

Credit Card Processing

Payment Made Easier



Buyers Guide for Credit Card Processing

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A Brief Introduction To Credit Card Processing

Any company doing business in today's technology-driven society can easily understand the value of credit card processing and its importance in offering customers a multitude of payment options. No matter what kind of love/hate relationship people have with their credit cards, their rate of use increases every year. And as a result of the ability to shop online, online credit card processing is more significant than it has ever been for businesses of any size.

Moreover, while some online vendors and service providers could not operate without the ability to process credit cards, others question the need for such a service.

Navigating through the ins and outs of credit card processing services can be confusing. This guide will walk you through the process and also provide you with some of the terminology that will make it easier for you to communicate effectively with credit card processing vendors. This guide will also assist you in figuring out the best methods to employ in choosing credit card merchant services as well as the rates you might expect to pay, the best way to negotiate with providers and some pitfalls to avoid during the process.

Benefits of Credit Card Processing

No matter what size your business may be or the industry in which you operate, there are a number of positive aspects to being able to accept credit cards as a form of payment. In addition to giving your customers or clients another payment option, you also introduce your business to a new segment of clientele – always a good thing!

Moreover, paying with credit cards into today's virtual, cashless society helps you ensure timely, guaranteed payment that can be transferred into your account with little to no effort on your part. You can also offer customers various incentives for paying with credit cards, including prepaid programs and special gift card offers. Many credit card companies will offer their own incentives, a powerful duo when combined with your product/service offers.

What /Who are your choices for credit card processors?

When choosing credit card merchant account services, there are a number of options from which to choose. Here are a few to consider:

Independent Sales Organizations (ISO): ISO services are organizations that represent banks. Each ISO acts as a "middle man" and will have an agreement with a bank to sell services to them. ISO services are usually allowed to mark up fees when they sign up merchants, which is how they make a profit--ISO services are very popular and are widely used.

Your bank: You can use the bank in which you do regular business as a potential merchant account provider. Keep in mind that most banks do not do this type of processing themselves, but are able to farm it out to a third party entity. In fact, in many cases, your bank may offer merchant account services in conjunction with a business account package. When you approach a bank to do general business services, ask if this service is included when opening your account. You may wish to consider a registered credit card broker since they are typically less expensive and provide expertise in that important area of your business (see below).

Credit card associations: Each brand, Visa, MasterCard, Discover and American Express handles credit card merchant account services differently. For example, Visa, MasterCard and Discover will require you to have an established account through another intermediary organization before offering you credit card processing for your business. Conversely, American Express will work with you directly to set up an account. However, this may be a viable option for a major business (monthly volumes in excess of 250 million) looking to establish a processing relationship.

International merchant account company: Also known as an offshore merchant account, this may be the riskiest option. Most businesses that opt to have credit card processing done through an international merchant account provider are usually those with little or poor credit history, odd location, business type or another reason that doesn't allow them access to companies located in the United States. Keep in mind that most of these companies are not regulated in the same manner as those in the United States, making them a risky investment for your merchant account provider choice.

Registered credit card broker: These also are known as independent sales organizations and usually represent several ISO processors at any given time. Similar to banks, they do not actually process the transactions themselves, but set up accounts with those that do. These are usually more specialized expensive services and offer the smaller merchant an advocate which larger merchants are accustomed. All organizations are required to be registered with VISA and MasterCard which are sponsored by ISOs. This may be a viable option for the small to mid size merchant that wants personalized service.

How to Choose a Service Provider

1. Understand all fees: This is important because the last thing you want is for a company to bill you later with fees you never even knew you owed.
2. Compare companies, based on the fees they charge as well as their record of accomplishment in dealing with businesses similar to yours. Evaluate companies' rates as well as various terms and rules that may apply to your account. Look for companies that specialize in businesses like yours, not only in category, but also in sales volume, etc.
3. Ask how long it will take you to receive the funds. Depending on the company, the time it takes to transfer funds into your account may vary the industry standard is two business days. American Express has terms to deliver funds from 2 days to as long as 30 days.
4. Review the agreement and insure that you understand all the terms and conditions. Some companies sign contracts that are not to their benefit because they didn't ask questions about terms they didn't understand. Have your lawyer review before you sign on the dotted line if you are uncertain.
5. Price should be just one of the factors you use when deciding which provider to use. Customer service also is an important part of choosing credit card merchant services since you will be contacting them frequently, especially in the beginning.

Moreover, any problems you run into with processing may need to be dealt with quickly; otherwise, you may risk losing sales. The last thing you want is to lose money as a result of credit card processing. Become familiar with the company you are dealing with and get names and specific contact numbers as often as possible. Having names and numbers will offer you some options, in terms of customer service as well as the accessibility of the company's representatives.

Don't be afraid to get references from other companies that have used your same provider. Referrals will help you ensure that you are dealing with a reputable company that puts an emphasis on customer care. Find out what the wait time is to get to a customer service representative (on average).

Find out what their hours are – 24 hrs., 7 days per week is preferable – how much they charge for each incident, the level of knowledge of their representatives, and so on. Also, if you engage in a number of card-absent transactions, find out if your provider offers the option to encrypt credit card information – commonly known as Secure Sockets Layer (SSL) protocol, the defacto means for transmitting data privately and securely over the Internet. This is an important feature for an online credit card processing company.

Always check a provider's rating with the Better Business Bureau and taking any complaints made against it seriously. In fact, feel free to question the provider on any disputes you uncover and if you are unsatisfied with the answer, keep shopping around.

Is your Company A High Credit Risk?

There are some types of businesses that are riskier than others, depending on your credit history and the type of your business. If there is a high potential for fraud among the clientele you serve (think online adult sites), then your business is considered higher risk than, for example, a clothing boutique. A sound Internet credit card processing company will know how to handle this type of situation. Additionally, if your type of business has a high rate of dissatisfaction among your customers, then you also are considered high risk. Companies also will look at the length of time you have been in business as well as your chargeback history. If you have a low percentage of chargebacks and have been in business for some time, they will assume you know what to look for in terms of fraud.

Credit card fraud is the highest type of risk and occurs when cards are stolen and used – which occurs in a great deal of credit card online processing. Additionally, companies that rely heavily on customer satisfaction, such as those that offer a money-back guarantee, also are considered high risk because they have a heavy volume of chargebacks, which is exactly what your merchant account provider does not want. Again, particularly for Internet companies and those that have an ecommerce merchant account, a good Internet credit card processing agency can help you put deterrents in place for this kind of activity.

In these instances, your fees may be higher and you may be expected to build up a reserve of some sort with the specific company you've hired to do your credit card processing. The amount required to have in your reserve may vary, but it is the price you will have to pay to offer credit card processing.

Merchant Service Definitions

Here are some general merchant account terms and definitions to help you understand the terminology for the industry. As with anything, merchant account providers often use a standard set of terms to describe various features or components of their service and you may find yourself agreeing to something when you had no idea what the terminology meant. Here are some of the more common terms used when talking about credit card processing services:

Terms	Definition
Cardholder	This is your customer, the person whose name is on the credit card she uses to pay for a product or service.
Issuing bank	This is the bank that has issued the card to the customer.
Merchant account holder	This is you. You are the person that has signed up for the merchant account, who wants to accept credit cards, and the one directly responsible for it.
Credit card processing specialist or processing company	This is the company you have retained to handle your credit card processing needs.
Chargebacks	This is what happens when a customer asks for his money back from a service or product provider.
Chargeback fees	These are the fees charged by the processor to cover the costs associated with processing a chargeback.
Pass-through fee	This is not a good thing, as this is the fee that you are charged when a transaction you process failed to meet a certain set of requirements, such as neglecting to verify certain information. You should choose a company that charges minimally for these types of fees.
Contingent liability	This is when the satisfaction of the customer dictates the business' ability to perform a certain set of actions.
Magnetic and non-magnetic transactions	A magnetic transaction occurs when the card is swiped through a point-of-sale (POS) credit card machine. Non-magnetic are those transactions that occur over the Internet or on the phone; cards are not present. Rates are higher for non-magnetic transactions because the risk of fraud is much greater.
Net settlement	This is what is transferred into your ISO account once a sale has been completely. The money you receive is minus whatever fees you pay per

	transaction to the merchant account company.
Gross Settlement	This is the total transaction amount. Fees for processing are deducted at the end of the cycle, typically monthly.
Reserves	This is what is required for accounts that are high-risk in nature, usually businesses that have a poor credit history or have had relationships with merchant accounts before that have soured. This is a charge that takes into account the risk associated with taking you on as a customer and usually withholds a certain percentage of the funds for each transaction you process for a pre-determined amount of time. They are held in escrow to deal with an influx of chargebacks and usually don't span the length of an account that remains in good standing for a certain amount of time. A credit card processing provider will investigate whether you are operating a legitimate business. The company wants to ensure that you are financially stable - it doesn't want to become responsible for any fraudulent or unpaid debts.

Qualifying for a Merchant Account

All credit card processing companies start with a background check and has become a requirement since 9-11 known as "Know your customer." It is a set of rules to help prevent money laundering. In addition to a thorough credit check, many organizations require several credit references – usually from your product suppliers – to vouch for your good name. Merchant account providers also want to ensure that you aren't going to be subject to a great deal of chargebacks, which is where sales are reversed for some reason, usually the result of fraud or an error on the customer's ISO. This is less likely to occur in businesses that deal with products versus services.

Keep in mind that if you have ever had credit card merchant account services for your business before, your new provider will want a reference from your previous vendor company and the opportunity to take a look at any of your past statements to assess your charge history as well as the number of chargebacks on your account.

While this process may be tense, being a high-risk customer will not automatically disqualify you from getting a new merchant account. The price you may have to pay, however, is a higher cost, either in general or per transaction. Many small-business merchant account providers will advertise a high acceptance rate – in some instances boasting a rate as high as 99 percent.

But do not be fooled. Instead of focusing on those numbers, look instead for a company that is interested in helping you address any specific problems with your credit and one that has a record of accomplishment in assisting companies in your situation. The companies that can help you reduce your risk, may also offer the best terms.

Costs

The cost involved with credit card merchant account services is an important consideration. After all, not only do you need to retain a service to process the payments and pay what their applicable fees may be, but you also need the equipment with which to do the actual credit card processing.

Equipment

The credit card terminal itself is the biggest up-front investment you will make. This is the machine that you and I use when we swipe our credit or debit card at check out. For the most basic models, you can expect to pay between \$150-\$700. Wireless terminals may run from \$500-\$1000, and in some instances even higher, depending on how sophisticated the machine is. Many businesses simply lease a machine, which can cost as little as \$20 a month. The cost depends on how elaborate the machine is and how the different features work. If you plan to incorporate credit card processing into your business long-term, you may want to go ahead and make the initial investment in a machine. If you are simply going to try it out and see how it goes, then lease a machine at first and once you determine you want to accept credit cards permanently, then go ahead and make the purchase.

In some instances, you can get a terminal as part of your package when setting up a merchant account. Purchasing the terminal as part of a package may save you money versus buying a separate machine. However, you also may use your computer to conduct credit card processing online and verify transactions with a virtual terminal program and a sound Internet credit card processing company.

You also can verify information over the phone with your customer and process the card manually, though this tends to take more time than an electronic terminal. In addition, you run the risk of verifying the funds at the moment of the sale, but when you actually have your company process the charge, those same funds are no longer available.

Additional Fees

The other major price you will pay for using a merchant account provider is the discount fee. This is the percentage of money that each provider may charge you for every customer transaction. The card associations (Visa MasterCard Discover and American Express) determine the majority of the fees that you will incur and the processors will determine what your total costs based on the risk they are taking with your company. They will consider your credit history and the amount of the charge and the type of transaction you are processing. In addition, many credit card processors have two rates: one for transactions in which the card is absent (think Internet purchases) and one where the card is present and the transaction is immediate.

This is where the process gets tricky, because some providers will charge fees in addition to the discount fee. There can sometimes be a non-refundable application fee, which can be in excess of \$200-\$300. Other companies charge an activation fee of some sort and still others charge a set-up fee.

Get all fees and charges in writing and be wary of agreements that require a bunch of exorbitant fees up front. Everything from customer service fees to programming costs and more can be slipped into your contract. Instead, keep shopping around until you find a reputable company that is willing to work with you at a price you feel is fair.

Finding and signing with a reputable merchant account provider should be a priority. You may have to agree to a higher transaction fee, but it's worth it to go with a company you can trust.

Most merchant account providers charge a discount rate between 1.5 and 2 percent for transactions in which the credit card is present. For those transactions where the card is not physically present (credit cards used online), the discount rate can fall between 2.2 and 3 percent. Some companies require a monthly minimum, usually around \$20.