

Charges Related to Credit Cards

The Texas A&M System uses the credit card processor JP Morgan Chase Paymentech. Even if a merchant’s transactions pass through a 3rd party such as Authorize.net, TouchNet, Paypal Payflow, or MerchantLink, the next step in the process takes them to Chase Paymentech for authorization and settlement.

Visa, MasterCard, & Discover

Members of the Texas A&M System are charged an “**Interchange + Assessment + Processor Fee**” model.

Interchange is the fee charged by banks that issue cards to their customers. The interchange rate is affected by the type of card (check-card, consumer credit card, corporate credit card, etc.) and how the transaction is processed (swiped vs. typed-in vs mobile wallet). Risk and industry requirements (i.e., length of time between authorization and settlement) also influence the interchange rate. To give you an idea of the scope, at last count there were 16 different card types issued by Visa and MasterCard, with multiple interchange types listed under each card type.

Interchange is the single biggest variable in your credit card processing costs. Interchange rates always consist of a percentage of the amount paid plus a transaction fee. Interchange can be as low as 0.8% + \$0.25 or as high as 3.25% + \$0.10. If each card were used equally, the average would be 1.9% + \$0.10. A merchant who has one hundred \$1 transactions will pay more in fees than a merchant who has a single \$100 transaction because of the second (flat rate) portion of Interchange.

More than 200 different interchange rates exist just for the types of transactions conducted by Texas A&M. Due to the number of rates and the frequency with which they change, FMO does not notify merchants each time a particular interchange rate changes.

Assessments (also known as “Discount”) are the fees charged by the card brands (Visa, MasterCard, & Discover). Assessments have less variation. As of 2018, Visa and MasterCard’s discount rate hovers around 0.02% of each transaction, and Discover at 0.13%.

Processor Fees are the fees paid to our card processor, JP Morgan Chase (“Chase Paymentech”). For contractual reasons we cannot publicly disclose the exact rate. Without getting into particulars, our rate is *less* than the rate with our former card processor, which was 0.06% + \$0.025. The examples below use that rate.

Taken together, your Visa/MasterCard/Discover merchant fees could be as low as:

Interchange +	Assessment +	Processor*	= transaction fee
0.8% + \$0.25	0.13%	0.06% + \$0.025	= 0.99% + \$0.275

Or as high as:

Interchange +	Assessment +	Processor	= transaction fee
3.25% + \$0.10	0.2%	0.06% + \$0.025	= 3.51% + \$0.125

American Express

American Express operates a little differently in that Interchange and Assessment are bundled. The state rate for American Express’ is 2.15%. Processor fees also apply to American Express transactions, although only the flat rate and not the percentage. Using the example rates from our former processor, this only comes to two and a half pennies per transaction. While these rates seem more expensive at first glance, when you refer to the high and low examples on the previous page, you’ll note that these rates fall somewhere in between. When factoring in all costs, American Express is competitive with other card rates.

Debit versus Credit

In 2011 new federal legislation brought some relief from high merchant fees for debit card transactions. Congress, in the form of the Durbin Amendment, reasoned that banks were charging merchants an unreasonable rate under the pretense of hedging against risk. In fact debit transactions are inherently less risky because the money is taken straight from a customer's account rather than allowing customers to make purchases on credit. As a result the merchant fee for many¹ debit cards (aka "check cards") is now 0.05% + \$0.22. **The fee is the same whether the customer enters a PIN as a "debit" transaction or just swipes and signs like a "credit" transaction.** Regardless of how the card is used, both are debit transactions. The only difference is the path the transaction takes to the customer's bank.

Other Fees

Chargebacks are credit card transactions that your customer has disputed. During a chargeback, your FAMIS account used for the original transaction (or the FAMIS account you designate at the time you sign up) is debited the disputed amount until the transaction is proven legitimate through an investigation phase. Chase Paymentech sends paperwork to Texas A&M's Financial Management Operations (FMO), who in turn sends it to you. It is important that you complete and return this investigation paperwork in a timely manner to avoid losing the chargeback dispute. Send your completed chargeback form directly to the credit card companies, following the instructions found on the form.

FMO will charge your FAMIS account monthly for all the above credit card service charges. In addition to the loss of the original payment, you will be assessed a chargeback fee of \$5.

Lowering Your Fees

Obviously you do not have control over which cards your customers use, and your merchant agreement with the card brands prohibits you from accepting only some forms of their cards (such as ones with low interchange) while denying others. However, there are other ways merchants can affect their interchange rates. The following advice applies to merchants who accept cards in person.

As explained in the Interchange section above, Risk is one of the factors used in calculating the interchange rate. Transactions in which the card is present are considered less risky than ones in which the card is absent. **Consequently, you are charged a lower Interchange rate if you (or the customer) swipe a card and allow it to read the magnetic stripe data (called "Track 2 Data") as opposed to keying in the number on the keypad.**

From time to time new government and industry regulations require changes in how and what data is sent during authorization. Sometimes this requires updates to your equipment's software. If you fail to update your equipment and do not transmit the data expected by the card processor, your transaction could be penalized and downgraded to a higher Interchange rate. Verifying that you have the most recent version of your payment application software is a requirement of PCI-DSS, but it also makes good business sense.

Finally, just because a card has been swiped and approved doesn't mean the merchant's job is done. You are also responsible for settling your batch of all transactions in a timely manner. Batches should be settled daily or run the risk of getting downgraded to higher interchange rates.

¹ We say "many" instead of "all" because Congress exempted smaller banks and credit unions who claimed that prohibiting higher fees would dramatically harm their business. Now we have two classes of debit cards: "regulated" and "non-regulated". Non-regulated (that is, exempted) issuers continue charging the old rate. An analysis in late 2011 found that 59% of debit transactions at Texas A&M were from "regulated" card issuers.