

[Bruce Edwards, Rutland Herald](#)

Small business owner Sheryl Trainor said it's the difference between "just barely scraping by" and making "a comfortable living and paying her employees a living wage."

The "difference," said Trainor, who owns Quechee Mobil, is what she regards as exorbitant "swipe fees" imposed for credit and debit card transactions.

With up to 80 percent of her business dependent on credit and debit card transactions, Trainor said it's why she supports legislation now before Congress that would break the stranglehold that banks and credit card companies have on transaction fees.

The "swipe fee" amendment to the comprehensive financial overhaul bill has the support of retailers around the state as well as Vermont's congressional delegation. The measure is opposed by Vermont's community banks and credit unions, who say it will raise costs that will be passed on to their customers.

Democratic Rep. Peter Welch, a key supporter of the amendment, said he expects the House-Senate conference committee that's working on the financial reform package will include swipe fees when the bill is voted on in committee.

The amendment passed the Senate as part of its financial reform bill but was not included in the House version.

Welch said the conference committee co-chairmen reached "an agreement in principle" on the amendment so it can be brought up for a vote. But he cautioned that Visa, MasterCard and the big banks have launched a last-ditch, "withering attack" to kill the amendment that retailers in Vermont and around the country argue would reduced burdensome credit and debit card transaction fees.

The Durbin amendment, as it's known for Sen. Richard Durbin, D-Ill., gives merchants the option to offer discounts to customers who pay with cash or check. It also allows retailers to set a \$10 minimum on credit card purchases. And more significantly, it gives the Federal Reserve authority to regulate swipe fees paid by merchants on debit card transactions, limiting fees to what is "reasonable and proportional" to the cost of the transaction.

Debit card fees represent a \$20 billion a year business with Visa and MasterCard controlling 80 percent of the market, according to a summary of the Durbin amendment. Exempt from the transaction fee regulation are government-issued debit cards (unemployment insurance, child support) and prepaid, reloadable cards.

Welch, who has long advocated for regulation, said transaction fees paid by merchants range from 1 percent up to 3 percent of each purchase. He called the fees a "brutal cost" for small business.

"I heard more about this from Vermont merchants than just about any other issue," Welch said.

He said the United States has the highest transaction fees in the world because the credit card industry gets to set the fees.

The legislation, however, does not regulate swipe fees merchants pay on credit card transactions. Welch said targeting debit card fees is a start and was more doable than immediately going after credit card interchange fees.

He added there's is no justification for card companies and banks to reap excessive fees on debit card purchases.

"We started with the debit card because the debit is just like a check," Welch said. "It's right out of your checking account. There is no expense or risk to the issuer of the card."

But Chris D'Elia of the Vermont Bankers Association said the interchange fees on debit card transactions are lower than fees levied on credit card purchases.

On its Web site, Burlington Bank Card, a credit and debit card processor, lists a Visa credit card interchange rate on retail purchases of 1.54 percent, plus 10 cents. For a debit card purchase, the fee is .95 percent, plus 20 cents. On a \$100 purchase, a retailer would pay \$1.64 cents on a credit card and \$1.15 on a debit card purchase.

At a Welch news conference this week, Katy and Eli Lesser of Healthy Living Market said their Burlington business paid \$225,000 in swipe fees last year and will likely pay \$350,000 this year.

Trainor said the fees on small transactions in particular are ridiculous.

She said a customer came into her Quechee store recently and used an American Express card to purchase two Sunday newspapers for \$8. The gross profit was 87 cents, she said, with the swipe fees lowering her net profit to just 54 cents.

"That's just not right," Trainor said.

Welch called an "absurdity" the argument put forth by Visa and MasterCard that "consumers will be better off if we let the monopolists continue to set the price and we'll be worse off if we put a cop on the beat (that) regulates rates so that they're fair and reasonable."

Like their counterparts across the country, Vermont's small banks and credit unions are opposed to the measure. They argue that curbing swipe fees will reduce their profits and force them to pass on those higher costs to their customers.

Welch said he's "puzzled" by the opposition. He said a special provision carved out of the

amendment exempts financial institutions with assets of less than \$10 billion. Large regional banks which do business in the state, including TD Bank and Citizens Bank, would come under the new debit card regulations. But Welch said the exemption would cover every community bank and credit union in the state.

It means Visa and MasterCard can maintain the same debit card interchange fees for small banks and credit unions.

But Joseph Bergeron, president of the Association of Vermont Credit Unions, said while the exemption is well-meaning, the legislation as written still puts credit unions and community banks at a disadvantage.

"There's nothing in the wording of the legislation that would mandate Visa and MasterCard to have a two-tiered system like that, a different system of interchange rates (on debit card fees) for institutions under \$10 billion versus those over \$10 billion," Bergeron said.

He said what will likely happen is that smaller banks and credit unions will see the fees they receive from MasterCard and Visa reduced as well.

But backers of the legislation said competition between the two card companies should ensure that one or both would establish a transaction fee system for financial institutions under \$10 billion. They say any collusion between the two card companies to circumvent the exemption would violate federal antitrust law.

Welch said since most Vermonters have "big bank debit cards" the regulation of interchange fees applies only to those banks and not to community banks and credit unions. He also said that in response to concerns raised by the smaller financial institutions the bill requires merchants to honor all debit cards not just ones with lower transaction fees.

D'Elia of the Vermont Bankers Association said the fees represent the cost of doing business for a service to merchants that guarantees payment, eliminates the risk of fraud from bad checks and reduces the amount of cash a merchant needs to have on hand. He said credit and

debit cards help to increase business for merchants.

He also said credit card companies do not prohibit merchants from offering a cash discount, something included in the amendment before Congress.

"I've never had a merchant give me a cash discount," he said. "If they're so worried about consumers paying for the system, when a consumer comes in with cash why aren't they helping them out."

While the number of credit and debit card transactions have increased, so have the fees charged by the credit card companies, said Jim Harrison of the Vermont Grocers Association.

Harrison said fees are increasing "because there's arguably very, very little competition between Visa and MasterCard."

He said while cash discounts may not be strictly prohibited, credit card rules work to discourage such discounts.

Welch said the federal legislation would build upon Vermont's first-in-the-nation law that regulates credit card fees.

For Trainor, the small business owner, the fees represent an effort by banks and credit card companies to move the country to a cash-less society.

"If the banks want to play that game, if they want a cash-less society, they should pay for it," she said. "Either that or charge the customer 2 percent of each transaction in order to use a credit card."

