



Highlights of [GAO-10-821T](#), a report to Financial Services & General Government Subcommittee, Committee on Appropriations, U.S. Senate

## Why GAO Did This Study

Federal entities—agencies, corporations, and others—are growing users of credit and debit cards, as both “merchants” (receiving payments) and purchasers. Federal entities, like other merchants that accept cards, incur fees—called merchant discount fees—to process card transactions. For Visa and MasterCard transactions, a large portion of these fees—referred to as interchange fees—goes to the card-issuing banks. This statement addresses (1) the amounts of revenue that federal entities have collected using credit and debit cards and the costs of such acceptance, (2) these entities’ efforts to reduce their interchange fee costs, including negotiations, and (3) the extent to which card network rules affect these entities and other card accepters’ ability to reduce interchange fee costs. The information for this statement was drawn from *Credit and Debit Cards: Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist* (GAO-08-558) and *Credit Cards: Rising Interchange Fees Have Increased Costs for Merchants, but Options for Reducing Fees Pose Challenges* (GAO-10-45). GAO analyzed data on accepting and using cards from the Department of the Treasury (Treasury), Amtrak, the Postal Service, and General Services Administration (GSA); and interviewed non-federal merchants, card networks, banks, academics, and others. GAO also obtained updated 2009 revenues and costs from Treasury, Amtrak, and the Postal Service, and purchases from GSA.

[View GAO-10-821T or key components.](#) For more information, contact Alicia Puente Cackley at (202) 512-7022 or [cackleya@gao.gov](mailto:cackleya@gao.gov).

## CREDIT AND DEBIT CARDS

### Federal Agencies Benefit from Card Acceptance, but Have Limited Ability to Control Interchange Fee Costs

#### What GAO Found

As federal entities’ card revenues have increased, so have their associated costs. In fiscal year 2007, federal entities collected more than \$27 billion in revenues through credit and debit card transactions and reported paying at least \$433 million in merchant discount fees, which include the interchange fees associated with Visa and MasterCard transactions. Since GAO originally reported in 2008, total card acceptance costs for the U.S. Postal Service and Amtrak grew from \$182 million in 2007 to \$204 million in fiscal year 2009. Card costs for Treasury’s Financial Management Service (FMS) grew from \$101 million to \$116 million during this same period. Federal entity officials told us that the benefits of accepting cards include more satisfied customers, fewer bad checks and cash thefts, and improved operational efficiency. In addition to accepting cards, federal entities also use cards to make purchases for supplies or employee travel expenses, and these purchases totaled about \$30 billion in fiscal year 2009. Federal entity officials noted that using cards provides a variety of benefits, including lower administrative costs and rebates of a small percentage of the card purchases that they make, which totaled about \$255 million in 2009.

Federal entities have worked to control the costs associated with card acceptance fees. Card networks already offer interchange rates for government transactions that are lower than those for many other merchants’ transactions, but Treasury also requires the banks that process federal entities’ card transactions to ensure that these receive the lowest interchange rates for which they are eligible. Some federal entities have attempted to negotiate with the card networks to lower interchange rates applicable to their transactions, but with limited success. Similarly, GAO’s more recent work indicated that non-federal merchants have also experienced little success in negotiating with card networks to lower these fees.

Various card network rules have been a major factor limiting federal entities’ and merchants’ ability to negotiate lower interchange fees. Each of the major card networks—Visa, MasterCard, American Express, and Discover—have various card acceptance rules that prohibit card accepters from imposing surcharges on cards, refusing to accept certain cards—such as rewards cards with higher associated interchange fees, or establishing minimum or maximum charges. Although various options have been debated for lowering interchange fees, merchants and others GAO interviewed most supported removing certain card network rules. If interchange fees were lowered, card users might benefit from lower prices for goods and services, but lower interchange revenues for card issuers could prompt them to increase cardholder costs, offer less generous rewards, or curtail cardholder credit availability—although consumers and federal entities could still enjoy various other benefits of using cards, such as convenience and efficiency.