

The Small Business Webinar Series:

# UNDERSTANDING CREDIT CARD PROCESSING

*...What You Should Know!!!*



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September 7, 2017





# Stephanie Cummings

## Relationship Manager - HPS

### Education

- 1996 – Montana State University – BS Education

### Professional History

- 1997 - 2002 - Teacher/Coach
- 2002 - 2007 – Pharmaceutical Representative
- 2006 - 2009 – Business Owner
- 2010 – present – Relationship Manager

### Professional Membership

- Home Builders Association of Great Falls
- Montana Hospitality and Lodging Association
- Montana Pharmacy Association
- Montana Retail and Restaurant Association
- Montana Veterinary Association



# Heartland

Payment Systems

## What does Heartland do?

Payment Processing

Payroll

Gift Marketing

## How do I spend my time?

Consulting (65%)

Managing Existing Business (25%)

Manage Association Relationships (10%)

## Why do I do this?

**Advocate – 100%**



# MY CUSTOMER PORTFOLIO

## INDUSTRY TYPES:

- Automotive
- B2B
- Car Dealerships
- Ecommerce
- Flooring/Window Coverings
- Lodging
- Medical/Dental
- Pharmacy
- Restaurant
- Retail
- Tire Dealers
- Veterinary
- Wholesale

## PORTFOLIO:

246 Clients

## CLIENTS:

AK, AZ, ID, MT, NV,  
OR, UT, WA, WY



# TODAY'S AGENDA

- Complex Industry
- Card Associations
- True Interchange
- Banks
- Effective Rate
- Final Thoughts



# COMPLEX INDUSTRY

How to keep it simple!

- Only Unregulated Financial Industry
- *Business's DON'T Pay Card Associations Directly*
- Lack of Knowledge or Education about our Industry
- *Asking the RIGHT Questions*

**If it sounds too good to be true – IT IS!**



# CARD ASSOCIATIONS

## Key Differences

### Visa & MasterCard

- Do Not Issue Cards
- Banks – Issue Visa and MasterCard
- All Banks are a member of Visa and MasterCard Associations
- Pay Annual Membership – to be a member
- Approximately 15% of the Fee's Charged on Interchange go to Visa and MasterCard
- Approximately 85% of the Fee's Charged on Interchange go to the Issuing Bank – Large source of **REVENUE** for Banks



# CARD ASSOCIATIONS

## Key Differences

### American Express and Discover

- 100% of the Fee's Charged on Interchange go to American Express and Discover
- Issue Own Cards

How many of you do not accept AmEx?



# CARD ASSOCIATIONS

Who are the players?

- Visa (39%)
- MasterCard (24%)
- American Express (22%)
- Discover (5%)

*\*by dollar volume – source – quora.com - 2011*

## **Card Associations Control Interchange Table**

*Interchange = Rate at which a card is processed*

*Ex. Visa CPS Retail – 1.51%*



# TRUE INTERCHANGE

What is it?

## Over 700 types of cards issued

- Every April and October Card Associations Review the Table
- Business' do NOT pay Card Associations directly – your processor does
- What a processor is charging YOU and what they are actually paying to the Card Associations ..... CAN BE VERY DIFFERENT!

## INTERCHANGE IS NOT NEGOTIABLE



# TRUE INTERCHANGE

Basis Points = Financial Term

## Basis Points

- 50 Basis Points = .0050%
- Simply moving the decimal point
- Percentages and Basis Points on Statements
  - How many of you understand your monthly statement?

**Processing charges ARE Negotiable**

**It should be based off of Annual Volume**



# TRUE INTERCHANGE

What affects Interchange Rates?

Type of Business - Retail, Restaurant, Lodging, etc

How Cards are Processed

- Swiped/Inserted/Contactless – Card Present
- Keyed – Card Not Present

Type of Card

- Debit/Check
- Rewards
- Signature Cards
- Corporate



# VISA INTERCHANGE

## A Visa USA Consumer Check Card Exempt and Regulated Interchange Reimbursement Fees

Rates Effective April 22, 2017

Fee Program	Exempt Visa Check Card	Regulated Visa Check Card
Card Present Transactions		
CPS/Supermarket, Debit	\$0.30	0.05% + \$0.21*
CPS/Retail, Debit	0.80% + \$0.15	0.05% + \$0.21*
CPS/Automated Fuel Dispenser (AFD), Debit	0.80% + \$0.15 (\$0.95 Cap)	0.05% + \$0.21*
CPS/Service Station, Debit	0.80% + \$0.15 (\$0.95 Cap)	0.05% + \$0.21*
CPS/Small Ticket, Debit	1.55% + \$0.04 <sup>1</sup>	0.05% + \$0.21*
CPS/Restaurant, Debit	1.19% + \$0.10	0.05% + \$0.21*



Funded in part through a cooperative agreement with the U.S. Small Business Administration.

# How Complex Is It?

VS CPS RESTAURANT - DEBIT	948	55,663.64	761.45
VS CPS REWARDS 2 - TRADITIONAL-ECOMM/CARD NOT PRESENT/RESTRNT	176	12,691.21	329.31
VS CPS SMALL TICKET - 1227	76	878.43	17.93
VS CPS SMALL TICKET - CK-DURBIN	108	1,259.44	24.84
VS CPS SMALL TICKET - CK-DURBIN FRAUD	7	66.80	1.45
VS CPS SMALL TICKET - DEBIT	58	649.62	12.67
VS EIRF	2	54.40	1.66
VS EIRF - 1220	496	30,626.98	909.29

VS CPS Restaurant – Debit      1.19% + .10

Transactions 948 x .10 = \$94.80

Fee's Charged \$761.45

761.45  
-\$94.80  
 \$666.65

$666.65 / \$55,663.64 = .0119$  Basis Points or 1.19%

# COMPLEX!

CPS/Restaurant			1.54% + \$0.10
CPS/Account Funding			2.14% + \$0.10
Electronic Interchange Reimbursement Fee (EIRF) <sup>1</sup>	2.40% + \$0.10		2.30% + \$0.10

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Transactions – 496 x .10 = \$49.60

Fee's Charged \$909.29

909.29  
-49.60  
 \$859.69

$\$859.69 / \$30,626.98 = .0280$  Basis Points or 2.80%

# American Express INTERCHANGE

## American Express OptBlue Retail Rate Grid

Code	Message	Description	Rate		Item	Level
500	RETAIL1	Retail Transaction Amount 1 (<\$75.00)	1.60%	+	\$0.10	Q
501	RETAIL2	Retail Transaction Amount 2 (\$75.01 - \$1,000.00)	1.95%	+	\$0.10	M
502	RETAIL3	Retail Transaction Amount 3 (>\$1,000.00)	2.40%	+	\$0.10	N
503	RTL1	Retail Transaction Amount 1 (<\$75.00) Non-U.S.	2.00%	+	\$0.10	N
504	RTL2	Retail Transaction Amount 2 (\$75.01 - \$1,000.00) Non-U.S.	2.35%	+	\$0.10	N
505	RTL3	Retail Transaction Amount 3 (>\$1,000.00) Non-U.S.	2.80%	+	\$0.10	N

## American Express Options

Amex Direct

Amex One Point

Amex Opt Blue



# TRUE INTERCHANGE

## Find all the association interchange fees:

- <https://usa.visa.com/dam/.../visa-usa-interchange-reimbursement-fees-2017-april.pdf>
- <https://www.mastercard.us/en-us/about-mastercard/what-we-do/interchange.html>
- <https://www.cardfellow.com/american-express-discount-rate/>
- <https://www.discovernetwork.com/interchange>



# BANKS

## The Role They Play

### Banks

- Members of Visa and or MasterCard Associations
- Issue credit/debit cards with Visa or MasterCard logo
- Take the Risk
- Fee's generated from Interchange = Revenue



# EFFECTIVE RATE

What is it?

## What is your Effective Rate

- Effective Rate is the cost of accepting credit cards
  - Total Fees ÷ Total Volume = Effective Rate
- Be aware of the Industry “lingo” on your statement
  - Could also be called merchant fees



# FINAL THOUGHTS

If you don't know...Where & How

## Do some quick math

- Figure your Effective Rate - using a income or merchant statement
  - $\text{Merchant Fees} \div \text{Gross Sales} = \text{Effective Rate}$
  - $\text{Total Fees} \div \text{Total Volume} = \text{Effective Rate}$
- Compare this year to two previous
- Is the % stable, growing or declining in relation to sales?
- Do you know why?
- Find out why
  - Call the card processor and a trusted advisor (such as SBDC)



# FINAL THOUGHTS

## The Right Questions to Ask

1. Do I have to sign a contract?
2. Will I be set up on True Interchange Plus Pricing?
3. Are all processing charges transparent/disclosed?
4. Do you ever increase processing charges?
5. Are you a direct processor or do you resell the services for a direct processor?
6. Can I have the original copy of the paperwork?
7. How many Basis Points on top of Interchange are you charging me?
8. How much is my transaction fee?
9. Is there a monthly fee/statement fee?
10. Will I be charged for Non PCI Compliance?
11. What is PCI Compliance and will you assist me in completing the PCI certification?
12. Do you charge any Junk Fee's? (batch fee, authorize fee, processor fee, acquirer fee, access fee)
13. Are you my account manager and do you provide my customer service?
14. Are you local?
15. Will I need new equipment? If so how much and is your equipment proprietary?



# FINAL THOUGHTS

## Key Takeaways

- Interchange is not NEGOTIABLE
- Processing Charges ARE NEGOTIABLE
- YOU DO NOT HAVE TO SIGN A LEASE!!!
- You do not have to sign a contract
- You are the customer!
- Ask the RIGHT Questions
- Do business with people you TRUST!





## Questions?

*Please contact me...*

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# FINAL NOTE

Please help us make

The Small Business Webinar Series better...

complete our Survey Monkey!

Look for the link is in the “Questions?” pod.



# UPCOMING SCHEDULE

- October 5:** Getting Your Business Online
- November 2:** Employee Retention – Creating a Positive Company Culture
- December 7:** Developing Your Story – A Foundation for Funding

**All resources available at:**

<http://www.msucommunitydevelopment.org/smallbusiness.html>

or

<http://sfdc.mt.gov/classroom>

