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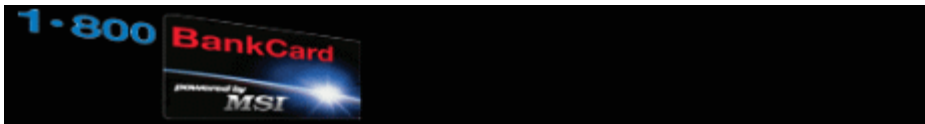
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DigitalTransactionsNews

Some Interchange Rates Up, Some Down, With Higher Auth Fees

(March 2, 2009) Lower interchange rates in some cases for online retailers and travel-and-entertainment merchants that accept Visa credit cards and higher bank card authorization fees are set to take effect in the coming months.

The good news for merchants is that seven of the 11 Visa consumer credit card interchange rates that will change in April are going down by about 2.5%, according to a pricing schedule obtained by Digital Transactions News. The bad news is that the increases in four categories, which vary in size, apply to Visa-branded rewards cards. Bank card issuers are pumping out more rewards cards because they garner higher interchange than plain-vanilla credit cards. A Mercator Advisory Group Inc. researcher estimated last year that more than 400 million, or 40% to 45% of the U.S. credit cards in circulation, are now airline cobranded cards or other rewards cards that give cardholders miles, points, cash, or other perks for purchases.

Interchange is a fee set by Visa and MasterCard that is charged to the merchant acquirer and paid to the issuer of the card used in a transaction. Acquirers typically pass on the entire cost to the merchant clients. The networks also charge various fees and assessments to issuers and acquirers for authorizations and other services. Such fees rarely capture much attention, though new ones from each network could change that. MasterCard calls its new the Network Access and Brand Usage Fee, or NABU. The 1.85-cent fee will replace a current half-cent authorization fee charged to acquirers. The new fee thus is 3.7 times higher than the fee it replaces. A MasterCard spokesperson was unable to provide more information about the fee on Monday. Meanwhile, MasterCard is adjusting about 40 commercial card interchange rates come April, some up and some down.

Visa in July will impose a similar, 1.95-cent fee that it calls the Acquirer Processing Fee, a merchant-acquiring source tells Digital Transactions News. It will apply to all Visa-branded transactions acquired in the U.S. regardless of the cardholder's or issuer's location. It won't apply to the transactions on the Visa-owned Interlink EFT network or the Plus ATM network.

Visa would not comment in detail about its new rates and

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authorization fee, but instead sent a written statement to Digital Transactions News. "Interchange rates are constantly monitored and adjusted—sometimes increased and sometimes decreased—in response to dynamic and highly competitive market forces and to ensure the economics and value of transactions are balanced for all parties that participate in the Visa network (merchants, financial institutions, and cardholders)," the statement reads in part. "They vary depending on the merchant type, cost of the sale, payment product, and processing technology used and fraud risk associated with a transaction, among other things."

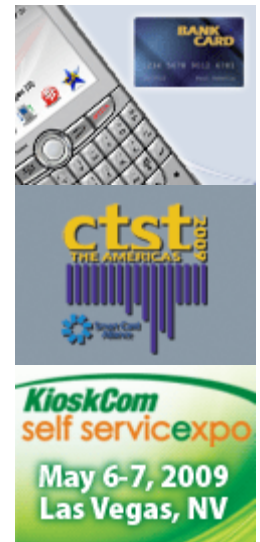
Visa's widely watched CPS card-not-present interchange rate assessed on Internet and catalog transactions and the similar CPS/e-commerce basic rate both will fall from 1.85% plus 10 cents to 1.80% plus a dime. That's a 2.5% decrease on an \$85 credit card sale, which will generate \$1.63 in interchange compared with \$1.673 under the current rates. The old and new retail key-entry rates are identical to the card-not-present rates. Visa's other rate decreases apply to T&E merchant categories, categories hit hard by the recent fall-off in travel. The CPS/hotel and car rental and CPS e-commerce preferred hotel and car rental rates each will decline from 1.58% plus a dime to 1.54% plus 10 cents. That means an \$85 credit card sale will generate \$1.409 in interchange, down 2.4% from \$1.443 under current rates. Two other related rates, CPS/passenger transport and CPS/e-commerce preferred passenger transport, would decline to 1.70% plus 10 cents from 1.75% plus a dime currently. That translates to a 2.7% fall in interchange expense on an \$85 sale.

E-commerce and catalog merchants, however, will be paying more when customers use Visa rewards cards. The CPS Rewards 2 rate will increase from 1.90% plus 10 cents to 1.95% plus a dime. The new rate will generate 1.758 cents in interchange compared with \$1.715 under the old rate, an increase of 2.5%.

The percentage portions of Signature preferred card-not-present and Signature preferred electronic rates would rise by 10 basis points from the current 2.30% plus 10 cents. That will translate into a 4.1% increase on an \$85 sale, or \$2.14 compared with \$2.055 under the current rates. Signature's so-called preferred standard rate, the one that applies to manually authorized transactions, will rise 25 basis points to 2.95% plus a dime, an increase of 8.9% on an \$85 sale.

Also this April, Visa will raise the basic retail rate paid by small merchants for PIN-debit card purchases routed over Interlink. The rate will go from 0.75% plus 15 cents to 0.75% plus 17 cents—a 4.4% increase on a \$40 debit card purchase. The rate applies to purchases at non-supermarket retailers that don't generate enough Interlink purchase to qualify for three volume-based, lower-cost tiers. Visa is adding a new rate for Interlink fuel purchases, 0.70% plus 17 cents, with a 95-cent cap.

Merchant acquirers and independent sales organizations are the ones that bring the good or bad news about interchange and network fees to their merchants—and they often use interchange increases as cover for overall price increases. Henry Helgeson, president of Merchant Warehouse, a Boston-based ISO, anticipates that many merchants will have questions about the new authorization fees, which he expects processors to inevitably pass on to them. "Some of the processors aren't set up to bill that as a discrete fee," he says. In other words, such a charge could look like just another processor fee instead of one specifically from a card network. Merchant Warehouse



has adjusted its operational system to identify the new fee, but for some processors, "it could take a few months," he says.

Retailers are attempting to consolidate various lawsuits challenging Visa, MasterCard, and large banks over interchange practices into a class action in U.S. District Court in Brooklyn, N.Y. (Digital Transactions News, Jan. 19).

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