



Summit Strategies Educational Brief:

Understanding Interchange

Understanding Interchange Fees

Interchange fees describe the fee paid between banks for each credit or debit card transaction. Visa and MasterCard and Discover call the rate structure “**Interchange**”. Interchange fees are set by the card associations every April and October and make up the largest component of the various fees that a merchant pays for the privilege of accepting credit and debit cards. Interchange fees have a complex pricing structure that is based on the card brand, regions or jurisdictions, the type of credit or debit card, the type and size of the accepting merchant, and the type of transaction (e.g., online, in-store, phone order, whether the card is present for the transaction, etc.). There are hundreds of Interchange categories that have been created by the card associations, and each one has a different discount rate and per-transaction fee associated with the specific card type. These rates range from .05% for debit cards to more than 3% for credit cards. The acquiring bank pays the issuing bank an Interchange fee on all transactions that use the issuing bank’s credit and debit card.

Interchange fees that are passed through to the merchant also include **Dues and Assessments**, which are Visa, MasterCard, and Discover’s pass-through fee for transactions. Bankcard associations profit on every transaction conducted with one of their cards. This fee equals 0.13 percent (13 basis points) for VISA, 0.12 percent (12 basis points) for MasterCard and 0.11 percent (11 basis points) for Discover. Dues and Assessments are calculated by the dollar amount of the transaction. Dues and Assessments on a \$100 consumer purchase using a Visa or MasterCard would be \$100 x .0013, for a total of 13 cents.

All processors collect fees to process payments and all merchants that accept credit cards have to pay Interchange. Think of Interchange fees as the pure cost of processing for any processor and the base amount a merchant must pay.

The merchant then needs to know how much he/she is paying over and above the Interchange fee. The pricing seems relatively straightforward until the various pricing strategies employed by processors come into play.

Commonly Accepted VISA Interchange Categories (US)

CONSUMER & COMMERCIAL Interchange Category	MPS SHORT DESC	April			October		
		% Rate	+	Per Item	% Rate	+	Per Item
CPS Retail	CPS RETAIL	1.51%	+	\$0.10	1.51%	+	\$0.10
CPS Rewards 1	REWARDS 1	1.65%	+	\$0.10	1.65%	+	\$0.10
CPS Rewards 2	REWARDS 2	1.95%	+	\$0.10	1.95%	+	\$0.10
CPS Rewards 2 T&E	REWDS2 T&E	1.95%	+	\$0.10	1.95%	+	\$0.10
CPS Card Not Present	CPS CRD NP	1.80%	+	\$0.10	1.80%	+	\$0.10