

# **Doron F. Eghbali Business Law**

## **Credit Card Costs for Merchants Are Rising with No Light in Sight**

**Thursday, January 28, 2010 by [Doron F. Eghbali](#)**

Businesses are saddled with the ever growing expense of paying for credit card usage by their customers. In fact, businesses face the conundrum of balancing growing credit card usage and the inability to forgo accepting credit cards amid the continuing downturn. In addition, there are some caveats of which businesses should be seriously mindful.

### **RISING CREDIT CARD EXPENSES**

Some of the credit card usage fees are on the rise. Specifically, the domestic credit-card interchange rate - that is the transfer fee set by credit card issuers such as Visa and MasterCard, but paid by the merchant to cardholder's financial institution - is on the rise. In fact, according to Government Accountability Office (GAO), the domestic credit-card interchange rate rose from between 1.25% and 1.91% in 1991 to between 0.95% to 2.95% in 2009.

### **HOW BUSINESSES CAN AND CANNOT CHANGE THEIR CREDIT CARD RATES**

The unfortunate reality is that small businesses may not have that much leeway over the terms of their credit card rates imposed on them by card issuers.

#### **VISA and MasterCard**

Specifically, Visa and MasterCard state that their domestic credit-card interchange rate is UNMOVABLE. The rate is between 1%-2% and determined based on the following factors:

- Type of business the merchant runs
- Purchase amounts
- Payment product type
- Processing technology the merchant uses
- Region and country

#### **AmEX and Discover**

As for AmEx and Discover, you theoretically could sit down and negotiate with third party acquirers. However, given the relatively small amount of transactions by small businesses compared to Walmart, there is not much hope.

In fact, many businesses do not take AmEx because of the relative exorbitant rates it charges. AmEx charges 2.54% of each transaction without any flat rate fees.

## CAVEATS

- **NO MINIMUM CREDIT CARD TRANSACTION:** If you think about imposing a minimum on credit card usage in your store, ensure you understand your contract. The reason is some agreements do not allow you to institute such minimum requirements.
- **NO PASSING ON CREDIT CARD COSTS TO CUSTOMERS:** Visa and MasterCard prohibit passing on credit card related fees to your customers. Possible penalties include fines and the loss of the ability to accept Visa and MasterCard. Although AmEx and Discover do not expressly disallow surcharging, merchants should be mindful of other unexpected consequences such as losing their cost-conscious customers in this down economy.

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