Understanding Payment Processing Pricing Plans

About Pricing Plans

There are 4 main pricing programs

1. Interchange Differential

Each credit card has an “Interchange Rate” this is the amount paid to the card issuing bank when you do a credit card transaction and varies by card type the cheapest popular card is a consumer card with no rewards that is processed electronically usually referred to as “Qualified” cards (depending upon the processor other cards may be called qualified but billed as non-qualified). For Visa the rate for this card is 1.54% for MasterCard it is 1.59% they go as high as 2.65% and as low as 1.10% (Acquirer card). Fees for Interchange Differential are calculated as follows:

1. A base rate sometimes called the “MDR” or Merchant Discount Rate or just “Discount” is first charged against all cards accepted the average is between 1.65% and 1.70% Often Visa and MasterCard have different rates MasterCard generally is higher. (note this can be as low as 1.19% but watch out for the other fees). This is the rate most often advertised.
2. “Interchange Differential” is calculated as the difference between the consumer card rates (1.54% & 1.59%) and the actual Interchange rate of the card being accepted. These are a called “Non-Qualified”.
3. Last a Non-Qualified discount is applied to all of the “Non-Qualified” cards, again this can vary wildly depending upon the Processor and individual contract. The average is around .35%
4. A Variation on this uses a grid to combine 2 & 3 based upon the card accepted.

You will know you are this pricing program if your statement shows one discount at the same rate for all cards and a second with either showing “Interchange Differential” or it may go by another name and a third non qualified fee or discount. Some companies do not separate the Differential and NQ fees but lump them together on the statement. Note be careful when being quoted a low MDR rate it usually means other fees are much higher.

2. Interchange Plus

Interchange Plus is one of the most simple and easy to audit pricing program however it is difficult to get most processors to agree to price this way. It is calculated as follows:

1. The actual Interchange rate for the card is charged including those that are less than “Qualified” Cards (1.54% & 1.59%)
2. A markup percentage is charged on all cards this can be one percentage for all cards or different percentages for “Qualified” and “Non-Qualified” cards.

3. Tiered Pricing

This is an old pricing format that is rarely used today it is calculated as follows:

1. You are charged a specific rate for all “Qualified” cards as described earlier.
2. You are charged a second higher rate for all “Mid-Qualified” cards, the Processor decides which cards to put into this bucket as the Card Brands don’t have any official definition
3. You are charged a third and highest rate for “Non-Qualified” cards again the Processor decides which cards go into this bucket.

You will know you are on this plan if your statement shows 3 discount ranges for the above three with 3 different rates. These usually include Assessment/Card Brand Fees which we will discuss later.

4. Flat Rate Pricing

This is the final and rarest of the pricing models and the most simple although difficult to audit and compare to the other three. It is calculate by simply applying a single discount rate that is either the same for all card brands or can be different for each card brand. This pricing plan generally includes Assessment/Brand Fees.

Next Month: All About Fees

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