



UNDERSTANDING:

# CREDIT CARD FEES

---

White Paper Series

High Risk Merchant Account LLC

915 Folly Road, Ste 49  
Charleston, SC 29412

1-877 493-4622  
[support@hrma-llc.com](mailto:support@hrma-llc.com)

## Understanding Credit Card Fees:

Feels great, doesn't it? How quickly you receive payments for your goods or services. Merchants have come to terms with credit card fees as a necessary evil. All the same, you need to be aware of the other hidden fees associated with accepting credit cards. After all, aren't credit card fees a business expense? Understanding credit card fees and variations is crucial before you settle on a merchant account provider. The four leading card brands that we will cover are Visa, Mastercard, American Express, and Discover Card.

### Merchant Services Provider(MSPs)

Credit card payment requires MSPs to act as middlemen between the card issuer and the merchant. They;

- Take care of credit/debit card payment processing.
- Collect Interchange fees. (covered further below)
- Help you attain and keep up security standards.
- Handle cash transfers between the merchant's bank, the card issuer's bank, and the network.

Match your payment processing requirements with your MSP's before deciding on them. Also, read and research online reviews to gain a level of trust on your middleman. Popular MSPs include: Leaders Merchant Services, Charge.com, and The Transaction Group, just to name but a few.

### Processing Fees

Credit cards charge processing fees as payment for transactions made. This is around 2% of each purchase. Competitive rates among different payment processors run down costs. Be diverse in your shopping, and you just might save yourself unnecessary business cuts. Processing fees vary from network to network. A sale percentage known as a discount rate is responsible for the payment of these fees. The discount rates for the primary networks range from;

- 1.43%-2.4% for Visa,
- 2.5%-3.5% for American Express,
- 1.56%-2.3% for Discover, and
- 1.55%-2.6% for Master Card.

### The Variation of Processing Fees Across Networks.

Understanding credit card fees means knowing what business policies and structures the networks run on that make their rates and fees differ. The American Express has a more substantial rate as it is a card network as well as an issuer. However, a new merchant acquiring program, Optblue, has been introduced to level the playing field. You are likely to get relief from AmEx's rates sooner than later.

## Factors Influencing Credit Card Processing Fees and Costs

### 1. The Discount Rate

Applies to every credit card payment fee you reimburse to the MSPs with each transaction done. The discount rate is expressed as the sum of the interchange fees and the assessment fees. These are fixed fees that are set by the networks.

### 2. The Interchange Fees

The credit card issuers collect these from the merchant account providers. Interchange Fees=some %+ an additional set amount typically not higher than \$0.25. Variation in these fees can be based on;

- Credit card type. Unlike a credit card, a debit card will take money directly from the holder's bank account during a transaction. Won't the interchange fees on this card be lower? A business card is a more significant entity and will see you get charged the most expensive rates. Networks award reward cards as incentives to cardholders for using their cards more. Fortunately for you, these cards are less expensive followed by the regular credit cards.
- Payment processing method. You can transact payment by feeding the system the card numbers or swiping the credit card through a reader. A card-present transaction will see you pay lower fees, about 1.60% plus a \$0.10 transaction fee. In the case of a mobile or online transaction, the interchange fees will be higher, say 1.90% plus a \$0.10 transaction fee. After all, a card-not-present business has software costs. Also, they are high risk and prone to occurrences of fraud and chargebacks as compared to swiped transactions.
- Credit card networks. All networks vary in interchange rates. Visa and Master card have theirs openly available. With Discover, your MSP discloses a verification code which you use to view the rates. It charges the lowest. Choose a network that best serves your needs.
- Merchant category code. Structure your business in a way that it has high growth potential and encourages card use. Approach your payment processor and make them understand your category of business and whether or not you qualify for a distinctive interchange rate. You just might find yourself saving from \$1.0-\$3.0 on every \$1000 transacted. What if you fabricate data? Careful there. Card issuers probe all transactions to check the accuracy of your information.

### 3. The Assessment Fees

These fees are relatively smaller and are disbursed straight to the card networks. Variation factors for assessment fees and interchange rates are almost similar. Here are other two;

- The basis of transactions, i.e. networks charge different rates for individual case scenarios such as foreign payments.

<u>Visa</u>	<u>Master Card</u>	<u>Discover</u>
0.13%(credit)	0.12%(transactions <\$1000)	0.105%
0.11%(debit)	0.13%(transactions >\$1000)	

- Transaction volume. You are more likely to be charged a higher assessment fee for a larger purchase bulk. Kind of like how large incomes are associated with high taxes.

#### **4.MSPs Markup Fees**

Keep in mind that each Merchant Service Provider is associated with a certain fee per transaction. Price quoted depends on average amount transacted and transaction volume. Look for MSPs with a good performance and fruitful benefits. These tend to charge a relatively higher fee. Here, expensive seems like the way to go.

#### **5.Set Up and Monthly Fees**

Different service providers charge varying set up and monthly fees and minimums. These cover things like support and security. Settle on a provider with effective customer service assistance and set up options.

#### **6.Cost of Equipment**

Invest in equipment to facilitate credit card processing payments. Purchase a card reader capable of supporting both EMV technology ( use more secure integrated circuit chips) and NFC payments. One such reader is the Verifone Reader VX670 that goes for \$610.

In conclusion, credit card payments continues to grow popular with more and more people switching to this plastic mode of payment. From choosing the right MSP to purchasing equipment, this article is a comprehensive guide to understanding credit card fees better. Consider the co-relation between the discount rate, the interchange rate, and the assessment fees. Also, weigh the correct MSPs markup fees and monthly charges to come up with the appropriate network provider for you.