

Understanding Your Credit Card Processing Fees

Credit card processing fees are confusing. It can be difficult to understanding where your money is going. Processors are always looking to make more profit at your expense by hiding fees and increasing costs. In this article we'll explain the 2 major components of your credit card processing costs; giving you a better understanding of who's charging what and which areas of cost you can control.

Components of Cost

The rate that you pay to process a credit card transaction is a combination of Base Costs and Processor Markups. Think of Base Costs as the raw material expenses associated with the card transactions; and think of the Processor Markup as production costs and processor profit.

$$\text{Base Costs} + \text{Processor Markup} = \text{Total Credit Card Processing Costs}$$

Base Costs (aka Pass-Through Fees)

Base costs should account for the largest portion of your expense (about 75% - 80%). Base Costs are NOT negotiable, and all merchants are assessed the same rates for Base Costs. Whether your processor passes these costs through accurately, without markup, is another story.

- Interchange Fees - The amount paid to the cardholders' card-issuing bank as compensation for handling expenses incurred in providing lines of credit to cardholders and approving the payment. There are hundreds of different interchange categories. Their rates vary by industry, card type (credit vs. debit), riskiness of the transaction and other factors. Interchange rates are set and published by the card brands.
- Dues, Assessments & Brand Fees – Fees paid to the card brands (i.e. Visa, MasterCard, Discover & American Express). The majority of the assessments are calculated at a flat rate usually around 0.13% of the processing volume. The remaining dues/brand fees such as Acquirer Processing Fees, Network Access, Foreign Handling, Data Usage and so forth are charges incurred through processing behavior at the individual transaction level.

Processor Markup

For most merchants in a reasonably priced program, markup fees should account for 20-25% of total fees. The markup is the only area where you have the ability to negotiate credit card processing costs. Keep in mind that many factors contribute to the markup, so not everything will be negotiable, or it will only be negotiable to a point.

Some of the most commonly seen markup fees are: Discount Rate, Authorization Fees, Per Item (P/I) Fees, PCI Fees, Statement Fees, AVS Fee, Equipment Fees, Batch Fees and Chargeback Fees.

Markups differ significantly from one processor to the next both by amount, pricing model and the types of fees charged. These inconsistencies are why it's difficult to accurately compare credit card processing on the open market.

Audit Advantage processing experts scrutinize every line item on your processing statement and analyze it for fairness and accuracy. From there, we determine if the amount of total markup is reasonable. For more information, or any questions about processing fees, please contact Audit Advantage.

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