

# Interchange-Plus Pricing Brings Transparency To Credit Card Processing Rates

*Dramatic Cost Savings, Easy-to-follow Charges*

Most merchant account providers simplify the complexity of interchange by bundling merchants' Visa/MasterCard rates into two-tier billing of "qualified" rates (for U.S. consumer credit and debit cards) and "non-qualified" rates (for corporate cards, foreign cards, rewards cards, and all other card types). While this is simpler, it masks the true cost of interchange and also means most merchants pay more than they should on almost all types of credit and debit cards.

To understand and appreciate interchange-plus pricing, also known as "cost-plus", it is important to understand what makes up interchange. Interchange is the set of rules and fees that a merchant's processor (the "acquiring bank") pays to a customer's credit card company (the "issuing bank") when merchants accept Visa and MasterCard transactions. Interchange, which makes up the bulk of what merchants pay in their discount rates, is paid to the bank that issued their customer's card for their role in facilitating a sale.

## Level Playing Field

Every processor, independent sales organization (ISO), member service provider (MSP), and acquiring bank is subject to the exact same interchange fees.

Why does this matter? Because it allows smaller merchant account providers, who focus their attention on providing

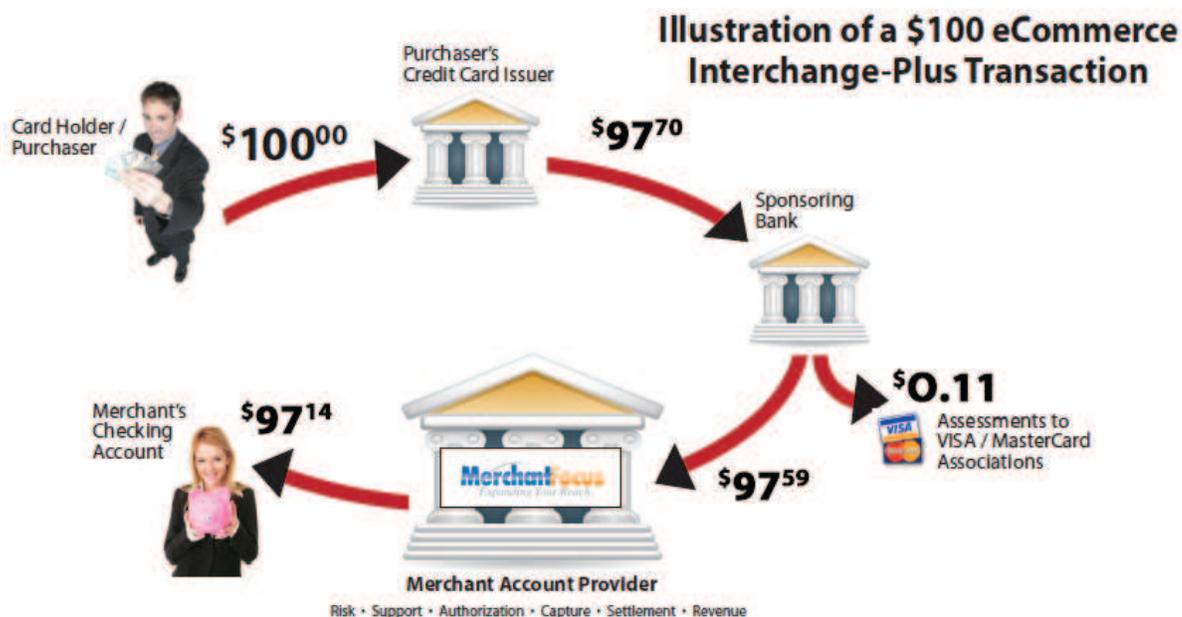
excellent service to their merchants, to compete favorably with giant, well-known banks. Merchant Focus is just such a merchant account provider, featuring superior service and interchange-plus pricing with no monthly fees of any kind.

## Interchange Is Complicated

Interchange-plus pricing is the most transparent way to charge for a merchant account because merchants know exactly what Visa and MasterCard are charging (which is not negotiable) and what their ISO/processor/acquirer is charging (which is negotiable). When merchants work with their merchant account provider to set up interchange-plus billing, both parties agree on an acceptable markup over cost.

To provide an example of the complexity of interchange, there are over 270 categories of interchange and 25 for Visa cards alone. Moreover, the interchange fees for Visa cards depend on many factors, such as whether the card is used at a website, a restaurant (both traditional and fast food), a supermarket, a rental car company, for insurance payments and so on, and whether the card is swiped or "key entered" into a terminal, or processed through an online shopping cart via a payment gateway such as Authorize.Net, or accepted over the phone.

In the hypothetical illustration below, the purchaser is a U.S.-based company using a typical Visa business card.



This \$100 purchase is on a merchant's website with Merchant Focus as the merchant account provider.

After the \$100 sale is authorized (which happens in real time upon checkout), it is captured the next day (after the merchant's daily transactions are "batched out"), and then the funds are "settled" or deposited into the merchant's checking account. The purchaser's credit card company (the card issuing bank) retains the interchange fee for "Visa U.S. Business Commercial" (card not present) of 2.20% (or \$2.20 from the \$100.00 sale), plus "dues" of \$0.10 (dues make up the fixed-dollar part of interchange), from the sale amount of \$100.00. So the issuer receives its fees in the form of interchange and dues, and then pays \$97.70 to the sponsoring bank of the merchant account provider.

The merchant account provider then retains two additional, smaller fees from the \$97.70 before it finally settles the transaction into the merchant's checking account. One small fee is called "assessments" (for Visa credit/debit cards, assessments are always 0.11%; for MasterCard they are always 0.11% for sales under \$1000 and 0.13% for sales over \$1000). In this example, therefore, out of the \$100 Visa sale, 0.11% is paid directly to the associations that own the Visa/MasterCard brands. The other small fee is for the merchant account provider's role in facilitating the transaction. This constitutes the "plus" in interchange-plus and is quoted in basis points (a basis point is equal to one hundredth of a percentage point), plus a transaction fee.

"Plus" covers the various costs of doing business including risk, servicing, authorization, capture, settlement and profit for the merchant account provider. In the example above, the agreed-to mark-up between the merchant and Merchant Focus for business credit cards is (a) 30 basis points (0.30%), which equals \$0.30 on \$100, and (b) a \$0.15 transaction fee.

So, out of the original \$100 sale, the merchant account provider receives 0.30% plus \$0.15, or a total of \$0.45 (45 cents) on a \$100 transaction. This 45 cents covers accepting the risk on the transactions, providing customer service to the merchant, authorizing the sale in real time, capturing the funds from the issuing bank, settling the deposit into the merchant's checking account, creating and mailing monthly statements and, finally, revenue for the merchant account provider.

## Comparison Between Interchange-Plus and Two-Tiered Billing

With interchange-plus pricing, as described above, the merchant receives \$97.14 from the \$100 corporate card sale. This equates to 2.61% plus \$0.25 for Visa business cards through Merchant Focus.

Compare this with typical non-qualified rates for corporate cards found in today's marketplace of anywhere from 3.49% + \$0.30 (where the merchant would keep \$96.21) to 5.49% + \$0.30 (where the merchant would keep \$94.21) and you can see how much less expensive interchange-plus pricing is for merchants who accept corporate cards. The same is true for consumer cards, debit cards, rewards cards, international cards and almost all other categories of interchange.

Moreover, Merchant Focus offers gross daily settlement of Visa/MasterCard sales. This means 100% of merchants' Visa/MasterCard sales are deposited directly into their checking accounts each business day, making reconciliation of their checking accounts much easier. Only at the end of each month are their processing fees debited. The complex distribution of all those rates and fees (who gets what) happens behind the scenes.

## The Durbin Bill

The passing of the Durbin bill offers significant savings to merchants on Interchange-Plus pricing. If a merchant on Interchange-Plus pricing accepts a non-exempt debit card the interchange on these cards is 0.05% and \$0.21 per transaction. Non-Exempt Debit Cards are defined by being issued by a bank or credit union that has over \$10 billion in total assets. A good example would be Chase, PNC, Bank of America or Wells Fargo Debit Card. The Durbin Bill makes it even more important to be sure you are on an Interchange-Plus Pricing program, those merchants that are on a 3-tier merchant program will NOT get to take advantage of these extremely low processing rates.

## Beware of Hidden Fees

Merchants sometimes ask, "My non-qualified surcharge is only 1.60% and \$0.10. Isn't this much lower than your interchange-plus business rate of 2.64% + \$0.25?"

The answer is, emphatically, no. If your merchant account provider is charging you a non-qualified surcharge, in order for you to calculate your actual non-qualified rate, you must add the surcharge to your base qualified rate.

For example, a base qualified rate of 2.19% + \$0.25, plus a non-qualified surcharge of 1.60% + \$0.10, equals the actual non-qualified rate of 3.79% + \$0.35.

Other Ways Merchant Account Providers Hide Rates and Fees One of the most popular (and this is often from famous-name banks) is to charge surcharges for corporate, rewards, and foreign cards for the previous month's transactions on the current month's statement. They show the surcharges, and they show you the number of transactions/items, but they do not

## TERMS TO KNOW

**Acquirer:** A VISA/MasterCard affiliated bank or bank/processor alliance that is in the business of processing credit card transactions. An acquiring financial institution (or “acquirer”) contracts with the sponsoring bank and merchants through merchant account providers such as ISO/MSPs to enable credit card transactions. The acquirer deposits the daily credit card totals and debits the end-of-month processing fees from the merchants’ accounts.

**Discount Rates:** Quoted as part of two tier billing of (1) qualified (U.S. consumer credit and debit cards) and (2) non-qualified (foreign, rewards, corporate, purchasing cards) transactions, where the interchange fees are masked by the merchant account provider.

**Dues and Assessments:** Processing fees merchants pay to the card associations to finance their roles in operating the network, setting rules, setting pricing, research and development, and marketing and branding.

They are both a set percentage of the sale and a fixed dollar amount and are generally collected on a daily or monthly basis.

**Interchange:** The standardized electronic exchange of financial and non-financial data associated with sale and credit data

between merchant acquirers and card issuers on various types of MasterCard and VISA transactions.

**Interchange Fee:** A fee paid by an acquirer to an issuing bank for transactions entered into interchange. The interchange fee is a percentage applied, according to VISA/MasterCard regulations, to the dollar value of each transaction. There are multiple categories of interchange, and VISA and MasterCard each have their own criteria for their own categories. A transaction must meet the specified criteria for a category in order for that category’s rate to be applied. Each transaction is evaluated separately; so various interchange rates may apply within one batch of merchant transactions.

**Interchange-Plus Billing:** Quoted VISA and MasterCard rates where the interchange, dues and assessments (cost) are combined with an agreed to margin (the “plus”) to allow merchants to pay transparent fees for their transaction processing. Also known as “cost-plus” pricing.

**Issuing Bank:** The financial institution that issues VISA and MasterCard credit and debit cards, and extends credit to a cardholder.

**ISO/MSP:** Independent sales organization / merchant service provider. The

registration given by VISA to a merchant account provider is ISO, and from MasterCard is MSP. When a company is fully compliant with registration they are considered a “registered ISO/MSP” of a sponsoring bank. The ISO/MSP provides sales and service support to merchants, and also accepts risk.

**Merchant Account Provider:** An organization (bank/processor/ISO/MSP) fully compliant and registered by VISA and MasterCard to offer credit and debit-card processing services. See ISO/MSP.

**Processor:** The company that actually routes an authorization request from a point-of-sale device (such as a payment gateway or credit card terminal) to VISA or MasterCard, and then arranges for fund settlement to the merchant. Processors need to have a sponsoring bank in order to gain access to the VISA and MasterCard networks. When a processor or other entity has made such an arrangement with a sponsoring bank to resell their services, they are called an agent of that bank.

**Sponsoring Bank:** A chartered bank that has obtained membership in VISA or MasterCard in order to allow a processor access to the VISA and MasterCard networks in order to process transactions.

show you the dollar amounts that those surcharges are calculated against. This makes it impossible to do the math and decipher the actual rate you are paying for your corporate, rewards, and foreign cards. This is neither transparent nor ethical.

In addition, many merchant account providers charge for statement fees, monthly service fees, address verification (AVS) fees, batch header fees, termination fees, annual fees, gateway access fees, change checking account fees and more. These are primarily fees that do not have actual cost associated with them (in other words, their function is simply to earn revenue), and they are, potentially, negotiable.

### Synopsis of Interchange

Interchange fees, therefore, are set by the credit card associations of Visa and MasterCard, and are by far the largest component of the various fees that merchant account providers deduct from merchants’ credit card sales, representing 70% to 90% of

the total. Interchange fees have a complex pricing structure, which is based on the type of credit or debit card, the products sold, size of the accepting merchant, and whether a transaction is ecommerce, bricks and mortar, or mail order/phone order. Further complicating the rate schedules, interchange fees typically include a flat transaction fee (dues) plus a percentage of the total purchase price.

Twice a year (in April and October), Visa and MasterCard decide whether or not to modify the existing “Interchange Rate Structure.” All credit card processors reserve the right to pass any rate increases on to their clients. Unfortunately, many credit card processing companies take advantage of opportunities like this to increase rates across the board instead of just maintaining their original markup on their clients’ merchant accounts. Merchant Focus guarantees never to increase the markup we charge our clients.

## Time for Openness and Transparency

Merchant Focus was created to bring openness, fairness and transparency to the merchant account business. It was founded by seasoned credit card veterans who abhor secrecy and confusion with merchant account rates. Their solution is to offer “interchange-plus” pricing with no monthly fees of any kind, and it saves most merchants that process over \$250,000 annually in credit card sales thousands of dollars per year in processing costs.

## Examples of Cost Savings

For example, an actual ecommerce merchant who processed roughly \$400,000 in monthly credit card sales recently switched to Merchant Focus from another merchant account provider. Using Merchant Focus eliminated the statement fee, annual fee, address verification fee, termination fee and batch header fee that the merchant had previously paid. It also reduced the merchant's overall processing rates. The result is that this merchant is saving approximately \$900 per month in overall credit card processing fees.

Another company, a bricks-and-mortar retailer, was processing \$65,000 in monthly credit card sales. Switching to Merchant Focus is now saving this retail merchant approximately \$250 per month. They have since referred three other accounts that have all signed-up with Merchant Focus.

## Monthly Statements are Easy to Follow

Monthly account statements from Merchant Focus are remarkably easy to understand. Not only will you know exactly how much you are paying for each type of credit card you accept, you will also gain important demographic data on the types of cardholders (corporations, international shoppers, travel and entertainment, debit cards, U.S. consumers, and government procurement cards) purchasing from you.

## Integration

In most cases, merchants who sign-up with Merchant Focus keep their existing technologies in place, including credit card terminals, payment gateway accounts, logins, passwords and security settings. Merchant Focus simply reprograms your current payment gateway or credit card terminal at no charge. We make every effort to integrate into your existing solution so the change is seamless. However, in some cases we do have to setup a new payment gateway or terminal, usually at a lower cost to you than what you are currently paying.

## Contact Us

For more information about interchange-plus pricing, please contact us.

Telephone  
1-800-895-4085

Email  
sales@merchantfocus.com

Physical Address  
Merchant Focus  
6042 Quin Abbey Court E  
Dublin, OH 43017

Website  
<http://www.MerchantFocus.com>

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