

Guide to Credit Card Processing



It's the beginning of the month again and time for that dreaded credit card statement to arrive.

Opening the statement is kind of like getting a kick in the pants! We cringe when we see how much money has literally been taken from our pockets. And who can understand the statement anyway?

Believe me, you are not alone, credit card processors have hundreds of ways of disguising costs and keeping customers like you from ever figuring out how to save money.

Since accepting card payments is a must for most businesses, we believe that education is the key to making more informed decisions, and in turn, saving money for your business. In this article, we will shed light on how the card processing industry works, who the players are that are reaching into your pockets and how the method in which you accept card payments impacts your costs. We will also dissect the various pricing structures utilized in the industry, define some of the key terms you may see as well as explain how the various cards in your customer's wallets also affect your costs each month.



CARD PAYMENT INDUSTRY PLAYERS

There are a number of players involved in the card processing business and understanding who they are and what role they play can help you gain an upper hand when dealing with issues related to card processing. Whether you are having a billing issue, equipment problems or dealing with a customer charge-back, knowing who does what will go a long way in equipping you when faced with a challenge or in your negotiations on pricing the next time you consider making a change.

[PAYMENT PROCESSING](#)

[POINT OF SALE SYSTEMS](#)

[PROMO PROGRAMS](#)

[FINANCING](#)

Who are the players? Let me introduce you...

- **Merchant Bank** -This is your bank; you know the one you picked to handle all of the money coming in and going out of your business.

Interesting Fact: Although most banks offer credit card processing for their commercial account holders, your merchant bank does not process card transactions. They use a 3rd party Merchant Processing Partner which in turn pays them a backend % of the fees collected from you each month.

The lesson here is that you do have options and going with your bank for card processing may carry a higher cost.

- **Card Issuing Bank** -These are banks like Bank of America, Wells Fargo, CitiBank, Chase and others who provide the debit and credit cards that your customer's use when buying your product or service.
- **Merchant Processor** -This is the company who "processes" your card transactions which involves two primary functions, Authorization and Capture.
 - **Authorization** -The processor "authorizes" the transaction meaning their terminal sends a message to the Customer's Card Issuing Bank to confirm that there is money or credit available to make the purchase.
 - **Capture** -The processor captures the transaction information and routes it through the card networks to the Issuing Bank.
- **Acquirer** -This is the sale organization whose function is to "acquire" new merchants for their Merchant Processor. Merchant Processing companies sometimes operate their own direct sales team; however, the majority often utilize **ISO's or Independent Sales Organizations**. These ISO's normally consist of 1099 sales agents whose only job is selling on behalf of the merchant processors that they represent. Some ISO's are dedicated to one merchant processor while others may represent several processing companies. Make sure you know who you are dealing with before signing any agreements.
- **Member Bank** -The Member Bank is the liaison that connects the Merchant Processing company to the major card brands networks (Visa, MasterCard, Discover and American Express). Although they take a portion of your monthly fees, this bank operates behind the scenes often funding the transactions through their Processor.
- **Visa/MasterCard/Discover/Amex** -The major card brands provide the platform or network infrastructure in which the Merchant Processing companies use to perform their Authorizing and Capture roles. They take the bulk of the fees through the establishment of the **Interchange Prices**. Think of the Interchange Rate as the Prime Lending Rate or a Wholesale Rate. Interchange is the price that every bank and merchant processing company pay for the right to use the card brands network. And this rate is the same for everyone!

THE MERCHANT PROCESSING STATEMENT

Beware, trying to understand your processing statement can be extremely difficult work. The reason is that just about every merchant processing statement looks different. There is different information, varying formats and an inconsistent use of terminology among providers thus adding complexity and a lack of visibility for business owners. However, if you do nothing else with your statement each month, **you should always calculate your Effective Rate**, write it down and circle it before you file it away.

WHAT IS 'EFFECTIVE RATE'

The **Effective Rate** represents your total cost of card acceptance as a percentage of card payment sales for a particular month. Total cost means "all in" costs including interchange costs, discount costs, access fees and any other fees charges by your processor. And you should know that this percentage will fluctuate each month so checking it once is not enough, you must check it each month and look back at previous statements to make sure it's trending in a similar range to prior months.

Formula for Determining Effective Rate:

$$\text{Effective Rate} = \frac{\text{Total Monthly Cost for Card Acceptance}}{\text{Total Monthly Processing Volume}}$$

Let's look at an example just to provide some clarity:

Total Fees Charges for the Month by My Credit Card Processor: \$ 560.00
Monthly Card Processing Volume: \$ 20,000.00

Calculation: \$ 560.00 / \$ 20,000 = 2.8%

In this example, the resulting Effective Rate is 2.8%. Depending on the type of business, how you accept cards and your average monthly volume, this may be a very reasonable overall effective rate.

What is a good effective rate? As mentioned previously, it depends on several variables. If you are restaurant taking cards in person at your cash register, an average effective rate of 2.5% might be very good. Volume will play a role here as a higher volume business may be able to keep their effective rate below 2.5% while a low volume business may run closer to 3%.

Want some help figuring out your Effective Rate or to see if you can save money? Click the link below and we deliver a one-page summary of your current rates along with recommendations for savings when possible.

[Get My Free Statement Analysis](#)



[PAYMENT PROCESSING](#)

[POINT OF SALE SYSTEMS](#)

[PROMO PROGRAMS](#)

[FINANCING](#)

UNDERSTANDING INTERCHANGE FEES

Now that you understand how to calculate your own effective rate, your next step on the journey to enlightenment is to understand the term **Interchange** as well as the two major factors that impact your interchange costs.

What is Interchange?

- Interchange represents the wholesale cost of accepting card payments and is the highest portion of your overall costs.
- Interchange costs are the prices set by Visa, Mastercard, Discover and American Express for the right to use their network infrastructure to process your customer's payments.
- Interchange costs typically consist of a % charge of the transaction amount as well as a per transaction fee.
- Interchange costs are charged directly to the Merchant Processor who in turn assesses those costs to the merchant using one of three various pricing structures.
- Interchange rates are the same for every Merchant Processing company, large or small.
- Interchange rates are not negotiable and can be changed any time by Visa, Mastercard, Discover or American Express.
- Interchange rates vary based on two factors, 1) Method of Acceptance; and 2) Card Type.
- Each card brand (Visa, MasterCard, Discover and Amex) have their own Interchange Fee Schedules.

Want to see Visa's Interchange Rates? They are available via the magic of the internet anytime [HERE](#). For the other card brand's interchange schedules, simply search it on Google. Below is an example of how Interchange Fees may show up on your monthly merchant processing statement:

Here's the column detailing the merchant's interchange costs (i.e., fees charged by MC/Visa/Amex/Disc)

PENDING INTERCHANGE CHARGES								
Product/Description	Sales Total	% Of Sales	Number of Transactions	% of Total Transactions	Interchange Cost Rate	Cost Per Transaction	Sub Total	Total Interchange Charges
AMEX DEBIT								
AX FASTFOODRSTRNTS(PP)	36.00	0	1	1	2.15	0.050	0.82	
AMEX DEBIT TOTAL	36.00		1					0.82
DISCOVER NONDEBIT								
DSCVR PSL REST RW	116.64	42	3	38	1.90	0.100	2.52	
DSCVR MID SUB LVL RW	40.58	15	1	13	2.40	0.100	1.07	
DSCVR MID SUB LVL PR	67.38	24	1	13	2.40	0.100	1.72	
DSCVR PSL EXP SVC PP	8.12	3	1	13	2.05		0.17	
DSCVR PSL REST PP	22.78	8	1	13	2.30	0.100	0.62	
DSCVR MID SUB LVL PP	20.86	8	1	13	2.40	0.100	0.60	
DISCOVER NONDEBIT TOTAL	276.36		8					6.70
MASTERCARD NONDEBIT								
MC-INT SPR PREM ELECTRONIC(US)	65.28	1	3	1	2.83		1.85	
MC-BUS LEVEL 3 DATA RATE I	69.76	1	3	1	2.86	0.100	2.30	
MC-FOREIGN ELECTRONIC PLUS	257.28	3	4	1	1.95		5.02	

PAYMENT PROCESSING

POINT OF SALE SYSTEMS

PROMO PROGAMS

FINANCING

Now that we have a solid understanding of Interchange Fees, let’s look at the two factors that create the variability in interchange. As a business owner, you are in control of how you accept card payments and understanding this can help you lower your overall Effective Rate.

1. Method of Acceptance

The way in which you accept a card payment has considerable impact on your cost of interchange and is directly tied to the level of risk associated with the transaction. Because some acceptance methods carry a higher risk of fraud, accepting payments via those methods will carry a higher cost. There are three ways in which a business can accept a card payment:

- **Card Present Transactions**

Swiping a card on your credit card machine in your store represents the least amount of fraud-related risk. With a card present transaction, you have the card “in-hand” and the owner of the card standing in front of you. Verifying identity in this case is at least possible thus the risk of fraud is at its lowest.



- **MOTO Transactions**

MOTO stands for Mail Order/Telephone Order which carries a greater risk of fraud than do Card Present transactions.

If you have ever taken a payment by phone, then you have carried out a MOTO transaction. Since the person calling you could be anyone, the risk of fraud with MOTO transactions is higher than with a card present transaction and the Interchange Rate charged to you for that transaction will be slightly higher.



- **Internet Transactions** -As the most common method of credit card fraud, accepting internet payments is the most expensive method due to the elevated risk.

Identify thieves commonly utilize stolen credit card information from unsuspecting consumers by purchasing goods and services via the internet. If you accept card payments via your online store, then you are paying higher interchange fees on these transactions than you pay on your in-store, card present transactions.





2. Card Type

The type of card that your customer's present to you during a transaction also carries varying Interchange fees. The simplest example is a regular Visa credit card as compared to an AMEX card. AMEX typically carries a higher interchange rate. But hold on, its really not that simple.

The major card brands have created several sub-categories of cards, each with their very own interchange fees attached. Therefore, understanding the mix of cards coming into your business can help you better determine if your Effective Rate is acceptable.

Let's look at the primary sub-categories assigned:

- **Qualified Cards** -Qualified cards are generally no frill credit cards offered to people with no to fair credit ratings. They often have low credit limits such as \$ 1,500 or less. These cards have no points and offer no rewards to the card holder. Uneducated salespeople often quote you this rate when trying to get you to switch your merchant processing company so be weary!
 - Lowest cost to accept
 - Frequency of receiving these cards in your business will likely by low
- **Mid-Qualified Cards** -Mid qualified cards are generally business issued credit cards. For example, you are a traveling salesperson and your company provides a company credit card for you to use while traveling.
 - Slightly higher cost to accept
 - Regularly received many businesses
- **Non-Qualified Cards** -Whether you know it or not, you probably get quite a few non-qualified credit cards in your business each day. These are the big Points and Rewards cards issued by people like American Airlines or Capital One Bank.
 - Highest cost to accept for business owners
 - Frequently received by all types of business
- **Signature Debit Cards** -These are bank debit cards requiring the card holder to sign the ticket.
 - Low cost of acceptance
 - Regularly received by many businesses
- **Pin Debit Cards** -Debit cards requiring the card holder to enter their PIN number in order to complete the transaction.
 - Low cost of acceptance
 - Frequently received by many businesses

PAYMENT INDUSTRY PRICING STRUCTURE

The payments industry utilizes various pricing structures with their customers. Because there is a lack of understanding among a large portion of sales agents in this business, many will simply duplicate the pricing structure you were previously using and simply offer you a lower price. As a business owner, you need to know that there are options and that **you do have a choice in determining which pricing structure your processor uses with your account!** I know, who knew!! For most of us, we are only presented with one price structure option, but as an educated consumer, you can now ask your supplier for up to three different pricing programs, and ensure that they can explain which one may be better for you and your business.

So, what are these three pricing programs, and which one is best for my business? Once again, and I know you are tired of reading it but...it depends.

Interchange Plus

Interchange Plus pricing is the most transparent pricing model out there for the business owner. With Interchange Plus pricing, the cost components of processing are easier to track, and you can better negotiate with your processing provider because the adjustable cost elements charged are clear. There are normally just four cost components, and each are explained below:

Program	Visa Signature Preferred	Visa Signature	Traditional Rewards	All Other Products
Supermarket Credit—Performance Threshold* I				1.15% + \$0.05
Supermarket Credit—Performance Threshold* II				1.20% + \$0.05
Supermarket Credit—Performance Threshold* III				1.22% + \$0.05
Supermarket Credit—All Other	2.10% + \$0.10		CPS/Rewards 1 1.65% + \$0.10	1.22% + \$0.05
Retail Credit-Performance Threshold* I			CPS/Rewards 1 1.65% + \$0.10	1.43% + \$0.10
Retail Credit-Performance Threshold* II				1.47% + \$0.10
Retail Credit-Performance Threshold* III				1.51% + \$0.10
Retail—All Other			CPS/Rewards 1 1.65% + \$0.10	1.51% + \$0.10

Interchange Plus
a.k.a. "Cost Plus"

- **Interchange Cost** – As previously discussed, interchange is the wholesale cost for card acceptance. In this type of pricing arrangement, the interchange cost is simply passed through to you the customer.

As we previously explained, your method of acceptance and card types received will determine your interchange cost. Again, this is not a negotiable price as it is set by Visa, MasterCard, Discover and American Express and charged to your processor who, in turn, passes the cost through to you.

- **Discount Cost** - A very misleading term, **Discount means COST** to you. The Discount is the mark-up price to Interchange levied by the Merchant Processing company. To make things more confusing for the business owner, Discount is often referred to in Basis Points. Since literally no one knows what a basis point is, it is a clever way of hiding the actual mark-up % so read closely and understand.

One basis point is 1/100 of a percent thus 100 basis points would be equal to 1%. The Discount represents the profit margin applied by the Merchant Processing Company **and is the best opportunity for a business owner to negotiate a better rate.**

Below is an example of how the Discount Rate may be shown on your monthly statement:

Description	Sales Amount	Items	Rate	Item Charge	Amount Charged*
MasterCard Charges					
MC INTERNATIONAL CORPORATE	\$ 111.95	4	2.00%		\$ 2.24
MC INTERNATIONAL STANDARD	\$ 3,536.60	79	1.60%		\$ 56.60
MC INTERREG CONSUMER SUPER PREM STANDARD	\$ 70.00	1	1.98%		\$ 1.39
MC INTERREGIONAL CONSUMER PREMIUM STANDARD	\$ 191.08	5	1.85%		\$ 3.53
MC MERIT 1	\$ 37.89	1	1.89%	\$ 0.10	\$ 0.82
MC DISCOUNT RATE	\$ 3,947.52		0.40%		\$ 15.76
Total MasterCard Discount Fees					\$ 80.34
Visa Charges					
VISA EIRF	\$ 37.98	1	2.30%	\$ 0.10	\$ 0.97
VISA INTERREG BUS & VISA SIGNATURE BUS CARD	\$ 59.00	2	2.00%		\$ 1.18
VISA INTERREG SUPER PREMIUM RATE	\$ 37.98	1	1.97%		\$ 0.75
VISA INTERREGIONAL PREMIUM CARD	\$ 744.20	14	1.80%		\$ 13.39
VISA INTERREGIONAL STANDARD	\$ 7,637.83	165	1.60%		\$ 122.19
VISA INTERREGIONAL STANDARD VISA ELECTRON	\$ 1,578.90	25	1.60%		\$ 25.26
VISA NON-CPS DEBIT & PREPD REG	\$ 34.00	1	0.05%	\$ 0.22	\$ 0.24
VISA DISCOUNT RATE	\$ 10,129.89		0.40%		\$ 40.57
Total Visa Discount Fees					\$ 204.55
Discover Charges					
DISCOVER INTERNATIONAL BASE SUBMISSION LEVEL	\$ 499.44	4	1.70%	\$ 0.10	\$ 8.89
DSCV DISCOUNT RATE	\$ 499.44		0.40%		\$ 1.99

- **Transaction Fees** -Applied to the number of transactions taken each month, the transaction fees can add up to a lot of out of pocket expense for a business owner. Make sure you look carefully at what you are paying today and always negotiate this rate as low as possible. The processing company has some cost here but if you are a high transaction volume business, such as a restaurant, get this price down as far as possible. A second point, credit cards and debit cards carry different rates so make sure you question those charges before signing any paperwork.
- **Monthly Fees** -These are general fees added by the merchant processing company and represent a final opportunity to reduce your costs. Most processors charge fees such as Statement Fees, Annual Fees, Regulatory Fees, PCI Compliance Fees and others that will represent a fixed cost to you. Eliminate as many of these extra fees as possible!

Tiered Pricing

Tiered pricing is commonly used in the industry; however, it is the least transparent pricing structure in my opinion. With tiered pricing, you, the merchant, are given **three to five rates** that represent the type of cards that may come into your shop. Remember the Card Type section.



Under a tiered pricing structure, the merchant processing company is basically setting your price based on their average interchange costs for each card sub-category and adding their mark-up to arrive with a fixed rate charge. Pricing may be presented as below:

Debit	1.50%
Qualified	1.95%
Mid-Qualified	2.59%
Non-Qualified	3.49%
Transaction Fee	\$ 0.10

Like Interchange Plus, you also will have that per transaction fee as well as monthly fees to negotiate so make sure all are clearly stated on any proposals or agreements you are considering. Unlike Interchange Plus, you have no way of knowing your processors average costs nor can you clearly identify the discount or mark-up built into this pricing methodology. Of course, you can fall back on the Effective Rate calculation to see where you fall.

Flat Rate Pricing

Just as it sounds, flat rate means you are charged a single rate for any and all card transactions, regardless of your method of acceptance or card type. You have probably heard of Square as they were one of the first companies to aggressively market this pricing method and are well known for their services.

Most often, you will find flat rate pricing options for mobile payment solutions and you may run across it with some internet payment providers. For the majority of customers who accept card present transactions (remember this term from earlier), flat rate pricing will not often be the lowest cost pricing method. These programs are best utilized with low volume businesses running \$ 5k or less in monthly card transactions or businesses that require mobile payments (think Food Truck).

The benefit of flat rate pricing, however, is that there are no fixed monthly or annual charges associated with your account. And no minimums, thus you only pay when you use your card! Again, for smaller businesses with infrequent card acceptance needs, this may be the perfect solution. Pay attention though as you may have a dual rate, one for swiped cards and another for keyed or MOTO transactions.

FINAL THOUGHTS

Knowledge is power, especially when it comes to understanding the card payments industry. Despite all we have covered in this article, there are still some additional ways in which your Merchant Processing company might reach into your pockets so keep these in mind as well as you deal with or negotiate your processor.

- **Merchant Processor Contracts**

Never rely on the salesperson’s word when it comes to the term of any agreement that you are signing. In this industry, it is very common to be told that you can get out of your contract at any time, however, this is simply not true. Check the documents and insist on a “no early termination fee” addendum if not clearly spelled out in the agreement.

- Most processing company agreements are written on a term of 36 months.
- Most agreements contain Early Termination Charge Clauses that can range from \$ 495 to thousands for cancelling your agreement before the end date.
- Many agreements contain Automatic Renewal clauses that require you to notify the processor of your intent to cancel 30 to 90 days ahead of the contract end date. Failure to notify them will trigger an automatic renewal either for another 12 months or for the original term of the agreement so check this out carefully before signing up!

- **Card Terminal Purchase or Lease**

You have probably purchased a card terminal in the past, however, there are many companies in the marketplace today who will offer you a free standard card terminal for signing up for their service. This can save you an average of \$ 500 or more in upfront equipment costs per terminal so make sure you ask.



In terms of leasing card payment terminals, **NEVER DO IT!** Several companies in the business regularly lease their equipment to customers and it is never a good deal. The lease prices are often in the \$ 25 to \$ 35 range per month (First Data can be much higher) and will be written on a 36-month deal in most cases. As these are 3rd party lease agreements, you will never get out of the lease without full payment even if you fire the merchant processing company who got you into the deal.

- **PCI Compliance**

PCI Compliance is required by the Card Brands (V/MC/Discover/Amex) and is a program that ensures merchants are aware of and enforcing the rules and regulations related to sensitive cardholder data. Any business accepting card payments must be PCI Compliant or face penalties for non-compliance. If you see a line item on your statement for Non-Compliance along with a fee, then you need to get compliant to avoid the cost and risk associated.

PCI Compliance is managed by your merchant processing company and they should work in your best interest to ensure you are compliant. Most companies will charge you a monthly or annual fee for PCI Compliance. And for those of you who are Non-Compliant, the processor will also charge you a Non-Compliance Fee.

Follow the below guidelines to help save yourself money:

- Check your Statement each month, usually under the Fee Section, and make sure you are not being charged a Non-Compliance Fee.
- Know the process for becoming PCI compliant before signing an agreement for processing services. If you are already in a non-compliant status, contact your merchant processing company and find out how to get compliant.
- Know the cost of non-compliance.

- **Annual Fees**

There are a couple of common annual fees that processors often charge so make sure these are disclosed to you upfront. An annual Regulatory Fee is common, and it can range from \$ 79 and up each year. There may be other fees assessed as well so just be sure to ask as any annual fees charged to you should be prorated and considered as part of your Effective Rate calculation.





TURNING COSTS INTO CASH

SalesHEAD PAYMENTS
PO Box 74
Mayodan, NC 27027

For more information or for answers to questions related to credit card processing, please [Contact Us](#) directly and we will be happy to help in any way.

Regards,

Jeff Johnson
President
SalesHEAD Payments
336 970-9765
jeff@mysaleshead.com
www.mysaleshead.com

ABOUT SALESHEAD PAYMENTS:

SalesHEAD Payments is a LOCAL, INDEPENDENT Services Agency that helps our customers reduce the cost of accepting payments and eliminate the burden of dealing with payment processing companies.

PAYMENT PROCESSING

POINT OF SALE SYSTEMS

PROMO PROGAMS

FINANCING

www.mysaleshead.com