

TESTIMONY OF DOUG KANTOR

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ON BEHALF OF

THE NATIONAL ASSOCIATION OF CONVENIENCE STORES (NACS)

**THE SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF
AMERICA (SIGMA)**

AND

THE MERCHANTS PAYMENTS COALITION (MPC)

BEFORE THE

**U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON THE
JUDICIARY**

HEARING ON

H.R. 2695, THE CREDIT CARD FAIR FEE ACT

APRIL 28, 2010

Chairman Conyers, Ranking Member Smith and Members of the Committee, I am honored to appear before you today and appreciate the opportunity to share my views on the Credit Card Fair Fee Act. My name is Doug Kantor. I am a partner in the law firm of Steptoe & Johnson LLP and am counsel to the National Association of Convenience Stores (“NACS”), the Society of Independent Gasoline Marketers of America (“SIGMA”), and the Merchants Payments Coalition (“MPC”).

NACS is an international trade association representing the convenience store industry. The industry as a whole includes about 145,000 stores in the United States, sells nearly 80 percent of the gasoline in the nation, and employs about 1.7 million workers. It is truly an industry for small businesses; more than 60 percent of convenience stores are owned by one-store operators.

NACS and SIGMA are both members of the MPC. The MPC is a group of more than 20 national and 70 state trade associations representing retailers, restaurants, supermarkets, drug stores, convenience stores, gasoline stations, theater owners, on-line merchants and other businesses that accept debit and credit cards. MPC’s sole mission is securing a more competitive and transparent card system that works better for consumers and merchants alike. The coalition’s member associations collectively represent about 2.7 million locations and 50 million employees. These merchant associations account for more than 60 percent of the non-automotive card based transaction volume in the United States.

The bipartisan legislation being considered by the Committee today, H.R. 2695, the Credit Card Fair Fee Act, would help address an important competition policy problem – the setting and imposition of swipe fees by the major credit card companies and their bank members. The MPC endorses H.R. 2695 and deeply appreciates the efforts of the bill’s primary sponsors, Chairman Conyers and Representative Shuster, along with all of the cosponsors of the bill.

Swipe fees are a critically important issue to businesses and consumers across the nation, and the economy as a whole. The centralized setting of the swipe fees charged by banks that issue credit and debit cards as well as the conditions for acceptance of those cards amounts to nothing less than price fixing and an illegal restraint of trade. Many of the rules imposed by the major credit card companies also constrain the marketplace to prevent competition in violation of the antitrust laws. This is an issue with which Congress must grapple. While ongoing litigation will eventually show that Visa, MasterCard and their banks have violated the antitrust laws, those lawsuits could take years to be resolved and for remedies to be implemented. Congress must provide the solutions now to the key problems currently in the system and Congress is the right place to answer the questions about how the system should operate fairly in the future. The Conyers-Shuster bill goes a long way toward providing those solutions.

My testimony today will address several major points. First, I will describe the current competition policy problems with the swipe fee system in the United States. Second, I will detail the impact caused by these problems. Third, I will discuss how the Conyers-Shuster bill helps to solve those problems. Finally, I will address some of the myths that have at times been raised in the context of this issue in order to set the record straight.

I. The Problem with Swipe Fees

There is broad international consensus that swipe fees pose unacceptable anti-competitive, anti-consumer antitrust problems. Indeed, after many years of study and debate, regulators from Australia, the European Commission, Spain, New Zealand, Hungary and others have reached this conclusion and taken action. The most egregious problems these countries and many in America have found are described below.

A. Centrally Setting the Fees

Swipe fees collectively deprive businesses that accept credit and debit cards as well as consumers of the benefits of competitive market forces because they are centrally set by Visa and by MasterCard. These two companies have been found by the U.S. Court of Appeals for the Second Circuit to have market power under the antitrust laws both individually and collectively.¹ Each of the two credit card giants decides upon a schedule of default fees for the banks that issue their cards to charge for transactions. Note that these fees are not charged by Visa and MasterCard themselves. Instead, they are fees that banks that are supposed to be competing with one another charge – and some of those banks sit on the boards of Visa and MasterCard to help decide the fees they and their competitors will charge.

That is a profound problem. Banks including Bank of America, JP Morgan Chase, Citi, Wells Fargo/Wachovia and others compete with one another in the other aspects of their businesses. Yet when it comes to swipe fees, they collectively agree to charge the same schedule of fees. The result is just what you would expect to happen if another industry did the same thing. If, for example, grocers all agreed to charge the same prices for milk as their competitors, we would all expect the price of milk to be much higher than a competitive market would produce. Our antitrust policy prohibits this type of central price-fixing because it takes away the primary benefit of our economic system – the incentive for competitors to try to gain market share through price competition.

This activity cannot be excused because Visa and MasterCard have changed their corporate form. Until a few years ago, both Visa and MasterCard were simply associations of their member banks. Even they realized, however, that setting prices for their association members created potentially serious legal liabilities. So, they both became corporations offering their shares to the public. This change, however, was nothing more than an attempt to put form over substance. Each company still serves as the price-setting body for its member banks (including member banks that sit on the boards of the companies and participate in the price-setting). The change in corporate form does not change the reality – the banks agree to let the major credit card giants fix their prices for them.

The fact that the card companies say their rate schedules are “default” rates and that banks are free to depart from them is little more than rhetorical posturing. There is no incentive for banks to depart from the schedule of inflated fees that their competitors follow and we are not

¹ *United States v. Visa USA, Inc.*, 344 F.3d 229 (2d Cir. 2003).

aware of such departures. In fact, retailers have been told many, many times by their bankers that the bankers cannot depart from the agreed upon rate schedule. As with other price-fixing examples, the banks know that they are better off sticking to the collective pricing rather than departing from it.

B. Rules that Hide the Fees

The major card companies not only centrally set prices, but they establish the rules for the credit and debit card systems. These rules include a series of complementary provisions that serve to hide fees in the cost of goods and services that consumers pay and insulate the fees from competitive pressures.

Perhaps the most egregious of these rules prohibits merchants from giving a pricing advantage to one card company's products over another one's. This could be done, for example, through giving consumers a discount to use Visa rather than MasterCard or the other way around. Both Visa and MasterCard prohibit merchants from doing this.² If a merchant runs afoul of this rule, the risk is the imposition of large fines (often \$5,000 per day) or cutting off the merchant's ability to accept these cards.

The impact of these rules is that no card company has any incentive to reduce its fees. The reason companies reduce prices is to get more customers, but Visa and MasterCard make sure that the consumers who decide what card to use cannot get a benefit from reduced fees and that any fee reduction then will have no impact on transactions or market share. This is just like if Coca-Cola and Pepsi, to take one example, were to tell stores that they could never have a sale and price their competitor's products lower than their own. With that rule in place, how many discounts do you think we would see for Coke or Pepsi? The answer is none and prices would steadily rise as a result. That is just what we face here and it is one key leg of the table artificially propping up swipe fee prices.

The card companies have related rules that make it very difficult for merchants to give their customers other types of discounts. Discounts for cash, checks and debit cards, for example, might bring some market pressures to bear on the size of interchange fees. But Visa and MasterCard both have byzantine sets of rules regarding the way merchants can display any such discounts. The rules have at times contradicted state consumer protection laws and forced merchants to decide to either violate the Visa/MasterCard rules or violate state law. The result, as the card companies know well, is that merchants typically choose a third option – don't give any discounts because it is not worth the risk.

Typically, merchants quickly back down from the Visa/MasterCard threats about discounting, but a controversy over their heavy-handed tactics made its way into the press in California a few years ago. Visa threatened a couple of gas station owners – including a single store operator – if they continued to offer cash discounts. And, in that instance, Visa instructed the station owners that they should display their prices and discounts in a way that would violate California law. When asked about this by the publication *Oil Express*, Visa spokeswoman

² See Visa U.S.A. Operating Regulations 5.2.D.2; MasterCard Rules 5.9.1.

Rhonda Bentz reacted in a way that is incredibly revealing of Visa's hubris and the way it treats merchants. She said, "It's great if they have a contract with the state, but they don't. They have a contract with Visa and if they don't want to abide by that contract, they shouldn't have signed it." The *Oil Express* article from April 23, 2007 is included with this testimony as Exhibit 1.

California Weights and Measures Director Dennis Johannes saw Visa's tactics for what they were. He said Visa was "heavy handed" and noted, "They probably don't want dual pricing because it discourages the use of their credit card." Of course, that is precisely the type of market pressure that our system depends on to keep prices down. If Visa doesn't want people to be discouraged from using their cards, they should lower their prices rather than threatening merchants who offer cash discounts.

Yet another rule that helps erase any semblance of competition requires that merchants accept every single type of Visa or MasterCard no matter how high the fees are for that card – or accept no cards at all. The upshot of this rule is that when new cards come into the market, the card companies do not need to seriously consider whether the prices they set will cause people not to take the card. To take the soft drink example again, when companies come out with a new flavor of Coke or Pepsi, those companies need to think about the price point and whether merchants will carry the new product and consumers will buy it. If the price is too high, then the product won't be successful. If they had a rule saying that every store had to buy all of their products no matter the price or be prohibited from carrying any of their products, that would raise the problem of product tying under the antitrust laws. But Visa and MasterCard both have this type of rule. The origin of this rule was well-intentioned – that merchants treat different bank issuers of cards in the same way and not refuse a consumer's card because the bank was unfamiliar to the merchant. This rule, however, has gone beyond all reasonable bounds and no longer just ensures that bank issuers are treated fairly. It now prohibits merchants from taking any action to protect themselves against rapidly escalating fees on newly issued card products.

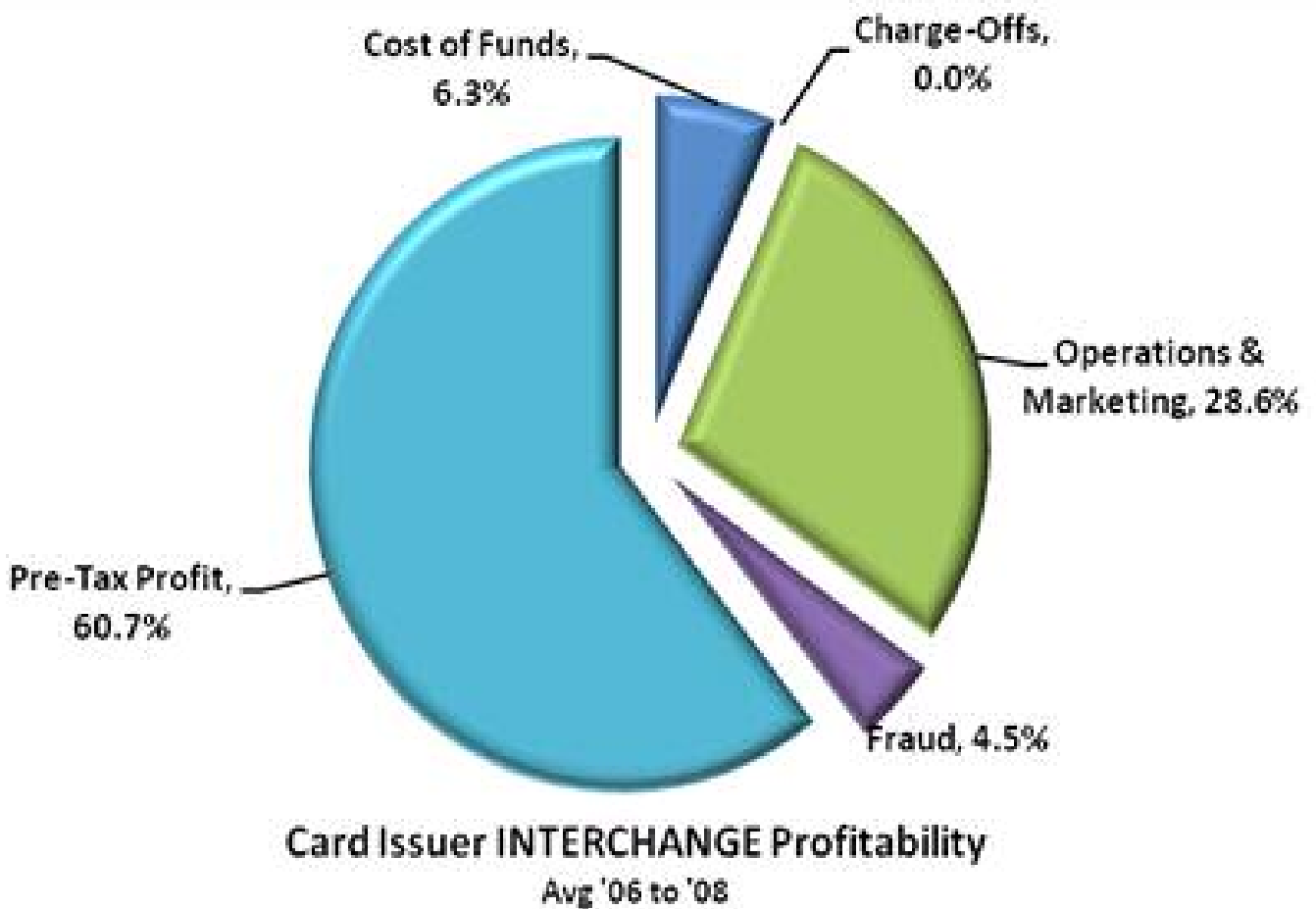
II. The Impact of Swipe Fees

A. The Impact on Business

Dave Carpenter, the owner and President of Shortstop stores who is also testifying today, can describe the impact of these fees on his business much more eloquently than I can, but I can try to bring some additional perspective to this. For many retail industries, swipe fees are their second highest operating expense after labor. That means swipe fees cost these businesses more than rent on their stores, utilities, and other overhead. Retail profit margins are very, very narrow. The retail sector of the economy is highly competitive and if costs go down for those businesses, then their prices go down. Retail profit margins are consistently narrow in the United States. Exhibit 2 to this testimony includes charts from Fortune magazine comparing the profitability of different U.S. industries for each year from 2006 through 2009. There isn't a single category for retail, but they have numbers for "Specialty retail", "Food and Drug Stores" and "Automotive retailing" -- these cover large parts of the retail industry. The numbers show that each of these industries consistently rank near the bottom of all industries in terms of profitability and have very stable profit margins each year (many other industries are lower in particular years but fluctuate more). Specialty retail, for example, is between 3.2 and 4.0 percent

profitability every year since '06. Specialty retail is about the most profitable sector of the retail industry. Food and drug stores are between 1.5 and 2.6 percent profitability each year. Automotive is less than that. This means that regardless of conditions in the economy the competition across retail businesses is such that revenues can never exceed costs by much – whether costs are rising or falling. Exhibit 3 to this testimony is National Retail Federation data. This tracks just large retail companies and finds profit margins between 2 and 4 percent – bearing out Fortune’s numbers.

The difference between the narrow profit margins of the retail industry and the huge profit margins for banks on interchange is dramatic. The chart below shows that the profit margins on interchange are more than 60% based on data from *Cards & Payments*.



These fees continue to escalate and business owners do not have a way to control them. They can take action to deal with utility costs, they can negotiate their rent and labor costs, but they can’t deal with these cost increases. The inability to go to a competitor to get a better deal is simply devastating. In fact, economists with the Kansas City Federal Reserve have found that merchants cannot realistically refuse to accept Visa and MasterCard even though interchange

costs far exceed any benefits those merchants receive by accepting cards.³ While the card companies sometimes argue that merchants could stop accepting cards, the cards are so dominant now that that is not realistic. Visa, in fact, is promoting itself as “currency” in its marketing. Telling merchants they don’t have to take cards, then, is like telling them they can refuse to take cash. While theoretically possible in some niche businesses, it is generally not realistic.

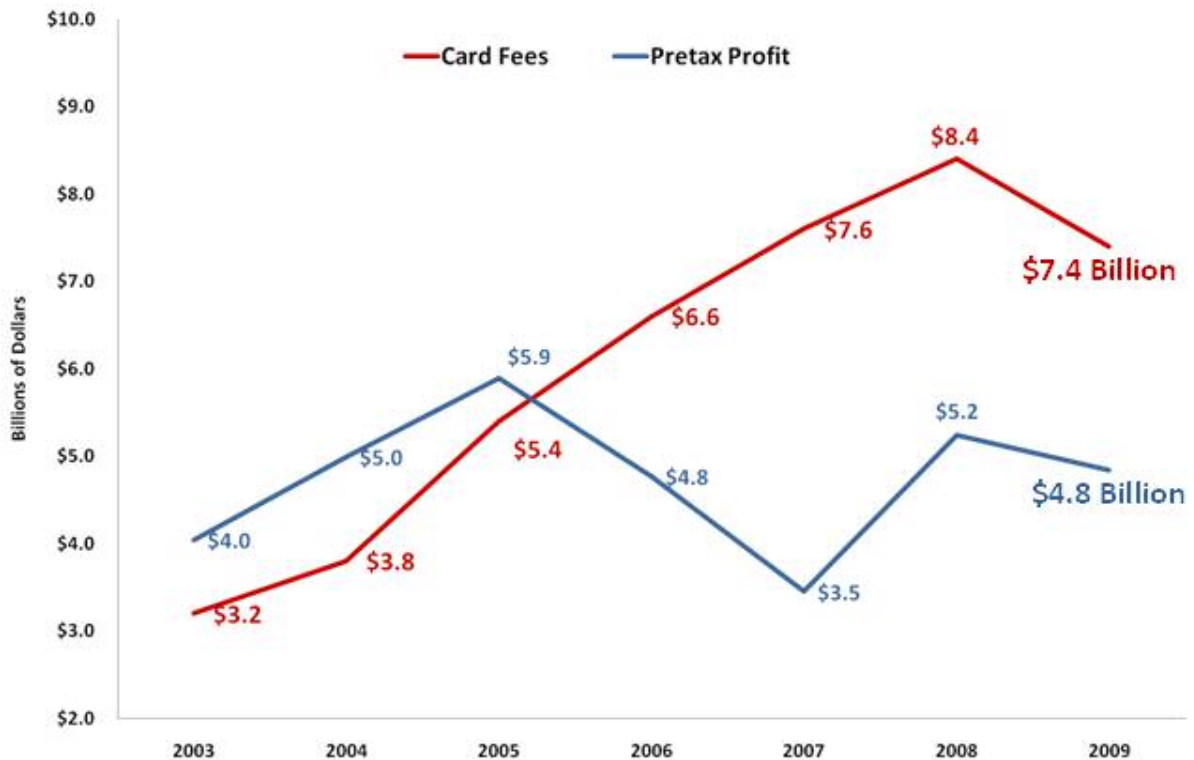
The dramatic jump in card rates – both in dollar terms and in terms of the rates charged – takes its toll on merchants. According to the Government Accountability Office (GAO) this is not just due to more people using cards but is the result of Visa and MasterCard increasing their fees. GAO wrote, “Visa and MasterCard officials told us that their average effective interchange rates applied to transactions have remained fairly constant in recent years when transactions on debit cards, which have lower interchange fee rates, are included. **However, our own analysis of Visa and MasterCard interchange rate schedules shows that the interchange rates for credit cards have been increasing and their structures have become more complex**, as hundreds of different interchange fee rate categories for accepting credit cards now exist.”⁴ Let’s be clear about this, GAO concluded that what Visa and MasterCard told them about their rates remaining flat was false.

The increases in the rates set by Visa and MasterCard, along with increased card usage, has led to a huge increase in fees paid by merchants. The chart below shows how those fees have grown over time for the convenience store industry and shows industry profits per year as well. It is not a coincidence that as the amount of card fees jumped past the amount of profits the industry made, profits fell. Some of those profits have recovered and the fees dipped some for the first time in years due to the recession last year, but the fact that fees have been more than profits for 4 years in a row demonstrates the difficulties these fees cause for business. With the recession there was also a shift to more debit usage. The card companies must have seen that shift too because on April 16 they put into effect a 30 percent increase in debit fees.

³ “A Puzzle of Card Payment Pricing: Why are Merchants Still Accepting Card Payments?,” Fumiko Hayashi, December 2004.

⁴ “Credit Cards: Rising Interchange Fees Have Increased Costs for Merchants, but Options for Reducing Fees Pose Challenges,” GAO-10-45, Nov. 19, 2009 (“GAO Report”) at 14 (emphasis added).

Card Fees and Pre-Tax Profits in the Convenience Store Industry



Source: NACS State of the Industry Survey of 2009 data powered by CSX

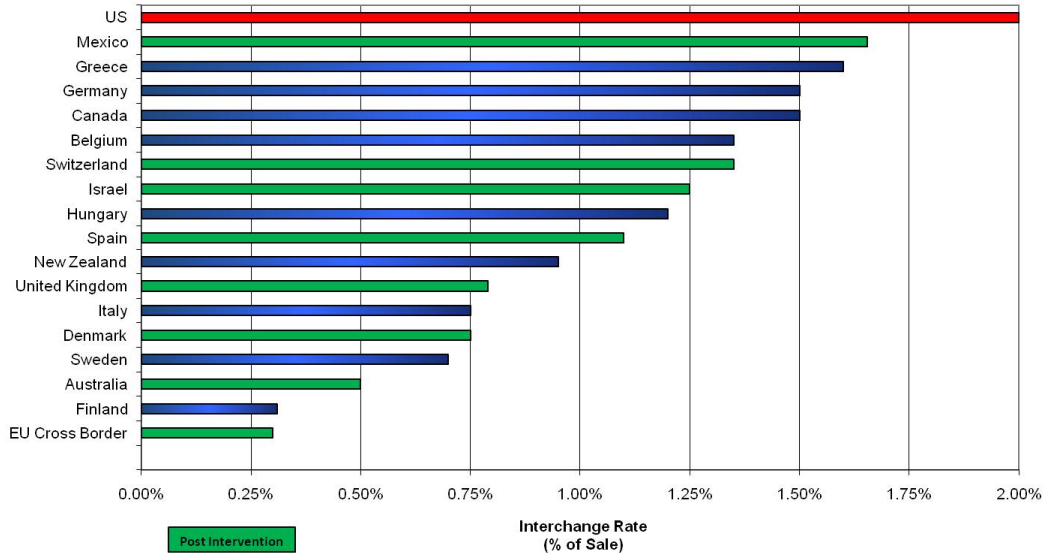
And these fees hit small businesses the hardest. While the card companies like to talk about the large retailers that might be helped by policy solutions to deal with swipe fees, the current system that they defend gives large retailers a decided competitive advantage over small businesses. The GAO found, “Merchants with large volumes of card transactions generally have lower interchange fee rates. Visa categorizes some merchants into three tiers based on transactions and sales volume, with top-tier merchants receiving the lowest rate.”⁵ That simply should not be. Unlike situations in which product needs to be manufactured and delivered to stores, there are no cost savings that justify better deals for large merchants.

These out of control fees disadvantage the U.S. economy. Interchange fees in this country are among the highest in the industrialized world as shown by the chart below.

⁵ GAO Report at 10.

Credit Card Interchange Rates in Various Countries - April 2009

Sources: *Fumiko Hayashi, Federal Reserve Bank of Kansas City*
TransAction Resources, Australia
Retail Banking Research, London



It is interesting to note that while some countries with lower interchange rates have taken action to deal with these fees, several countries that have done nothing pay lower rates than Americans do. The reason for that is straightforward. The two major card companies have such dominant market power here that they can engage in the anticompetitive practices that I have described without fear of too many merchants leaving the network.

B. The Impact on Consumers

The impact of anticompetitive swipe fees on consumers is dramatic. American consumers pay inflated prices for virtually everything they buy because of these fees. And they pay these funds without even knowing it. Consumers never get a disclosure from their card issuer telling them any swipe fees are charged – not to mention how much they are. This is the card companies’ model. By hiding their fees they can keep charging more and consumers won’t notice. Last year, the Hispanic Institute studied this phenomenon. They found that the business model by which fees are embedded in retail prices without disclosure combined with the rewards that some cardholders get leads to a regressive transfer of wealth from low income consumers to high income consumers. This regressive wealth transfer is more than \$1 billion every year.⁶ And this did not even take into account the 27 percent of U.S. families who do not even have credit cards – but are still paying inflated prices due to interchange.⁷

⁶ “Trickle Up Wealth Transfer: Cross-subsidization in the payment card market,” The Hispanic Institute, November 2009 at 5.

⁷ Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances, Federal Reserve Bulletin, February 2009, at 46.

Retailers are not the only ones who have come to the conclusion that swipe fees hurt consumers. John Blum, who is here as a witness again today, testified on behalf of the National Association of Federal Credit Unions (NAFCU) before the Antitrust Task Force of this Committee on May 15, 2008. In his written testimony he said, “Further, interchange is a cost that retailers can and do pass onto their customers in the final price of the goods and services they sell.”⁸ It appears then that NAFCU agrees with the Hispanic Institute – consumers are paying interchange fees right now, but the fees are hidden in the price of goods and services those consumers buy.

The card companies have strenuously argued that if anything at all happens to reduce swipe fees, then other fees paid by consumers will increase and consumers will be in a worse position than they are today. This is false. In fact, the European Commission’s Directorates for Competition and Financial Services jointly conduct a comprehensive study into the European payment card industry in general, and Visa and MasterCard in particular. The Commission found no evidence to support the card systems’ arguments in favor of benefits to consumers of the high fee levels associated with the existing interchange fee mechanism. In particular, the Commission rejected arguments that lower interchange fees to merchants would result in higher fees to consumers:

There is no economic evidence for such a claim. Firstly, the inquiry's data suggests that in most cases card issuers would remain profitable with very low levels of interchange fees or even without any interchange fees at all. Secondly, the international card networks have failed to substantiate the argument that lower interchange fee would have to be compensated with higher cardholder fees. The evidence gathered during the inquiry rather suggests that the pass-through of higher interchange fees to lower cardholder fees is small. Consumers already pay the cost of the interchange fee without knowing it. This cost is now hidden in the final retail price and is therefore non-transparent.

Similarly, the Australian experience has refuted claims that decreases in interchange fees would undercut the viability of card systems. In fact, after several years’ experience with reduced interchange fees, the Australian central bank has concluded that card issuers have responded to lower merchant fees by offering consumers a choice: Low cost cards with low interest rates and fees and no rewards, and rewards cards with higher interest rates and annual fees.

Indeed, this resulting *price competition* is precisely the outcome the card systems feared: For example MasterCard had complained to the Australian Reserve Bank about having its members forced to compete on price:

MasterCard does not disagree that there is, at present, strong competition amongst issuers of credit cards. Such competition has been enhanced by the fact that, at present, issuers have been able to recover eligible costs.... One distinct characteristic of the product

⁸ Testimony of John Blum, Vice President of Operations of Chartway Federal Credit Union, before the House Judiciary Committee Antitrust Task Force, May 15, 2008 at 8.

offerings in recent times, however, has been the increase in the number of “low cost” credit card offerings. While MasterCard believes that it is beneficial for there to be “low cost” credit card products being offered, it also believes that, with the common benchmark interchange fee, in the future there will be fewer “fully featured” credit card offerings and the competition between issuers will be based on increasingly homogeneous “low cost” credit card offerings.

That is precisely the result that would be best for consumers. Once the card companies in Australia stopped competing for market share by raising the fees their banks would earn (which the bank could in some small measure plow back into enticing rewards for consumers), they had to compete on interest rates in order to attract consumers directly. That is what Australian consumers really wanted and what they have been getting since their system was reformed. Interest rates on credit cards fell precipitously after the reforms and even though the overall rates in that country have fluctuated over time, the spread between their benchmark rates and the rates consumers get on their credit cards is consistently narrower than it was prior to Australia’s reforms. U.S. PIRG and other consumers groups educate consumers that the most important thing to look at when evaluating cards is the interest rate. Once Australia took some of the confusing subterfuge out of the system by reducing the hidden fee-reward cycle, consumers there were able to focus on interest rates and get better rates.

III. The Solutions in the Conyers-Shuster Bill

The Conyers-Shuster bill would help solve these problems by allowing market-based negotiations to take place on a level playing field. Right now, thousands of banks band together to set their pricing. Merchants either individually or in small groups cannot effectively deal with that combined market power. The credit card industry insists that its collective price-setting is necessary. While there are good reasons to doubt that claim, Congressmen Conyers and Shuster have taken them at their word. Their bill would, however, allow merchants to act in a similar fashion and collectively bargain with each of the dominant card associations and their banks. The bill also asks the Department of Justice to report back to Congress on the negotiations.

The bill requires that any agreements that are negotiated be made public. It requires that certain information be exchanged to form the basis of the negotiations. And the bill includes important protections for small merchants and small bankers. It requires that agreements reached cannot disadvantage smaller merchants and bankers in the group. The bill even gives small bankers the opportunity to opt out of the negotiations if they choose.

The bill also includes language to ensure that the ability it gives each side to bargain as a group is narrowly limited to the swipe fees and attendant rules of the system. The bill also ensures that it could not be used for one side to engage in a group boycott. There is nothing in the bill that prejudices the outcome of the negotiations or requires that a deal occur. In the past, there was a dispute resolution mechanism in the bill in case the sides did not reach agreement, but that provision was removed during the last Congress as a compromise.

It is, in fact, interesting that the card companies and bankers oppose this bill so strenuously. Why shouldn’t merchants have the right to act collectively in the way the banks do

already? There is nothing in the bill that says they couldn't try to negotiate a better deal than they have now on interchange. Of course, they must realize that there is no way for them to justify the size of the fees they charge and the anticompetitive rules they impose. Otherwise, they would be quite comfortable with the type of negotiation that would be enabled by the Conyers-Shuster bill.

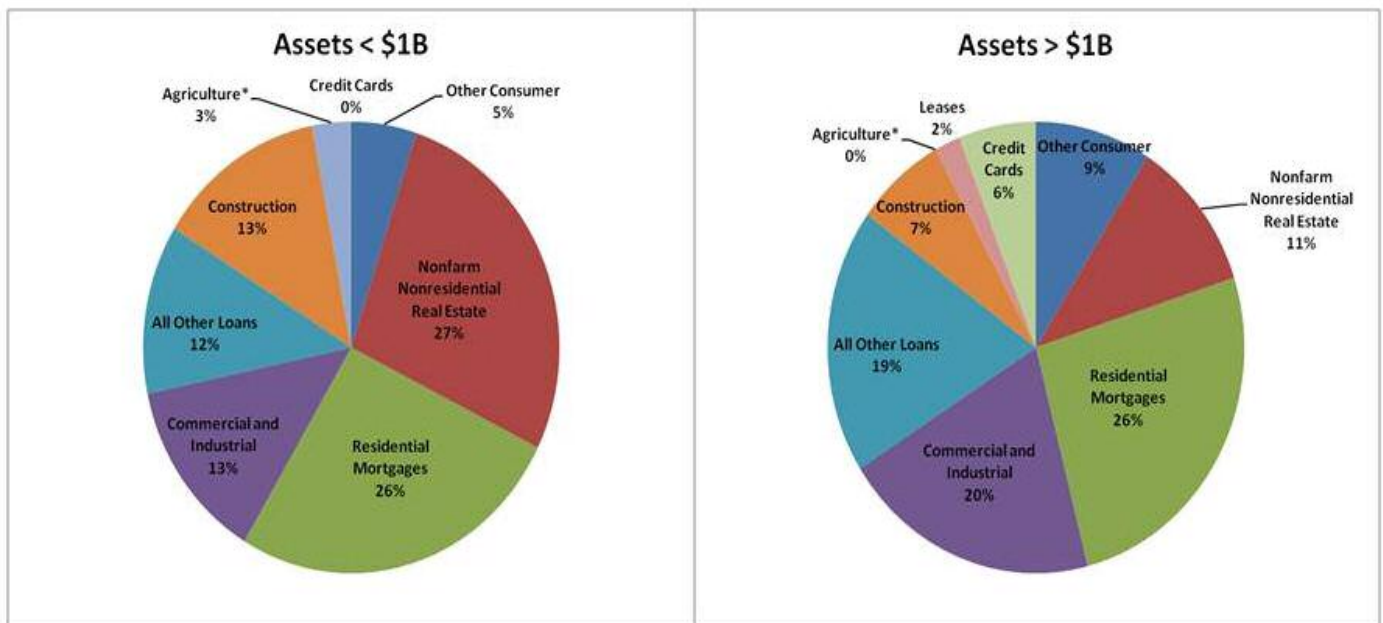
IV. ADDRESSING THE MYTHS

Unfortunately, there are several myths that have obscured the debate of the unfair way in which the interchange system operates. I suspect that several Members of the Committee have heard these myths. In light of this, I would like to address some of the major ones and provide you with the facts.

Myth: *Small banks and credit unions will suffer if the interchange fee system is reformed.*

Reality: The current interchange fee system overwhelmingly benefits a very small number of very large banks. Only 10 large banks collect more than 80 percent of interchange fees. Let me make that clear. That's not the top 10 percent of banks – I am just talking about 10 banks. No one after those 10 banks even has 1 percent of the market. I have included as Exhibit 4 with this testimony the lists of market share in the credit card, PIN debit card, and signature debit card markets so you can see who gets interchange fees and in what proportions. Given the rhetoric around this issue, these numbers are likely to surprise you.

In fact, as the charts below show, small banks make almost no money from credit card issuing. This is a big bank business. Institutions with less than \$1 billion in assets (which is a pretty large institution), do not even make 1% of their revenues from credit cards as shown below.



* OTS – supervised savings associations do not identify agricultural loans

Source: FDIC, Quoted in American Banker, 3/20/09

I urge every Member of this Committee when they hear from small banks about this issue to make sure they get the answer to one simple question – what percentage of that small bank’s total revenue comes from interchange fees. If they can’t or won’t answer that simple question, then it is hard to take their complaints about the Committee reforming this system seriously.

Small banks argue that they have higher costs for issuing cards and so they must be able to charge the same fees as their larger competitors. Of course, if that is true, then those larger competitors are making a huge windfall by fixing their prices with small banks. And clearly, as previously discussed, 60 percent profit margins certainly look like a windfall.

Small banks make only a tiny portion of total interchange fees and will not be hurt by allowing for collective negotiations – particularly given that the bill protects them so that they cannot do any worse than their large competitors in the context of any negotiated agreement.

Myth: *The credit card system works fine now. There is no need for legislation.*

Reality: The current system is broken. Visa and its member banks fix interchange fees in violation of the antitrust laws. MasterCard and its banks do the same. The result is that interchange fees are rising fast and cost the U.S. economy \$48 billion in 2008 alone. That is triple what the fees were in 2001.

Not only are the fees skyrocketing so that merchants and consumers pay too much, but these fees change the nature of the credit card business in a way that hurts consumers. As Georgetown Law professor Adam Levitin observed in testimony before the House Judiciary Committee, the huge fee revenue the banks earn from credit card transactions taking place has created bad incentives. He testified, “The card industry’s business model is the heart of the problem and needs to change. Just as with subprime mortgages, the credit card business model creates a perverse incentive to lend indiscriminately and let people get into so much debt they can’t pay it back.”⁹ Others have clearly observed this trend as well. For example, Acting Comptroller of the Currency Julie Williams said in March 2005, “Today the focus for lenders is not so much on consumer loans being repaid, but on the loan as a perpetual earning asset . . . it’s not repayment of the amount of the debt that is the focus, but rather the income the credit relationship generates through periodic payments on the loan, associated fees, and cross-selling opportunities.”¹⁰ These changes mean that banks are less worried than they should be about consumers’ welfare. It should be in the interest of banks for consumers to do well and be able to pay back credit card loans. But the huge fee income the banks generate through interchange and other means gives them another incentive – milk consumers for all they are worth and don’t worry about the money getting paid back.

The bottom line is that abuse of consumers by banks will continue as long as they have the incentive to treat people that way. Interchange fees are the key incentive with which Congress has not yet dealt. The abuses of consumers and using credit cards as predatory lending vehicles will continue until something is done about interchange fees.

Myth: *Congress shouldn’t reform interchange fees because merchants will just pad their profits.*

Reality: Representative Peter Welch made an insightful observation on this point when he spoke with Politico and noted that this is an odd argument because the credit card industry is essentially saying “let us keep ripping people off or someone else will.” The role of this Committee is to stop the card industry from engaging in rip-offs and then, if someone else is doing something wrong later, deal with that.

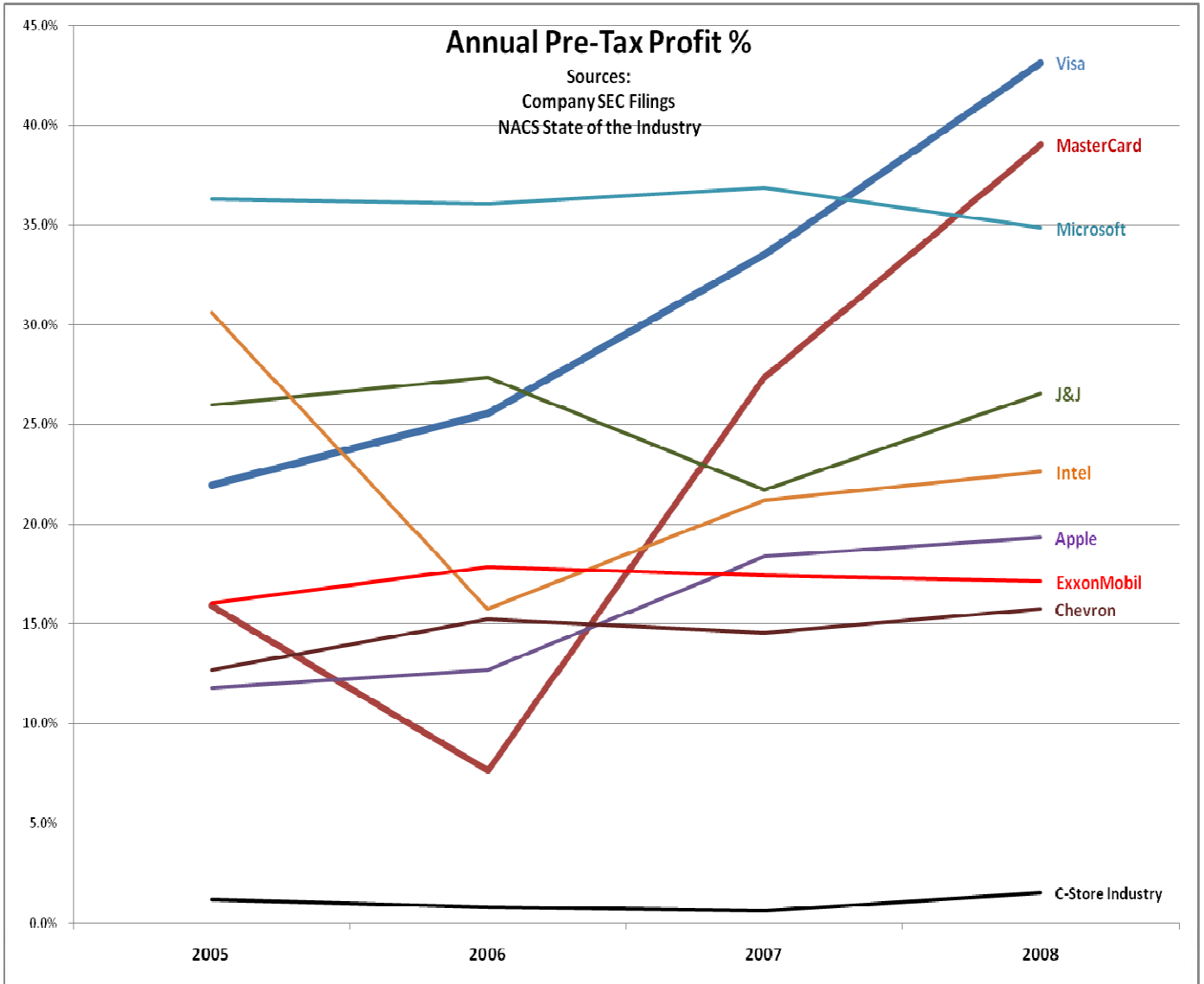
This argument also ignores the basic tenets of economics. Economics say that in the absence of a market failure higher business costs result in higher prices and lower business costs result in lower prices. The retail sector of the economy is

⁹ Adam J. Levitin, Testimony before the House Judiciary Subcommittee on Commercial and Administrative Law, “Consumer Debt – Are Credit Cards Bankrupting Americans?” April 2, 2009.

¹⁰ Remarks by Julie L. Williams, Acting Comptroller of the Currency, Before the BAI National Loan Review Conference, New Orleans, LA, March 21, 2005, at <http://www.occ.treas.gov/ftp/release/2005-34a.pdf>.

highly competitive and if costs go down for those businesses, then their prices will go down. First, let's look at how consistently narrow retail profit margins are in the United States. Exhibit 2 to this testimony includes charts from Fortune magazine comparing the profitability of different U.S. industries for each year from 2006 through 2009. There isn't a single category for retail, but they have numbers for "Specialty retail", "Food and Drug Stores" and "Automotive retailing" -- these cover large parts of the retail industry. The numbers show that each of these industries consistently rank near the bottom of all industries in terms of profitability and have very stable profit margins each year (many other industries are lower in particular years but fluctuate more). Specialty retail, for example, is between 3.2 and 4.0 percent profitability every year since '06. Specialty retail is about the most profitable sector of the retail industry. Food and drug stores are between 1.5 and 2.6 percent profitability each year. Automotive is less than that. This means that regardless of conditions in the economy the competition across retail businesses is such that revenues can never exceed costs by much -- whether costs are rising or falling. Exhibit 3 to this testimony is National Retail Federation data. This tracks just large retail companies and finds profit margins between 2 and 4 percent -- bearing out Fortune's numbers.

To put this in perspective, let's look at the profit margins for some large U.S. corporations. Note that Visa's profit margins are more than 40 percent and MasterCard's are close. Microsoft comes close to them but many other household names don't. Some major oil companies are between 15 and 20 percent. And way down at the bottom, one retail industry -- convenience stores -- have about 2 percent profit margins. Now, the credit card industry has accused these retailers of ripping off their customers. This chart makes clear who is ripping off who.



I would also note that the Department of Energy has studied how retailers that sell gasoline do or do not pass through costs into retail prices. They found that for both cost increases and cost decreases there is 100 percent pass through of costs into retail prices.¹¹ That means, without question, whether interchange fees increase or decrease, consumers will see those changes reflected in the cost of gasoline – for better or for worse.

¹¹ U.S. Department of Energy, “Gasoline Price Pass-through,” by Michael Burdette and John Zyren, January 2003.

The Hispanic Institute studied this question in its report issued last November. It found that “the data shows that lower interchange fees result in lower prices for consumers and higher interchange fees result in higher prices for consumers.”¹²

Myth: *There is no need for reform because merchants can already negotiate fees.*

Reality: This claim is purposely misleading. Merchants cannot negotiate interchange fees. They negotiate with their local bank or processor on their processing fees, but those processing fees are much smaller than the interchange fees merchants pay. In most cases, processing fees are only about 10% of what the merchant pays. They are an add-on to what the merchant pays in interchange. Interchange fees are much larger – the \$48 billion paid in 2008 was more than all of the credit card fees charged directly to consumers combined. The interchange gets passed through to merchants and, ultimately, to consumers. Merchants also have no ability to shop for better interchange deals. Visa’s banks all charge the same schedule of interchange fees and MasterCard’s banks do the same. The result is that there is no competitive market for interchange fees – just price fixing.

Myth: *There is no need for reform because credit card fee rates have remained flat.*

Reality: This is simply false. As noted previously, GAO found, “Visa and MasterCard officials told us that their average effective interchange rates applied to transactions have remained fairly constant in recent years when transactions on debit cards, which have lower interchange fee rates, are included. **However, our own analysis of Visa and MasterCard interchange rate schedules shows that the interchange rates for credit cards have been increasing and their structures have become more complex**, as hundreds of different interchange fee rate categories for accepting credit cards now exist.”¹³

The Kansas City Federal Reserve published a presentation on April 3, 2008 showing that average interchange fee rates rose from less than 1.3% to more than 1.6% between 1996 and 2005. And, according to Kansas City Federal Reserve economists, that rate is nearly 2% today. The American Banker on March 1, 2006 reported on Visa’s “long-standing pattern of regular increases” in its interchange fees and said that “According to the credit card industry newsletter The Nilson Report, interchange rates for Visa and MasterCard International have risen steadily every year since 1997.” At the same time, transaction volume has increased dramatically, so the absolute amount of interchange fees collected rose even more dramatically. And, credit card companies have consistently moved more cardholders to new corporate and rewards cards that carry higher interchange fee rates. While they sometimes don’t change the rates for a given

¹² “Trickle Up Wealth Transfer: Cross-subsidization in the payment card market,” The Hispanic Institute, November 2009 at 6.

¹³ GAO Report at 14 (emphasis added).

type of card – that doesn't matter if many of the people who had been using that card are now using a card with a higher rate. By moving people to rewards cards, the card companies continue to pretend that they don't raise rates even though the rates merchants pay for interchange consistently increase. The combination of all of these factors means that since 2001, the amount of interchange collected has tripled from \$16 billion to \$48 billion in 2008.

Myth: *There is no need for reform because merchants can simply stop accepting credit cards.*

Reality: Economists have found that due to the market power of Visa and MasterCard, this is not true. This argument would be like AT&T claiming in the 1980s that no one should worry about its monopoly because people could choose not to have a telephone. Accepting cards is essential for most businesses. The Kansas City Federal Reserve studied this issue in a 2004 report titled, "A Puzzle of Card Payment Pricing: Why Are Merchants Still Accepting Card Payments?" and concluded, "Only monopoly merchants who are facing an inelastic consumer demand may deny cards when the fee exceeds its transactional benefit. . . . Merchant competition allows the network to set higher merchant fees. The network can always set higher merchant fees in more competitive markets. Moreover, in competitive markets the merchant fees in the long run may exceed the sum of the merchant's initial margin and the merchant's transactional benefit. . . . As long as the merchant fee does not exceed the level that gives merchants negative profits, merchants may have no choice but to continue accepting cards." The courts also agree that Visa and MasterCard both have market power which means they have the ability to raise their prices above what would be sustained in a competitive market.¹⁴

Myth: *Efforts to reform the interchange fee system are nothing more than government price control proposals.*

Reality: There is absolutely nothing in the Conyers-Shuster bill that sets the amount of interchange. The only things the bill does, as I have noted, is allow for collective bargaining. If leveling the playing field so that negotiations can occur impacts the cost of interchange, that is what ought to happen.

Myth: *Reform will hurt consumers and result in them paying higher fees.*

Reality: Policymakers around the world have found that reform has benefited consumers. In Australia, for example, the Reserve Bank of Australia reviewed the interchange reforms instituted there and concluded, "Overall, consumers are benefiting from this greater competition and lower merchant costs . . . one group of consumers clearly better off are those who regularly borrow on their credit cards. They are now able to obtain a card with an interest rate of 10 to 13 per cent, rather than the

¹⁴ *U.S. v. Visa U.S.A., Inc.*, 344 F. 3d 229 (2d Cir. 2003).

16 to 18 per cent payable on traditional cards. For many consumers the resulting savings can run into hundreds of dollars per year . . . Consumers who do not use credit cards at all are also benefiting from the reforms as they are paying lower prices for goods and services than would otherwise have been the case. For many years, these consumers have helped subsidise the generous reward points of the credit card issuers through paying higher prices for goods and services. The reforms have helped unwind some of this subsidy.”¹⁵ The Reserve Bank of Australia reconfirmed this view in 2008 when it wrote, “One issue that has attracted considerable attention since the reforms were introduced is whether the cost savings that merchants have received from lower merchant service fees have been passed on to consumers in the form of lower prices for goods and services than would have otherwise been the case. The [card] schemes argue that there has been no, or little, pass-through, while the merchants argue that the cost savings have been passed through. The Bank’s estimate is that over the past year, these cost savings have amounted to around \$1.1 billion. . . . Despite the difficulties of measurement, the Board’s judgement remains that the bulk of these savings have been, or will eventually be, passed through into savings to consumers. This judgement is consistent with standard economic analysis which suggests that, ultimately, changes in business costs are reflected in the prices that businesses charge. A similar conclusion was reached by the House of Representatives Standing Committee on Economics, Finance and Public Administration when it considered the Bank’s payments system reforms in 2006.”¹⁶

The credit card industry has repeatedly stated, or perhaps threatened, that lower interchange fees will mean higher consumer credit card fees. This argument has been thoroughly researched and rejected. As noted previously, for example, the European Commission’s Directorate of Competition reviewed this claim and found, “There is no economic evidence for such a claim. Firstly, the inquiry's data suggests that in most cases card issuers would remain profitable with very low levels of interchange fees or even without any interchange fees at all. Secondly, the international card networks have failed to substantiate the argument that lower interchange fee would have to be compensated with higher cardholder fees.”

The flip-side of this argument proves its shallowness. Interchange fees in the United States have tripled since 2001 – have consumer credit card fees been cut by one-third? Absolutely not. Simply asking the question makes the absurdity obvious. In fact, consumer card fees have been rising too. Credit card fees are not a zero sum game in which the industry has a God-given right to a set amount of revenue – as they would like you to believe – but instead are a reflection of the card industry’s insatiable hunger for fees aided by their unfair and deceptive practices in charging them.

¹⁵ Payments System Board Annual Report, *Reserve Bank of Australia*, 2005 at 14.

¹⁶ Reform of Australia’s Payment System: Preliminary Conclusions of the 2007/2008 Review, *Reserve Bank of Australia*, at 23.

Myth: *These reforms will make it more complicated for consumers. The current system works well for them.*

Reality: The current system fools consumers by hiding the large interchange fees that are built into the cost of their purchases. To quote one of my fellow witnesses today, Ed Mierzwinski of U.S. PIRG, “Interchange fees are hidden charges paid by all Americans, regardless of whether they use credit, debit, checks or cash. These fees impose the greatest hardship on the most vulnerable consumers – the millions of American consumers without credit cards or banking relationships. These consumers basically subsidize credit card usage by paying inflated prices – prices inflated by the billions of dollars of anticompetitive interchange fees. And unfortunately, those credit card interchange fees continue to accelerate, because there is nothing to restrain Visa and MasterCard from charging consumers and merchants more.”¹⁷ In addition, consumer groups including the Consumer Federation of America, Consumer’s Union, and Consumer Action have all submitted Congressional testimony criticizing the current system of interchange fees because it is not fair to consumers.

Economists with the Kansas City Federal Reserve Bank appear to agree with consumer groups on some of the problems with the current system for consumers. In a 2006 working paper titled “Payment Card Rewards Programs and Consumer Payment Choice,” they wrote that “rewards programs and the accompanied merchant fee structure may work as tools that distribute income from low-income earners to high-income earners.” That is, of course, just what the Hispanic Institute found in its study published in November.

In addition, the European Commission has found that interchange fees harm consumers. In December 2007, the Commission found MasterCard’s multilateral interchange fee illegal and Competition Commissioner Neelie Kroes said that interchange “inflated the cost of card acceptance by retailers without leading to any advantage for consumers or retailers. On the contrary, consumers foot the bill, as they risk paying twice for payment cards. Once through annual fees to their bank. And a second time through inflated retail prices . . .” Kroes concluded that MasterCard’s interchange “acts like a ‘tax on consumption’ paid not only on card users but also by consumers using cash and cheques.”

Myth: *Interchange is needed to balance the two sides of the card market – consumers and merchants – so that the system is used by more people and better benefits everyone.*

Reality: This rationale has been firmly rejected. European regulators have investigated this claim in-depth and concluded that it is inconsistent with the facts and does not

¹⁷ Testimony of Ed Mierzwinski before the House Judiciary Committee Antitrust Task Force, May 15, 2008.

create an economic efficiency that makes up for the problems created by the lack of price competition between member banks in the setting of interchange fees.¹⁸ Interchange is a charge imposed by Visa, MasterCard and their member banks – not a mystical balancing mechanism. When Australia moved to regulate rates (after Visa and MasterCard rejected attempts to address the antitrust problems with the system), the card associations argued that regulation would kill the card system. It hasn't happened. Card use is at an all-time high in Australia in spite of Visa and MasterCard's protestations and the banks are competing to offer consumers lower interest rates. Once reformed, the credit card system in the United States will continue to flourish.

Myth: *When Australia took regulatory action in this area it resulted in consumers paying more for credit cards and hurt the credit system.*

Reality: When Australia acted, MasterCard said it would mean the end of the credit card system in that nation. They were wrong. More consumers use more cards for less than ever before in Australia. In fact, rather than Visa and MasterCard competing to raise interchange fees so that banks will issue more of their cards, they have had to give consumers what they really wanted – lower interest rates on their cards. This interest rate competition has benefitted consumers immensely. The only ones who don't like it are Visa and MasterCard (and their member banks) because they don't make as much on interchange fees and must now compete more thoroughly on the value they deliver to consumers. The Reserve Bank of Australia reviewed the interchange reforms instituted there and concluded, "Overall, consumers are benefiting from this greater competition and lower merchant costs . . . one group of consumers clearly better off are those who regularly borrow on their credit cards. They are now able to obtain a card with an interest rate of 10 to 13 per cent, rather than the 16 to 18 per cent payable on traditional cards. For many consumers the resulting savings can run into hundreds of dollars per year . . . Consumers who do not use credit cards at all are also benefiting from the reforms as they are paying lower prices for goods and services than would otherwise have been the case. For many years, these consumers have helped subsidise the generous reward points of the credit card issuers through paying higher prices for goods and services. The reforms have helped unwind some of this subsidy."¹⁹ It should be noted that the credit card companies have funded studies that have a different view of the reforms in Australia. Merchants have funded their own studies, but we think the Reserve Bank's findings are the most authoritative source and urge everyone on the Committee to read them when making their judgments – and not listen to how they are characterized (and often mischaracterized) by others.

¹⁸ See December 19, 2007 Antitrust Ruling of the European Commission.

¹⁹ Payments System Board Annual Report, *Reserve Bank of Australia*, 2005 at 14.

Myth: *Credit and debit cards provide a valuable service for merchants and consumers, but merchants do not want to pay a fair price for that service.*

Reality: Credit and debit cards do provide a service. Just as was the case with the old AT&T, the problem is that the interchange fee system now violates the antitrust laws and is so riddled with unfair rules that keep any competition from entering the system that it must be reformed. Under the Conyers-Shuster bill, there will still be interchange – it will just be charged in a system where some small measure of competition and transparency will exist. Once reformed, not only will there be interchange fees, but there will still be processing fees and merchants will have to pay any fees associated with maintaining their accounts at their local banks. And, of course, credit card companies will still charge consumers an array of interest charges and fees. While credit card companies will not like reform, they will continue to have many avenues to recover costs, compete, and make profits, but they will have to do so in a transparent system so that consumers and merchants have real choices about the payment services they use and the costs they incur.

Myth: *Banks need high interchange in order to recover the costs of fraud and guarantee payment to merchants.*

Reality: Economists with the Federal Reserve Bank of Kansas City have found that fraud costs are not a justification for over-inflated interchange fees. They wrote, “Card organizations have often argued that the reason why they impose proportional fees stems from the cost they bear from their “payment guarantee” service which insures merchants against customers who pay with cards without having sufficient funds. We argue that the cost of fraud and insufficient funding is negligible compared with fees at the range of 1% to 3% commonly imposed by brand name cards. For example, industry studies show that the average net fraud losses are around 0.05% for signature debit cards, which do not extend credit to card users.”²⁰

Even if banks issuing cards paid out more in fraud, however, that would not justify them charging the merchants for this. While the card companies claim that they guarantee payment to merchants, in reality this “guarantee” is nothing more than a promise to pay when they want to pay. Both Visa and MasterCard have pages and pages of rules for situations in which they can “chargeback” the amount of a transaction to the merchant. These chargebacks are so common that in actuality U.S. merchants absorb more of the cost of fraud each year than the banks that issue the cards. A 2009 study from LexisNexis in conjunction with Javelin Strategy & Research found that merchants absorb nearly ten times the cost of fraud that the banks absorb each year.²¹

²⁰ “Why Do Card Issuers Charge Proportional Fees?” Oz Shy and Zhu Wang, December 2008 at 3.

²¹ 2009 LexisNexis True Cost of Fraud Study at 23.

One recent example demonstrates in microcosm why this is the case. Exhibit 5 to this testimony is a letter from the owner of the The Catch Seafood Tavern in Port Jefferson, New York to his representatives in Congress. It details his recent experience with the card companies. He had five chargebacks in a month that meant the bank took \$78 in sales from him. He argued successfully that each chargeback was in fact a valid transaction and that he should get his money. Finally, the bank agreed with him, but charged him a fee of \$15.50 per chargeback. So, he received his \$78 but then was charged a total of \$77.50 in fees. Obviously, this didn't amount to any kind of guarantee at all. This type of behavior is blatantly unfair, amounts to a license for the banks to take merchants' money, and happens frequently. It demonstrates another reason why large interchange fees cannot be justified and must be reformed.

Exhibit 1

Recognizing new tribes could mean new tax losses, marketers warn

Branded jobbers and truck stop marketers are pleading with Congress not to extend federal recognition to two Indian tribes without first ensuring a continued competitive marketplace for motor fuels and tobacco.

Rep. Jim Moran (D-VA) is pushing a bill to recognize the Rappahannock Indian and Thomasina E. Jordan tribes in Virginia. Federal recognition would confer sovereign status on the tribes, allowing them to take into trust some of Virginia's most populous counties.

Sovereign status also allows tribes to sell fuel and tobacco to members without remitting state tax, but some flout the rules by failing to collect taxes from non-tribal members too. The result has been huge revenue losses in some states. New York estimates it has lost nearly \$4 billion in cigarette excise taxes alone since 1995, while Oklahoma believes state tobacco taxes are under-collected by roughly \$4 million/mo.

"While the state loses tax revenue, many motor fuel marketers and truck stop operators are losing their livelihood and their ability to compete in the marketplace," say the Petroleum Marketers Assn. of America and the National Assn. of Truck Stop Operators.

In Virginia, state excise tax is 17.5cts/gal on gasoline and 18cts/gal on diesel. In 2005, the average gross margin for retailers was 15.1 cts/gal and 15.5cts/ gal, respectively. By failing to remit state taxes, Indian tribes gain a price edge that is greater than many retailers' gross margins, the groups said in an April 16 letter to Rep. Nick J. Rahall (D), chairman of the House Natural Resources Committee. Congress should add language to Moran's bill that would make federal recognition of the tribes conditional on their compliance with all state excise tax requirements, they say.

State won't intervene in dispute between Visa and marketers

Visa to marketers: If you don't like our rules, don't offer discount-for-cash

State regulators in California won't come to the rescue of marketers caught between obeying state standards on discount-for-cash pricing and demands by Visa that they drop the word 'credit' from price signs.

"As far as we're concerned, putting the word 'credit' on a price sign is appropriate, but as far as Visa telling marketers they can't do it, that's a civil matter between Visa and the marketers," says Dennis Johannes, the state's Weights and Measures director. "We have no authority to regulate Visa."

The state's posture leaves marketers in a Catch 22 situation. If they use the word 'credit,' Visa has said it may fine them and strip them of their right to take Visa cards. But if they adopt some of Visa's suggestions, such as leaving the 'credit' sign blank, they will be violating state standards, says Johannes.

Johannes believes that Visa is being "a little heavy-handed" on the issue. "They probably don't want dual pricing because it discourages the use of their credit card," he says. His only suggestion for marketers is that they seek a legislative change that will specifically require the use of the word 'credit' on signage.

Johannes is not alone in his suspicions of Visa's motives.

"Visa's goal is to get everyone to pay the higher, credit card price for fuel and they will twist and torture their rules if necessary to force consumers to do so," says Mallory Duncan, chairman of the Merchants Payments Coalition, a business group dedicated to fighting for lower card interchange rates.

Visa is not particularly sympathetic to the plight of marketers – the credit card giant says it is the marketers' fault for offering discount-for-cash in the first place.

"If the merchant wants to steer the consumer to discount for cash, then they have to do it within the context of Visa's rules," said Visa spokeswoman Rhonda Bentz. "It's great if they have a contract with the state, but they don't. They have a contract with Visa and if they don't want to abide by that contract, they shouldn't have signed it," she said.

"These merchants clearly want the consumer to pay with cash. Okay, then, they should just accept cash and not credit cards. But they want access to our 1 billion cardholders, and they want the reduced risk that comes with taking Visa, and they want the guaranteed payments. They just don't want to pay for it."

Visa threatened to fine Mom and Pop operator Mike Gharib's credit card processor \$5,000 because he was using the word 'credit' on his price sign, as exclusively reported (OE 04/16). The processor, Petroleum Card Services, planned to pass the fine through to Gharib. Visa withdrew the threat after Oil Express raised questions on the issue. The company says Gharib is now "compliant" with its rules. Gharib has removed the word 'credit' and that part of his price sign is now blank, Oil Express sources say.

Visa's position is that the higher price next to the word 'credit' on signs implies that the customer is paying a surcharge for credit, which is against Visa rules. It wants marketers to substitute other terms, such as 'regular' or 'standard,' or just leave that part of the sign blank. Additionally, Visa says the word 'credit' does not take into account debit cards, which must be treated the same as cash sales under state regulations. Therefore, the signs are misleading to debit customers, too, says Bentz.

Asked why Visa should start objecting to the word 'credit' after its use on station signs for 26 years, Bentz says Visa received complaints from consumers who thought they were being surcharged for credit.

Johannes says consumers know debit transactions are the same as cash, and that the difference between the two forms of payment – cash and credit – is well-understood. Using the term 'standard' or 'regular' would confuse customers, and leaving the sign blank would violate state rules. Visa's other suggestions – 'non-cash' and 'base price' – would have to be studied, he says.

"'Non-cash' is probably something we would not pursue as being illegal but there are a lot of other enforcement people in this state, such as the district attorney, county officials, and state attorney general's office, and we don't speak for them."

Visa has also objected to the way some marketers handle debit card sales at the pump and there is a suspicion among some marketer groups that the company would like to force consumers to go into the station to sign for a debit card transaction. Visa receives higher fees for debit signature sales than it does for Personal Identification Number transactions, sources say.

Visa has told Auburn, Calif.-based marketer Nella Oil that its debit card sales at the pump violate Visa rules because those customers are not getting the cash or discount price.

When customers use a Visa debit card at the pump, they are required to enter a PIN. If they do not do so, the card processor treats the sale as a credit card transaction and the customer will pay the higher, credit price for fuel. Likewise, the marketer will pay the higher fees associated with credit card transactions, although the money will ultimately be debited from the customer's bank account.

Nella has decals on its pumps clearly warning customers that they must key in their PIN to get the debit price, and the state has approved that decal, a Nella exec says. Visa says that's not enough to ensure that customers receive their cash discounts. Nella had hoped to get its bank to segregate PIN debit purchases and block them at the pump, but has been told that is not possible. "So, we're back to square one," says Nella.

Actually, not quite – under the landmark Wal-Mart-Visa lawsuit settlement, Visa and MasterCard were barred from bundling their debit and credit cards together, so forcing merchants to accept debit cards whether they wanted to or not.

Nella can write to its card processor or bank and tell them that it no longer wishes to accept Visa debit cards, says an industry lawyer. This will cause the bank to shut off Nella's access to the Visa debit network. As a result, when a customer swipes his debit card the sale will be routed automatically to the regional debit network whose logo appears on the back of the Visa card – the Star network would be one such example. The Star system will not process the customer's sale until he inputs his PIN, so avoiding charging him the credit card price for fuel.

"What's so frustrating is that Visa and MasterCard have a duopoly in the market place and they're trying to put retailers in an untenable position in order to increase their leverage and revenues," says Duncan, with the Merchants Payments Coalition.

Exhibit 2



| | | | | |
|---------------------------------|---------------------------------|------------------------------------|----------------------------------|--------------------------------|
| Full List | Near You | CEOs | Top Companies | Top Industries |
| Fastest growers | Most profitable | Most bang for buck | Best investments | All industries |

Top industries: Most profitable

| RETURN ON REVENUES | RETURN ON ASSETS | RETURN ON SHAREHOLDERS' EQUITY |
|--------------------|---|--------------------------------|
| Industry Rank | Industry | 2008 Profits as % of Revenues |
| 1 | Network and Other Communications Equipment | 20.4 |
| 2 | Internet Services and Retailing | 19.4 |
| 3 | Pharmaceuticals | 19.3 |
| 4 | Medical Products and Equipment | 16.3 |
| 5 | Railroads | 12.6 |
| 6 | Financial Data Services | 11.7 |
| 7 | Mining, Crude-Oil production | 11.5 |
| 8 | Securities | 10.7 |
| 9 | Oil and Gas Equipment, Services | 10.2 |
| 10 | Scientific, Photographic, and Control Equipment | 9.9 |
| 11 | Household and Personal Products | 8.7 |
| 12 | Utilities: Gas and Electric | 8.7 |
| 13 | Aerospace and Defense | 7.6 |
| 14 | Food Services | 7.1 |
| 15 | Industrial Machinery | 6.9 |
| 16 | Food Consumer Products | 6.7 |
| 17 | Electronics, Electrical Equipment | 6.5 |
| 18 | Commercial Banks | 5.2 |
| 19 | Telecommunications | 5.1 |
| 20 | Chemicals | 5.0 |
| 21 | Construction and Farm Machinery | 5.0 |
| 22 | Insurance: Life, Health (stock) | 4.6 |

| | | |
|----|--|-------|
| 23 | Information Technology Services | 4.5 |
| 24 | Computers, Office Equipment | 4.3 |
| 25 | Metals | 3.9 |
| 26 | Wholesalers: Diversified | 3.5 |
| 27 | Insurance: Property and Casualty (stock) | 3.3 |
| 28 | Specialty Retailers | 3.2 |
| 29 | General Merchandisers | 3.2 |
| 30 | Health Care: Pharmacy and Other Services | 3.0 |
| 31 | Packaging, Containers | 3.0 |
| 32 | Beverages | 2.9 |
| 33 | Engineering, Construction | 2.7 |
| 34 | Health Care: Medical Facilities | 2.4 |
| 35 | Health Care: Insurance and Managed Care | 2.2 |
| 36 | Petroleum Refining | 2.1 |
| 37 | Food and Drug Stores | 1.5 |
| 38 | Pipelines | 1.5 |
| 39 | Wholesalers: Health Care | 1.3 |
| 40 | Semiconductors and Other Electronic Components | 1.0 |
| 41 | Energy | 0.9 |
| 42 | Home Equipment, Furnishings | 0.7 |
| 43 | Food Production | 0.6 |
| 44 | Wholesalers: Electronics and Office Equipment | -0.3 |
| 45 | Diversified Financials | -0.6 |
| 46 | Motor Vehicles and Parts | -0.7 |
| 47 | Insurance: Life, Health (mutual) | -3.0 |
| 48 | Hotels, Casinos, Resorts | -4.5 |
| 49 | Automotive Retailing, Services | -7.9 |
| 50 | Forest and Paper Products | -9.6 |
| 51 | Entertainment | -10.0 |
| 52 | Real Estate | -13.4 |

Issue date: May 4, 2009



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|---------------------------|--------------------------|----------------------|-------------------------------|--------------------------------|
| Full List | Near You | CEOs | Top Companies | Top Industries |
|---------------------------|--------------------------|----------------------|-------------------------------|--------------------------------|

[Fastest growers](#) |
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 [Most bang for buck](#) |
 [Best investments](#) |
 [All industries](#)

Top industries: Most profitable

| RETURN ON REVENUES | RETURN ON ASSETS | RETURN ON SHAREHOLDERS' EQUITY |
|--------------------|---|--------------------------------|
| Industry Rank | Industry | 2007 Profits as % of Revenues |
| 1 | Network and Other Communications Equipment | 28.8 |
| 2 | Mining, Crude-Oil Production | 23.8 |
| 3 | Pharmaceuticals | 15.8 |
| 4 | Medical Products and Equipment | 15.2 |
| 5 | Oil and Gas Equipment, Services | 13.7 |
| 6 | Commercial Banks | 12.6 |
| 7 | Railroads | 12.4 |
| 8 | Entertainment | 12.4 |
| 9 | Insurance: Life, Health (stock) | 10.6 |
| 10 | Household and Personal Products | 10.2 |
| 11 | Securities | 10.1 |
| 12 | Insurance: Property and Casualty (stock) | 9.9 |
| 13 | Real Estate | 9.9 |
| 14 | Scientific, Photographic, and Control Equipment | 9.8 |
| 15 | Financial Data Services | 8.7 |
| 16 | Food Services | 7.9 |
| 17 | Publishing, Printing | 7.9 |
| 18 | Utilities: Gas and Electric | 7.9 |
| 19 | Industrial and Farm Equipment | 7.6 |
| 20 | Electronics, Electrical Equipment | 7.6 |
| 21 | Hotels, Casinos, Resorts | 7.3 |
| 22 | Aerospace and Defense | 7.2 |

| | | |
|----|--|------|
| 23 | Beverages | 7.2 |
| 24 | Chemicals | 7.0 |
| 25 | Internet Services and Retailing | 7.0 |
| 26 | Food Consumer Products | 6.5 |
| 27 | Telecommunications | 6.4 |
| 28 | Health Care: Insurance and Managed Care | 6.2 |
| 29 | Petroleum Refining | 6.2 |
| 30 | Computers, Office Equipment | 6.0 |
| 31 | Metals | 5.5 |
| 32 | Packaging, Containers | 5.5 |
| 33 | Home Equipment, Furnishings | 5.3 |
| 34 | Wholesalers: Diversified | 4.3 |
| 35 | Specialty Retailers | 3.8 |
| 36 | Information Technology Services | 3.8 |
| 37 | Energy | 3.7 |
| 38 | Airlines | 3.6 |
| 39 | General Merchandisers | 3.5 |
| 40 | Health Care: Medical Facilities | 3.3 |
| 41 | Pipelines | 3.1 |
| 42 | Engineering, Construction | 2.8 |
| 43 | Health Care: Pharmacy and Other Services | 2.6 |
| 44 | Food and Drug Stores | 2.1 |
| 45 | Wholesalers: Electronics and Office Equipment | 1.6 |
| 46 | Automotive Retailing, Services | 1.1 |
| 47 | Wholesalers: Health Care | 1.1 |
| 48 | Motor Vehicles and Parts | 1.1 |
| 49 | Food Production | 1.0 |
| 50 | Semiconductors and Other Electronic Components | 0.6 |
| 51 | Diversified Financials | -0.9 |
| 52 | Homebuilders | -9.5 |

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Top industries

Most Profitable Industries: Return on Revenues

| Revenues | <u>Assets</u> | <u>Shareholder equity</u> |
|---------------|--|-------------------------------|
| Industry Rank | Industry | 2006 Profits as % of Revenues |
| 1 | Mining, Crude-Oil Production | 26.6 |
| 2 | Pharmaceuticals | 19.6 |
| 3 | Commercial Banks | 16.2 |
| 4 | Financial Data Services | 15.2 |
| 5 | Network and Other Communications Equipment | 14.0 |
| 6 | Medical Products & Equipment | 13.5 |
| 7 | Railroads | 13.1 |
| 8 | Securities | 12.4 |
| 9 | Publishing, Printing | 12.4 |
| 10 | Insurance: P & C (stock) | 11.8 |
| 11 | Diversified Financials | 10.9 |
| 12 | Insurance: Life, Health (stock) | 10.7 |
| 13 | Entertainment | 10.7 |
| 14 | Internet Services and Retailing | 10.5 |
| 15 | Oil and Gas Equipment, Services | 10.4 |
| 16 | Household and Personal Products | 9.2 |
| 17 | Metals | 8.0 |
| 18 | Food Services | 7.9 |
| 19 | Semiconductors and Other Electronic Components | 7.7 |
| 20 | Petroleum Refining | 7.3 |
| 21 | Industrial & Farm Equipment | 7.2 |
| 22 | Homebuilders | 7.1 |
| 23 | Hotels, Casinos, Resorts | 7.0 |
| 24 | Utilities: Gas & Electric | 6.8 |
| 25 | Beverages | 6.6 |

FORTUNE 500 Headquarters



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What readers say...

- Everyone talks of America is a failing Democracy... WHAT? First...
- For those who have commented on Sam Walton's philosophy being...
- Now, consider this. WalMart no longer has Sam Walton running it.The...

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GALLERY



Top 50

Wal-Mart retakes the No. 1 slot on the Fortune 500 this year. See where America's largest companies rank, and why.

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GALLERY

| | | |
|----|---|------|
| 26 | Chemicals | 6.6 |
| 27 | Computers, Office Equipment | 6.5 |
| 28 | Electronics, Electrical Equipment | 6.4 |
| 29 | Apparel | 6.3 |
| 30 | Telecommunications | 6.2 |
| 31 | Food Consumer Products | 5.9 |
| 32 | Aerospace and Defense | 5.9 |
| 33 | Health Care: Insurance & Managed Care | 5.8 |
| 34 | Packaging, Containers | 4.3 |
| 35 | Wholesalers: Diversified | 4.1 |
| 36 | Health Care: Medical Facilities | 3.9 |
| 37 | Specialty Retailers | 3.6 |
| 38 | General Merchandisers | 3.3 |
| 39 | Health Care: Pharmacy and Other Services | 2.8 |
| 40 | Food & Drug Stores | 2.6 |
| 41 | Airlines | 2.6 |
| 42 | Energy | 2.6 |
| 43 | Information Technology Services | 2.2 |
| 44 | Engineering, Construction | 1.7 |
| 45 | Pipelines | 1.7 |
| 46 | Wholesalers: Food and Grocery | 1.7 |
| 47 | Wholesalers: Electronics and Office Equipment | 1.4 |
| 48 | Automotive Retailing, Services | 1.2 |
| 49 | Wholesalers: Health Care | 0.9 |
| 50 | Food Production | -0.7 |
| 51 | Motor Vehicles & Parts | -1.4 |

From the April 30th, 2007 issue

Note:

Due to slight differences in rounding, industry data online may not exactly match the FORTUNE 500 magazine version.

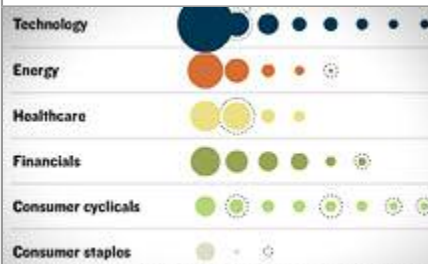


Best employers

More than 35 companies are on both the 2007 Fortune 1000 and 100 Best Companies to Work For lists.

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INTERACTIVE GRAPHIC BY MACAULAY CAMPBELL

Big deals

Last year saw the biggest buyout frenzy since 2000, as 42 Fortune 1,000 corporations were acquired. Who was part of the buyout binge?

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FORTUNE 500 2006

Our annual ranking of America's largest corporations

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Top industries

Most Profitable Industries: Return on Revenues

| Industry Rank | Industry | 2005 Profits as % of Revenues |
|---------------|--|-------------------------------|
| 1 | Mining, Crude-Oil Production | 29.9 |
| 2 | Internet Services and Retailing | 23.8 |
| 3 | Commercial Banks | 18.3 |
| 4 | Network and Other Communications Equipment | 15.8 |
| 5 | Pharmaceuticals | 15.7 |
| 6 | Medical Products & Equipment | 13.2 |
| 7 | Securities | 12.7 |
| 8 | Railroads | 12.5 |
| 9 | Diversified Financials | 12.4 |
| 10 | Publishing, Printing | 11.8 |
| 11 | Household and Personal Products | 11.1 |
| 12 | Insurance: Life, Health (stock) | 10.3 |
| 13 | Homebuilders | 9.9 |
| 14 | Insurance: P & C (stock) | 9.0 |
| 15 | Oil and Gas Equipment, Services | 8.7 |
| 16 | Entertainment | 8.4 |
| 17 | Food Consumer Products | 8.4 |
| 18 | Electronics, Electrical Equipment | 8.2 |
| 19 | Food Services | 8.0 |
| 20 | Computers, Office Equipment | 7.5 |
| 21 | Health Care: Insurance & Managed Care | 7.1 |
| 22 | Hotels, Casinos, Resorts | 6.8 |
| 23 | Industrial & Farm Equipment | 6.6 |
| 24 | Apparel | 6.5 |
| 25 | Petroleum Refining | 6.1 |
| 26 | Utilities: Gas & Electric | 6.0 |

| | | |
|----|--|-------|
| 27 | Chemicals | 5.8 |
| 28 | Metals | 5.6 |
| 29 | Beverages | 5.3 |
| 30 | Information Technology Services | 5.1 |
| 31 | Aerospace and Defense | 4.9 |
| 32 | Health Care: Medical Facilities | 4.6 |
| 33 | Telecommunications | 4.2 |
| 34 | General Merchandisers | 4.1 |
| 35 | Specialty Retailers | 4.0 |
| 36 | Semiconductors and Other Electronic Components | 3.9 |
| 37 | Energy | 3.0 |
| 38 | Food Production | 2.8 |
| 39 | Health Care: Pharmacy and Other Services | 2.8 |
| 40 | Wholesalers: Diversified | 2.3 |
| 41 | Engineering, Construction | 2.2 |
| 42 | Wholesalers: Food and Grocery | 2.1 |
| 43 | Food & Drug Stores | 1.6 |
| 44 | Pipelines | 1.4 |
| 45 | Wholesalers: Electronics and Office Equipment | 1.4 |
| 46 | Wholesalers: Health Care | 1.3 |
| 47 | Automotive Retailing, Services | 1.1 |
| 48 | Motor Vehicles & Parts | 1.1 |
| 49 | Packaging, Containers | 0.4 |
| 50 | Airlines | -10.6 |

From the April 17th, 2006 issue

Exhibit 3

**Table IV.7: Profitability of
Large Retail Corporations,* 2003–2007
(NAICS Definitions, Millions of Dollars,
and Percent)**

- Retail industry profitability tends to average between 2 and 4 percent, a relatively low rate compared to profitability in other industries, such as manufacturing.
- Increased purchases during the holiday shopping season make the fourth quarter the most important quarter for retailers in terms of profitability.
- After steadily climbing for the last several years, retail industry profitability dropped slightly in 2007 to 3.02%.

| | Profits After Income Taxes | Net Sales Receipts & Operating Revenues | Retail Profits as a Share of Sales |
|-------------|-------------------------------|---|--|
| 2003 | \$45,364 | \$1,524,730 | 2.98% |
| 1st quarter | 11,283 | 354,328 | 3.18 |
| 2nd quarter | 9,656 | 364,426 | 2.65 |
| 3rd quarter | 9,518 | 377,950 | 2.52 |
| 4th quarter | 14,907 | 428,026 | 3.48 |
| 2004 | \$53,186 | \$1,666,495 | 3.19% |
| 1st quarter | 11,429 | 394,605 | 2.90 |
| 2nd quarter | 13,572 | 405,436 | 3.35 |
| 3rd quarter | 11,186 | 409,756 | 2.73 |
| 4th quarter | 16,999 | 456,698 | 3.72 |
| 2005 | \$56,281 | \$1,791,228 | 3.14% |
| 1st quarter | 12,307 | 426,016 | 2.89 |
| 2nd quarter | 13,154 | 441,328 | 2.98 |
| 3rd quarter | 13,076 | 445,043 | 2.94 |
| 4th quarter | 17,744 | 478,841 | 3.71 |
| 2006 | \$63,174 | \$1,948,397 | 3.24% |
| 1st quarter | 15,479 | 459,382 | 3.37 |
| 2nd quarter | 13,827 | 477,908 | 2.89 |
| 3rd quarter | 14,068 | 479,348 | 2.93 |
| 4th quarter | 19,800 | 531,759 | 3.63 |
| 2007 | \$62,344 | \$2,066,429 | 3.02% |
| 1st quarter | 14,370 | 497,962 | 2.89 |
| 2nd quarter | 17,648 | 512,116 | 3.45 |
| 3rd quarter | 12,887 | 504,138 | 2.56 |
| 4th quarter | 17,439 | 552,213 | 3.16 |

* Retailers with assets of \$50 million and over.

Source: Derived from U.S. Department of Commerce, Bureau of the Census data.

Exhibit 4

Share of Interchange Collected by Card Type

Credit Card Interchange

Sources: Nilson, #918, #919, #923

Federal Reserve Bank of Kansas City

| Rank | Issuer | % Interchange Market | Running Share |
|------|----------------------|----------------------|---------------|
| 1 | JPMorgan Chase | 24.9% | 24.9% |
| 2 | Bank of America | 18.3% | 43.2% |
| 3 | Citigroup | 15.6% | 58.8% |
| 4 | Capital One | 6.4% | 65.2% |
| 5 | U.S. Bank | 4.9% | 70.1% |
| 6 | Wells Fargo | 3.2% | 73.3% |
| 7 | HSBC | 2.8% | 76.1% |
| 8 | USAA Savings | 2.0% | 78.0% |
| 9 | Barclays | 1.7% | 79.7% |
| 10 | PNC Bank | 0.9% | 80.7% |
| 11 | Target | 0.9% | 81.6% |
| 12 | Advanta | 0.8% | 82.4% |
| 13 | First National | 0.6% | 83.0% |
| 14 | Navy FCU | 0.4% | 83.4% |
| 15 | GE Money | 0.4% | 83.8% |
| 16 | Nordstrom | 0.4% | 84.2% |
| 17 | Fifth Third Bank | 0.3% | 84.6% |
| 18 | RBS Citizens | 0.3% | 84.9% |
| 19 | SunTrust Bank | 0.3% | 85.2% |
| 20 | BB&T | 0.3% | 85.5% |
| 21 | Comdata | 0.3% | 85.8% |
| 22 | State Farm Bank | 0.3% | 86.1% |
| 23 | ICBA Bancard | 0.3% | 86.4% |
| 24 | Cabela's WFB | 0.2% | 86.6% |
| 25 | Commerce Bank | 0.2% | 86.8% |
| 26 | TIB-The Ind. Bankers | 0.2% | 86.9% |
| 27 | Pentagon FCU | 0.1% | 87.1% |
| 28 | Town North Bank | 0.1% | 87.2% |
| 29 | First Hawaiian Bank | 0.1% | 87.3% |
| 30 | M&I Bank | 0.1% | 87.5% |
| 31 | BECU | 0.1% | 87.5% |
| 32 | First Premier | 0.1% | 87.6% |
| 33 | CompuCredit | 0.1% | 87.7% |
| 34 | Credit One Bank | 0.1% | 87.8% |
| 35 | First Citizens Bank | 0.1% | 87.9% |
| 36 | Columbus B&T | 0.1% | 88.0% |
| 37 | Zions Bancorporation | 0.1% | 88.0% |
| 38 | 1st Financial Bank | 0.1% | 88.1% |
| 39 | UMB | 0.1% | 88.2% |
| 40 | Digital FCU | 0.1% | 88.2% |
| 41 | First Horizon | 0.1% | 88.3% |
| 42 | BMW Bank | 0.1% | 88.4% |
| 43 | Merrick Bank | 0.1% | 88.4% |
| 44 | Compass Bank | 0.1% | 88.5% |
| 45 | America First CU | 0.1% | 88.5% |
| 46 | TD Bank | 0.0% | 88.6% |
| 47 | RBC Centura | 0.0% | 88.6% |
| 48 | Silverton Bank | 0.0% | 88.7% |
| 49 | SchoolsFirst FCU | 0.0% | 88.7% |
| 50 | Suncoast Schools FCU | 0.0% | 88.8% |

Credit Card Interchange - Continued

| Rank | Issuer | % Interchange Market | Running Share |
|------|-----------------------|-------------------------|------------------|
| 51 | San Diego County CU | 0.0% | 88.8% |
| 52 | Golden 1 CU | 0.0% | 88.8% |
| 53 | Pa. State. Empl. | 0.0% | 88.9% |
| 54 | State Employees CU | 0.0% | 88.9% |
| 55 | Simmons First Nat'l | 0.0% | 88.9% |
| 56 | Redstone FCU | 0.0% | 89.0% |
| 57 | Wescom CU | 0.0% | 89.0% |
| 58 | VyStar CU | 0.0% | 89.0% |
| 59 | Arvest Bank Group | 0.0% | 89.1% |
| 60 | Intrust Bank | 0.0% | 89.1% |
| 61 | Randolph-Brooks FCU | 0.0% | 89.1% |
| 62 | Baxter CU (BCU) | 0.0% | 89.1% |
| 63 | First Tech CU | 0.0% | 89.2% |
| 64 | Delta Community CU | 0.0% | 89.2% |
| 65 | Tower FCU | 0.0% | 89.2% |
| 66 | Patelco CU | 0.0% | 89.2% |
| 67 | Farm Bureau Bank | 0.0% | 89.3% |
| 68 | Mission FCU | 0.0% | 89.3% |
| 69 | BancorpSouth | 0.0% | 89.3% |
| 70 | Wash. State Empl. | 0.0% | 89.3% |
| 71 | FirstMerit Bank | 0.0% | 89.3% |
| 72 | Affinity FCU | 0.0% | 89.4% |
| 73 | United Nations FCU | 0.0% | 89.4% |
| 74 | Mountain America CU | 0.0% | 89.4% |
| 75 | Arizona FCU | 0.0% | 89.4% |
| 76 | Police & Fire | 0.0% | 89.4% |
| 77 | GTE FCU | 0.0% | 89.4% |
| 78 | Alaska USA FCU | 0.0% | 89.5% |
| 79 | Mich. State Univ. | 0.0% | 89.5% |
| 80 | Citizens Equity First | 0.0% | 89.5% |
| 81 | Kinecta FCU | 0.0% | 89.5% |
| 82 | Bellco CU | 0.0% | 89.5% |
| 83 | Security Service FCU | 0.0% | 89.5% |
| 84 | Associated Bank | 0.0% | 89.5% |
| 85 | Travis CU | 0.0% | 89.6% |
| 86 | Virginia CU | 0.0% | 89.6% |
| 87 | State Empl. CU | 0.0% | 89.6% |
| 88 | Anheuser Busch CU | 0.0% | 89.6% |
| 89 | Tinker FCU | 0.0% | 89.6% |
| 90 | Hudson Valley FCU | 0.0% | 89.6% |
| 91 | Educa. Employ. CU | 0.0% | 89.6% |
| 92 | Alliant CU | 0.0% | 89.6% |
| 93 | Kern Schools FCU | 0.0% | 89.6% |
| 94 | Lockheed FCU | 0.0% | 89.6% |
| 95 | American Svgs. Bank | 0.0% | 89.7% |
| 96 | ESL FCU | 0.0% | 89.7% |
| 97 | Redwood CU | 0.0% | 89.7% |
| 98 | SAFE CU | 0.0% | 89.7% |
| 99 | South Carolina FCU | 0.0% | 89.7% |
| 100 | Municipal CU | 0.0% | 89.7% |

Share of Interchange Collected by Card Type

Signature Debit Card Interchange

Sources: Nilson, #918, #919, #923

Federal Reserve Bank of Kansas City

PIN Debit Card Interchange

Sources: Nilson, #918, #919, #923

Federal Reserve Bank of Kansas City

| Rank | Issuer | % Interchange Market | Running Share |
|------|---------------------|----------------------|---------------|
| 1 | Bank of America | 15.4% | 15.4% |
| 2 | Wells Fargo V | 12.1% | 27.5% |
| 3 | JPMorgan Chase V/MC | 9.7% | 37.2% |
| 4 | U.S. Bank | 2.9% | 40.1% |
| 5 | PNC V | 2.5% | 42.6% |
| 6 | USAA | 2.0% | 44.6% |
| 7 | Fifth Third V/MC | 1.7% | 46.3% |
| 8 | TD Bank V | 1.5% | 47.8% |
| 9 | SunTrust V | 1.5% | 49.3% |
| 10 | Regions Bank | 1.5% | 50.8% |
| 11 | Citizens Bank | 1.5% | 52.3% |
| 12 | Citibank | 1.4% | 53.7% |
| 13 | Navy FCU | 1.2% | 54.9% |
| 14 | BB&T V | 1.1% | 56.0% |
| 15 | MetaBank V/MC/D | 0.8% | 56.8% |
| 16 | Capital One V/MC | 0.8% | 57.7% |
| 17 | TCF Financial V | 0.8% | 58.4% |
| 18 | M&T Bank V/MC | 0.7% | 59.1% |
| 19 | E*Trade Bank V | 0.7% | 59.8% |
| 20 | ICBA Bancard V/MC | 0.6% | 60.4% |
| 21 | Huntington Nat'l | 0.6% | 61.0% |
| 22 | KeyBank MC | 0.6% | 61.6% |
| 23 | Compass Bank V | 0.6% | 62.1% |
| 24 | Sovereign Bank V | 0.5% | 62.6% |
| 25 | HSBC MC 30 | 0.4% | 63.0% |
| 26 | Bank of the West | 0.4% | 63.5% |
| 27 | State Empl. CU, NC | 0.4% | 63.9% |
| 28 | Harris N.A. MC | 0.3% | 64.2% |
| 29 | Zions Bancorp. V | 0.3% | 64.5% |
| 30 | Commerce Bank Mo. | 0.3% | 64.8% |
| 31 | Union Bank Calif. | 0.3% | 65.1% |
| 32 | Arvest Bank V | 0.2% | 65.3% |
| 33 | Comerica Bank V/MC | 0.2% | 65.5% |
| 34 | Town North V/MC | 0.2% | 65.8% |
| 35 | FirstBank Colo. V | 0.2% | 66.0% |
| 36 | Associated Bank MC | 0.2% | 66.2% |
| 37 | First Horizon V | 0.2% | 66.4% |
| 38 | M&I Bank V | 0.2% | 66.6% |
| 39 | BOK Financial V | 0.2% | 66.8% |
| 40 | Synovus V 39 | 0.2% | 67.0% |
| 41 | FirstMerit Bank V | 0.2% | 67.2% |
| 42 | First Citizens N.C. | 0.1% | 67.4% |
| 43 | BECU MC 37 | 0.1% | 67.5% |
| 44 | People's United | 0.1% | 67.6% |
| 45 | BancorpSouth MC 40 | 0.1% | 67.8% |
| 46 | Desert Schools FCU | 0.1% | 67.9% |
| 47 | Suncoast Sch. FCU | 0.1% | 68.0% |
| 48 | SchoolsFirst FCU MC | 0.1% | 68.1% |
| 49 | The Golden 1 CU | 0.1% | 68.2% |
| 50 | The Bancorp Bank | 0.0% | 68.2% |

| Rank | Issuer | % Interchange Market | Running Share |
|------|---------------------|----------------------|---------------|
| 1 | Bank of America | 13.4% | 13.4% |
| 2 | Wells Fargo V | 9.5% | 22.9% |
| 3 | JPMorgan Chase V/MC | 7.6% | 30.5% |
| 4 | Regions Bank | 1.4% | 31.9% |
| 5 | PNC V | 1.3% | 33.2% |
| 6 | U.S. Bank | 1.3% | 34.5% |
| 7 | SunTrust V | 1.2% | 35.7% |
| 8 | TD Bank V | 1.1% | 36.9% |
| 9 | Citibank | 1.1% | 38.0% |
| 10 | BB&T V | 0.9% | 38.9% |
| 11 | USAA | 0.8% | 39.6% |
| 12 | Citizens Bank | 0.7% | 40.4% |
| 13 | ICBA Bancard V/MC | 0.7% | 41.1% |
| 14 | State Empl. CU, NC | 0.5% | 41.6% |
| 15 | Capital One V/MC | 0.5% | 42.0% |
| 16 | KeyBank MC | 0.5% | 42.5% |
| 17 | Compass Bank V | 0.4% | 42.9% |
| 18 | Fifth Third V/MC | 0.4% | 43.3% |
| 19 | Union Bank Calif. | 0.4% | 43.7% |
| 20 | Zions Bancorp. V | 0.3% | 44.0% |
| 21 | Bank of the West | 0.3% | 44.3% |
| 22 | Sovereign Bank V | 0.2% | 44.6% |
| 23 | Commerce Bank Mo. | 0.2% | 44.8% |
| 24 | BECU MC 37 | 0.2% | 45.0% |
| 25 | First Horizon V | 0.2% | 45.2% |
| 26 | BancorpSouth MC 40 | 0.2% | 45.3% |
| 27 | Desert Schools FCU | 0.2% | 45.5% |
| 28 | The Golden 1 CU | 0.2% | 45.7% |
| 29 | Arvest Bank V | 0.2% | 45.8% |
| 30 | Suncoast Sch. FCU | 0.2% | 46.0% |
| 31 | First Citizens N.C. | 0.2% | 46.2% |
| 32 | Comerica Bank V/MC | 0.2% | 46.3% |
| 33 | Huntington Nat'l | 0.2% | 46.5% |
| 34 | People's United | 0.1% | 46.6% |
| 35 | Harris N.A. MC | 0.1% | 46.8% |
| 36 | Associated Bank MC | 0.1% | 46.9% |
| 37 | SchoolsFirst FCU MC | 0.1% | 47.0% |
| 38 | M&I Bank V | 0.1% | 47.1% |
| 39 | Navy FCU | 0.1% | 47.3% |
| 40 | TCF Financial V | 0.1% | 47.4% |
| 41 | M&T Bank V/MC | 0.1% | 47.5% |
| 42 | Synovus V 39 | 0.1% | 47.6% |
| 43 | HSBC MC 30 | 0.1% | 47.7% |
| 44 | FirstMerit Bank V | 0.0% | 47.8% |
| 45 | Town North V/MC | 0.0% | 47.8% |
| 46 | BOK Financial V | 0.0% | 47.8% |
| 47 | FirstBank Colo. V | 0.0% | 47.8% |
| 48 | MetaBank V/MC/D | 0.0% | 47.8% |
| 49 | E*Trade Bank V | 0.0% | 47.8% |
| 50 | The Bancorp Bank | 0.0% | 47.8% |

Exhibit 5



January 15, 2010

The Honorable Charles Schumer
The Honorable Kirsten Gillibrand
The Honorable Tim Bishop

To my Representatives in Congress:

I'm writing as a small business owner who has an opinion on almost everything. But, to avoid writing a book, the subject today is credit card fees being charged by the big banks to the small merchant. I know there's legislation pending on this issue. And I know there is a lot of negative consumer sentiment regarding banks. Perhaps my situation will help sway a few votes to the side of right.

In the past month there have been five occasions where banks have initiated charge backs against my account. Three of the incidents were because the cardholder claimed the card was stolen. The other two were initiated by the Bank of America because they *suspected* fraud... two transactions of identical amounts on the same day. (Not unusual in a bar when a customer orders the same round of drinks.) In all five transactions the money was deducted from my account before I had any communication from my card processor requesting verification of the charges. *The big banks took the money of the small merchant assuming guilt before innocence.*

Since I check my account on a daily basis, I notice the debits. I called to ask about the deductions and was told of the claims against me. In all cases, I immediately faxed the proof that all five transactions were approved by the banks and that I did nothing wrong. I have so far been credited for the first three; I'm waiting for the last two. They're very fast to take my funds, very slow to return them. I should also note that had I not called I would have to wait until I got the letters requesting my response. In three cases the letters arrived on December 24th requiring a response by December 23rd. Even I'm not that good that I can respond 24 hours ago to a request.

Now, you'd think it couldn't get any worse... but it does. I've lost the use of the money for a period of time. I've proved that I did nothing wrong and that all the charges were legitimate. I've been credited the money for three of the five transactions and am waiting for the last two. I am now charged \$15.50 for each charge back as a fee. A total of \$77.50 in fees for \$78.00 in charges that I processed correctly and within the letter of agreement with the card processors!!! Mr. Schumer, Ms. Gillibrand, Mr. Bishop – this is ridiculous. I lose the use of my money for weeks, then I have to pay a fee of 100% to get it back.

I write to you today in the hopes that you can appreciate both my frustration with the situation and that you can see just how ludicrous it is. I am a small merchant who is trying to get by, trying to provide employment, trying to pay my bills. I feel that I'm being nickel and dimed and \$77.50'd by companies that are trying to shore up their revenues before the new credit card legislation takes effect. I ask your help if you too see the inherent wrong in this situation.

Sincerely,

Marc Miller
Owner

111 West Broadway Port Jefferson, NY 11777 631.642.2824 info@thecatchtavern.com