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Merchants Win Debit-Card Fee Battle

House, Senate Agree to Give Fed Oversight of Processing Charges, Which Could Save Stores Billions

By MIGUEL BUSTILLO

Retailers stand to reap billions from the financial-overhaul legislation being finalized by Congress this week, possibly giving them a long-sought victory by slashing the "swipe fees" that credit-card companies charge merchants for every debit-card transaction.

Members of the House and Senate announced an agreement Monday to include the debit-card fee cuts in the final version of the overhaul bill—a loss for the financial industry, which had mounted a furious campaign to eliminate or water down the proposed regulations.



Getty Images

A customer checks out of a Home Depot in Burbank Calif., in January. The retailer is hoping a fee law passes.

Though it is unclear how much the estimated \$20 billion a year in debit-card fees paid by U.S. merchants would be reduced under Congress's proposal to have them regulated by the Federal Reserve—or what impact consumers might feel—some experts believe they could be cut by half or more, saving [Wal-Mart Stores Inc.](#) alone, the world's largest retailer, hundreds of millions annually.

Retailers, restaurateurs and gas-station owners have long complained about the so-called interchange fees charged by banks for Visa Inc. and MasterCard Inc. debit cards, which average roughly 1% to 2% of the total transaction amount—far more than similar fees to process paper checks. Such fees are regulated in dozens of countries, including France, Germany, Brazil and Mexico, but not in the U.S., where they are more than twice as high as in Europe.

"Every dollar we pay the credit-card companies is a dollar we can't pass on to consumers or use to hire employees or build more stores," said Scott Mason, vice president of government affairs for home-improvement retailer [Lowe's Cos.](#) "Literally you are talking about hundreds of millions of dollars."

The fee fight has morphed into a titanic Washington lobbying battle pitting credit-card companies and big banks such as J.P. Morgan Chase & Co. against retail giants such as [Home Depot Inc.](#) and [Target Corp.](#)

In arguing against the legislation, banks contend that they will be forced to raise other types of fees and eliminate rewards on debit cards to make up for lost interchange revenue.

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Community banks and credit unions have been particularly opposed to the measure even though they would technically be exempt, contending that it would force them to lower fees in order to compete with larger banks.

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"We continue to have concerns that the ultimate outcome of this legislation would be the passing of merchant acceptance costs to consumers at a time when Americans can least afford it," said Noah Hanft, general counsel at MasterCard.

The Senate in May approved a compromise amendment by Sen. Richard Durbin (D., Ill.) to have government review the fees on debit cards as part of its overhaul package. However, the proposal wasn't originally part of the House version of the bill.

The deal reached Monday would keep most of Mr. Durbin's proposal in the final legislation both houses must approve, but allows the Fed to look at a broader range of factors, including fraud prevention costs, when determining what fees card-issuing banks can charge.

The new language does relieve uncertainty for Visa and MasterCard by clarifying that the measure wouldn't restrict the fees that the debit-card processing networks charge to banks.

The legislation still only applies to debit cards, not traditional credit cards, and thus covers less than half of the annual interchange fees U.S. merchants pay, estimated at \$48 billion by the Nilson Report, an industry newsletter.

Retailers maintain that most of their fee-cut windfall would be shared with customers. Home Depot, among those lobbying most aggressively for the cuts, said: "Any relief as it pertains to these fees will give the Home Depot the ability to reduce our cost of doing business...Such benefits are likely to include lower prices and investment in the business to better serve customers."

However, the banking industry argues that the majority would likely wind up fattening company profits, noting that a report by Congress's Government Accountability Office found that experiences in Australia and other countries did not demonstrate a clear cost savings for consumers.

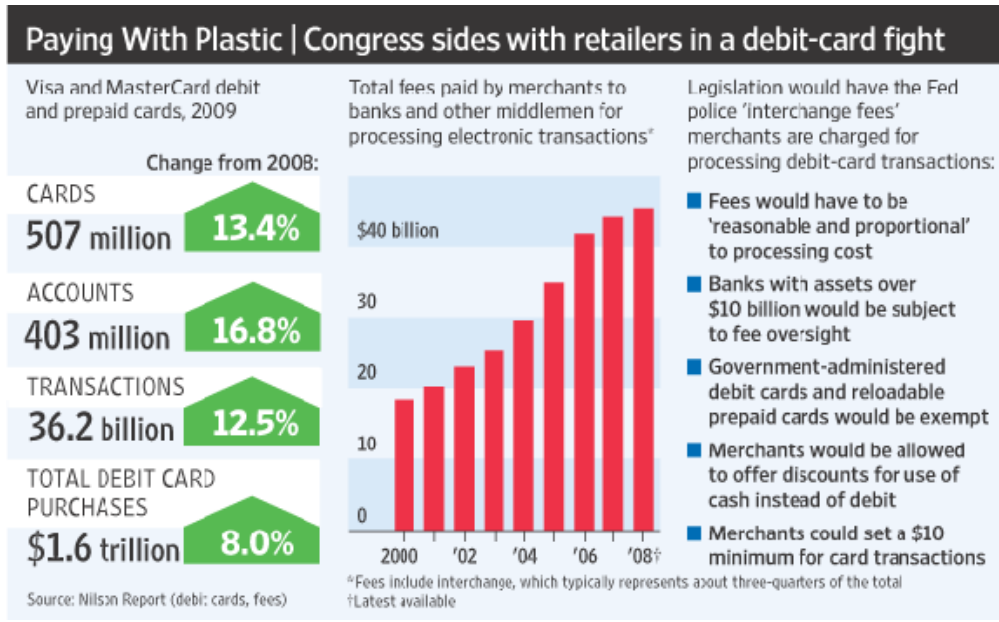
"We kind of view this as a direct transfer of dollars from the consumers' pockets to retailers' bottom line," said Ken Clayton, senior vice president of card policy for the American Bankers Association. "Who ends up feeling the burden from this? Financial institutions lose a revenue stream that allows them to offer other services to low-income consumers."

Wal-Mart declined to comment. But based on the Nilson Group's estimate that roughly 17% of merchants' transactions are now handled through debit cards, the retailer could reap more than \$250 million a year in savings from the fee limit. People familiar with the matter called it a conservative estimate for Wal-Mart, which reported more than \$300 billion in U.S. revenue last fiscal year.

Target representatives predicted a similar windfall for the retailer, saying that interchange fees rank just below payroll as one of the company's top store costs. "They do cost us hundreds of millions of dollars—an expense we cannot control—and become part of the cost of goods sold, which many people do not realize," said spokesman Eric Hausman.

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