



SelectivePay  
**TRUE PRICING**

Unveiling the true cost of payment processing  
- and how can SelectivePay can save you money.

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Price structure and overall cost is significantly more important than a rate quote.

“What is your rate?” This is the most commonly asked question by businesses looking to accept credit cards or change providers. However, the more important question that merchants should be asking is, “How much will it cost me to process credit cards with you?”

Whether you choose to use our services or not, we encourage you to take a moment to review this document; it exposes unfavorable pricing structures used by most Merchant Account Providers.

Traditionally, a simple, easy-to-reconcile merchant services rate structure or True Pricing was reserved for large businesses with high leverage. SelectivePay has recently decided to level the playing field and make True Pricing available to business of all sizes, and in the process take the mystery out of the cost of card acceptance.

If you were asked what it costs your business to accept credit cards, odds are you would not be able to give an accurate answer. All of the fees associated with processing credit cards can be very confusing. To make matters worse, Merchant Account Providers profit from making fees difficult to understand; it enables them to charge more.

**Business owners are frequently puzzled by service rates and fees. They wonder:**

1. Why am I charged different amounts depending on the type of card used?
2. Who keeps the 1.5% to 3.0% of my hard-earned sales that are siphoned away as “surcharges” and “fees”?

**The answer to these questions revolves around “Interchange” and “Dues and Assessments”.**

## INTERCHANGE

(What issuing banks collect)

Interchange is a fee that Visa and MasterCard require merchants to pay card-issuing banks (e.g. Capital One, Citibank, Chase, etc.) for accepting their credit and debit cards. It is comprised of a series of over a hundred different rate categories, containing requirements which must be satisfied in order for a transaction to qualify for a specific rate.

The rates are set collectively by banks that have a vested interest in Visa and MasterCard since many issue both credit and debit cards. The bulk of interchange fees are paid to issuing banks and are collected from merchants via Merchant Account Providers. The fees are deducted after merchants submit transactions for processing.

## DUES AND ASSESSMENTS

( What Visa & MasterCard collect )

### What criteria are used to determine interchange rates?

Interchange rates are established at different levels for a variety of reasons but are based primarily on the level of risk involved in the transaction.

Factors that effect interchange rates include:

- The type of card used (rewards or standard)
- The type of transaction (credit or debit)
- How the transaction was initiated (card-present or card-not-present)

Dues and assessments are membership fees paid by financial institutions to Visa and MasterCard to finance their roles in the following:

- Setting rules
- Establishing pricing
- Marketing/branding
- Network operations
- Technology development, fraud management, and much more

Dues and assessments have no categories, rules, or criteria. They are simply a set percentage of the amount of the sale and are the same for every transaction processed. As of October 2013, Visa's dues and assessments fee is 0.11% of the transaction while MasterCard's is 0.115%.

## PRICING STRUCTURE SCHEMES

### Bucket Pricing: Used by PayPal, Square, Intuit & Most Processors

Merchant Account Providers traditionally charge for transactions using tiered pricing schemes commonly referred to as "bucket pricing". In bucket pricing, the 100 plus levels of interchange are separated into "buckets" commonly labeled qualified, mid-qualified and non-qualified.

Transactions (where consumer credit and debit cards are swiped) will be charged the base rate (lowest fee) and likely hit the "qualified" bucket. Higher-rate transactions commonly referred to as "downgrades" will be charged more and labeled mid-qualified or non-qualified.

### Problems with Bucket Pricing Schemes

Merchant Account Providers use their own discretion to determine what buckets the 100 plus categories of interchange will be separated into. And, it is often not defined in a merchant's agreement with the Merchant Account Provider. Since the criteria for this decision is proprietary, inconsistencies are common between providers. This makes it nearly impossible for merchants to accurately compare pricing from one provider to the next. Transactions that would land in the mid-qualified bucket with Provider A, may land in the non-qualified bucket with Provider B.

Additionally, Visa and MasterCard make adjustments to interchange categories once or twice a year. These increases usually affect only one or two interchange rate categories in a bucket.

The increases negatively affect businesses by raising the cost of card acceptance and give merchant account providers an opportunity to raise rates on entire buckets. Finally, under bucket pricing each bucket is priced high enough to cover the cost of the transaction type with the highest actual interchange fee. Consequently, merchants pay higher fees for all other interchange types in the same bucket.

## A View Into a Mid-Qualified Bucket

Merchant Account Providers using bucket pricing generally place the transaction types shown in the table below into a mid-qualified bucket. Let's examine the actual interchange charges for a \$100 purchase across these transaction types and compare the actual costs to the price charged to the merchant.

Business Card Electronic Interchange Rate Processing			
Purchase Amount	Interchange	Dues and Assessments	Actual Processing Cost
\$100.00 X	(2.40% + \$0.10)	+ 0.110%	= \$2.61

A customer initiates a purchase that qualifies for the Business Card Electronic interchange category of (2.40% + \$0.10) + 0.110%. This rate is also the most expensive in the bucket with an actual processing cost of \$2.61 for the \$100 transaction. Because Merchant Account Providers using bucket pricing schemes

assess the same fee for all transactions in the mid-qualified bucket, Swiped: (2.75% + \$.25) or Non-swiped: (3.15% + .25) the merchant is charged \$3.00 or \$3.40. The Account Provider makes a profit of \$0.39 or \$0.79 on this transaction.

CPS/Retail Debit Reg Rate Processing Formula			
Purchase Amount	Interchange	Dues and Assessments	Actual Processing Cost
\$100.00 X	(0.05% + \$0.22)	+ 0.110%	= \$0.53

Had the customer's transaction qualified for the least expensive rate in the bucket, CPS/Retail Debit Reg the actual processing cost of the \$100 transaction would have been (0.05% + \$0.22) + 0.110% or \$0.53. However, the merchant would have still paid the

bucket rate (2.75% + \$.25) or (3.15% + \$0.25) and been charged \$3.00 or \$3.40. In this example, the Merchant Account Provider would profit \$2.47 or \$2.87 on the transaction!

Traditional Bucket Pricing: <b>Paypal, Square, Intuit &amp; Most Processors</b>			Interchange + Dues & Assessments		
Transaction Type	Mid-Qualified Bucket Price Swiped	Total Merchant cost on \$100 Transaction	Interchange	Dues and Assessments	I/A Cost on \$100 Transaction
CPS Retail Debit	2.75% + \$.25	\$3.00	.05% + \$0.22	0.110%	\$0.53
CPS Rewards 2TNE	2.75% + \$.25	\$3.00	1.95% + \$0.10	0.110%	\$2.01
CPS E-Commerce	2.75% + \$.25	\$3.00	1.80% + \$0.10	0.110%	\$2.01
Signature Rewards 2	2.75% + \$.25	\$3.00	2.10% + \$0.10	0.110%	\$2.31
Commercial Card Non T&E Level 2	2.75% + \$.25	\$3.00	2.05% + \$0.10	0.110%	\$2.16
Commercial Card - B2B	2.75% + \$.25	\$3.00	2.10% + \$0.10	0.110%	\$2.31
Signature Card Electronic	2.75% + \$.25	\$3.00	2.30% + \$0.10	0.110%	\$2.51
Business Card Electronic	2.75% + \$.25	\$3.00	2.40% + \$0.10	0.110%	\$2.61

\* Interchange rates above are current as of October 2013

## True Pricing

There is an alternative to bucket pricing available through SelectivePay.

True Pricing or “pass through pricing” is the answer to unveiling the mystery around card acceptance costs. Under this unique rate structure, SelectivePay clearly identifies actual Visa and MasterCard fees and plainly shows our exact mark-up (profit).

True Pricing is the most transparent way to charge for processing credit cards.

The costs of payment processing are transparently revealed, easy to understand, and will save your business money.

Under the True Pricing billing structure, the actual Visa and MasterCard charges for processing are passed through to the merchant, with out mark-up as previously mentioned. When Visa and MasterCard raise interchange rates, only the categories that are affected are increased, not an entire “bucket” containing the many interchange categories that may not have been impacted.

### How Are Rates Determined With True Pricing?

Rates are based on a merchant’s Visa and MasterCard average monthly dollar volume and average ticket (sale amount). Using these variables, the True Pricing rate is determined upfront at the time a merchant signs a contract for processing services and remains effective throughout the term of the agreement.

### Price Comparison Between Bucket Pricing and True Pricing

In the previous example, we compared what a merchant would pay to process a \$100 purchase landing in the mid-qualified bucket to the actual cost of processing the transaction. Now, we’ll compare True Pricing to bucket pricing using the same transaction criteria.

The table below shows how the merchant on SelectivePay’s True Pricing model would pay \$2.42 less to process the same Visa key-entered check card than a merchant on a bucket pricing model.

	Bucket Pricing: Paypal, Square, Intuit & most processors	True Pricing from SelectivePay
Transaction Type	Key-entered Visa Check Card	Key-entered Visa Check Card
Sale Amount	\$100.00	\$100.00
Interchange Rate	NA*	0.05% + \$0.22
Dues and Assessments	NA*	0.110%
Processing Fee	3.15% + \$0.25	.35% + \$0.10
Math	[\$100.00 x 3.15%] + \$0.25	\$100.00 x [(.35% + \$0.10) + (0.05% + \$0.22) + 0.110%]
Cost of Merchant	\$3.40	\$0.98
<b>True Pricing Savings</b>		<b>\$2.42</b>

\* Included in processing fee.

## Additional Comparisons: Bucket Pricing vs. True Pricing

(Each transaction is based on a \$100 Visa purchase assigned to a mid-qualified bucket)

The bucket below further illustrates the advantages of True Pricing. In this snapshot, merchants on True Pricing save on average \$0.93 per transaction.

When you factor in annual processing volume, it's easy to see how True Pricing can result in significant savings for merchants.

Transaction Type	Traditional Bucket Pricing Most Processors		Interchange + Dues & Assessments (I/A)			True Pricing (I/A + True Pricing) SelectivePay		Comparison
	Mid-Qualified Bucket Price Non-Swiped	Total Merchant Cost on \$100 Transaction	Interchange	Dues and Total Assessments	I/A Cost on \$100 Transaction	True Pricing Charge	Total True Pricing Cost on \$100 Trans.	Merchant Savings
CPS Retail Debit Reg	3.15% + \$.25	\$3.40	0.53% + \$.22	0.110%	\$0.53	.30% + \$.10	\$0.93	\$2.47
CPS Card Not Present	3.15% + \$.25	\$3.40	1.80% + \$.10	0.110%	\$2.01	.30% + \$.10	\$2.41	\$0.99
CPS E-Commerce	3.15% + \$.25	\$3.40	1.80% + \$.10	0.110%	\$2.01	.30% + \$.10	\$2.41	\$0.99
Signature Rewards 2	3.15% + \$.25	\$3.40	2.10% + \$.10	0.110%	\$2.31	.30% + \$.10	\$2.71	\$0.69
Commercial Card Non T&E Level 2	3.15% + \$.25	\$3.40	2.05% + \$.10	0.110%	\$2.26	.30% + \$.10	\$2.66	\$0.74
Commercial Card - B2B	3.15% + \$.25	\$3.40	2.10% + \$.10	0.110%	\$2.31	.30% + \$.10	\$2.71	\$0.69
Signature Card Electronic	3.15% + \$.25	\$3.40	2.30% + \$.10	0.110%	\$2.51	.30% + \$.10	\$2.91	\$0.49
Business Card Electronic	3.15% + \$.25	\$3.40	2.40% + \$.10	0.110%	\$2.61	.30% + \$.10	\$3.01	\$0.39

Average Merchant Savings with True Pricing from SelectivePay

\$0.93

\* Interchange rates above are current as of October 2013

## In summary,

with the True Pricing structure each and every interchange category carries a consistent margin providing the business with:

- The most competitive pricing
- Lowest processing costs
- A set, disclosed and consistent profit margin
- An understanding of the exact impact from interchange increases/decreases.

If you see the words "qualified", "mid-qualified", or "non-qualified" on your credit card processing statement, you are over paying.

For more examples of how True Pricing can result in savings for you, contact our sales professionals today at (866) 627-6776 to take advantage of True Pricing and reduce your costs of card acceptance.

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# A QUICK GUIDE TO MERCHANT SERVICES

This SelectivePay Quick Guide is for general information and discussion purposes only.

## Our Simplicity Pledge

SelectivePay is committed to providing you with the information you need to make good financial decisions, and to helping you understand how your accounts and services work – simply, clearly and in plain language.

### What are Merchant Services?

Merchant Services enable your business to accept credit cards, debit cards and other types of electronic payments. With Merchant Services, you can accept cards and electronic payments from customers and receive funds directly into any checking account. Funds are generally available to your business the next business day.

SelectivePay provides Merchant Services. All transactions are subject to the operating rules and regulations of the applicable payment and processing network.

### How does pricing work for Merchant Services?

The pricing for Merchant Services covers a variety of processing costs – some are charged periodically, others on a per-item or percentage basis. For credit and debit card processing, these costs can be broken down into three different types: discount rates, processor fees, and interchange fees.

- The discount rate is used to calculate the amount your business must pay for each transaction. The rate is determined by several factors, including the number of transactions per month, average transaction amount, type of industry, and how the card is presented.
- Processor fees may be a percentage or an “X” amount and are based on the business’ transaction amounts, frequencies, and types.
- Interchange fees are set by the networks – such as Visa<sup>®</sup>, Discover<sup>®</sup> and MasterCard<sup>®</sup> – and vary depending on card type and the circumstances of the transaction. These fees typically are the largest portion of the costs for card processing.

**TIP:** You will pay less for transactions in which an actual credit or debit card is presented for payment. Because the risk of fraud is greater when the card is not present, you will pay more for transactions through the mail, over a telephone or on-line.

**TIP:** Depending on how the pricing for card processing is structured, some of these costs may be included as a component of another. For example, interchange fees may be included as part of the discount rate charged for card processing. Processing costs are debited from your checking account on a monthly basis after the monthly statement showing those costs has been made available on-line (or mailed upon request for a fee).

### Reporting options available to your business

- Recent account activity, including daily processing details and deposit history, is reported on each monthly statement and also through an optional web-based service.

**TIP:** The optional web-based service gives you access to real-time reporting.

### Processing solutions

- Point-of-sale terminals
- Specialized software solutions designed for specific industries, i.e. restaurant, lodging, healthcare, etc.
- Wireless terminals
- Mobile solutions compatible with Smartphones/tablets
- Mail-order/telephone-order
- E-commerce via a PC which allows secure payment transactions through a website

**TIP:** Whether your business has existing equipment/software or wants to purchase/lease new equipment, it must comply with the PCI (Payment Card Industry) standards for protecting cardholder information. PCI Compliance information may be found at [pcisecuritystandards.org/merchants](http://pcisecuritystandards.org/merchants) under 'How to be compliant.'

## WE'RE ALWAYS HERE TO HELP!

To learn more, visit [www.selectivepay.com](http://www.selectivepay.com), or call  
1-866-627-6776

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## CREDIT CARD PROCESSING FLOW CHART



### **ADDITIONAL MERCHANT SERVICES OPTIONS**

*If you are a Merchant Services customer, these additional services are also available:*

#### **Electronic Check Service**

- Electronic Check Service (ECS) converts consumer and business paper checks into electronic transactions.
- ECS solutions can be tailored to meet any merchant industry need.

#### **Electronic gift cards/loyalty cards**

- Card design and processing features can be tailored to meet the needs of any industry.
- Online reporting available.
- Cards can be used to reward customers and retain their business by creating an incentive for return visits.
- Cards can be used to provide credit for returned purchases.

#### **Analytic Dashboard Software**

- Easy-to-use software that gives unfiltered, robust access to an organization's entire payments portfolio
- Helps owners, operators and managers identify trends.
- A centralized payments dashboard that is accessible on any device, anytime, anywhere.
- Money saving opportunities and automated reconciling processes

### **HOW TO ENROLL IN MERCHANT SERVICES**

- Contact a sales representative at 1-866-627-6776 or complete the contact information at <http://www.selectivepay.com/get-started-today>.
- Your information will be forwarded to a SelectivePay local merchant sales representative, who will contact you within 48 business hours.
- Once your account has been approved, you will receive a welcome kit that includes either new processing equipment or instructions to contact your SelectivePay representative to reprogram existing equipment, as well as other pertinent information.
- You will then be able to begin processing credit/debit card and electronic payments.

**WE'RE ALWAYS HERE TO HELP!**