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Welch pushes bill to trim back credit card fees on businesses

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MONTPELIER – Most Vermonters are familiar enough with the service charges, late penalties and interest payments tacked onto monthly credit card bills. But even consumers who avoid plastic altogether are paying indirect fees to credit card companies.

With every swipe of the card, retail businesses in Vermont and the rest of the nation pay companies like VISA or MasterCard a transaction fee. Those fees, industry analysts say, can add as much as 2 percent to the costs of goods and services in the state.

"Credit cards are very tough on our small businesses," Rep. Peter Welch said at a news conference Monday. "Any charges our small business owners have, they have to pass on to customers. And one of their biggest costs is credit card fees."

Welch said credit card companies – namely VISA and MasterCard, which control 85 percent of the market – operate behind a veil of secrecy allowing them to raise fees at will and without explanation. The Democratic Congressman said he'll introduce a bill later this week to impose new disclosure rules aimed at bringing transparency to the industry. The legislation also would direct the Federal Trade Commission to open an investigation into possible collusion by credit card companies.

"It's a near monopoly they have," Welch said of VISA and MasterCard. "And, as is often the case with monopoly power, it's abused." Joining Welch were some Vermont business owners who talked about the impact of the fees. Peter Annis owns the Black River Quick Stop in Springfield, a gas station and convenience store on River Street. On Monday, in the parking lot of Kurrle's Fuels, a gas station in Montpelier, Annis said he's paying more than \$800 a week in credit card fees.

"It's exorbitant," Annis said. "And it continues to grow and grow and grow as more people use credit cards."

Annis said credit card fees at the gasoline pump have erased his profit margins. He sold about 4,000 gallons of gasoline last week. At a profit of five cents per gallon, Annis said, he should have made about \$211. But credit card fees charged to him on those gas transactions totaled more than \$258.

"That's a net loss of \$47 for pumping gas all day long," Annis said. "Sooner or later, this has to stop."

Retail outlets pay a flat fee of 10 to 15 cents per transaction, plus a percentage of the total sale. That percentage ranges between 1.5 to 2 percent, depending on the type of card used.

Tasha Wallis, executive director of the Vermont Retail Association, said credit card fees represent the fastest-growing operating cost in her industry. Since 2001, she said, card-related costs have risen 117 percent.

"That's rising faster than health insurance costs, faster than energy costs," Wallis said. "These costs are a huge burden on our retailers."

Wallis said the spate of prime-time television commercials encouraging credit card usage on even the smallest of transactions are all designed to boost industry profits. Less than 13 percent of the transaction fee imposed on retailers, according to a study by the Food Marketing Institute, is for the actual cost of the transaction.

"The rest is profit," Wallis said.

This year, according to Wallis, more than 55 percent of all transactions will be conducted with credit cards.

"I pay \$1,300 a week in credit card fees," said Scott Falzo, owner of the Rockingham Shell in Rockingham. "It's outpacing my salary costs now."

Falzo said the credit companies have come up with all kinds of creative ways to put the screws to retailers. When a card is declined, Falzo said, "I pay 92 to 98 cents just to see it got declined.

Last Monday, I had a guy go through five cards before the transaction went through," Falzo said – all for a \$19 transaction. "There goes the profit."

Bill MacDonald, chairman of the Vermont Grocers Association and owner of Waits River General Store in Topsham, said a faulty magnetic strip on a card can cost him big.

"If I have to punch in the numbers manually, that's three bucks," MacDonald said. "Every customer pays higher prices for goods to partially help us cover this expense."

And merchants aren't even allowed to offer cash-customers a discount. As part of their contracts with credit card companies, they suffer penalties for in any way discouraging the use of credit cards.

Rep. Warren Kitzmiller, a Montpelier Democrat, considered introducing a bill in the Legislature this session that would have sought the same industry oversight as Welch's proposal.

"We quickly realized we have so little power as a state," Kitzmiller said.

Kitzmiller said he supports Welch's fee-disclosure legislation, but would prefer something even stronger.

"I want them to start regulating the damn fees," Kitzmiller said.

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