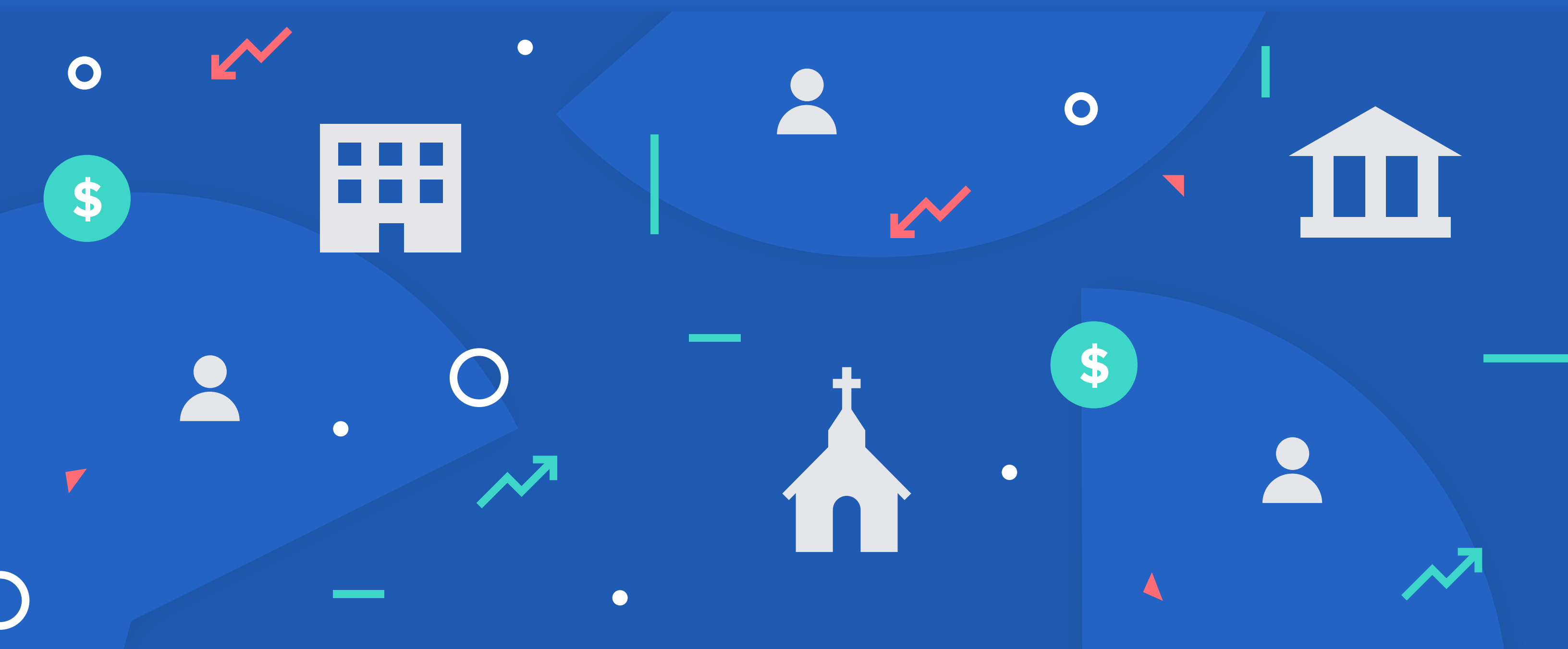


SUBSPASH®

# Hidden Fees Exposed

Find out what you're really paying for  
online giving



## Online and mobile giving are absolute necessities in 2017.

In fact, a survey of 1,000 Americans revealed that only 9% of people use cash as their preferred payment method, while less than 2% preferred checks. Some are even predicting that the last check will be written in the year 2021! If your church doesn't have online giving, you are missing out.

However, **many churches are overpaying for online giving services and they don't even know it**. If you want to make sure that your church isn't one of them, then this eBook is for you. Even if you have good processing rates for online giving, you may still have a high effective rate, and that's where the problem lies. Simply put, your effective rate is the total amount of money you pay your online giving provider for every transaction.

## In this eBook, we will teach you:

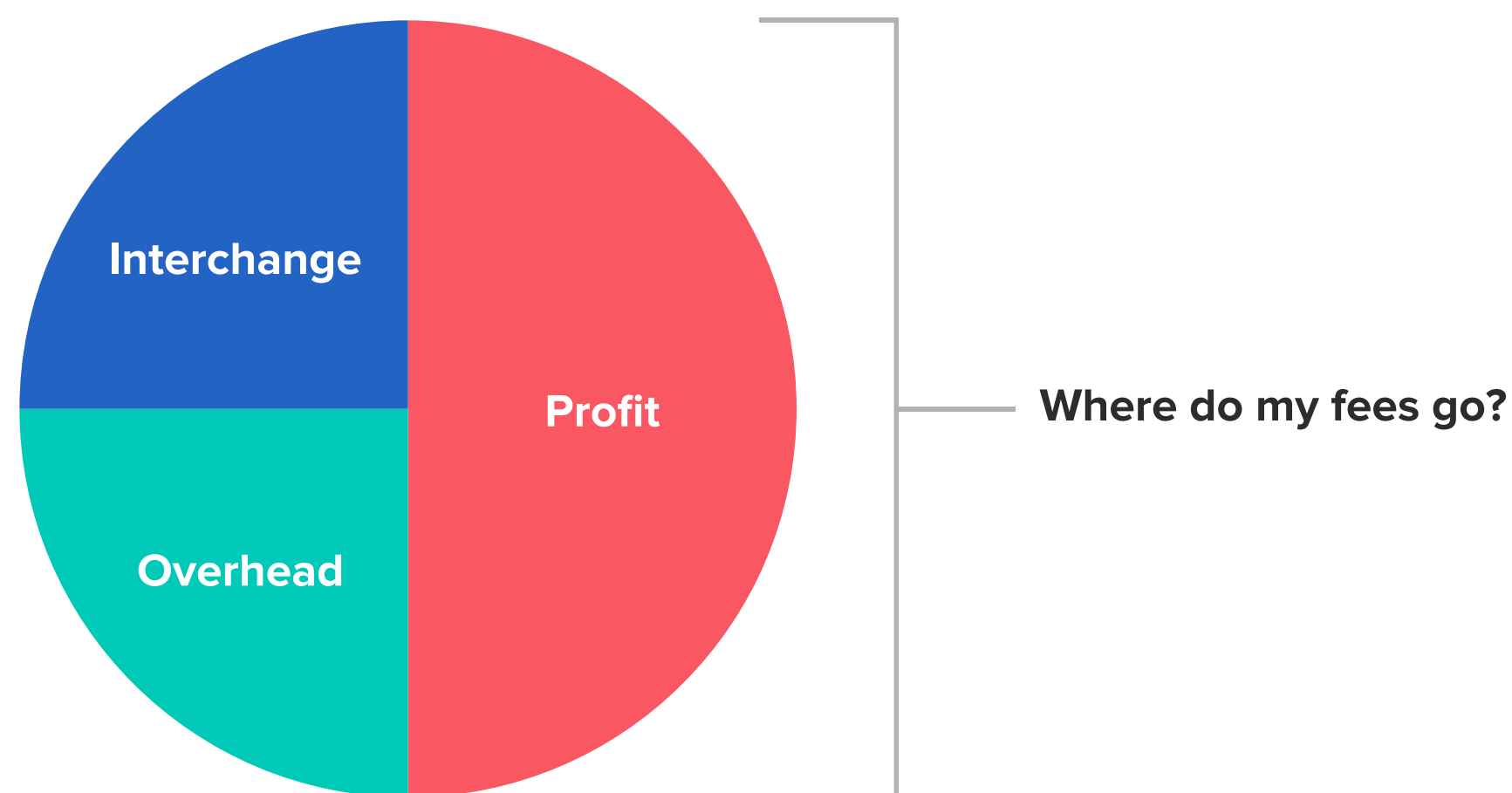
- 1 Where your money goes when you pay your online giving provider.
- 2 How to calculate your effective rate so you know exactly how much you are paying for online giving.
- 3 What questions you can ask giving providers to ensure that you get the best possible effective rate.

PART 1

# Where does the money go?

# Where does the money go?

So what exactly goes into in the online giving process? Let's take a quick look and define a few terms. In this section, we will show you what happens to the money that gets paid to your giving provider. This will help you better understand what the effective rate is and how churches can be overcharged.



If your church collects online donations, then you (the church) are technically a “merchant,” even if you are not selling anything. In the payment industry, the term merchant simply refers to anyone collecting money, including charitable donations. You need a secure service to transfer that money from the donor’s bank to your church’s bank, and that service comes from a “merchant services provider.” A merchant services provider is any company that facilitates online giving for your church. When someone in your congregation gives to your church via the merchant service provider’s online or mobile interface, your church is charged a certain percentage of each transaction. This is typically referred to as a “processing rate.”

Let's break down the processing rate to see where the money is going:

## INTERCHANGE

The basic cost for completing a card transaction is referred to as "interchange." These fees are set by the credit card networks. The majority of the interchange fee is paid to the issuing bank (donor's bank) by the acquiring bank (your church's bank) to cover the bank's operating costs. The major credit card networks publish their interchange rates publicly, so you can verify these rates for yourself. We've provided you with some [reference links](#) at the end of this ebook if you'd like to check those out.

Every debit and credit card has a set interchange rate. For example, a no frills Visa debit card may have an interchange rate of 0.65% for every transaction, where a MasterCard credit card that provides the owner with cashback rewards may have a higher rate of 2%. If your church has an effective rate of 4% and John gives \$100 to your church with his debit card, your merchant services provider is taking \$4 of that \$100. If John's debit card has a set interchange rate of 0.65% (plus a per transaction fee of \$0.15), then \$0.80 of that \$4 is covering the actual cost of the transaction. So where does the other \$3.20 go?

### TIP

Every credit card network offers discounted interchange rates for charitable donations. There is absolutely no reason why your merchant services provider shouldn't be passing these rates on to your church! If you are shopping for a giving provider (or want to clarify with your current one), make sure to ask them if they are giving you the discounted interchange rates for charitable donations. These rates are also published online, so you can verify them for yourself.

## **OVERHEAD**

A slice of that \$3.20 we mentioned earlier is going to your merchant services provider to cover their operating costs. This includes things like employee salaries, mortgage on their building, utility bills, gifts for clients, etc.

## **PROFIT**

The last slice of the pie is profit. We don't need to add much of an explanation here. Simply put, your merchant services provider pockets the remaining money.

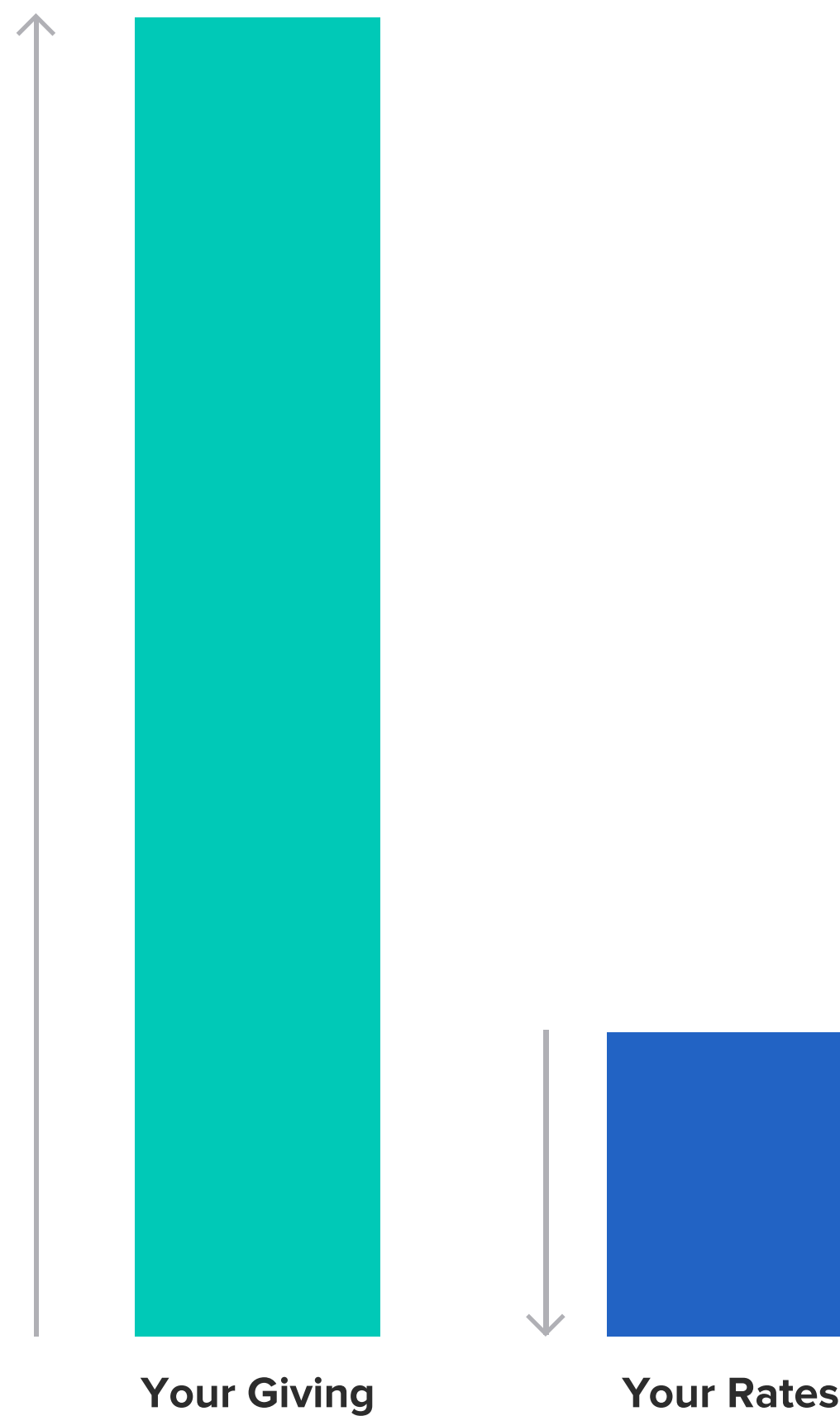
Let's chat about profit for a bit. To be sure, any business needs to make a profit. If your merchant services provider isn't a profitable company, then they probably won't be serving you for very long. While profit is a part of the game, it shouldn't be the only goal. The profit margin that comes from finding your effective rate will be a good indicator of your merchant services provider's main priorities. With that being said, there are two common ways that merchant services providers overcharge churches in order to bolster their profits.

### **1. CHARGING HIGH PROCESSING RATES WITHOUT VOLUME-BASED DISCOUNTS**

Remember: interchange is the actual cost to complete a transaction, and it is set by the credit card networks, not the merchant services provider. The rest of the money you pay is going to your merchant services provider. With high processing rates (anything above 3%), your merchant services provider is pocketing a majority of the fees you pay on every transaction. Additionally, as your giving volume goes up, their profits go up even more with those high rates. If your church processes just \$50,000 per month, there is no reason why you shouldn't start seeing your processing rates drop to the low 2% range (or even below 2% if you are processing well over \$100,000 each month). If you aren't seeing this, now would be a good time to call and inquire about it! (Subsplash has GrowCurve which does this automatically).

If you are shopping for a new giving solution, you'll definitely want to ask about volume-based discounts for the future. A good provider will reward you with lower rates as you grow with them.

**As your giving volume goes up, your rates should be going down.**



## **HIDDEN FEES**

The second, and more unfortunate, way that merchant services providers overcharge churches is through what we like to call “hidden fees”. Many companies quote churches a good processing rate (i.e. 2.5%), but then slip in *additional fees* on each monthly statement to bolster their profits.

Unfortunately, most churches don't even realize it's happening. This can bump that appealing 2.5% processing rate up to well over 3%, or sometimes even above 4%.



## COMMON ADDITIONAL FEES

- Monthly fees
- Security fees
- PCI compliance fees
- Interchange fees (some companies actually charge more than the published interchange rates)
- Batch fees
- Merchant account fees

Go ahead and grab your most recent giving statement (you'll need it for the next step in this process anyway). If you are being charged any of these fees in addition to your processing rate, then there is a chance you could be overpaying and that money is going directly into the pockets of your merchant services provider.

PART 2

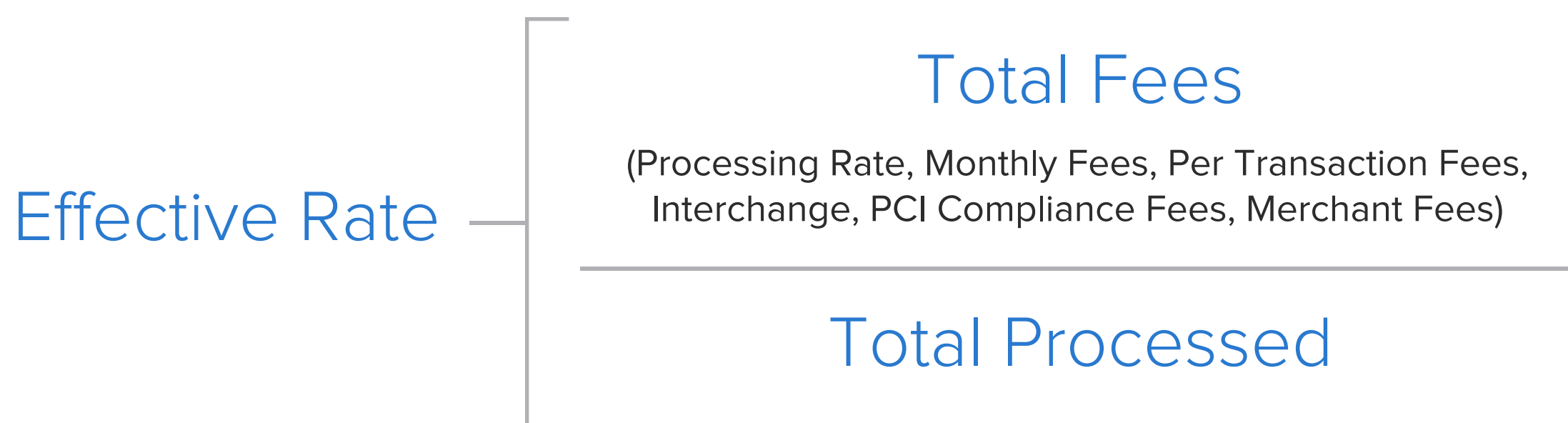
# What are you really paying?

# Find your true effective rate: what are you really paying?

So now that we've discussed where your money goes, let's talk about how to find your effective rate. Finding what your effective rate is (or what it will be if you are shopping for an online giving service) is extremely important because it allows for a common-ground comparison between all of the giving providers on the market. If you already have online and mobile giving, it allows you to easily find out if you are being overcharged, especially if you are seeing some of those additional fees we mentioned above.

$$\text{Effective Rate} = \frac{\text{Total Fees}}{\text{Total Processed}}$$

(Processing Rate, Monthly Fees, Per Transaction Fees, Interchange, PCI Compliance Fees, Merchant Fees)



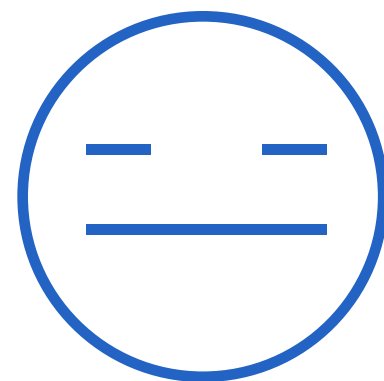
So how do you find out what your effective rate is? It's easy! Grab your most recent giving statement and add up all of the fees—this includes monthly fees, interchange fees, security fees, processing fees, merchant account fees, and any other fees you were charged. Now divide that number by the gross amount of all of your donations on that statement. Boom. There's your effective rate!

## WHAT CONSTITUTES A GOOD RATE?

So you've done the math. Now what? How does your rate stack up?



**Bad**  
4% and higher



**Not Good**  
3–4%

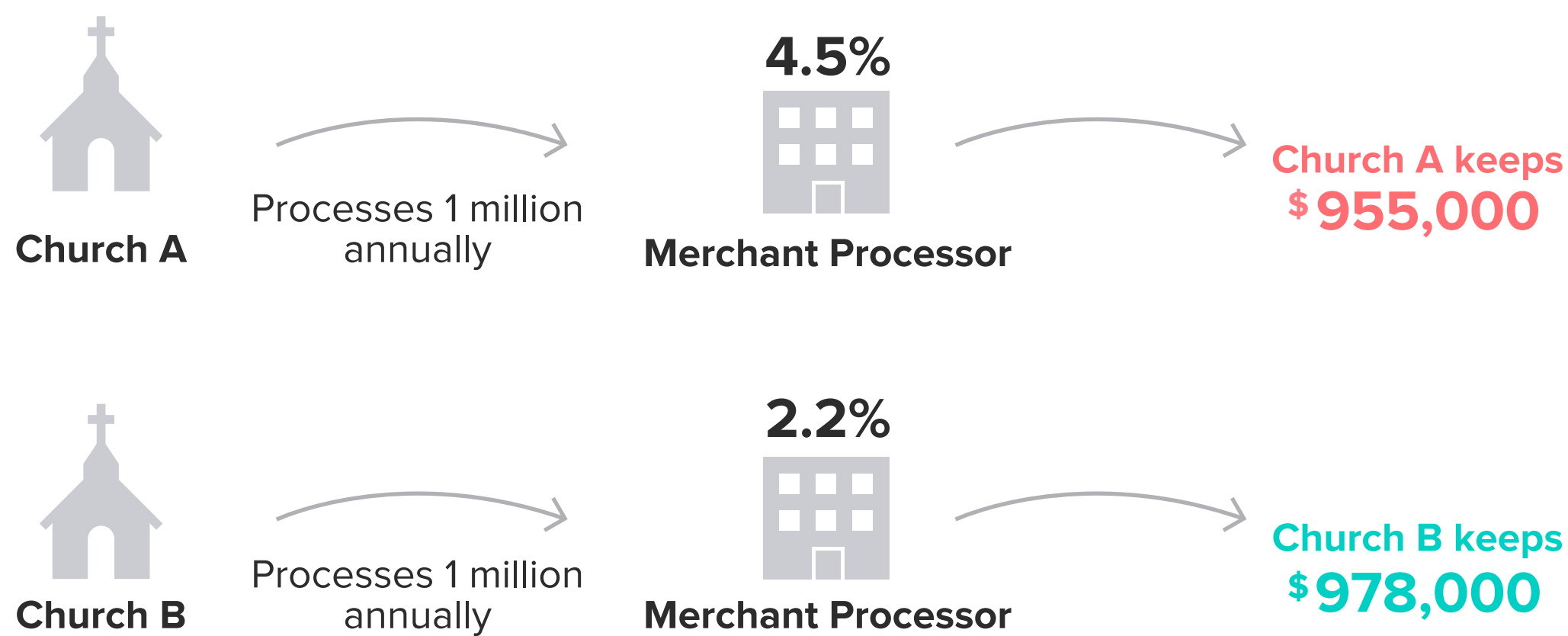


**Great**  
2–3%

To put it plainly, anything above 4% is *really* bad. If you find yourself paying this much, you could be doing much better. Call your giving provider and ask what they can do for you. [We have a list of questions you can ask.](#) If you're shopping for a provider and you get quoted an effective rate of 4% or higher, run away! Your ministry could save tens of thousands of dollars by simply using another solution. If your effective rate is between 3-4%, it's still not good; you have a lot of room for improvement. Give your provider a call and negotiate a better rate. And if you are between 2-3%, you are in great shape! This is the range every church should be falling into, whether you have a monthly budget of \$1,000 or \$100,000.

The gap between these numbers may seem negligible at first glance, however, there is a huge difference. Let's compare two churches that process the same amount of money each year but have different effective rates.

In this example, we'll say that "Church A" processes \$1 million each year with an effective rate of 4.5%, and "Church B" also processes \$1 million each year, but with an effective rate of 2.2%. Here are the numbers:



As you can see, there is a massive difference between these rates. In this scenario, **Church B is saving \$23,000 every year!** That's enough money to add a part-time staff member, fund a building renovation, support multiple missionaries, start new programs in your community, and the list goes on.

Simply put, a low effective rate means that your ministry gets to keep more of your donations. If you are shopping for a merchant services provider, or want to shop for a new one after finding your effective rate, we've compiled some additional information in the next section including questions to ask merchant services providers, red flags to look for, current interchange rates, and a glossary of terms commonly used in the payment industry.

PART 3

# How you can get the best rate

# How you can get the best effective rate

## ASK QUESTIONS

Talk to your merchant services provider and ask them these key questions:

- Will our church be charged any fees in addition to your processing rates?
- Will we be getting the discounted interchange rates for charitable donations?
- Do you process payments for event registration and other purchased goods with the same rates that you process donations? (Donations should be processed with lower rates than purchases)
- If John donates \$100 to our church with his card, how much will end up in our bank account after all of the fees are taken out?
- Assuming an equal mix of debit, credit, and ACH, if we process \$10,000 a month how much will end up in our bank account each month after all fees are taken out/paid?

## LOOK FOR RED FLAGS

These are things you should watch out for:

- No clarity about the effective rate
- An effective rate above 3%
- The merchant services provider is not giving your church discounted interchange rates
- No volume-based discounts

## LEARN ABOUT INTERCHANGE RATES

Want to know what the interchange rate is for every card on the market? Find out here! We've included links directly to Visa and Mastercard's published USA and Canada rates so you can verify their legitimacy.

## **UNITED STATES**

### **Visa**

[Visa USA Interchange Rates](#)

### **Mastercard**

[Mastercard USA Interchange Rates](#)

### **Discover and American Express**

Unfortunately, Discover and American Express do not publish their rates to the public. This is because Discover and American Express technically do not have interchange as they are the issuer and acquirer in a closed system. However, you can search Google to find affiliates who have published their Discover and/or American Express merchant rates for a ballpark figure.

## **CANADA**

### **Visa**

[Visa Canada Interchange Rates](#)

### **Mastercard**

[Mastercard Canada Interchange Rates](#)



# Glossary of Terms

## **ACH**

Automated Clearing House. A regional organization used by member banks (and credit unions) to transfer funds using an electronic network for financial transactions in the United States. ACH payments are connected directly to the customer or donor's checking account and typically have much lower fees than credit or debit card payments due to the significantly lower costs associated with a checking account program.

## **Credit or Debit Card Issuer**

The bank or credit union which issues a card that is co-branded with a Visa or Mastercard logo. The bank pays a fee to be a part of the Visa or Mastercard network. For example, a small credit union can issue a Visa debit card or Wells Fargo can issue a Mastercard credit card. Visa and Mastercard do not issue their own cards and only co-brand with a bank. Discover and American Express are their own card issuers and very rarely, if ever, co-brand with a bank.

## **Credit Card Network**

The network(s) set up by the four major credit card companies Visa, Mastercard, Discover, and American Express. The network(s) handle worldwide processing of credit and debit card transactions, acting as the gateway between merchants and credit card companies for authorizing and processing each transaction as well as setting the terms of those transactions (i.e. interchange fees, rewards, consumer fraud protection, etc.).

## **Effective Rate (True Effective Rate)**

The true cost for a church or organization's merchant processing. The effective rate is found by adding up all fees related to giving and dividing by the monthly gross amount.

**Interchange**

The base cost of accepting a card payment. These fees are set by credit card networks. The majority of this fee is paid to the issuing bank (donor's bank) by the acquiring bank to cover the issuing bank's costs. The fee is typically a small percentage of the transactions and a set per transaction cost.

Interchange varies according to type of card, type of accepting merchant, type of transaction, and other related factors.

**Merchant**

Any person or organization that accepts payments either from the sale of goods or from donations. For charitable giving, the merchant is a church or other non-profit organization. A merchant will have a Merchant Account with a Merchant Services Provider.

**Merchant Services Provider**

A company which facilitates moving payments from donors to the merchant's bank account.

**Other fees**

Varying by acquirer and outlined in the merchant agreement, these fees can include a monthly minimum fee, statements fees, security fees, a batch fee, authorization fees, annual fees, etc. All of these fees are part of the true effective rate.

**Payment Facilitator**

A merchant services provider that simplifies the merchant account enrollment process.

**Payment Gateway**

A PCI-compliant service that stores cardholder data for automated recurring payments or subsequent payments.

**Processing Rate**

The fees a Merchant Services Provider charges their clients for processing transactions. These fees vary widely in structure, but usually include one or more of the following: Interchange, Plus (a markup above interchange), Tiered pricing, per item fees, downgrade fees, etc.

**Settlement (Transfer)**

The deposit (or transfer) from the merchant services provider into the merchant's bank accounts, minus any applicable fees.

**Transaction**

A payment for goods, services, or charitable giving where funds are debited from a customer (donor) account and credited to a merchant.

Congratulations! You are fully prepared to save your church as much money as possible.

Being a good steward of your church's resources may require you to dig a little deeper into this complicated territory of donation processing, but it's worth it! A low effective rate can save you thousands of dollars each year—money that can be used to increase your budget.

If you'd like to make this process even easier, you can contact Subsplash today for a free analysis of your latest giving statement. No sales pitch, no fluff, just a quick, easy consultation to help your church save money. Drop us a line at 206-965-8090 or [hello@subsplash.com](mailto:hello@subsplash.com) and we will be in touch!

**CONTACT US**