ATM Surcharge Fact Sheet

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Shouldn't banks be compensated for the cost of operating ATMs?

Yes. Banks currently receive two fees for each ATM transaction. The first is a bank-to-bank fee known as an interchange. In order to join an ATM network, a bank agrees to pay an interchange fee when its customers use an ATM owned by another bank in the system. Interchange fees are set by the network at a rate (typically 50 cents to $1.50) designed to cover the ATM owner's costs and often even yield a profit.

Surcharges are a second, and unnecessary, fee for the same transaction. Consumers pay a surcharge each time they use an ATM operated by a bank other than their own. Surcharges are withdrawn directly from the consumer's account at the time of the transaction. A typical surcharge of $1.50 will add a 7.5 percent charge to a $20 withdrawal. Surcharges are levied at nearly every ATM in the country. Americans paid $2.1 billion in surcharges last year.

Why are surcharges anti-competitive?

Surcharges enable big banks to place their smaller rivals at a competitive disadvantage. In most regions, a handful of large banks own the majority of ATMs. For example, just two banks own 75 percent of the ATMs in San Francisco. By imposing surcharges, these banks create an incentive for customers of small banks and credit unions to move their account to one of the dominant banks in order to avoid the surcharge. In fact, the higher the surcharge, the greater the incentive for consumers to move their account. This amounts to an inverted form of price competition. What other business can gain new customers by raising its prices?

Are there analogous situations in other industries?

No. Surcharges are tantamount to AT&T charging MCI's customers twice as much for calls transmitted over AT&T's telephone wires as it charges its own customers. MCI would rapidly lose market share under this scenario. Similar situations can be found in other industries, such as electric power, where one competitor often owns the transmission infrastructure that other players must access in order to compete. In these industries, laws require that the company that owns the infrastructure charge its competitors the same rate for access as it charges itself. That is, AT&T and MCI must pay the same access charge no matter who owns the wires.

Eliminating surcharges would ensure that all financial institutions, like all telephone or electric companies, have equitable access to the infrastructure they depend on.

Would there be fewer ATMs without surcharges?

No. Iowa, a state that has never allowed surcharges, has the same number of ATMs per capita as the national average. In fact, two-thirds of the ATMs in operation nationwide were installed prior to 1996, the year banks first began surcharging. Even in the absence of surcharges, banks are eager to install ATMs, because they generate interchange fees and are far less expensive than human tellers. According to the Office of Thrift Supervision, the average cost of processing an ATM transaction is 27 cents, compared to $2.93 for a transaction processed by a human teller.

Do states and cities have the authority to ban surcharges?

Yes. States have always played a critical role in consumer protection and banking regulation. When ATMs first appeared in the 1970s, Congress passed the Electronic Funds Transfer Act, which established "a basic framework" of regulation for ATM networks. The law expressly authorizes states to regulate ATMs, particularly with regard to consumer protection issues.

Have any states or cities banned surcharges?

Yes. Iowa has never allowed surcharges. Two California cities, Santa Monica and San Francisco, enacted ATM surcharge bans in 1999. The cities' bans have been suspended, pending the outcome of a lawsuit brought by the state's two largest banks. Dozens of other states and cities are now considering their own bans.

Would a surcharge ban apply to all ATMs?

No. Surcharge bans usually exempt ATMs owned by non-financial institutions (such as convenience stores). Because these businesses only dispense cash and do not otherwise engage in banking services, surcharges at their ATMs do not pose an anti-competitive threat to small financial institutions.

Will banks block noncustomer access to their ATMs if they are not allowed to surcharge?

ATM network rules require that member-banks make their ATMs available to the customers of all other banks in the network. Some networks allow a member-bank to disconnect a few of its ATMs from the network, meaning customers of other banks cannot access their accounts at those machines. This provision enabled Wells Fargo and Bank of America to bar noncustomers from using their ATMs in Santa Monica, where both banks operate only a few ATMs.

Should either bank wish to disconnect a large number of its ATMs from the networks (in San Francisco, for instance), the banks would have to terminate their network membership. This would mean that customers of Wells Fargo and Bank of America would no longer be able to use ATMs operated by other banks. Because consumers now demand global ATM access, the two banks are unlikely to risk losing customers by terminating their connection to the networks.