

# Credit Card Processing: The Math Explained

by Leo Townsend

The biggest reason merchant's are overcharged on their credit card processing is salesmen throw numbers at them but never explain the math. The math is actually quite simple. They just don't want you to know the truth so that they can over charge you.

Everybody in credit card processing has the same cost. It's called Interchange, Dues & Assessments. Interchange is a 12 page, single line type document. When a company quotes you a 1.49%, there are 2 card types that will qualify for that rate. The rest of the rates are priced wherever they want as this allows for maximizing profitability. This is a qualified rate structure, not an interchange plus program. An interchange plus program clearly states the mark-up over cost in hundredths of a percent.

The best way to determine your cost is by taking the total amount of your fees and dividing it by the total processing volume. For example: If you were charged \$300 in fees and took \$10,000 in credit cards, your effective rate would be 3.0%, not 1.49%. Keep in mind that if you are being funded directly by American Express, you need to deduct that volume from your total sales volume as they are charging you fees separately. Plug this formula in to your most recent statement and see where you stand.

So generally, on an interchange plus program your clientele dictates your rate by the types of cards they give you. I have a merchant in a working class area who has 65% of his cards being check cards. His effective rate is under 1%. I have a dentist in Manhattan who takes predominately rewards cards but because 30% of the cards taken are check cards,

his effective rate averages 1.5%. This is why companies want you to pay their flat 1.99%. They are making bigger profits against what the actual cost is for the cards taken. For example, the Manhattan doctor at 1.5% effective rate based on his \$200,000 per month would have paid an extra \$1,000 with a flat 1.99% program.

Here are some red flags to look out for that indicate you're most likely being overcharged.

- ▶ If you are processing on a "medical/healthcare" program, you're probably being overcharged. There is no Visa™/MasterCard™ medical healthcare program. Period. It's just a marketing hook.
- ▶ If you're taking check cards and using your PIN pad to enter PIN numbers, you're paying too much. Because of the Durbin Amendment, it's now cheaper to take those cards as credit cards if you're on an interchange program. Sure having customers enter their PIN is lower than the 1.49%, but a regulated check card with us, simply swiped, has an interchange cost of .05%. Which would you rather pay? You pay the .05% with the PIN number BUT you have to pay debit network fees on top of it. And now there are annual debit network fees and switch fees as well.
- ▶ If you're using your dental management software to take credit cards, you're paying too much. We've had several of our clients show us proposals where the management software company is claiming significant savings. The savings is



them calculating that your staff takes 2 minutes to enter the dollar amount in the software vs. it automatically posting through their system. How long does it take to key in a six digit number? Six seconds? They weren't lowering our customers rates and were actually raising them. The supposed savings was simply in "staff time." Also, their programs are proprietary. So even if you see they are overcharging you, there is little you can do about it because no one else can process through their software.

- ▶ If you call about cancelling your account and it's going to cost you thousands of dollars to switch, you're being overcharged. The secret is to leave the account open but dormant and take the savings we can offer you. You can then cancel the account in the future when there are no fees incurred.

*International Payment Solutions would be happy to review your current processing statement to see if you're being overcharged. If you're getting a good deal, we will tell you. If not, wouldn't you want to know? Simply fax a statement to 844-483-1996 or email to [interpay@aol.com](mailto:interpay@aol.com) with your contact information and we will prepare a no cost, no obligation analysis. If you have additional questions, please call Leo Townsend at 844-843-1995.*