Say Goodbye to Hidden Credit Card Fees

Direct Banc - The U.S. Senate is currently considering a bill which could possibly save consumers that use credit cards on a regular basis. The Bill, Credit Card Fair Fee Act, sponsored by U.S. Senator Dick Durbin (D-IL), contends that credit card issuers have an unfair advantage in the marketplace based on the fact that they control 40% of retail transactions across the country. The legislation is specifically aimed at the bank's interchange fees that they charge on every credit card transaction.

These hidden fees charged by the banks are non-negotiable and force retailers to pass the charges along to the consumer. Under Durban's bill, retailers would have the option to engage in collective negotiations (i.e., by forming buying unions) in an attempt to obtain lower interchange fees. Reportedly, but unconfirmed, Wal-Mart and other giant retailers have the power to negotiate lower interchange fees giving them an unfair advantage in the marketplace.

Interchange fees are charged directly to the retailer from the bank that issues the credit card, they're usually around 2%. The issuing banks then kick up a portion of that fee to the brand name that is on the card, i.e. MasterCard or Visa. These fees are then deducted from the funds the retailer receives for the charges the consumer makes. All of these fees are hidden from the consumer, non-negotiable and have continued to rise in spite of a steady increase in credit card usage over the years.

Interchange fees were originally designed to offset the processing fees that banks incur from the extra work of "processing" the transactions. The portion that MasterCard or Visa receives was designed to cover marketing costs and a profit for the company. These fees now represent huge profit margins for the banks that issue the credit cards. All of these fees are eventually passed along to the consumer by the retailer who's held hostage by the banks that charge the fees. If Mr. Durban has his way, these fees will become negotiable for smaller retailers and theoretically reduce credit card costs for consumers.

Opponents to the bill, Keith Nelson, the principal deputy assistant attorney general, feel that the bill, in its entirety, will actually stifle competition and result in even higher fees to the consumer. The portion of the bill that he is referring to is the clause that would set up a three person regulatory commission to arbitrate prices should retailers and the credit card companies reach an impasse in their negotiations. He contends that this would amount to government price fixing and ultimately result in higher fees for the consumer as a result of the arbitration.

Direct Banc, an online credit card authority,believes that both sides are right and wrong with their assessment of how to go about fixing this problem. Transparency in the marketplace is a fantastic idea; it gives consumers a clear picture of the real costs that is associated with using a credit card. Banks fear that too much transparency will curb the use of credit cards which will dramatically affect their bottom line. On the other hand, government arbitration will cause banks to negotiate artificially higher prices than the market dictates in expectation of market changes or increased processing expenses.

The way we see it, the answer is pretty simple. The bill should only allow the brand names i.e. Mastercard, Visa, and Discover, to charge an interchange fee and mandate that this fee be shown on the transaction receipt. Then, prohibit the card issuers (the banks) from charging any "processing fees" on the retail transaction. This will force the banks to pass along their processing costs and profits directly to the consumers in the form of a fee that is printed clearly on their statement. By doing this, consumers will see exactly what their credit card usage costs them. Once banks are forced to show the hidden fees, this will create competition between the banks which will help lower fees for credit card customers.

About the Author

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