

## Charges Related to Credit Cards

The Texas A&M System uses the credit card processor Global Payments. Even if a merchant's transactions pass through a 3<sup>rd</sup> party such as Authorize.net, TouchNet, Paypal Payflow, or MerchantLink, the next step in the process takes them to Global Payments for authorization and settlement.

### Visa & MasterCard

In April 2010 Texas A&M moved from a "bundled" rate (meaning a single set of average rates) for Visa and MasterCard to an "**Interchange + Assessment + Processor Fee**" model, which passes on actual costs.

**Interchange** is the fee charged by the banks that issue payment cards. The Interchange rate is affected by the type of card (check-card, consumer credit card, corporate credit card, etc.) and how the transaction is processed (swiped vs. typed in). Risk and industry requirements (such as the length of time between authorization and settlement) also influence the interchange rate. Currently, there are 16 different card types issued by Visa and MasterCard, with multiple interchange types listed under each card type.

Interchange is the single biggest variable in your credit card processing costs. Interchange rates always consist of a percentage of the amount paid plus a transaction fee. Interchange can be as low as 0.8% + \$0.25 or as high as 3.25% + \$0.10. If each card were used equally, the average would be 1.9% + \$0.10. A merchant who has one hundred \$1 transactions will pay more in fees than a merchant who has a single \$100 transaction because of the second (flat rate) portion of Interchange.

More than 200 different interchange rates exist just for the types of transactions conducted by Texas A&M. Due to the number of rates and the frequency with which they change, FMO does not notify merchants each time a particular interchange rate changes.

**Assessments** are the fees charged by Visa and MasterCard. Assessments are more straightforward. MasterCard and Visa both charge 0.11% of each transaction.

**Processor Fees** are the fees paid to Global Payments for processing Texas A&M's transactions. These fees are a simple 0.06% + \$0.025.

Taken together, your Visa/MasterCard/Discover merchant fees could be as low as:

<b>Interchange +</b>	<b>Assessment +</b>	<b>Processor</b>	<b>= transaction fee</b>
0.8% + \$0.25	0.11%	0.06% + \$0.025	= 0.97% + \$0.275

Or as high as:

<b>Interchange +</b>	<b>Assessment +</b>	<b>Processor</b>	<b>= transaction fee</b>
3.25% + \$0.10	0.11%	0.06% + \$0.025	= 3.42% + \$0.125

### Discover and American Express

Discover and American Express operate a little differently in that Interchange and Assessment are bundled. Discover's rate varies from 1.32% to 1.91% depending on whether it is a rewards card, corporate card, etc.

American Express charges 2.15%. In addition, the processor fee for both these card types is a flat \$0.06/transaction.

While these rates seem more expensive at first glance, when you refer to the high and low examples on the previous page, you'll note that these rates fall somewhere in between. When factoring in all costs, Discover and American Express are competitive with other card rates.

## Debit versus Credit

In 2011 new federal legislation brought some relief from high merchant fees for debit card transactions. Congress, in the form of the Durbin Amendment, reasoned that banks were charging merchants an unreasonable rate under the pretense of hedging against risk. In fact debit transactions are inherently less risky because the money is taken straight from a customer's account rather than allowing customers to make purchases on credit. As a result the merchant fee for many<sup>1</sup> debit cards (aka "check cards") is now 0.05% + \$0.22. **The fee is the same whether the customer enters a PIN as a "debit" transaction or just swipes and signs like a "credit" transaction.** Regardless of how the card is used, both are debit transactions. The only difference is the path the transaction takes to the customer's bank.

## Other Fees

Global Payments charges a \$1.00 monthly fee to maintain your merchant account.

If you own a credit card swipe terminal, Global Payments offers a warranty option. Under the warranty, if your credit card equipment stops functioning properly Global Payments will repair or replace your equipment. Your account will be charged a monthly \$5.00 fee for each piece of equipment under warranty. If your warranty equipment needs to be replaced, you will be charged a \$30 replacement fee. The warranty is optional and must be requested by the merchant.

**Chargebacks** are credit card transactions that your customer has disputed. During a chargeback, your FAMIS account used for the original transaction (or the FAMIS account you designate at the time you sign up) is debited the disputed amount until the transaction is proven legitimate through an investigation phase. Global Payments sends paperwork to Texas A&M's Financial Management Operations (FMO), who in turn sends it to you. It is important that you complete and return this investigation paperwork in a timely manner to avoid losing the chargeback dispute. Send your completed chargeback form directly to the credit card companies, following the instructions found on the form.

FMO will charge your FAMIS account monthly for all the above credit card service charges.

## Lowering Your Fees

Obviously you do not have control over which cards your customers use, and your merchant agreement with the card brands prohibits you from accepting only some forms of their cards (such as ones with low interchange) while denying others. However, there are other ways merchants can affect their interchange rates. The following advice applies to merchants who accept cards in person.

As explained in the Interchange section above, Risk is one of the factors used in calculating the interchange rate. Transactions in which the card is present are considered less risky than ones in which the card is absent. **Consequently, you are charged a lower Interchange rate if you (or the customer) swipe a card and allow it to read the magnetic stripe data (called "Track 2 Data") as opposed to keying in the number on the keypad.**

From time to time new government and industry regulations require changes in how and what data is sent during authorization. Sometimes this requires updates to your equipment's software. If you fail to update your equipment and do not transmit the data expected by the card processor, your transaction could be penalized and downgraded to a higher Interchange rate. Verifying that you have the most recent version of your payment application software is a requirement of PCI-DSS, but it also makes good business sense. Call Global Payments for help in confirming that you are running the correct payment application version on your equipment.

Finally, just because a card has been swiped and approved doesn't mean the merchant's job is done. You are also responsible for settling your batch of all transactions in a timely manner. Batches should be settled daily or run the risk of getting downgraded to higher interchange rates.

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<sup>1</sup> We say "many" instead of "all" because Congress exempted smaller banks and credit unions who claimed that prohibiting higher fees would dramatically harm their business. Now we have two classes of debit cards: "regulated" and "non-regulated". Non-regulated (that is, exempted) issuers continue charging the old rate. An analysis in late 2011 found that 59% of debit transactions at Texas A&M were from "regulated" card issuers.