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## Visa, MasterCard in hot water with retailers -- customers get burned either way

By [Lucy Lazarony](#) • Bankrate.com



WASHINGTON -- If a retailers' antitrust lawsuit against Visa USA and MasterCard International succeeds, it could mean huge losses for credit card issuing banks and higher fees for bank consumers.

Experts say bank customers could be socked with fees if the banks lose and are forced to pay retailers as much as \$2 billion in damages.

"It doesn't hurt Visa and MasterCard as organizations. It hurts the cardholder banks. It could really cream them badly," said Gerard Hergenroeder, vice president at Speer & Associates, a consulting firm based in Atlanta. "Triple damages wipes out all their profits and puts them in a

negative position. They would have tremendous write-offs and losses."

### Violating antitrust law

Wal-Mart, The Limited, Sears, Safeway and Circuit City filed a lawsuit against Visa and MasterCard alleging that the associations are violating antitrust law by forcing merchants who accept their credit cards to also take the associations' signature-based debit cards as well.

The lawsuit, which was filed in a New York federal court in October 1996, has grabbed the attention of the Federal Trade Commission. *The Wall Street Journal* reports that the FTC is investigating whether the associations' alleged tying of credit and debit cards prevents competition in the debit card market and deprives consumers of choice.

A FTC spokeswoman said the agency does not confirm or deny investigations and investigations are made public only when the commission votes to take action.

### Can't fight credit-card giants

Mitchell Shapiro, an attorney with Constantine and Partners, the law firm representing the retailers in the New York case, said no retailer could stay in business if they refused Visa and MasterCard credit cards, which represent almost 80 percent of the credit card market. As a result, retailers had no choice but to accept the associations' signature-based debit cards, which cost retailers much more in fees than PIN-based debit cards.

Hergenroeder said retailers are charged 7 cents to 10 cents for each PIN-based debit card transaction, while fees for signature-based debit cards are typically four to five times higher.

Retailers want the right to reject signature-based debit cards -- Visa Check Card and MasterCard MasterMoney -- and still accept credit cards. Neither Visa nor MasterCard would comment on the lawsuit.

Shapiro said the retailers are seeking as much as \$2 billion in damages from Visa and MasterCard and their issuing banks. "For every dollar a bank makes from this illegal tying, \$3 must be paid back to retailers," he said.

### Losing banks could raise fees

A trial is not expected until late 1999. If the lawsuit results in a lowering of merchant interchange fees for signature-based debit cards, it could also spell bad news for debit card customers as issuer banks look to make up for the loss in profits with transaction fees, monthly fees and annual cardholder fees.

And experts point out that as things stand, merchants may be tweaking customers with slightly higher prices as they attempt to absorb the higher interchange fees associated with signature-based credit cards.

"One way or another the consumers end up paying," Hergenroeder said.

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