



Understanding Card Processing Costs to Protect your Budget

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IntelliPay[®]



Hi, I'm Casey Leloux, CEO of IntelliPay. I have spent 25 years starting, growing, and running two successful payment processing companies. In this guide, I will pull back the curtain and break down what makes up card processing costs.

Then, I'll show you how to calculate your net effective rate and compare it to an industry benchmark to determine if you are paying too much for card processing. So, let's dive in.

So What Are Your Rates?

Everyone always asks me that question. My response surprises people: Visa, Mastercard, and the others set the rates. Companies like IntelliPay don't control the rates. We add a small amount to cover expenses and make some money, but currently, about **86%** of the "rate" goes to Visa, Mastercard, Discover, and American Express (the card brands).

Breaking Down the "Rates"

Everyone who has accepted a card for payment knows they must pay a fee on each transaction. Credit and debit cards have different rates or interchange fees that vary by where it is used, card type, amount of payment and business type or industry.

Interchange fees are what the card brands charge for using their network. Think of it like traveling by train; every trip requires a ticket. Interchange fees are non-negotiable and are typically a percentage and fixed amount; for example, 2.25 % +\$.10.

In-Person vs. Not In Person

When a card is used in-person (card present) the cardholder's identity can be verified. Which is why the card brands charge a lower interchange fee on these transactions.



Likewise, when a card is used to make a payment online, the person using the card can't be easily identified as the card owner. So, the card brands charge higher interchange rates since the risk of fraud is higher.

Card Type

The type of card matters as well. The card brands charge lower interchange fees on regulated debit cards than non-regulated debit cards, see page 3. And higher fees on premium credit cards.

Size Matters - Amount of Payment /Industry

Visa and Mastercard have large and small ticket programs which vary interchange fees by transaction size. American Express also uses size-based tiers to set their interchange fees. Large retailers, grocery chains etc. get the lowest fees, however the card brands give government (Federal, State, and Local) and educational institutions lower interchange fees if specific requirements are met.

***Interchange fees make up 86%
of the cost for each transaction.***

Since card type help determine the interchange fees, we'll compare debit card types to credit cards in the chart below.



Debit Card

Connected to Bank Account

Two types:

- Regulated
 - Issued from bank with \$10 billion in assets
 - Durbin Act
- Non-Regulated
- All others

No rewards = low cost



Credit Card

Connected to "Line of Credit"

Two types

- Personal
- Business

Heavy rewards

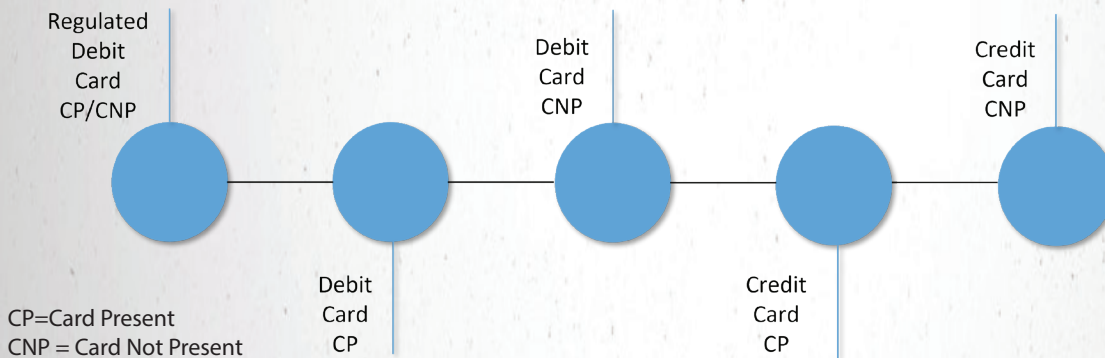
- Miles/Travel
- Cash back

High rewards = higher cost

Regulated debit cards issued by the largest banks with no rewards have the lowest fees, whereas personal premium credit cards used online or CNP carry the highest fees.

Least Expensive

Most Expensive



Interchange Fee Summary

Interchange rates or fees make up 86% of transaction costs, are not negotiable, and are paid directly to the card brands. Interchange fees = wholesale buy-rates for processing debit and credit cards.

Interchange fees vary based on:

- Amount of Payment

Card Network Fees	Count	Volume(\$)	Rate(%)	Fee(\$)	Amount(\$)
Interchange: AM Service/Prof Serv Tier 2, American Express	8	896.87	1.70%	0.10	16.05
Interchange: AM Service/Prof Serv Tier 3, American Express	7	7,517.69	2.00%	0.10	151.06
Interchange: AM Service/Prof Serv Tier 4, American Express	3	18,925.18	2.40%	0.10	454.51

- Use of Card (CP vs CNP)

Interchange: VS CPS CNP Debit, Visa	3	455.50	1.65%	0.15	7.97
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- Type of Card

Interchange: VS InterReg Business, Visa	4	4,259.19	2.00%	--	85.18
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- Industry

Government, Grocery, Retail, etc. - All determine different interchange rates

Understanding Card Processing Costs

Your Credit Card Statement - Who Makes the Money?

Pictured below is page 1 of a credit card statement. I'd like to outline some things for you to understand what they mean. Starting at the top we see the **profit** on the account is 8 basis points or .08% and the **processing volume** is \$61,988.

Plan Summary									
Plan	Number of Sales	Gross Sales Amount	Number of Credits	Credit Amount	Net Sales	Average Ticket	Discount P1 %	Discount %	Discount Due
Visa	908	23,799.49	00	.00	23,799.49	26.21	0.0800		19.04
Visa Debit	790	20,539.64	00	.00	20,539.64	26.00	0.0800		16.43
Visa Business	51	1,549.90	00	.00	1,549.90	30.39	0.0800		1.24
MasterCard	341	8,237.68	00	.00	8,237.68	24.16			6.59
MasterCard Debit	184	4,992.13	00	.00	4,992.13	27.13			3.99
MasterCard Business	11	275.74	00	.00	275.74	25.07			.22
JCB	00	.00	00	.00	.00	.00			.00
American Express	00	.00	00	.00	.00	.00			.00
Discover	65	1,843.07	00	.00	1,843.07	28.35			1.47
Discover Debit	00	.00	00	.00	.00	.00	0.0800		.00
Discover Business	23	760.60	00	.00	760.60	33.07	0.0800		.61
Discover JCB	00	.00	00	.00	.00	.00	0.0800		.00
**	2,373	61,998.25	00	.00	61,998.25	26.13			49.59

profit on account is 8 basis points (.08%).

Next, we come to the fee section. After the fees are paid to the agent or IntelliPay (blue rectangle below), we see the Interchange fees the card brands are charging.

Fees									
Count	Amount	Rate %	Rate Per Item	Description	Fees Paid	Total			
AUTHORIZATION FEES:									
2,444			0.10000	Transaction Fee	.00	244.40	Transaction fee profit is \$0.10 per item		
INTERCHANGE FEES / AMERICAN EXPRESS PROGRAM FEES:									
286	7,682.96	1.6500	0.15000	VS CPS eComm Basic Debit	.00	169.46	In Fees: 244.40		
11	248.08	2.6500	0.10000	VS Business Tr1 Prod 1	.00	7.67			
01	76.88	2.7000	0.10000	VS Purchasing Card CNP	.00	2.18			
10	384.38	2.9500	0.10000	VS Business Tr4 Prod 1	.00	12.36			
09	235.75	3.0000	0.10000	VS Business Tr 5 Prod 1	.00	7.96			
68	1,988.62	1.8900	0.10000	VS VT Product 1	.00	44.31			
44	1,445.34	2.0400	0.10000	VS VTR Product 1	.00	33.86			
205	5,703.50	2.0500	0.10000	VS VIN Product 1	.00	137.72			
590	14,646.65	2.5000	0.10000	VS VSP VIQ Product 1	.00	425.01			
01	15.38	1.9700		VS InterReg Super Premium	.00	.30			
10	256.28	2.8000	0.10000	VS Business Tr2 Prod 1	.00	8.16			
10	348.53	2.8500	0.10000	VS Business Tr3 Prod 1	.00	10.95			
482	12,160.65	0.0500	0.22000	VS US Regulated Debit	.00	113.07			
10	276.78	1.7500	0.20000	VS CPS eComm Basic Pp	.00	6.85			
12	419.25	2.4500	0.10000	VS Business Card CNP Debit	.00	11.47			
09	394.63	1.9500	0.10000	MC Merit I Credit	.00	8.60			
06	225.50	2.6500	0.10000	MC Corporate Data Rate 1	.00	6.55			
90	2,518.60	1.6500	0.15000	MC Merit I Debit	.00	55.02			
25	722.68	2.1000	0.10000	MC Enhanced Merit I	.00	17.72			
35	675.56	2.2000	0.10000	MC World Merit I	.00	18.40			
238	5,663.67	2.6000	0.10000	MC World Elite Merit I	.00	171.08			
03	60.48	2.8500	0.10000	Commercial Data Rate 1 Level 3	.00	2.03			
04	138.38	2.9500	0.10000	MC Business Level 4 Data Rate I	.00	4.49			
01	10.25	2.6500	0.10000	MC Business Level 1 Data Rate I	.00	.37			
03	66.63	3.0000	0.10000	MC Business Level 5 Data Rate I	.00	2.30			
34	781.14	2.6000	0.10000	MC High Value Merit I	.00	23.72			
86	2,220.35	0.0500	0.22000	MC US Cons Regulated POS Debit w/Fraud Adj	.00	20.17			
02	27.68	1.7600	0.20000	MC Merit I Preaid	.00	.89			

Moving further down the statement, we find the continuation of the fee section. And we see once again that the card brands make the most money, receiving 86% of the fees you pay.

Fees - continued						
Count	Amount	Rate %	Rate Per Item	Description	Fees Paid	Total
INTERCHANGE FEES / AMERICAN EXPRESS PROGRAM FEES:						
23	760.60	2.4500	0.15000	DS Commercial Electronic Submission Level	.00	22.09
44	1,207.52	2.0300	0.10000	DS e-Commerce Rewards	.00	28.85
18	558.67	2.0500	0.10000	DS e-Commerce Premium	.00	13.29
03	76.88	2.5000	0.10000	DS e-Commerce Premium Plus	.00	2.22
Total Interchange Fees / American Express Program Fees:						1,389.12
CARD BRAND FEES:						
985			0.01950	VS-NAPF-Credit	.00	19.21
01				VS-VS FANF CNP	.00	222.22
01				VS-VS FANF CP	.00	1.29
01	15.38	0.4500		VS-IAF	.00	.07
01			0.03950	VS-NAPF INTL Credit	.00	.04
01	15.38	1.0000		VS-US ISABASEPUR	.00	.15
814			0.01550	VS-NAPF-Debit	.00	12.62
959	25,349.39	0.1400		VS-ASSMNT CREDIT	.00	34.12
790	20,539.64	0.1300		VS-ASSMNT DEBIT	.00	27.03
1,749	45,889.03		0.00180	VS-VS TRANSMFEE	.00	3.15
536	13,505.55	0.1300		MC-ACQ Brand Volume	.00	17.69
01				MC-MC Location Fee	.00	1.25
546			0.01950	MC-NABU Auth	.00	10.65
546			0.00070	MC-MC Sfe Nt Aq Fee	.00	.38
542	13,567.07	0.0200		MC-DIGITAL ENBLMT	.00	10.90
88	2,603.67	0.1400		DS-DS Assessment	.00	3.65
20			0.00500	DS-DS AVS	.00	.10
88	2,603.67		0.00250	DS-DISC Data Usage	.00	.22
88	2,603.67	0.0100		DS-DS Dig Invt Fee	.00	.26
97			0.01900	DS-DS Ntwk Auth Fee	.00	1.84
536	13,505.55	0.0052		MasterCard License Fee	.00	.70
Total Card Brand Fees:						367.54
OTHER FEES:						
			29.95000	Monthly Service Fee	.00	29.95
Total Other Fees:						29.95
Total Fees Due:						2,031.01

14% (\$49.59 + \$244)	
goes to the sales group	
86% goes to the Card Brands	

Total Discount Due	49.59
Total Fees Due	2,031.01
Amount Deducted for July	2,080.60

Net Effective Rate

The net effective rate is one of the quickest ways to determine if you're paying too much in card processing costs. It is your total processing fees divided by total sales volume.

Page 1 of the sample statement shows that the total volume that this account processed was \$61,998.25. From the bottom of the last page, we see the total Fees Paid were \$2,080.60. So for this merchant, the net effective rate is: $\$2,080 / \$61,988 = 3.40\%$

A good net effective rate is under 3%, so why is this merchant's net effective rate higher? The answer requires a closer look at the card brand fee section where we find "VS FANF CNP" of \$222.22 (blue rectangle above).

When the \$222.22 "VS FANF CNP" fee is subtracted ($\$2,080 - \$222.22 = \$1,857.78$), then the net effective rate drops to **2.9%**. ($\$1,857.78 / \$61,988$). Anything below 3% is a good net effective rate.

I recommend a quarterly review of your statements as new fees and changes occur frequently. On the next page, you will calculate your net effective rate.

Calculate Your Net Effective Rate

Step 1: Get your last month's statement. Find your total processing amount; this could be listed as gross sales amount, amount of sales, total sales, or net sales at the top of or near the bottom of a summary section.

Step 2: Locate the total fee amount, typically in a section marked "Fees". It could be marked as total card brand fees, total fees due, total card fees, etc.

Step 3: Write the numbers from steps 1 and 2 in the worksheet below and calculate.

Net Effective Rate Worksheet

Net Sales \$: _____

Total Fees \$: _____

Divide the total fee amount by the net sales \$ amount

Net Effective Rate: _____

What Are You Looking For?

As you recall from the previous page, if your net effective rate is higher than 3%, it is time to evaluate what you are paying in fees.

If you want to do this independently, start by looking for sections like other fees, miscellaneous fees, or mark up fees.

A Word of Caution: *Fee names and abbreviations vary from processor to processor. If you're trying to decide whether you should be paying a particular fee, consider the fee amount first and take the fee's name with a grain of salt. Even if a fee has a card brand abbreviation in front of it, it doesn't guarantee it is a card brand fee!*

No Obligation Offer

Reading statements can be complex. I recommend letting an expert examine your statements. If you would like, I can analyze your statement and provide an objective review free of charge.

Email your statement to me: casey.leloux@intellipay with the words - statement review in the subject line.

Understanding Card Processing Costs

Wait, There's More

In addition to helping agencies understand card processing costs, there are other ways IntelliPay can help governments reduce the time and money spent on payments, including:

Alternative Ways to Pay

- In-Person
- Online payment page & lightboxes
- Citizen portals
- Mobile payments
- Text and email payments

Payment Options

- Credit and Debit Cards - Visa, MasterCard, Discover and American Express
- ACH/eCheck
- Google Pay
- Venmo
- PayPal

Fee-Based Options

- Service fee
- Convenience fee
- FairPay Surcharging

Cloud-Based All-in-One Platform

- City/County in the Cloud
- One system for all agencies and departments
- Integrations with existing systems
- Cloud management console

Advanced Reporting

- Easy-to-use and understand formats
- Robust parent/child reports
- Control by location down to staff level
- Custom reports for simplified reconciliations

Customization

- Citizen facing payments options

Integrations

- API
- Custom

For more information, visit intellipay.com or contact Philip Buck via email: phillip.buck@intellipay.com or by phone 385-210-1078.