

Guidelines for Accepting Credit Cards as a Form of Payment for Education, Registration and Other Fees

Background

Over the past few years, the use of credit cards as a payment option for purchasing goods and services has increased in popularity, primarily due to the automation of point-of-sale applications and the advent of Reward Programs offered by credit card issuers. For many enterprises, credit cards are accepted as a form of payment with the intention of increasing sales. For the University of California, however, the decision to accept credit cards for Education, Registration and other fees is not driven by the desire to increase sales, but rather to provide a convenient method for parents and students to pay for these types of expenses.

The primary reason the University of California has not historically encouraged credit card acceptance in this area is the cost of accepting credit cards for payment, which, for UC, can range from .40% - 2.7% of the charged amount depending on the type of card used and how the card information is captured at the point of sale. University areas that have flexibility to determine pricing of their goods or services, such as Housing, Dining, Bookstores, Extension and Athletics, are able to factor the cost of credit card acceptance into their pricing. However, other types of costs such as Registration and Education Fees do not have similar flexibility in pricing as these fees are set by The Regents. Due to current budget constraints and the increasing requests from our constituents, many areas within the University of California are struggling with the economics of accepting credit cards. Despite rules with most credit card companies that expressly prohibit “surcharges” for payment by credit card, “convenience fees” are allowed, under particular circumstances, to compensate for the cost of providing an easy method to make payment. Specific rules govern how convenience fees are assessed, and these types of fees are becoming more common in the government and educational arenas.

These guidelines outline factors to be considered in the decision to accept credit cards as a form of payment. They also offer guidelines on when it is appropriate to charge additional fees to offset the cost of credit card acceptance, and how this can be accomplished under current credit card regulations.

Guidelines for Accepting Credit Cards

While many departments and units within the University of California already accept credit cards, these guidelines outline business decisions that should factor into the decision to start or continue accepting credit cards as a form of payment.

1. Departments should consider whether accepting credit cards provides benefits, quantifiable or qualitative, that help justify the additional cost. Common benefits include:
 - Assured payment (once a transaction is properly authorized there is little risk of return other than the chargeback rights of the cardholder.)
 - Automation of payment collection (assuming the department makes necessary investments in technology to implement systems and processes that replace manual ones)
 - Customer service convenience, especially when payment over the web or telephone are offered.
2. If a department chooses to accept credit cards, it must be able to comply with all credit card rules and regulations as well as the terms specified in UC's contracts and service agreements with its vendors.
3. Departments should consider the appropriateness of increasing prices versus charging a surcharge or convenience fee, as charging additional fees tends to discourage usage of credit cards and raises sensitivity to fees in general.
4. If departments decide not to accept credit cards as a form of payment, they should consider "educating" their customers as to why this is the case (e.g. additional cost would take away from academic programs or other services, department is focusing resources on other priorities, etc.).

Guidelines for Assessing Convenience Fees

If a department decides to accept credit cards as a form of payment, and wants to assess additional fees to the cardholders, the following guidelines reflect the current rules of credit card companies that must be followed. For the purposes of these guidelines, the policy for assessing a "convenience fee" for the use of convenient internet or telephone technology should be determined at the **merchant** level. Terms in **bold** are explained in further detail in the Definitions section of this document.

1. Visa, Mastercard and America Express prohibit charging a "**surcharge**" for use of a credit card.

2. Only one card company, Discover Financial Services, allows assessment of a **surcharge** for payment using their card. This program is available only to government entities and Universities, and is only applicable when Discover is the only card accepted. The surcharge can be assessed on “**traditional**” payment channels such as face-to-face, mail, or person-to-person telephone interaction as well as “**convenient**” payment channels. The amount of the surcharge is negotiated by UC and Discover card based on a number of factors including the average ticket sale for the merchant.
3. While Visa, MasterCard, American Express, and Discover prohibit surcharges (with the Discover exception noted above), all allow the assessment of a “**convenience fee**” to cover the costs of providing an automated payment channel, such as Interactive Voice Response (IVR), kiosk-based interfaces or the Internet.
4. For Visa and Mastercard, **Convenience fees** charged for web, kiosk or IVR payment channels must be charged uniformly to any payment type accepted via that payment channel. In other words, even though the cost for ACH payments is much less than for credit card payments, and different credit card companies charge different rates, the same **convenience fee** must be charged for any web, kiosk or IVR transaction, regardless of the payment type used. American Express and Discover do allow assessment of a convenience fee for credit card payments over convenient channels, even if there is no fee, or a different fee charged for ACH payments taken over the same channel.
5. American Express allows assessment of convenience fees for mandatory enrollment fees or room and board only.
6. If Visa is among the cards accepted and a **convenience fee** is charged, the fee must be a **flat** and reasonable amount, regardless of the amount charged.
7. Visa requires that the **convenience fee** be included in the total amount of the transaction charged to the cardholder.
8. All cards require that the convenience fee be disclosed prior to completion of the transaction, and that the cardholder is given an opportunity to cancel the transaction if desired.
9. **Variable rate convenience fees** for all types of credit cards (except as prohibited by VISA) should be reasonable, and should not generate a profit.
10. Utilizing a third-party to accept credit card payments over the web or IVR is permissible, however such services must be approved by the Office of the President Banking Services Group.

11. All third-party providers must comply with these UC Guidelines.

Definitions (in logical, not alphabetical order)

Merchant – an entity accepting credit cards as a form of payment. A merchant identification number (referred to as a MID) must be established by the acquiring bank (also referred to as the merchant bank) before credit card processing can commence. For accounting and control reasons, merchant set-ups can only be established by the assigned Credit Card Coordinator at each campus. Terminal identification numbers (TID) must also be established for each merchant as the mechanism to initiate credit card transactions. TID's must be established even if software is being used to initiate the transactions.

Discount Fees – the fees paid by the merchant (UC) accepting a credit/debit card for payment. For Visa and Mastercard, the largest component of the discount fee is **interchange**, which is charged by the Visa or Mastercard Associations. Interchange fees are paid to the bank that issued the credit card (our customer's bank), even though those fees are collected by the acquiring/merchant bank (our bank used for our credit card processing). Interchange rates that apply to UC transactions range from 0.893%+\$0.417 to 2.855%+\$0.265 for Visa and Mastercard transactions, depending on the card type (e.g. debit, credit, corporate, or international) used and how the card is processed at the point of sale. ATM Debit Networks also charge interchange rates, but those fees are considerably lower than credit card interchange rates, ranging from 0.40%+\$0.37 to 0.65%+\$0.3625. ATM Debit network transactions require input of the cardholder PIN at the point of sale and have a maximum fee of between \$0.56 to \$0.8875 depending on the network. The rate structure for credit card transactions is extremely complex, with many factors determining what we pay for the transaction. Some factors are controllable, such as proper and timely processing of transactions at the point of sale. But other factors, such as the card types used by our customers and the interchange rates charged by the credit card companies, are not negotiable or controllable by us as merchants. Certain fees are negotiated by the Office of the President, leveraging the system-wide volumes of the University of California. Discover Card's discount/merchant fee for UC is 1.65% per transaction. American Express' discount/merchant fee is 2.20% . These independent card companies collect their fees from us directly (i.e. not through the merchant/acquiring bank).

Bank Card – a Visa or Mastercard charge card issued by a bank that is a member of the Visa or Mastercard Association. Visa and Mastercard each issue credit cards (drawn on a revolving line of credit) and **debit cards** (drawn on a bank account balance).

American Express and Discover Cards – charge cards issued by those companies directly to the cardholder. Other independent charge cards accepted by some UC merchants are Diners/Carte Blanche and JCB. These companies issue credit cards (drawn on a revolving line of credit) only.

Debit card – a card issued by a bank to a checking or savings account holder to access funds in their bank account. Most cards today are issued with either a Visa or Mastercard affiliation as well as various debit network affiliations. When used at an ATM machine or a point-of-sale (POS) device at a merchant, where the cardholder inputs their PIN number, the transactions are processed through an ATM debit network (affiliations are printed on the back of the card). ATM debit transactions are subject to the issuing bank's ATM fees which are paid by the card holder. A UC merchant accepting a card this way pays between 0.40%+\$0.37 and 0.65%+\$0.3625 per transaction, with a maximum fee of up to \$0.8875 depending on the ATM debit network used to process the transaction. When a debit card is used without entry of a PIN (i.e. signature based transaction), including transactions initiated over the internet, the transactions are routed through the Visa or Mastercard network and are subject to interchange rates ranging from 0.893%+\$0.417 to 1.735%+\$0.325 of the purchase amount.

Payment Channel – way that a payment is received. Mail (including drop boxes), in-person/over-the-counter, and telephone (interaction with a live person) are **traditional** payment channels. Interactive voice response (IVR), internet/web, and kiosks are “**convenient**” automated payment channels.

Payment Type – cash, check, Automated Clearing House (ACH) debit (sometimes referred to as electronic check), ATM debit card (PIN-based), credit card, or Visa/Mastercard debit card (signature based).

Credit Card Surcharge – a fee charged to the card holder for paying with a credit card, whether charged separately or reflected in a higher price, that is not charged to someone paying via another payment type such as cash or check.

Convenience Fee – a fee charged for the convenience of paying via an automated payment channel. In practice, convenience fees are charged for internet, self-service kiosks or Interactive Voice Response (IVR) payment channels. Visa only allows **flat**, “reasonable” convenience fees. Mastercard, Discover and American Express allow **variable rate** convenience fees, however American Express only allows convenience fees for mandatory enrollment fees or room and board. If a convenience fee is assessed for payments taken via the internet, kiosk or IVR, the Visa and Mastercard rules require that the fee must be assessed on all payment types accepted via that channel. In other words, the convenience fee must be the same for all credit card payments, regardless of card-type, as well as ACH payments taken through that payment channel. American Express and Discover allow assessment of convenience

fees for credit card payments only, even if ACH transactions are taken over the same payment channel.

Flat fee – a flat dollar amount charged, regardless of payment amount

Variable rate fee – a fee that varies based on the amount paid. May be percentage based or tiered.