

STATEMENT OF

**CONSTANTINO (GUS) PRENTZAS
OWNER, PAVILION FLORALS; LIFE & HEALTH FITNESS**

**BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**

**HEARING ON "UNDERSTANDING THE FEDERAL RESERVE'S PROPOSED RULE ON INTERCHANGE
FEES: IMPLICATIONS AND CONSEQUENCES OF THE DURBIN AMENDMENT"**

FEBRUARY 17, 2011

Chairwoman Capito, Ranking Member Maloney, and Members of the Subcommittee, thank you for inviting me to share my views regarding payment card "swipe" fees. My observations are based on my experience as a small business owner. I own a florist shop and a health club, both located in Astoria, New York. From my perspective, these fees, for both credit and debit cards, have long been out of control. In fact, they have grown so large, so quickly, that when it came to making a choice between paying these fees or laying off an employee recently, I had to lay off the employee. While I understand that the Durbin Amendment only addresses debit card and not credit card fees, I believe this is at least one step in the right direction. Therefore, I fully support the debit card rules proposed by the Federal Reserve and any other efforts to help rein in swipe fees.

Overview

I am owner of two small businesses in Astoria, New York. Pavilion Florals is florist shop I have owned since 1998. Life & Health Fitness is a health club I have owned for four years. Both businesses accept credit and debit cards as payment. The health club is particularly dependent on credit and debit cards as a form of payment, because we charge monthly membership fees and allow our members to set up automatic payment plans via credit or debit

card for their convenience. For the health club, approximately 78% of payments we receive are by credit or debit cards.

As the owner of two small businesses, I have a thorough understanding of the effect that runaway card fees have on small business, and my statement will discuss the impact that swipe fees are having on my businesses.

The Impact of Runaway Payment Card Fees on My Businesses

Both of my businesses accept debit and credit cards for payment. At the health club, I pay monthly interchange fees of approximately \$380 for card transactions which include automatic monthly memberships and other payments. I pay roughly the same amount in monthly interchange fees for the floral shop, even though it earns about half the amount of revenue that the health club does. And I note that the interchange I pay is based not only on revenues I get but I also pay a percentage on the sales taxes I collect: money that we don't get to keep.

These fees have grown at an incredible rate; indeed, they have doubled in the last two or three years alone. Our prices certainly have not doubled over this time period, so there is no question that it is the fees themselves that are out of control.

In fact, these fees have increased so much, so quickly, that I was recently faced with an unfortunate choice at my floral shop: I could pay these fees, or lay off an employee. I was forced to lay off the employee because there are no realistic alternatives to accepting credit and debit cards. Our customers expect us to accept these cards, and all of our competitors accept them, so we do not get more business by accepting cards – there simply is no business without accepting cards. Visa and MasterCard are another form of currency and we must accept them like we must take cash. That is one reason why I believe that the debit card fee limit is a step in the right direction: policymakers need to begin to see payment cards for what they really are – a

new form of currency. Approximately 60% of the florist shop's sales are paid by credit and debit cards, and 78% at the health club. We expect that percentage to increase as more young people patronize our stores. So at 60% of sales and growing, "currency" is what payment cards have become and will be in the future.

At this volume, we can pay reasonable fees for interchange and processing, and it is not my position that card processing should be free. What I and other retailers, especially small businesses, cannot continue to do, however, is pay exorbitant fees that continue to climb because banks won't compete with each other on these charges.

Overall for my small businesses, interchange fees have grown more rapidly and significantly than all of our other expenses. And the fact that I cannot control interchange fees the way I can control other expenses is a huge problem for me. For example, we could change employee schedules if we needed to reduce labor costs; we could invest in new technology to reduce utility expenses; and we put our business and health insurance needs out for competitive bid yearly to help keep those expenses down.

But our interchange fees are what they are, and we have absolutely no ability to change them or take our business elsewhere. As a result, my businesses have been hurt and I even resorted to a lay-off, as I mentioned, when I would have liked to invest in more employee time to better serve customers.

I have tried to deal with these fees by offering customers cash discounts. Sometimes that has worked and helped save money for me and my customers. But this alone isn't enough. I look forward to reduced debit card interchange so that I will have the opportunity to offer discounts for those cards and give my customers and my business a bit of a break.

Finally, I want to share my experience dealing with card company charge-backs to make clear that merchants like me are on the hook when problems like fraud come up. My floral shop deals with a high volume of charge-backs. A charge-back is when the card companies don't give me the money for a sale even though it was properly authorized.

The charge-backs I get at the florist shop are about one-third of the amount of the interchange I pay. That is a big loss of funds on top of what I'm already paying and it offends me when the card companies claim that I get "guaranteed payment." Nothing is guaranteed. I can do everything right and still lose a sale long after a customer has left my store with flowers that I will never see again.

I can tell you from personal experience that there have been times when I have checked an ID, obtained a security code and checked a zip code to make sure everything was authorized and in order. When a card turned out to have been stolen, however, I have still been charged back for the sale and lost the money and the goods. This is blatantly unfair and losing an entire sale takes a big bite out of my business.

I'm not alone in this either. Other businesses in my community get the same treatment. The "guarantee" that the card companies brag about only exists in their own minds. If a merchant gave the kind of "guarantee" that credit card companies give, he'd be sued for false advertising.

Not only that, I have to pay interchange fees on the charge-back amounts. Once again, I'm paying fees on money I don't get.

Much of this is far too complex for a small business person like me to follow. I pay quite a few fees other than interchange including a "NABU" fee, Assessment Transaction Fee, Partial

Authorization Fee, and Zero Floor Limit Fee. I'm not even sure what these fees are, but I have to pay them and they keep going up too.

Conclusion

I feel fortunate to be able to serve my community as owner of two small businesses in Astoria, and I see the effects of card fees from this perspective. The increases that I am seeing in credit and debit card fees are unreasonable. If interchange fees – even debit card fees alone – were reduced to more reasonable levels, I would have revenue that I could use to hire more people, offer discounts, and cut prices. And lower prices mean more sales.

At the end of the day, I am completely at the mercy of the credit card industry. They can charge more fees and take my sales by snapping their fingers. I ask you to bring some common sense to this situation. That industry shouldn't be able to all work together to take so much money out of my business this way. Please support the Federal Reserve's proposal and turn your attention to ways to bring some needed changes to credit cards as well.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

<p>1. Name:</p> <p>CONSTANTINO PRENTZAS</p>	<p>2. Organization or organizations you are representing:</p> <p>Ⓐ Pavilion Florals</p> <p>Ⓑ Life Health & Fitness</p>
<p>3. Business Address and telephone number:</p> <div style="background-color: black; height: 50px; width: 100%;"></div>	
<p>4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	<p>5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.</p>	
<p>7. Signature:</p> <p><i>Constantino Prentzas</i></p>	

Please attach a copy of this form to your written testimony.