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# Heartland Newsroom

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## What is Interchange, and Why is it Important to You?

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As a merchant, you've likely heard the phrases "interchange" and "interchange rate" and are aware that you are charged a dollar amount for interchange. But you might not know the details of interchange, and why the rates can vary. This article walks you through interchange and explains in simple terms how it impacts your business — and your bottom line.

### What is interchange, and why is it charged?

Interchange is the fee charged for passing financial transactional information back and forth between you (the merchant), a payments processor (such as Heartland Payment Systems™), the bankcard companies (Visa® and MasterCard®), and the banks that issue credit, debit and prepaid cards. This fee is imposed by Visa and MasterCard, not by Heartland. You pay this fee on every card transaction you process.

### Why do you need to pay interchange?

You pay this fee so issuing banks can recoup the costs of distributing credit, debit and prepaid cards to cardholders; pay for their marketing efforts and fraud monitoring/fraud reduction initiatives; and defray the cost of other functions related to card issuance.

You may also be aware of assessment fees. Like interchange, assessment fees are imposed by Visa and MasterCard. Unlike interchange, money generated from assessment fees goes directly to Visa or MasterCard to cover their operating costs, rather than to issuing banks. Currently, Visa's assessment fee is .0925 percent, and MasterCard's assessment fee is .0950 percent; both are assessed on the purchase price of a product or service.

### What are the current interchange rates?

As of April 2008, there are 254 interchange rates. Why so many? Interchange rates are complicated because card companies like Visa and MasterCard do not have one set rate that applies to every industry or every sale made. The actual interchange rate charged may vary based on the way the card information is provided, the type of card used and

the kind of transaction. For example, rewards cards have higher rates than basic cards, and mail order or phone transactions have higher rates than transactions where the card is physically presented at the time of purchase.

Visa and MasterCard typically adjust interchange rates twice a year in April and October, although occasionally they update the rates in other months. Adjustments occur as the marketplace changes. Sometimes the rates go up. At other times, they remain the same or even decrease, depending upon the situation. To view the latest interchange rate changes, visit the bankcard association websites:

Visa:

[USA.Visa.com/merchants/operations/interchange\\_rates.html](http://USA.Visa.com/merchants/operations/interchange_rates.html)

MasterCard:

[MasterCard.com/us/merchant/how\\_works/interchange\\_rates.html](http://MasterCard.com/us/merchant/how_works/interchange_rates.html)

### Do you have to pay interchange?

As a merchant, you can't avoid paying interchange — it's part of the cost of accepting credit, debit and prepaid cards at your place of business. But, there are steps you can take to make sure you are getting the best interchange rates possible on your transactions.

### How can you reduce your interchange charges?

There are three fundamental actions that impact the rate you're paying: Are you swiping the card or key entering cardholder information? Are you using Address Verification Service (AVS) on keyed transactions? Are you settling your terminal and account on a daily basis?

How you handle these three scenarios will affect your chances of qualifying for the best rate and avoiding being "downgraded." When a transaction is downgraded, it means you pay a higher interchange rate because certain qualification criteria were not met. Every time a transaction moves further away from the requirements of the expected rate — and closer to the possibility of fraud — the transaction is downgraded, and you pay more for interchange.

Let's examine the three common downgrades to see how they impact the interchange rate, and let's use a Visa in-store retail transaction of \$100 to illustrate the effect. (See the sidebar "The Effect of Different Scenarios on the Interchange Rate of a Retail Purchase of \$100" for a quick comparison of the effects of the different rates on your bottom line.)

The lowest interchange rate on a transaction occurs when a card is swiped through the terminal. The interchange rate of a card-swiped, \$100 retail transaction equals 1.54 percent + 10 cents (\$1.64). If, for some reason, the terminal can't read the card's magnetic stripe (the card is damaged, for example), you can key enter the information. That, however, increases the interchange rate. If you must key enter information, you can help lower the increased interchange rate by using Address Verification Service (AVS), a fraud prevention tool.

AVS automatically compares the components of the cardholder's address, such as the zip code, to the billing address of the card. If there is a discrepancy, the transaction downgrades. Continuing with our example of a \$100 purchase, a key-entered retail transaction where you use AVS and receive a match has an interchange rate of 1.85 percent + 10 cents (\$1.95). If you don't use AVS, you'll see a large jump in the interchange rate on this same transaction — 2.30 percent + 10 cents (\$2.40). The difference between paying \$1.64 and \$1.95 or \$2.40 really adds up!

Another step to reduce your interchange rate is settling (or "batching") your terminal and transactions at the end of each day. Your payments processor only has two days to get your retail transactions processed and forward them to Visa and MasterCard, which in turn forward them to the issuing bank. If you settle your accounts only weekly or monthly, your transactions will downgrade due to missing the two-day time frame. Late batching results in higher interchange and delayed payment.

Let's go back to our initial Visa retail card-swiped transaction with an interchange rate of 1.54 percent + 10 cents (\$1.64). If you don't settle daily and decide instead to settle only once a month, that very same transaction now has an interchange rate of 2.70 percent + 10 cents (\$2.80). You've nearly doubled the amount you're paying in interchange, and that's money out of your pocket.

As you can see, you can save a significant amount of money if you swipe a card instead of key entering it, use AVS to prevent fraud and settle your transactions on a daily basis.

Why pay more than you need to for interchange? It's your business and your money — keep as much of it in your pocket as possible!

### The Effect of Different Scenarios on the Interchange Rate of a Retail Purchase of \$100

Scenario	Visa Interchange Rate	What You Pay for Interchange
Card swiped at terminal; transactions settled daily	1.54 percent + 10 cents	\$1.64
Key-entered at terminal, using AVS; transactions settled daily	1.85 percent + 10 cents	\$1.95
Key-entered at terminal, not using AVS; transactions settled daily	2.30 percent + 10 cents	\$2.40
Card swiped at terminal; transactions settled monthly	2.70 percent + 10 cents	\$2.80



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*Heartland is the founding supporter of The Merchant Bill of Rights, a public advocacy initiative that educates merchants about fair credit and debit card processing practices. For more information, contact Heartland Payment Systems at 866.941.1HPS or visit [HeartlandPaymentSystems.com](http://HeartlandPaymentSystems.com) and [MerchantBillOfRights.com](http://MerchantBillOfRights.com).*