



What is Interchange and Assessments?

1. Interchange Fees

Visa and MasterCard transactions are driven by an interchange-based system. Interchange is a fee paid by the Visa or MasterCard member institution that processes the transaction on behalf of a merchant (*the acquirer*) to the member institution that issued the card to the consumer (*the issuer*). Interchange rates are determined by Visa and MasterCard but the fees are not retained by the associations who act as intermediaries between the members on either end of the transaction. Interchange expense are deducted from transaction volume at the time of settlement from issuers to acquirers in most cases. Evolv deducts interchange expense from our merchants during the first week of the month for the prior months processing.

2. Interchange by Transaction Type or Medium

The most basic distinctions made by transaction type or medium are whether or not the transaction was electronically authorized and captured. Credit card transactions occur within either a card-present or a card-not-present environment. Card-present transactions are face-to-face transactions where the merchant has the ability to look at the card. Interchange for card-not-present transactions are priced at a premium relative to card-present transactions.

Card-not-present transactions involve cardholders providing their card number and other information over the phone, Internet, fax, or mail. Card-not-present transactions are generally higher risk transactions (i.e., higher chargeback rates) because they are more likely to be fraudulent.

For both Visa and MasterCard there are a number of card-not-present rates. Visa for example, has the following card not present rates:

- Card-not-present – rate applies to non-ecommerce card-not-present transactions such as telephone or mail order.
- E-commerce Basic – applies to e-commerce transactions that are not authenticated via Verified by Visa
- E-commerce Preferred – applies to e-commerce transactions for which the merchant attempts to authenticate via Verified by Visa

3. Transaction Qualification

Interchange pricing is also based on a transaction “qualifying” for a rate. Transaction qualification is determined by how the transactions is authorized and settled (i.e., the information that is transmitted, timeliness, authorization parameters, etc). Both Visa and MasterCard have systems whereby a transaction has an optimal qualifying rate, or the best rate possible for that transaction type, and also sub-optimal or more expensive rate categories. If a transaction fails to qualify for the best rate, it is downgraded to a lower rate. Qualification criteria generally include (but are not limited to):

- Magnetic stripe read (as opposed to the card number being key-entered)
- One unique and matching authorization obtained per settlement transaction
- Transaction settles within a certain time after authorization
- Transaction is coded correctly including the merchant's SIC code and other transaction descriptors

If these criteria are not met, the transaction qualifies for a different and generally less favorable rate. The most common reasons for transaction downgrades include key-entry at the point of sale and failure to settle within one day of obtaining an authorization (merchants fail to batch and send their transactions to their acquirer).

4. Assessments

In addition to interchange, there are other fees that Visa and MasterCard charge acquirers and issuers as a condition of membership. The most critical of these fees is an "assessment" fee which is assessed to both acquirers and issuers based on processed volume. Unlike interchange, assessment fees are retained by the associations. Assessments are the associations' primary source of revenue to finance their own marketing and operations. Assessment fee levels for Visa and MasterCard are 9.25 basis points (0.0925%) and 9.5 basis points respectively on processed volume.