



Highlights of [GAO-08-558](#), a report to congressional requesters

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. Merchants accepting cards incur fees—called merchant discount fees—paid to banks to process the transactions. For Visa and MasterCard transactions, a large portion of these fees—referred to as interchange—goes to the card-issuing banks. Some countries have acted to limit these fees. GAO was asked to examine (1) the benefits and costs associated with federal entities’ acceptance of cards, (2) the effects of other countries’ actions to limit interchange fees, and (3) the impact on federal entities of using cards to make purchases. Among other things, GAO analyzed fee data and information on the impact of accepting and using cards from the Department of the Treasury (Treasury) and the General Services Administration, reviewed literature, and interviewed officials of major card companies and three foreign governments.

What GAO Recommends

To expeditiously realize additional cost savings, Treasury should develop a full implementation strategy, including a completion timeline, cost savings estimates, and a resource assessment for its revenue collection review program. FMS did not comment on GAO’s recommendation, but agreed its program will improve overall federal financial management.

To view the full product, including the scope and methodology, click on [GAO-08-558](#). For more information, contact Richard Hillman at (202) 512-8678 or hillmanr@gao.gov.

CREDIT AND DEBIT CARDS

Federal Entities Are Taking Actions to Limit Their Interchange Fees, but Additional Revenue Collection Cost Savings May Exist

What GAO Found

By accepting cards, federal entities realize benefits, including more satisfied customers, fewer bad checks and cash thefts, and improved operational efficiency. In fiscal year 2007, federal entities accepted cards for over \$27 billion in revenues and paid at least \$433 million in associated merchant discount fees. For those able to separately identify interchange costs, these entities collected \$18.6 billion in card revenues and paid \$205 million in interchange fees. Federal entities are taking steps to control card acceptance costs, including reviewing transactions to ensure that the lowest interchange rates—which can vary by merchant category, type of card used, and other factors—are assessed. While the Visa and MasterCard card networks have established lower interchange rates for many government transactions, some federal entities have attempted to negotiate lower ones, with mixed success. To identify savings from cards and other collection mechanisms, Treasury’s Financial Management Service (FMS)—which handles revenues and pays merchant discount fees for many federal entities—initiated a program in 2007 to review each entity’s overall revenue collections. FMS has identified potential efficiency and cost saving improvements at the eight entities it has reviewed thus far, but has yet to develop a full implementation strategy—including a timeline for completing all reviews, cost savings estimates, and resource assessment—that could help expeditiously achieve program goals.

Several countries have taken steps to lower interchange rates, but information on their effects is limited. Among the three countries GAO examined, regulators in Australia and Israel intervened directly to establish limits on interchange rates, while Mexico’s banking association voluntarily lowered some rates. Since Australia’s regulators acted in 2003, total merchant discount fees paid by merchants have declined, but no conclusive evidence exists that lower interchange fees led merchants to reduce retail prices for goods; further, some costs for card users, such as annual and other fees, have increased. Few data exist on the impact of the actions taken in Mexico (beginning in 2004) and Israel (beginning in the late 1990s). Because of the limited data on effects, and because the structure and regulation of credit and debit card markets in these countries differ from those in the United States, estimating the impact of taking similar actions in the United States is difficult.

Federal officials cited various benefits from card use—which totaled more than \$27 billion in fiscal year 2007, a 51 percent increase since fiscal year 1999 after adjusting for inflation—including the ability to make purchases more quickly and with lower administrative costs than with previously used purchasing methods. The banks that issue cards to federal entities also rebate a small percentage of their card purchase amounts; these rebates totaled \$175 million in fiscal year 2007. Preventing inappropriate card use poses challenges, and GAO and others have identified inadequate controls over various agencies’ card programs. However, tools and data provided by the issuing banks now allow entities to review transactions more quickly, increasing their ability to detect suspicious transactions.