

How do I know what fees I am paying? Am I getting the best possible rate?

The cost of accepting credit cards is going up every year. Every April and October Visa™ and MasterCard® review their rate structure to decide if changes should be made. There is almost always a change. The change could be better, but most of the time it is a change to a higher rate. Visa™ and MasterCard® call this rate structure **Interchange**. There are roughly one hundred and fifty different categories within Interchange. These categories are set up based on the type of card, how the card transaction was performed (swipe or keyed in) and when the transaction was settled. Each category has a percentage rate and a per item fee attached to it. These rates range from three quarters of a percent, to just over three percent. Interchange fees are the amounts of the transaction that will be given to the issuing banks participating in the vast banking network. There is also a fee called dues and assessments which is Visa™ and MasterCard®'s piece of the pie. For Visa™ the percentage is 0.0925% and for MasterCard® it is 0.095%. You might think that is not that much, but if you consider the billions of dollars Visa™ and MasterCard® process each year, the numbers are staggering.

The other piece of this puzzle is the **processing company**. The processing company gets charged the Interchange fee which they pass on to the merchant, but they have to make their money as well. This is where the flexibility exists as to how your merchant account is priced.

There are four (4) main pricing strategies that processors use. Only one of them truly provides the merchant with a clear understanding as to how their fees are being calculated.

(1) The **flat rate program** is where the processor sets one **high** rate that covers every card type. This means the processing company makes more money on the cheaper card types like check/debit cards. For example, if you were to be priced at a 2.50% flat rate and the card used by a customer is a debit card with an Interchange rate of 1.40%, you are paying 2.50% and the difference between 2.50% and 1.40% is what the processor makes as profit on that transaction. So for that transaction you are being charged 1.10% over Interchange for accepting that particular card. Yes, there will be instances where a card you accept will have a higher rate than your flat rate but trust me, that will happen in very few instances.

(2) The **ERR rate program** is where the processor takes a bit of a different angle and says to the merchant that they will receive a low rate on their credit card transactions. That rate will typically be below 2.00%. Let's assume that rate is equal to 1.50%. So what happens is for the 1 to 2% of the cards you accept that meet the stringent criteria for that 1.50% rate that is the actual rate you will pay. For the other 98%-99% of the cards you accept you will be assessed a "downgrade" based on the actual Interchange rate plus additional profit to the processor. So for instance if the Interchange rate is actually 1.90% and the processor is looking to make an additional 1.00% you would be assessed a downgrade of 1.40% on the transaction amount in addition to the 1.50% base rate that was also charged. So for this card you **actually paid a rate of 2.90% and NOT 1.50%**. Now this will not be very clear to you on your statement and often the downgrade amounts are not clearly labeled. What will be clearly labeled is the 1.50% offered rate which you now know you are not actually paying.

(3) The **3-tiered rate program** is the most popular pricing strategy. This is the hardest one to understand. Basically, processors lump all one hundred and fifty interchange categories into three groups, Qualified, Mid Qualified and Non Qualified. Qualified is usually the cheapest rate and Non Qualified is usually the highest rate. The problem with this program is that you do not know which categories are being lumped into which group. They could be setting rewards cards into the Non Qualified group even though it only has a rate of 0.10% higher than the swiped credit card and they could be charging as high as 3.5% on top of your qualified rate for that transaction. While it might be easier to follow 3 rates, again this pricing strategy does not give a merchant a clear understanding of what they are actually being charged for each and every card they accept.

(4) The last type of pricing strategy is the **Interchange plus program**. This is where the merchant is charged pure Interchange fees plus a discount rate. This discount rate provides compensation to the processor but with Interchange plus, you know exactly what that compensation is. With Interchange plus you are getting the best possible rate on every card you accept. We believe this is the best pricing structure for a merchant to have and is how AMG Payment Solutions charges its customers.

If you are currently under a pricing strategy other than Interchange plus, AMG can help you and very likely save you a sizable amount of money on your monthly transaction fees.

Most processing companies have other fees that they charge as well. An **authorization fee** is a fee charged for every approval request your terminal makes. It is even charged on declines. A **per item fee** is a fee charged for every approved transaction you close out at the end of day. The **batch header fee** is charged every time you close out the terminal at the end of the day. The **statement fee** is simply the charge to send you a paper statement each month. The **monthly minimum** is a charge to make sure the processing company makes at least a minimum fee from you each month. It can be as high as \$25 / month. At the end of the month all of these additional fees are added up and if it is lower than your monthly minimum you are charged the difference. The **annual fee** is self explanatory, where the processor charges you a fee annually for their service. An **application fee** is charged when you first apply to take credit cards with the processing company.

The best way to find out what you are really paying in processing fees is to ask your processing company for an interchange break out for your transactions. Most companies will be glad to give this to you, but if they don't you should be a little concerned. Visa™ and MasterCard®'s interchange pricing sheets are available on their web site, but if you cannot find it we will be glad to give it to you. You should compare your interchange break out to Visa™ and MasterCard®'s pricing sheet and see how you compare. If you do not want to do all the research feel free to contact AMG Payment Solutions and we will be glad to look over your statements to see where you can save money.