

Introduction to Interchange



STERLING

Payment Technologies

innovations in payments™

Agenda



What is Interchange?

Understanding Interchange Categories

Examples Interchange Categories

Assessments and Access Fees

Merchant Discount Rates

How is Interchange Divided?

Managing Interchange Cost

Avoiding Downgrades

What is Exchange?



What is Exchange?



Interchange is the wholesale rates established by the card associations (VISA, MasterCard and Discover) that is paid by the acquirer (i.e. Sterling) to the issuer (i.e. Bank of America) as compensation for fees associated with processing a credit card transaction.



Did You Know?



Interchange is the foundation of the payment industry's cost structure.

Understanding interchange is critical to a true understanding of the merchant bankcard industry.

The Associations typically make changes twice a year (April and October).

American Express is not part of Interchange.

Interchange comprises approximately 450 separate categories.

Interchange Categories



Visa Interchange Summary

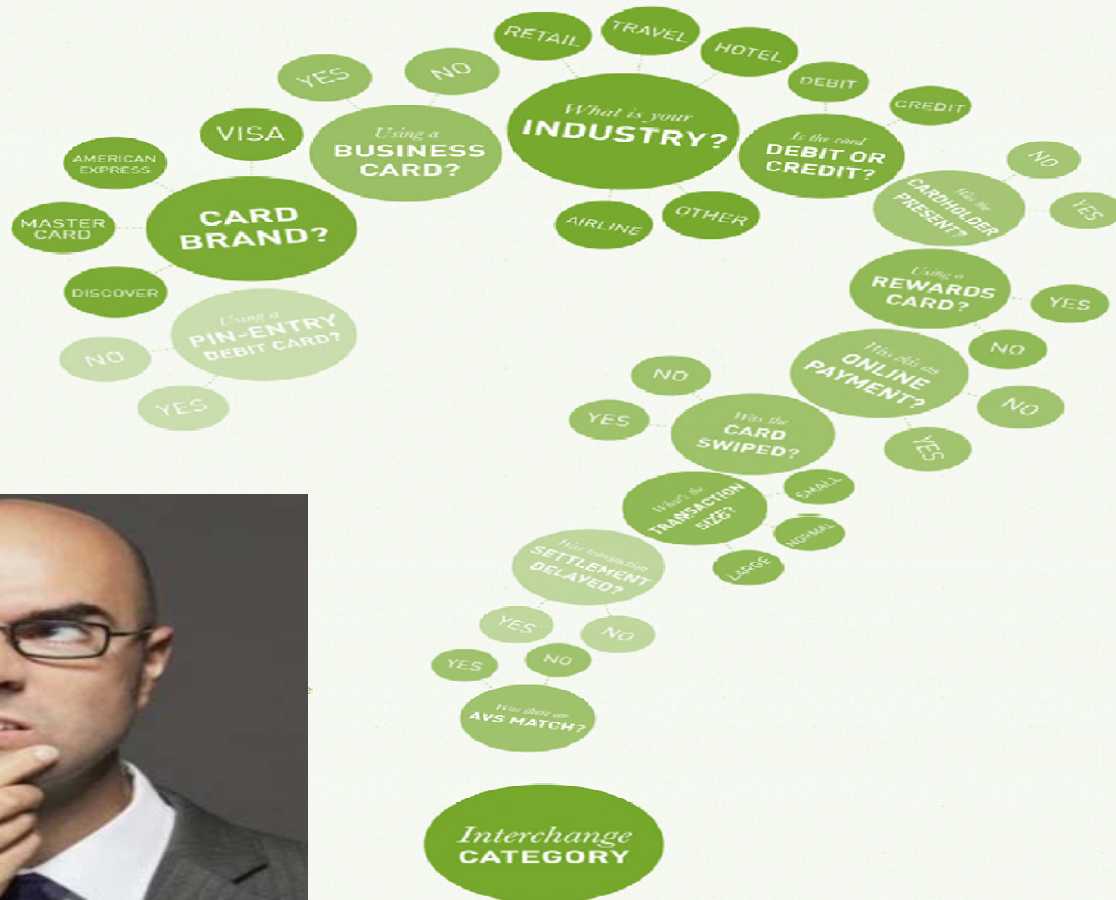
Interchange Program Description	Visa US Consumer/Commercial Credit & Rewards				Visa US Debit - Exempt				Visa US Debit/Prepaid Regulated				Visa US Consumer Prepaid - Exempt			
	Card Type	Rate	Fee	Tier Level	Card Type	Rate	Per Item Fee	Tier Level	Card Type	Rate	Per Item Fee	Tier Level	Card Type	Rate	Per Item Fee	Tier Level
CPS Account Funding	C	0.00%	\$0.00	Q	D	1.75%	\$0.20	NQ	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Automated Fuel	C	1.15%	\$0.25	Q	D	0.75%	\$0.17	Q	DIP	0.05%	\$0.21	Q	P	1.15%	\$0.15	Q
CPS Automated Fuel Dispenser Cap					D	0.00%	\$0.95	Q	DIP	0.05%	\$0.21	Q	P	0.00%	\$0.95	Q
CPS Car Rental (Card Present)	C	1.54%	\$0.10	Q	D	1.38%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Car Rental (CNP) - Prefer	C	1.54%	\$0.10	Q	D	1.38%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Charity Credit	C	1.35%	\$0.05	Q												
CPS Debt Repayment					D	0.65%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	0.65%	\$0.15	Q
CPS Debt Repayment Cap					D	0.00%	\$2.00	Q					P	0.00%	\$2.00	Q
CPS E Comm Prefer - Car Rental	C	1.54%	\$0.10	Q	D	1.38%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS E Comm Prefer - Hotel	C	1.54%	\$0.10	Q	D	1.38%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Hotel (Card Present)	C	1.54%	\$0.10	Q	D	1.38%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Hotel (CNP) - Prefer	C	1.54%	\$0.10	Q	D	1.38%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Pass Transport AIR	C	1.70%	\$0.10	Q	D	1.60%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Restaurant	C	1.54%	\$0.10	Q	D	1.19%	\$0.10	Q	DIP	0.05%	\$0.21	Q	P	1.15%	\$0.15	Q
CPS Retail 2 (Emerging Markets)	C	1.43%	\$0.05	Q	D	0.65%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	0.65%	\$0.15	Q
CPS Retail 2 (Emerging Markets) Cap					D	0.00%	\$2.00	Q					P	0.00%	\$2.00	Q
CPS Retail - All Other	C	1.51%	\$0.10	Q	D	0.95%	\$0.20	Q	DIP	0.05%	\$0.21	Q	P	1.15%	\$0.15	Q
CPS Retail Service Station	C	1.15%	\$0.25	Q	D	0.75%	\$0.17	Q	DIP	0.05%	\$0.21	Q	P	1.15%	\$0.15	Q
CPS Retail Service Station Cap					D	0.00%	\$0.95	Q	DIP	0.05%	\$0.21	Q	P	0.00%	\$0.95	Q
CPS Small Ticket	C	1.65%	\$0.04	Q	D	1.60%	\$0.05	Q	DIP	0.05%	\$0.21	Q	P	1.60%	\$0.05	Q
CPS Supermarket	C	1.22%	\$0.05	Q	D	0.95%	\$0.20	Q	DIP	0.05%	\$0.21	Q	P	1.15%	\$0.15	Q
CPS Supermarket Cap					D	0.00%	\$0.35	Q					P	0.00%	\$0.35	Q
CPS Tax Payment 1					D	0.65%	\$0.15	Q	DIP	0.05%	\$0.21	Q	P	0.65%	\$0.15	Q
CPS Tax Payment 1 Cap					D	0.00%	\$2.00	Q					P	0.00%	\$2.00	Q
Domestic Cash Advance	C	0.00%	\$2.00	Q												
Foreign Cash Advance	C	0.33%	\$1.75	Q												
GSA Large Ticket	C	1.20%	\$39.00	Q												
Intl Electronic (Pre-PS2000 and includes Electron)	C	1.10%	\$0.00	Q					DIP	0.50%	\$0.21	Q				
Intl Purchase Large Ticket	C	0.95%	\$35.00	Q												
Intl Secure E-Comm	C	1.44%	\$0.00	Q												
Intl Secure E-Comm Merchant	C	1.44%	\$0.00	Q												
Intl Standard (includes Electron)	C	1.60%	\$0.00	Q					DIP	0.50%	\$0.21	Q				
Purchase Large Ticket	C	0.95%	\$35.00	Q												
Signature Preferred - Fuel	R	1.15%	\$0.25	Q												
Utility	C	0.00%	\$0.75	Q	D	0.00%	\$0.65	Q	DIP	0.05%	\$0.21	Q	P	0.00%	\$0.65	Q
Business Enhanced - Level II (non-travel service)	R	2.05%	\$0.10	MQ					DIP	0.05%	\$0.21	Q				
Commercial Card Level 2	C	2.05%	\$0.10	MQ					DIP	0.05%	\$0.21	Q				
CPS Card Not Present	C	1.80%	\$0.10	MQ	D	1.60%	\$0.15	MQ	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS E Comm Prefer - PassTran	C	1.70%	\$0.10	MQ	D	1.60%	\$0.15	MQ	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS E Commerce - Basic	C	1.80%	\$0.10	MQ	D	1.60%	\$0.15	MQ	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS E Commerce - Preferred	C	1.80%	\$0.10	MQ	D	1.55%	\$0.15	MQ	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ
CPS Retail - Key Entered	C	1.80%	\$0.10	MQ	D	1.60%	\$0.15	MQ	DIP	0.05%	\$0.21	Q	P	1.75%	\$0.20	NQ

There are hundreds of interchange categories between the different card brands.

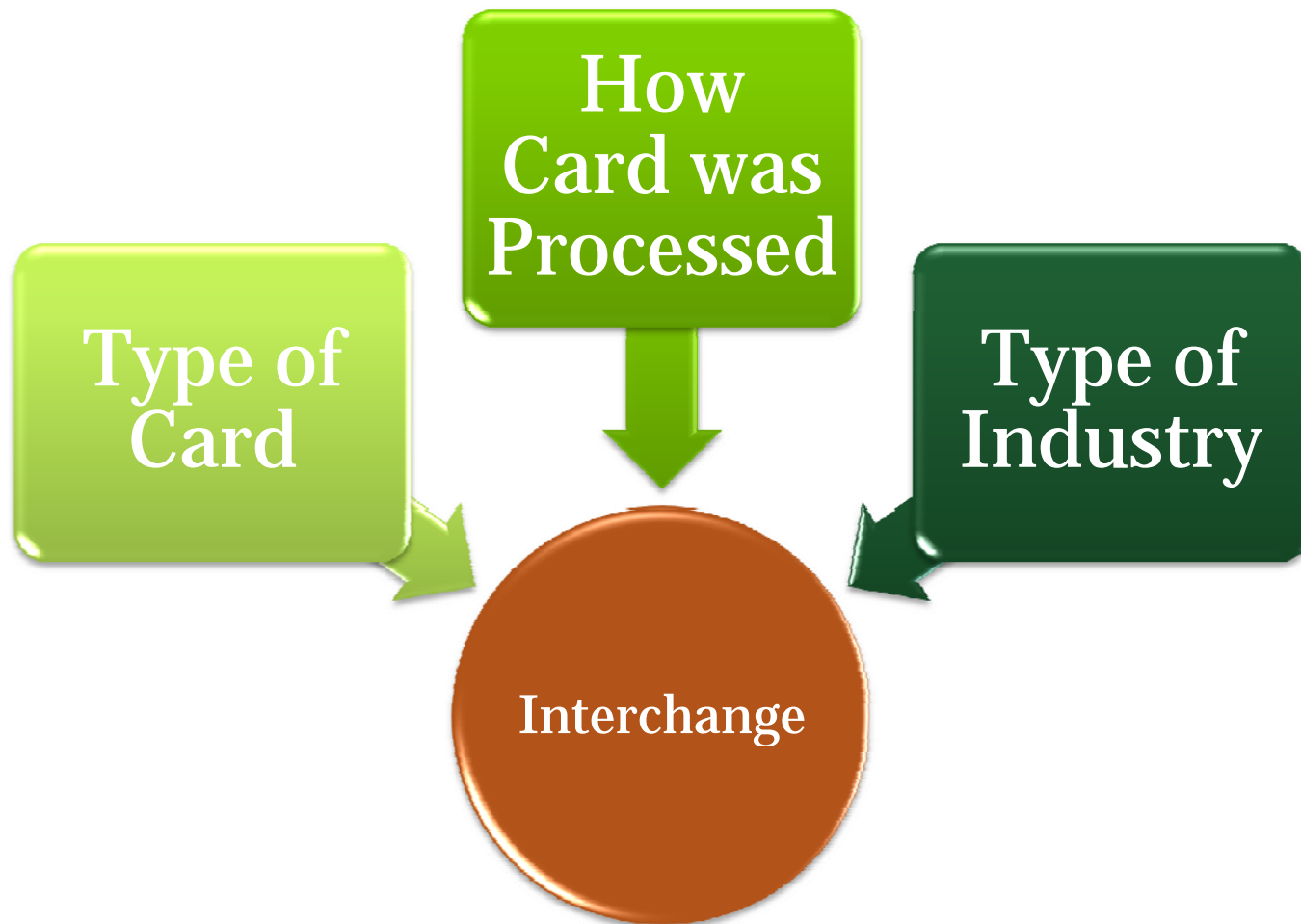
The majority of interchange categories are a combination of a percentage fee and a transaction fee.

Percentage and transaction fees are commonly referred to as the “Rate” and “Per Item Fee”, respectively.

Why are there so many Interchange Categories?



Three Factors of Interchange



Type of Card Processed

- Consumer Credit Card
- Rewards-based Credit Cards
- Purchasing Cards
- Signature-based Debit Cards
- Issuing bank – Regulated –v- Non-Regulated
- PIN-based Debit Card processed different network



Signature versus PIN Based Debit



Signature-based debit (Offline Debit) transactions are settled thru Interchange and don't require the consumer's 4 digit PIN.

PIN-based debit (Online Debit) transactions are settled thru ATM Networks and are subject to Debit Network fees determined by the ATM Networks.



Type of Industry



- Based on SIC (Standard Industry Code) code
- Retail, Restaurant, Lodging, Supermarket
- Small Ticket
- Preferred rates to incent industries



How the Card was Processed



Swiped –v- Keyed

Card Present –v- Card Not Present

Additional required data elements

All data entered when keying

AVS, CVV2



What is AVS?



Address Verification Service (AVS) is an effort to combat fraud that results from non face-to-face transactions. VISA and MasterCard created Address Verification Service, which attempts to verify the billing address and zip code of the credit card customer.



How are Interchange Categories Grouped?

1. Qualified Rates

- Consumer Credit and Signature Debit Cards
- Swiped Consumer Card

2. Mid Qualified Rates

- Rewards Cards
- Card Not Present, Keyed or eCommerce

3. Non Qualified Rates

- Corporate, Government and Foreign Cards
- Late batches, no AVS provided, etc.



Qualified
Bucket



Mid Qualified
Bucket



Non
Qualified
Bucket

Example Interchange Categories



Visa CPS Retail Credit 1.51% and \$0.10

How does a Merchant qualify for this rate?

- Transaction swiped
- Retail SIC
- Transaction deposited within 48 hours
- Applies To Consumer Credit Cards



Example Interchange Categories



MasterCard Merit III Credit 1.58% and \$0.10

How does a Merchant qualify for this rate?

- Transaction swiped
- Must be a face-to-face transaction
- Retail SIC
- Transaction deposited within 2 days
- Applies to Consumer Credit Cards



Example Interchange Categories



Visa CPS Retail Debit (Non Regulated) .80% and \$0.15

How does a Merchant qualify for this rate?

- Transaction swiped
- Retail SIC
- Transaction deposited within 48 hours
- For check cards, the merchant name and location must be in the authorization record
- Applies to Consumer Check Cards issued by small banks



Example Interchange Categories



Visa CPS Retail Debit (Regulated) .05% and \$0.21

How does a Merchant qualify for this rate?

- Transaction swiped
- Retail SIC
- Transaction deposited within 48 hours
- For check cards, the merchant name and location must be in the authorization record
- Applies to Consumer Check Cards issued by big banks



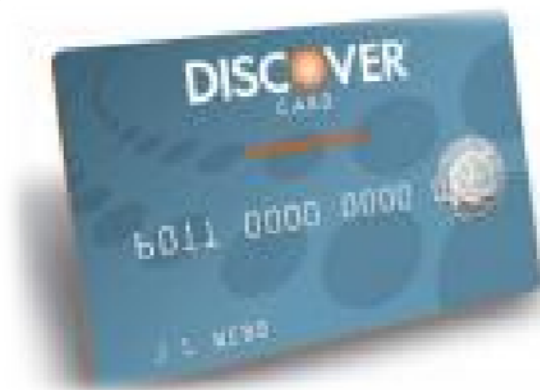
Example Interchange Categories



Discover PSL Restaurant - Core 1.56% and \$0.10

How does a Merchant qualify for this rate?

- Transaction is swiped
- Consumer Credit
- Must be MCC 5812 or 5814
- Transaction sent within 48 hours



Example Interchange Categories



Visa CPS Small Ticket Credit – 1.65% and \$0.04

How does a Merchant qualify for this rate?

- Transaction is swiped
- Consumer Credit
- Applies to transactions \$15.00 or less
- Chargeback protection for “no signature” transactions up to \$25
- Specific SIC Codes
- Transaction sent within 48 hours

Additional Fees



Interchange also includes other fees which are paid to the Associations such as assessments and access fees.

Assessments

- VISA - 0.11%
- MasterCard - 0.11%
- Discover - 0.105%

Access Fees

- APF \$.02
- NABU \$.0185



Think about your old Phone Bill...



Phone Bill Factors

1. Time of Day

Card Type

2. Who You Called

Industry Type

3. Where You Called

Card Processed

4. Service Provider

Transaction Amount

5. Federal & State Taxes

Dues & Assessments

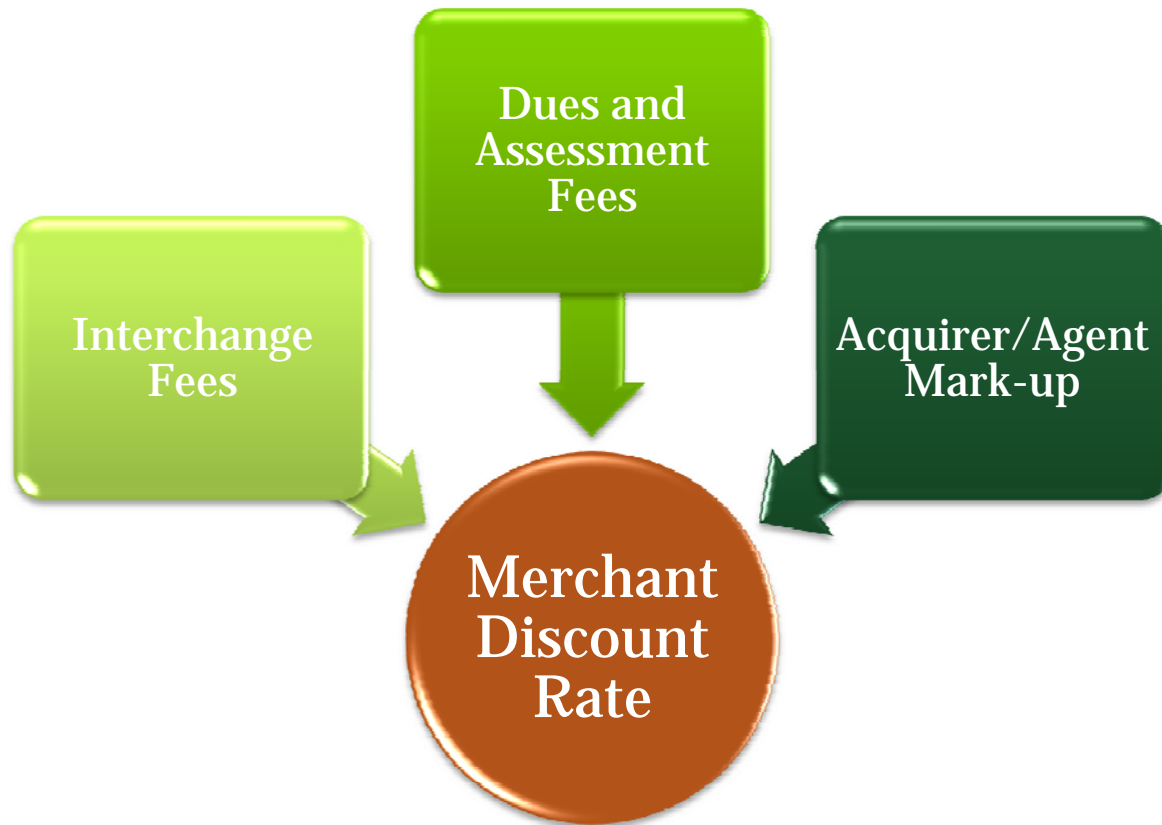
What is a Merchant Discount Rate?



The merchant discount rate is the markup from interchange rate to the actual rate the merchant pays to the acquirer to accept credit cards. The merchant discount rate is paid by the merchant to the acquirer (i.e. Sterling) for processing the transaction.

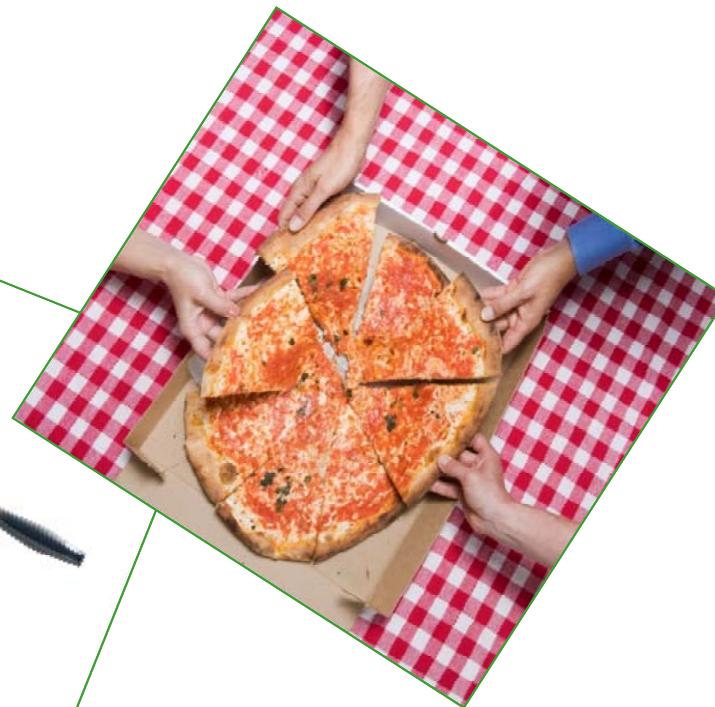


Parts of Merchant Discount Rate



The Interchange goes to the Issuing bank. Dues and Assessment fees are paid to the Card Associations.

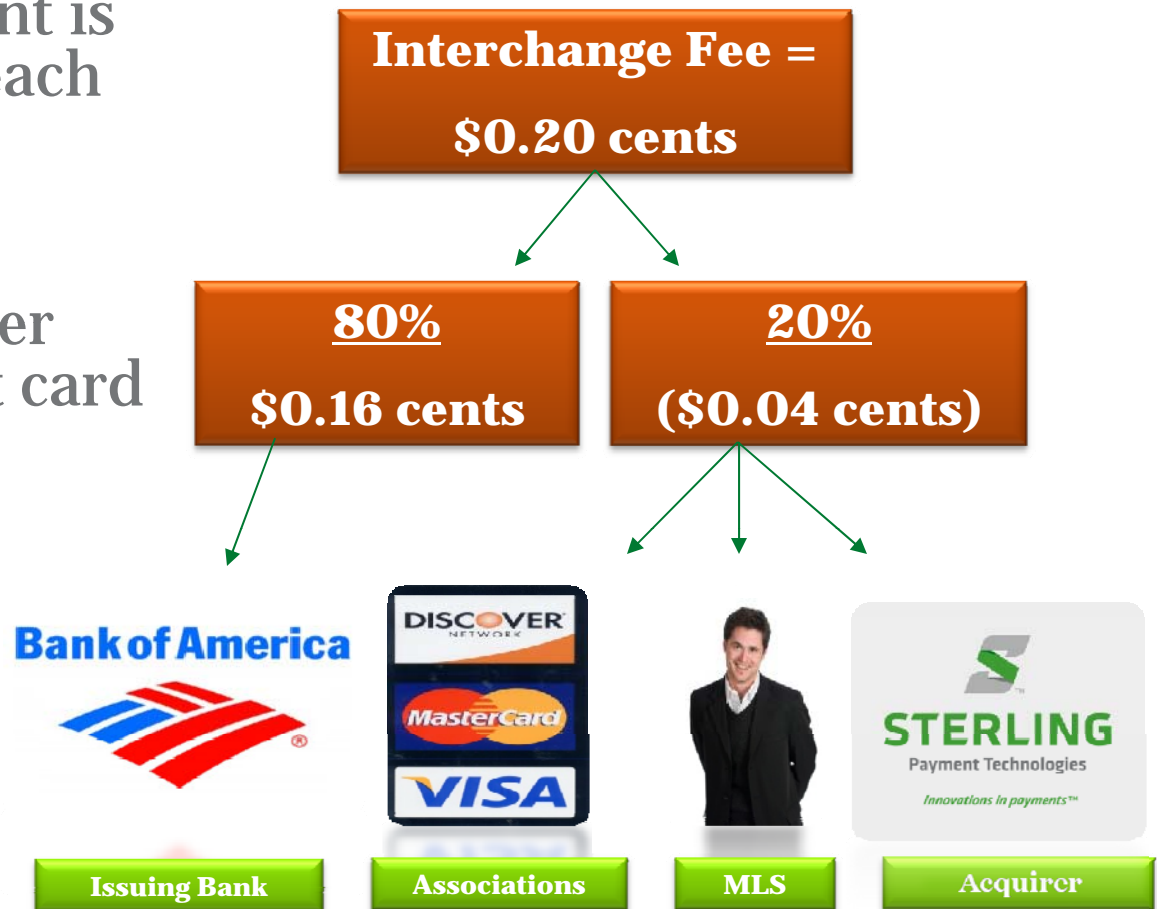
How is Interchange divided?



For Example...

1. Let's say a Merchant is charged 2.0% for each credit transaction.

2. Let's say a Customer makes a \$10 credit card purchase.



Managing Interchange



Merchants can manage their Interchange costs by.....

- Using a POS device for all transactions.
- Swiping all cards when possible versus hand keying.
- “Batching-out” every night.
- Inputting the AVS and CVV codes for keyed transactions.

Why does a downgrade occur?

Transactions downgrade when they don't meet interchange requirements.

Examples include:

- Not capturing the correct card information.
- Settling the transaction after a deadline has lapsed.
- Key entering rather than swiping the card.
- Simply because of the type of card.



Questions?

