



Background on Fee Elimination



To whom it may concern:

For the last decade, The Interchange Brokerage Company has been leveraging the rules of interchange to eliminate unnecessary and unfair fees for our business clients. Given the right circumstances, it is now possible to eliminate 100% of the fees associated with accepting credit and debit cards. Fee elimination will have significant positive impact for the businesses who implement it.

Since 2011, we have been monitoring the Visa MasterCard class action settlement (which has not paid out yet). One of the rules arising from that settlement gave businesses the ability to pass the costs of processing on to customers in the form of a “surcharge.”

Although several merchants jumped at the opportunity to reduce their costs, I’m glad we took a more cautious approach, and did not introduce this concept to our clients. We saw that while surcharging did help reduce costs for businesses, the compliance requirements were onerous, with huge potential penalties. It was also only available in certain states, only applicable to credit, not debit, and worst of all, it had a negative reception by card holders. *Customers didn’t like paying a surcharge.*

The following year, the market responded with the creation of a cash discount program. Instead of charging an additional fee on credit card payments, in a cash discount program the business charges a “check out” fee on all transactions and then gives a discount, equal to the “check out” fee, if the customer elects to pay with cash or check. *Customers responded well when asked if they would like a cash discount.*

The research over a three-year period shows that 98.2% of consumers declined the cash discount and chose to use their card. The other 1.8% used cash and were happy for the additional savings. Most important, businesses who implemented a cash discount program saw NO DECREASE in transactional volume and quantities. This means that businesses did not lose money or customers because of the cash discount program.

While the cash discount option seemed to solve the problems of surcharging, we still weren’t comfortable bringing it to our clients because there was no legal precedent that clearly said cash discount programs are, or are not in compliance with the law. In March of 2017, the Supreme Court made that ruling and determined that cash discount programs were in fact in compliance. Several companies began marketing cash discount programs in all 50 states, but IBC did not.

David A. Toney

Phone: (206) 898-3579 Fax: 888-388-1756

Email: Dave@interchangebrokers.com



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We began watching the rollout and monitoring the companies who were marketing it. We watched to see:

- Whether the technology would ensure compliance and remove human error and risk for the merchant;
- Whether the funding and transaction processing met or exceeded industry standards;
- Whether the providers were using this as a gimmick to garner new clients or sell/lease equipment; and
- Most importantly, the impact it had on customers.

What we learned came as little surprise. Most of the providers offering this option to businesses were out to lease equipment and make a fast buck. Several were non-compliant and thus exposed business to unnecessary risk. Very quickly, three providers emerged as valid options to present to our clients. Each met our requirements for month-to-month agreements, free equipment, 24/7 support and next-day funding. However, only one was willing to give IBC access to their back-end processing systems. What that means is that we can see with 100% transparency what they are doing and therefore continue our role as your watchdog.

As you can see, we have spent years watching and waiting for the right time to introduce this option to our clients. Through proper application of the rules established back in 2011, it is now possible to completely eliminate the cost of accepting credit cards, without giving up the ability to accept cards and without impacting the customer experience. However, a zero-fee program is not the right option for everyone. I would very much like to have a candid conversation with you to determine whether it is right for your business.

Yours,

David A. Toney
CEO, Interchange Brokerage Company
Chairman, Merchants Against Unfair Interchange

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