the price of goods or services. So given reductions in interchange fees and in overall debit card acceptance cost, merchants could choose to pass the savings through which could benefit both the consumers that primarily pay with cash or checks, as well as debit card users. We expect this would be most likely to happen, that is, lower costs would most likely be passed on to consumers, in those markets with lower margins and intense price competition.”

Lastly, **Federal Reserve Governor Sarah Raskin** noted in the 12/16/10 Board of Governors meeting: “First of all, the interchange fee system is one that is pretty much hidden from consumers and the public, and most people have no idea that interchange fees exist and that they're paying for services that they may not even use. As you brought out the interchange fee is brought out by the issuing bank, paid by the merchant, and the merchant as you told us likely passes the fee on to the consumer in the form of higher prices for the underlying product or service, and as a result it's highly likely that all consumers, whether or not they are using a debit card for their purchase, are paying more at the store, paying more at the pump, because these interchange fees are being passed on to them. Again, regardless of whether or not they're using the debit card for their purchase or not. . . . And I think what we've heard in other comments around the table is this kind of regulatory intervention in which a regulator has to intervene in a market with better align pricing with costs, is unusual. In my mind the directive for this kind of intervention results from a market that is working less than competitively, and from that perspective I would note that the credit card issuing market has become significantly more concentrated over the past few years as numerous card issuers have merged. And the card network, as we know, also is dominated by only a few, in fact, two players, and there appear to be substantial barriers to entry. So these market features have had significant consequences for consumers.”

¹ Efraim Berkovich, Trickle-Up Wealth Transfer: Cross-subsidization in the payment card market, The Hispanic Institute, November 19, 2009, pg 5. http://www.thehispanicinstitute.net/files/u2/Trickle-Up_Wealth_Transfer_Paper.pdf

² Scott Schuh, Oz Shy, and Joanna Stavins, Who Gains and Who Loses from Credit Card Payments? Theory and Calibrations, Federal Reserve Bank of Boston, Public Policy Discussion Paper No. 10-03, August 31, 2010, pg 1. <http://www.bos.frb.org/economic/ppdp/2010/ppdp1003.pdf>