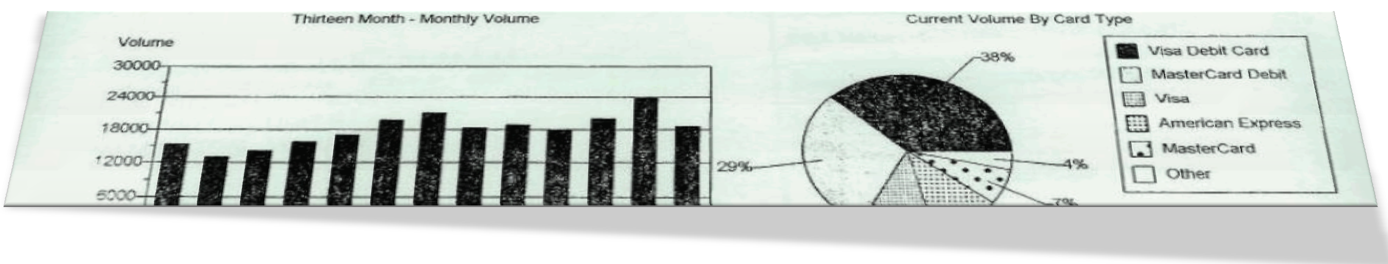
Fee Sweep



The Credit Card Processing Guidebook

How to Get the Merchant Services You Need Without Getting Scammed

By

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About this Guide

If you got “Fee Sweep” for free, please follow CardPaymentOptions.com on Facebook, Twitter, or Google+. A great deal of time and effort has been put into writing and updating this ebook and I would really appreciate your support in one or more of the online social communities. If you are reading this on your computer, you can click (or copy & paste) the following links to get to there:

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If you have a paper copy, simply visit the homepage of CardPaymentOptions.com to find links to these pages or subscribe by email and RSS. One benefit of following these pages is that we will announce when “Fee Sweep” is updated with important information as well as other industry news that can affect your bottom line.

This ebook has been written to intentionally take you through a process of understanding the subject of credit card processing by building on concepts in a simple, easy-to-grasp, and systematic method. For this reason, I recommend that you read it from start to finish. If you have any feedback or didn’t find the information you were looking for, I welcome your emails at info@cardpaymentoptions.com.

My name is Phillip Parker and I sold merchant accounts and credit card processing services as an Independent Sales Agent (ISA) for nearly a decade. As an ISA, I could sell the services of any provider with which I had a commission agreement. I will leave out the names of the companies to avoid implying accidental bias, but I sold the credit card processing services of both small Independent Sales Organizations (ISOs) and large direct processors.

Upon entering merchant services industry, it did not take long before I began hearing horror stories from business owners about the poor treatment they had received from a previous credit card processing company. Not only had many experienced bad customer service, but most had lost thousands of dollars in excessive fees. During my time as an ISA, I saw hundreds of merchant account statements from different credit card processors. The common theme among them was that most businesses were grossly overpaying for credit card processing services. Many were desperate to switch providers but were faced with paying outrageous early termination fees if they cancelled before their contracts expired. Unfortunately, this is still the scenario for the majority of card accepting businesses today.

Most business owners are completely unaware of how credit card processing rates and fees are calculated and assessed. First time business owners often get the worst deals because they are usually oblivious to the risks associated with credit card processing. Even seasoned merchants often find themselves clueless on how to get a good deal and often wonder why their current provider is just as expensive as their last though the new processor quoted lower rates and fees.

The credit card processing industry is largely unregulated. There are hardly any formal standards imposed on how rates and fees must be quoted to merchants, which types of fees are permissible to charge merchants, and what the fees must be named. For the most part, the standards that are put in place come from within the industry itself by organizations that are profit driven and accountable to shareholders who demand constant growth in revenue.

I left the merchant services industry to pursue an opportunity in a different field but felt compelled to write this ebook to help guide merchants through the credit card processing minefield. In the following pages you will gain knowledge that can literally save you thousands of dollars in fees. “Part 1” will give you the knowledge needed to get the lowest rates and fees possible, “Part 2” will tell you how to pick a provider, and “Part 3” will give you a step-by-step guide for setting up your merchant account. Included on the last page of this guide is a cost comparison worksheet to help you keep track of the rates, fees, and final costs of each processor that provides you a quote. Now continue on and prepare to save!

Part 1 – An Introduction to Merchant Services and What You Need to Know

This section is largely informational, but absolutely essential if you wish to avoid getting "scammed" into high fees and a costly multi-year contract.

What is a Merchant Account?

Put simply, a merchant account is a line of credit account that allows a business to accept card payments from its customers. Similar to how a checking account allows you to deposit another person's check into your checking account, a merchant account allows you to accept a card payment from a customer. Unlike a checking account, a merchant account doesn't hold money. Instead, a card payment passes through the merchant account and is deposited into a checking account after the funds have been cleared through the merchant account. From the time of the sale, a card transaction is deposited into a merchant's checking account usually within 48 hours. Instead of getting several deposits for each transaction, all the card payments from a single business day are grouped together into one deposit called a "batch."

An interesting fact about the credit card processing industry is that VISA, MasterCard and Discover do not directly provide merchant accounts to businesses. Instead, they rely on banks, Independent Sales Organizations (ISOs), financial service providers and independent agents to supply the accounts. American Express is different from the other three because it provides its own merchant accounts directly and does not use any third party sales organizations. If you wish to accept American Express Cards, you must set up a separate American Express merchant account. Discover Card acceptance can be set up with a VISA and MasterCard provider. Despite all this, the different card types can be transacted through the same payment equipment and payment gateways.

In order for a third party sales organization to legally supply VISA and Discover credit card processing services to businesses, it must be registered as an "Independent Sales Organization" (ISO) and backed by an FDIC insured bank (AKA: Acquiring Bank), or be a sub-ISO of a registered ISO. The same holds true with MasterCard except the certification is called a "MasterCard Service Provider" (MSP). American Express does not use third party resellers so it has no such certification.

Banks consider merchant accounts as a line of credit account because the business gets paid before any actual money is collected from the customer. This means that you may be required to undergo a personal credit check, sign a personal guaranty and supply financial data to get approved with some providers. If you have a well established business you can often bypass the personal credit check and guaranty by supplying additional documentation about the business. Most providers also require a copy of the business license, incorporation papers, and/or other financial documents during the underwriting process. Once approved, a business will have restrictions on the maximum dollar amount allowed in a single transaction and for a single day. However, business owners can request increases to their transaction limits on a case by case basis, and permanently once a history has been established.

"Pitfall" Isn't Just an Atari Game

The credit card processing industry is complicated, confusing and can attract organizations and agents that practice deceptive sales tactics in the name of big profits. As mentioned earlier, there is very little regulation on what providers and agents must disclose to you during the merchant account setup process. There is even less regulation on how providers must quote rates and fees, which is the reason this industry is notorious for "hidden fees." There is almost no uniformity in how different providers package their processing rates and what they name the fees that are incurred by merchants. It is nearly impossible to accurately compare the costs between providers because the quotes that merchants receive are almost never uniform from one provider to the next.

During the signup process, nearly all providers intentionally fail to disclose each and every fee that you will experience once your account is active. Instead, most of the fees are buried in the fine print of a long and incomprehensible contract. Because of this, most business owners end up experiencing processing rates that are nearly two times what the agent verbally quoted. Many find that their agent also failed to mention a three to five year service agreement with an expensive early cancellation penalty, only to learn about it when they try to cancel service. Very often this fee is only mentioned in a single sentence of a 30,000+ word document that the merchant was ushered into signing as quickly as possible. In a world where everything seems to come with a lengthy agreement to which we must consent, it's not surprising that most business owners don't suspect that their merchant account agreement may contain insidious clauses that will come back to haunt them later.

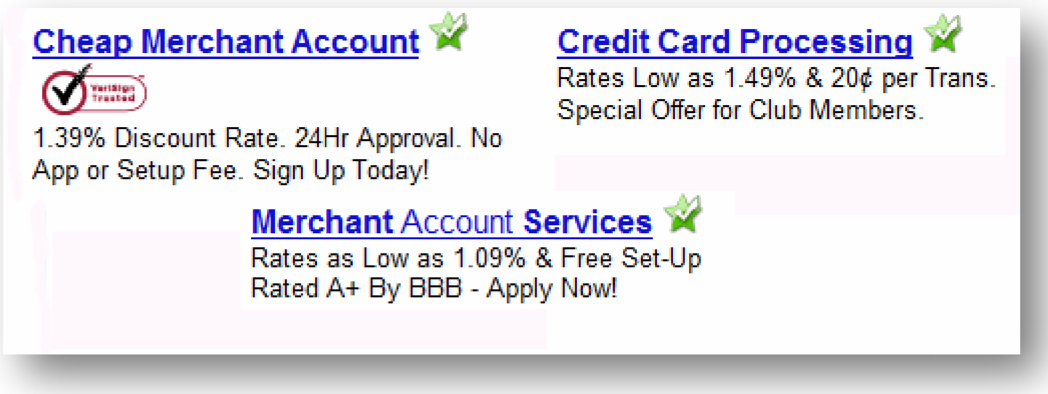
Unfortunately, there are many unethical sales organizations and agents that take advantage of this naiveté and regularly dupe merchants into expensive and long-term contracts. It's even more common for a rookie agent to inadvertently sign up businesses for outrageously expensive accounts because they had no more knowledge about what was in the contract than the business owner did. This is often because they are poorly trained and intentionally focused on high commission sales, which means high pricing for you.

The following pages of this guide will arm you with knowledge you need in your merchant account search. The information provided in the follow sections will put the power on your side and strip away the chances of getting "scammed" into an overpriced merchant account with a long-term service agreement. To make it an easy read, I have included only the details that will matter to business owners. This is meant to be a simple "how-to" guide, not a textbook on the credit card processing industry.

The $100 Dilemma

Merchant account quotes often look something like this: "Only 1.5% + $0.15/per transaction" or "2% + $0.25 per transaction for e-commerce." Below are some advertising examples found during a quick Google search:

Rate Quote Advertising Examples



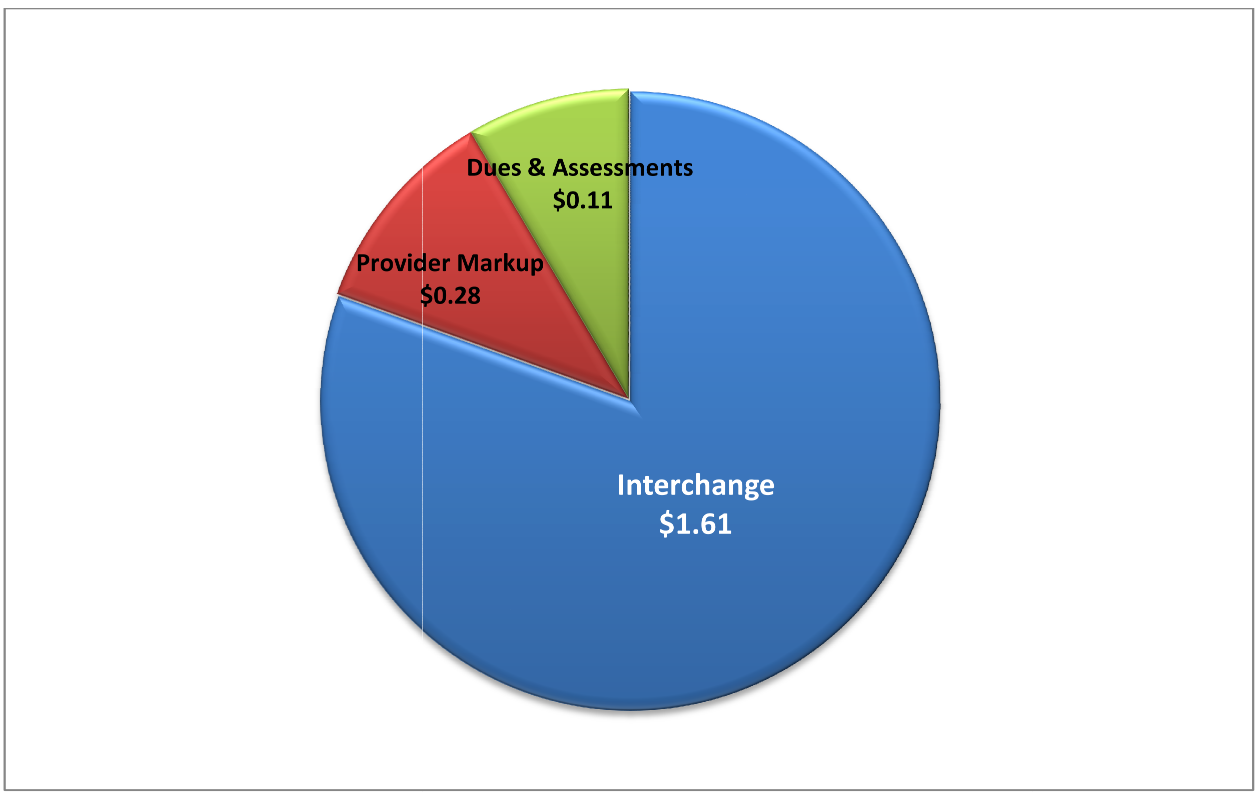
The problem with the rate quotes in the above example is that they only reveal the lowest of several possible transaction rates, which makes them the root of the "hidden fee" problem of this industry. Before we dive into the rest of the possible rates, we need to first understand who is getting paid by these fees.

First, we need to define a couple merchant account terms: A "**Processing Fee**" usually comes in two parts: the "**Discount Rate**" and the "**Transaction Fee**." For example, in a rate quote of 1.5% + $0.15 per transaction, the 1.5% portion is the "Discount Rate" (think of it as the percentage being discounted from the money you will get from the sale) and the $0.15 portion is the "Transaction Fee" (a flat fee per sale). To illustrate who is getting paid by these processing fees, let us pretend that we are examining two separate $100 credit card transactions by the same customer at two different businesses. Let's call them Bob's Jewelry Shop and Jane's Jewelry Store.

Jane got a great deal with her merchant account because she read this guide. For simplicity, we're going to say that her $100 sale cost a total processing fee of 2% by combining her Discount Rate and Transaction Fee together (doing this calculation results in what is often called the "effective rate") and the customer used a Citi Bank VISA credit card. For this sale, Jane will get $98 and the remaining $2 fee will get split three ways:

1. $1.61 will be divided between the bank that issued the customer's credit card (Citibank) and a few other networks that processed and routed the transaction.
    a. This portion of the fee is called the "**Interchange**" fee and varies in cost depending on the type of credit card that is being transacted.
2. $0.11 will go to VISA.
    a. This portion of the fee is called the "**Dues & Assessment**" fee and is fixed at 0.11% for all VISA transactions.
    b. MasterCard's Dues & Assessment fee is also fixed at 0.11%.
3. The remaining $0.28 will go to Jane's merchant account provider as a "**Provider Markup**." Basically, the profit margin that the provider built on top of the Interchange and Dues & Assessment fees.

Jane's $2 Processing Fee Breakdown

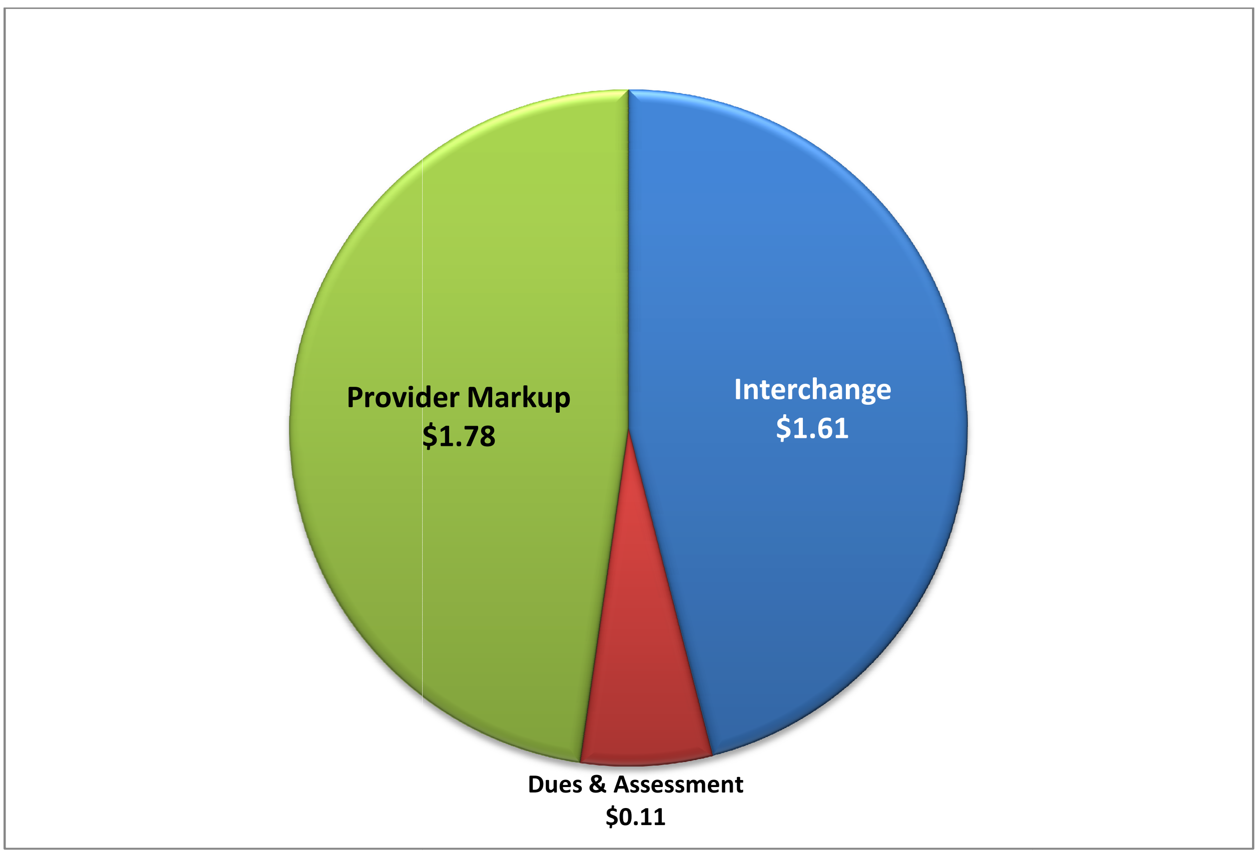


Now for the $100 sale at Bob's Jewelry Store. Unfortunately for Bob, he did not read this guide and got what most merchants get: an expensive merchant account with no added value or features over Jane's account. In other words, Bob pays a lot more for the exact same service that Jane gets. The $100 transaction will cost Bob an effective rate of 3.5% of the sale, a full 1.5% higher than Jane's fee. But, why?

The answer is quite simple; Bob's merchant account provider is rolling in Bob's money. Not only that, but Bob's merchant account provider uses sales people who are paid only on commission. For them, higher rates and fees for the merchant mean bigger commissions for themselves. Poor Bob was unaware of all of this when he signed up for his merchant account. Bob's rate breakdown looks similar to Jane's, but with one major difference:

- $1.61 Interchange Fee
- $0.11 Dues & Assessment Fee
- $1.78 Provider Markup

Bob's $3.50 Processing Fee Breakdown



It doesn't take an Economist to see that more than half of Bob's $3.50 fee is going to a markup by the merchant account provider. In contrast, only 8.5% of Jane's fee is going towards a provider markup. In fact, Bob's merchant account provider is making nearly **ten times** as much on his account than on Jane's account. Interestingly enough, **the provider's markup is the only portion of the rate that you can negotiate.** The Interchange fees and Dues & Assessments fees are non-negotiable and outside of a provider's control. Multiply the difference between Bob's and Jane's processing fees for several years, and Bob will pay thousands of dollars more in fees than Jane. Simply put, Bob is getting screwed.

So how do you avoid getting screwed? **It's not as simple as just asking a provider to lower its markup**. To answer this, we need to understand which fees are being left out of most merchant account providers' rate quotes.

They Are Taking Your Money by the "Bucket" Load

If you have had a merchant account before, you may familiar with the terms "Qualified," "Mid-Qualified," and "Non-Qualified." But what do they mean? Let's take a closer look at the Interchange fee.

Interchange Explained in about 100 Words

VISA, MasterCard and Discover have different rates and collect different fees for different card types. For example, the fee charged for a debit card is different from a fee for a credit card, and a credit card that has a rewards program attached to it has a different fee than a credit card without rewards. All in all, there are well over a 100 different rates that range from 0%-3% and are collectively known as "Interchange" fees. The average rate of Interchange is 1.79%. For each credit card sale, the Interchange fee is charged to the merchant then distributed to the bank that issued the customer's card as well as few other processing and routing networks. The only money VISA and MasterCard keep is the "Dues & Assessment" fee mentioned earlier. As we go further into this guide, you will learn why the Interchange fee and Provider Markup are very important in your overall cost of accepting credit and debit cards.

Fill Your Bucket!

Once upon a time, a merchant account provider had a brilliant and lucrative idea. This enterprising chap realized that he could take the numerous Interchange rates and group them into three different tiers, or "Buckets." He named these buckets "Qualified," "Mid-Qualified" and "Non-Qualified," and then a short while later he became a very rich man. But how?

Re-examining Rate Quotes

Let's go back for a moment and examine how providers quote rates. Remember the quote of 1.5% + $0.15 per transaction from the earlier example and how we said that it was one of several possible tiers? Specifically, that rate quote is one of the three Bucket rates. More specifically, it's a "Qualified" bucket rate and it's the lowest priced rate tier of the three. It also tends to be the only bucket that most merchant account providers quote before signing new merchants. So what about the other two buckets?

To say the least, the Mid-Qualified and Non-Qualified buckets are usually much more expensive than the Qualified bucket. Often, these two other buckets will cost the merchant over 3% per sale and I have even seen cases where the Non-Qualified bucket (the most expensive of the three) was costing merchants over 5% per sale. On average, more than 50% of a merchant's sales will run at the Mid-Qualified and Non-Qualified rates. This means that merchants will have far fewer sales charged at the "Qualified" rate that they were originally quoted. When you hear seasoned merchants talking about "hidden fees," the Mid-Qualified and Non-Qualified buckets are usually the culprits. But why do most card sales run in the highest buckets? Here is a breakdown:

- **Qualified Bucket:**
  - This bucket is used for debit and credit cards that do not have a rewards program attached to them, such as points and miles. They are just plain'ol credit and debit cards.
- **Mid-Qualified Bucket:**
  - This bucket is most often used for rewards cards that accumulate points or miles in relation to a consumer's purchases.
- **Non-Qualified Bucket:**
  - This bucket is most often used for corporate and business cards, foreign cards, and card types that are typically paid in full each month (excluding American Express, which we will go into later).
  - Certain merchant actions can cause other card types to be charged at this tier as well. Such as; typing a credit card into a keypad instead of swiping it, forgetting to add certain details to the transaction, or failing to "settle" or "batch out" the account at the end of a business day, which can result in all card transactions for that day to be charged at the Non-Qualified tier.

The fact is that most cards today have a rewards program attached to them and a surprising number of people pay with business and corporate cards. Depending on your type of business, you will either have more

"Mid-Qualified" or more "Non-Qualified" transactions, but the "Qualified" Bucket will almost never be the dominate rate that you will experience.

To make matters worse, each merchant account provider can package the Interchange rates into buckets however it wants. This means that the card types that one provider uses to fill its "Qualified" bucket can be completely different than the next provider. What one provider might call a "Qualified" transaction, another may call a "Mid-Qualified" transaction, and so on. Bucket customization makes "apples-to-apples" rate comparisons between providers impossible, especially since the providers do not have to disclose how they package their own buckets. Even if they did, it would take an expert to decode and understand it.

One thing that all providers have in common with bucket pricing is that they set the rate of each bucket over the highest Interchange rate in the bucket. This means that if the highest Interchange rate in a Qualified bucket runs at 1.5%, the provider will set the bucket rate higher to something like 1.7% so that it can still make money on it. Conversely, if a card runs at an Interchange rate of 0%, but is in a "Qualified" bucket of 1.7%, it will still cost you 1.7% because the merchant account provider will keep the difference as a Provider Markup. When the Interchange rate of ***just one card type*** within a bucket rises, it gives the merchant account provider an opportunity to raise the rate of the ***whole*** bucket even if none of the other Interchange card rates went up in that bucket. If an Interchange rate decreases within a bucket, the sole benefit will go to the merchant account provider. In bucket pricing models, merchants almost never see the benefits of a decrease in Interchange rates.

To Swipe or Not to Swipe?

Now that I probably have your head spinning, let me throw one more thing into the mix. Under bucket pricing models, merchant account providers typically have two different types of accounts. The first one is usually called a "Retail Account" and is for businesses that will be swiping the physical credit card through a card reader or credit card terminal for the majority of their sales. The second account is usually called a "MOTO Account," which stands for "Mail Order/Telephone Order," and is used for businesses that need to type the credit card number into a keypad as well as for e-commerce sales in which the consumer is typing the information. Both account types have the three rate buckets that we just learned about, but the MOTO account has more expensive buckets because the physical credit card is not present at the merchant's location during the sale. In contrast, the Retail Account has less expensive buckets because the card *is* present during the transaction and swiped through a card reading device.

Whew! This is getting complicated isn't it? Well, guess what? There's a way around bucket pricing and all of its expensive nonsense. It's a pricing model that merchant account providers do not want you to know about.

I'm Open! Pass it! – Introducing "Interchange-Plus"

Now that you understand merchant account rates better than 99% of all business owners, allow me to introduce you to a new friend called "Interchange-plus." Recent regulation has opened up this pricing tier (that was once "reserved" for high volume businesses) to all merchants. Merchant account providers are now required to give small mom-and-pop shops the same rate structure they give to huge companies like McDonald's. Interchange-plus is sometimes also referred to as "Wholesale Pricing," "Cost-plus," "Interchange Pass-through," and "True Pricing" among other possible variations of the term.

Interchange-plus does something great: It gets rid of those darn buckets! With Interchange-plus you are charged the exact Interchange fee of the card type, plus a flat provider markup. Interchange-plus quotes usually look something like this: "Interchange + 0.30% and $0.20 per transaction"

The quote above means that the merchant account provider will add a 0.3% markup on top of the Interchange rate, plus charge a flat 20 cents per transaction. If a merchant runs a card that has an Interchange rate of 1.8% + $0.10, the total fee including the Provider Markup would be 2.1% and $0.30 (VISA or MasterCard's "Dues & Assessment" fee would also be charged as a separate line item).

Interchange-plus makes "apples-to-apples" cost comparisons possible because the only fee you need to compare is the provider markup above Interchange. On average, most merchants with good credit should expect to get a markup quote of 0.30% to 0.50% plus 10 to 20 cents per transaction. The higher your processing volume, the lower the rate can be negotiated. I've seen high volume businesses get Interchange-plus pricing as low as Interchange + 0% +$0.05 per transaction.

Debit Card Fees and Dick Durbin

Now that we've fully covered processing fees for credit cards, it's time to talk about debit card processing fees. As you might have heard, debit card processing fees can be lower than credit card processing fees. Sometimes this statement is true and other times it is false. Here are the two different ways that debit cards can be accepted and their associated costs.

PIN-Debit

PIN-debit (also called "online debit") transactions occur when a customer slides his/her debit card through a card reading device and then enters a Personal Identification Number (PIN) to verify authorization of the sale. You must be set up by your merchant account provider to accept PIN debit transactions and will need a pin-pad attached to your credit card terminal to do so.

PIN-debit transactions are considered one of the most secure forms of card payment because the magnetic strip of the card is swiped through a reader, a PIN is entered and the funds are immediately removed from the customer's attached checking account. Since the potential for fraud is greatly reduced, the processing fees for PIN-debit transactions are the lowest of all transaction types. They are also not subject to Interchange fees because they do not pass through the VISA, MasterCard or Discover networks. Instead, they pass through the same networks that ATMs use. The fees for PIN-debit transactions vary from provider-to-provider, but generally cost a flat fee ranging from 30 to 60 cents per transaction.

How PIN-Debit Fees Can Be More Expensive

The fee for PIN-debit is normally not assessed as a percentage of the sale and becomes more expensive to the merchant as the sale total decreases. For example, a $0.50 flat fee on a $1 transaction would be equivalent to a 50% processing fee. Even at $10 it would still be equivalent to a 5% fee. Therefore, in order for a $0.50 PIN-debit fee to be more cost effective than a credit card processing fee, the sale amount would need to exceed $30.

Signature Debit

Signature Debit (also called "offline debit") transactions occur when a customer uses a debit card for a purchase but does not enter a PIN number, instead signing for the transaction like a credit card. Merchants do not need additional services or equipment to accept signature debit transactions because they process like a credit card through their associated card brands (Visa, MasterCard, etc.). Signature debit transactions are subject to the same Interchange fees as credit cards and can therefore incur higher processing fees than PIN debit transactions in high dollar sales.

Signature Debit and Durbin

We can't talk about signature debit without talking about Dick. As part of the Dodd-Frank Financial Overhaul Act, Congressman Dick Durbin managed to include an amendment that became known as the "Durbin

Amendment." This amendment placed a cap on the Interchange fee that banks are allowed to charge for signature debit transactions. The cap was originally intended to be 11 cents, but pressure from the banks drove the final cap up to 21 cents and 0.05% per transaction (infographic: http://www.cardpaymentoptions.com/credit-card-processing/durbin-amendment-simplified-infographic/). Sounds great for merchants right? Well, there are a couple catches.

First, the Durbin Amendment only regulates what banks can charge. It does not regulate the markup that third party sales organizations (ISOs) can charge. Therefore, the fee cap actually helped ISOs increase their profit margins by lowering their costs for signature debit transactions. The only merchants who will benefit from the lower Interchange rate are those that have Interchange-plus pricing. The vast majority of merchants with bucket pricing will see absolutely no benefit.

After the legislation was passed, the banks immediately raised all signature debit card Interchange fees to the maximum cap regardless of the sale amount. So just like PIN-debit transactions, small dollar transactions become less cost effective for merchants who have Interchange-plus pricing. Ironically, those the Durbin Amendment were meant to help are actually suffering from it. As of the most recent of update this book, the amendment is being challenged by several retail associations and may get overturned if they are successful.

But Wait! There's More!

Merchant account providers are businesses just like any other business and need to make a profit to stay alive. Now that we have covered processing fees, it's time to cover some of the other possible fees that come with merchant accounts. Each provider may have different names for its fees and some providers may charge fees that other do not. Keep in mind that the fees below are usually highly negotiable and can be eliminated or greatly reduced through proper negotiation.

- **Setup Fee:**
  - Some merchant account providers charge a fee for setting up a new account. This fee varies greatly by provider and the services being provided.
- **Batch Fee:**
  - Other known name variations are: "Batch Capture Fee," "Batch Header Fee," "Settlement Fee" or "Daily Closeout Fee." A "Batch" is the total dollar amount of transactions charged in a single day and the amount that will be deposited into your checking account. The batch fee typically ranges from 15 - 25 cents per batch, or a gets calculated for every item in the batch (e.g. 5 cents per item).

- **Statement Fee:**
  - The merchant services industry seems to be one of the only industries that charges for monthly account statements. The average Statement Fee ranges from $5-$15 per month.
- **Gateway Fee:**
  - This fee will only apply to merchants that do e-commerce sales or use a virtual terminal. The Gateway Fee is often a flat monthly fee (varies by provider) plus a per transaction fee built on top of the total processing fee (often $0.05 per transaction made through the gateway).
- **AVS Fee:**
  - This stands for "Address Verification Service" fee. Typically, AVS is only used in e-commerce transactions and virtual terminals. Merchants will only incur an AVS fee if they enable Address Verification and enter the customers address. Using AVS adds security and lowers the processing rate for the credit card transaction; however, it is an optional setting for most merchant accounts. A small transaction fee will apply if AVS is enabled, usually 5 to 10 cents but sometimes a percentage of the sale amount.
- **Voice Authorization Fee:**
  - In rare cases (typically high dollar transactions that deviate from a consumers normal buying behavior), a card issuing bank may want to call a customer to verify that he/she authorized a purchase. Voice Authorization is done to protect against fraud but the fee is charged to the merchant. Fees for this service can vary widely based on the merchant account provider and are typically either a flat fee or a percentage of the total transaction - the latter usually being much more expensive.
- **Chargeback Fee:**
  - A Chargeback happens when a customer disputes a purchase through his/her credit card company. Customers usually issue a Chargeback when they do not recognize a charge on their statement or if they disagree with the transaction. Merchants can fight a Chargeback by submitting proof that the customer approved the transaction with signed receipts or invoices; however, too many Chargebacks can cause a provider to terminate your merchant account or establish a Cash Reserve by withholding your sales or debiting your checking account. Therefore, you should avoid customer Chargebacks as much as possible. The typical fee for a Chargeback is $25-$35 per incident.
- **American Express Authorization Fee:**

- An American Express Authorization fee is an additional fee for charging an American Express Card through a merchant account and is separate from the processing fee that American Express charges. For example, if you charge an American Express Card you will usually experience two separate fees: an American Express transaction fee (usually between 3%-5% of the transaction) and an American Express Authorization Fee charged by the merchant account provider (usually 5 to 10 cents per transaction).

- **Monthly Minimum Fee:**
  - Most merchant account providers charge a Monthly Minimum Fee if the total processing fees for the month do not add up to a minimum fee (usually $15 - $35). For example, if the monthly minimum fee charged by a provider is $15 and a merchant does not charge any credit cards in that month, the merchant will be charged a minimum fee of $15 in addition to any other monthly fees for that month. Merchants who regularly process $1000 or more in credit card transactions per month are usually not affected by this fee. Seasonal and low volume businesses can usually negotiate it out completely,
- **DDA Account or Name Change Fee:**
  - Some merchant account providers charge a fee if you need to update your business name or deposit account. The fee varies by merchant account provider.
- **PCI Compliance Fee:**
  - This is one of the most abused fees in the credit card processing industry. Sometimes called the PCI DSS Compliance fee, the PCI Compliance fee is a cost that originates from PCI Security Standards Counsel, a third party organization that oversees and enacts security policies of the card processing industry. Merchant account providers incur annual costs to undergo compliance audits (aka: QSA audits) to ensure that card holder data is processed and stored securely under the standards set by the PCI Security Standards Council. For the Tier 1 providers (the largest providers), the annual average cost of these audits is $225,000 in fees and company resources (Source). Most providers pass this cost onto their merchant customers, often at great profit. The average PCI Compliance fee costs merchant's about $80 annually, but can go much higher. Some providers simply call it an "Annual Fee" to avoid confusion.
- **IRS Reporting Fee**
  - Starting in 2011, providers are required to collect form 1099-K from each of their merchant customers for the purpose of reporting to the IRS the income received by each merchant through

credit and debit card sales. Some providers are now beginning to charge merchants an annual fee for undertaking this task. It is unclear if this fee is currently legal and allowable under the IRS reporting rules, but a few providers have opted to take advantage of it until the language is clearly defined. Most providers that collect this fee do it at great profit.

Make Your Mark – A Note about Contracts

First things first, **ALWAYS READ YOUR CONTRACT**. Not only should you read it, you should mark down anything that raises questions and get clarification on them. Just because someone tells you something verbally doesn't mean it's going to actually be in the document you sign. Once you've signed it, make sure to keep a copy in a safe place in case you need it for future reference.

Just like any other contract, a merchant account agreement can either work for you or against you. Most of the stories you will hear about merchant account contracts sound like nightmares, but then again, no one goes around announcing how they got a fair deal on a contract they signed a year ago. That being said, some merchant account providers and agents are out to intentionally sign you into the most expensive and longest term contract they can get you into.

Service Agreement Length

Most providers will try to sign you into a three year (36 month) minimum contract, but some will go for even longer time commitments. The service agreement length is usually easy to negotiate but the minimum length most companies will agree upon is one year of service. However, there are a few companies that offer month-to-month contracts as a standard. Check out our top rated providers to find the ones that offer these short-term agreements (http://www.cardpaymentoptions.com/find-a-provider/).

If you have a well established business that will likely be around for the foreseeable future, then negotiating a great rate that the provider must honor throughout the entire agreement can be a good reason to sign a longer contract. Not only that, but providers are more likely to offer you a low rate if you guarantee a time commitment. Just make sure that there isn't any language in the contract that allows the provider to change the agreement, or raise rates, at their own discretion. Also make sure that the contract goes to a month-to-month agreement after the term is up. Some agreements may be written to automatically renew for another preset term if you don't cancel within a specified time frame.

Cancellation Fee

Merchant account agreements have a lot in common with mobile phone agreements. If the contract includes a service length agreement, it probably also includes an early termination fee. These fees can vary greatly among providers and reach into the thousands of dollars. **Never, I repeat, never sign a merchant account agreement that has a "Liquidated Damages" early termination penalty.** Providers sometimes mask this term with language like "the fee for early cancellation will be $250 or Damages, whichever is greater." If you see the terms, "Damages," "Liquidated Damages," or "whichever is greater" in relation to cancelling service, you are strongly encouraged to find a different provider.

Leases

Merchant account hardware such as credit card terminals and point-of-sale systems are often offered for lease by providers. Leases can save you the upfront cost of buying equipment but will cost you more, possibly much more, over the long-term. Leasing equipment almost always translates into a long contract with an expensive cancellation fee. Current technology has driven down the cost of most card processing hardware and most machines can be bought in the low hundreds of dollars. Check out Amazon.com and eBay.com before you buy equipment directly from a provider. Also, be sure to ask providers which brands and models are compatible with its services. My recommendation is to avoid leasing equipment altogether.

Part 2 - How to Pick a Merchant Account Provider

Picking a provider is not just about which one has the lowest fees. It's also about picking one that will meet the needs of your business, has great customer support, and can supply the hardware, software, or systems your business will need to efficiently process card payments.

Pick Your Poison

The first step to picking a provider will be to understand your own credit card processing needs. Choosing equipment and systems that are designed for your type of business will save you many headaches down the road.

If most of your sales are in-person and the credit card is present during the transaction, you will need to buy some type of card reading hardware. If the card is not physically present during the sale and must be typed into a keypad, you may be able to accept cards with equipment you already own. Below I've listed the most common hardware and systems along with the business types they best fit.

Phone Line Credit Card Terminal

This is the most common piece of equipment used for swiping credit cards and is the machine that nearly every retail and grocery store has on its counter. Although these machines are some of the oldest technologies on the market, phone line terminals are still the preferred machine for retail type businesses that do a high volume of swiped credit card transactions. The average cost for a new machine is around $300, but they can often be bought refurbished, or pre-owned, for much cheaper. Best suited for:

- Medium to high volume retail businesses that sell low priced items (i.e. convenience stores, liquor stores, grocery stores, gift stores, etc)
- Small restaurants

Point-of-Sale (POS) Systems

These systems are designed to meet the specific needs of businesses and include much more than the ability to swipe credit cards. POS systems are an all-in-one solution that can handle a variety of tasks such as ordering, inventory management, employee tracking, and more. They are usually very expensive and require on-going maintenance. Best suited for:

- Franchises

- High volume, multi-location business
- High volume, high inventory, high order businesses
- Businesses that need all-in-one customized solution

Virtual Terminal

Within the last few years, virtual terminals have begun to replace phone line terminals at a rapid pace. Virtual terminals can be used with any computer through an Internet connection and have many advantages over phone line terminals. You can even use them in retail settings and swipe credit cards with an inexpensive USB Card Reader the plugs into your computer.

Most virtual terminals are user-friendly and offer many useful features that cannot be had with a phone line terminal. The best virtual terminals come with features that allow merchants to search transaction history, instantly recharge or refund a card without needing to re-type or re-swipe the card, generate sales reports, export data into accounting software, setup and manage automatic billing, and set multi-level user access permissions.

Virtual terminals are also easy scale across many locations because the same virtual terminal can be accessed from multiple computers. Separate login IDs can be assigned to each location, or by employee, to make sales tracking easier. A few virtual terminals even have real-time sales reporting. Additionally, a virtual terminal can make a great mobile credit card processing solution when combined with a laptop and global Wi-Fi card. Best suited for:

- Businesses that process a low number of medium to high dollar transactions (i.e. jewelry stores, car repair shops, boutique gift stores, recording studios, law offices, medical offices, etc.)
- Merchants that have repeat customers or memberships (tanning salons, gyms, yoga studios, etc.)
- Business owners who want easy implementation and ease of use
- Businesses that want better sales tracking capabilities
- Merchants that need a mobile option (i.e. trade shows, flea markets, etc.)

Wireless Credit Card Terminal

These machines are just like phone line terminals except that they are mobile. They are usually expensive to buy, bulky, and notorious for getting poor wireless coverage. Rapid developments in smartphone credit card processing technology are quickly making them obsolete. Best suited for:

- Businesses that do a medium to high volume of mobile sales

- Merchants that do not have access to smartphones such as the iPhone or Android Phones.

Smart Phone Credit Card Processing

Smart phones are quickly becoming the preferred option for mobile credit card processing. A few companies now offer free apps, free card readers, flat processing fees, no annual fees, no monthly fees and no time commitment. Interchange-plus pricing is usually not an option with these providers; however, the lack of additional fees makes them attractive to many merchants.

Nearly all credit card processing apps give the option to email receipts on the spot, and some even include a virtual terminal that will store transaction history and generate reports that can be accessed online. Besides making a great mobile option, these services also make for great a backup option if your primary merchant account goes down. Check out our top mobile credit card processing picks at: http://www.cardpaymentoptions.com/find-a-provider/#mobile

Best suited for:

- Merchants that have iPhone, Android or Blackberry phones
- New, low volume businesses
- Tradeshow/Flea Market/Farmers Market vendors
- Merchants who want a backup option with no monthly fees
- Businesses that want to easily scale wireless processing across an outside sales force

E-Commerce Payment Gateways

For e-commerce businesses, it is best to work closely with an experienced web developer who can guide you in selecting the right online shopping cart and payment gateway for your needs.

Part 3 - How to Get a Fair Deal

One of the most important things to remember is that nearly all merchant account providers are selling the exact same product: a merchant account. To differentiate themselves they either attempt to compete on rates or supply a value-added service (i.e. proprietary hardware, software, virtual terminal, payment gateways, etc). It's often the value added service, or a unique product, that companies use to justify higher transaction rates, and it some cases it may be warranted. If a provider is charging a monthly fee for a value-added service or product, the transaction rate should be negotiated to the lowest rate possible. There is no reason to let them double dip on rates and monthly fees just because they have a unique product or service.

Step 1 - Pick Three Providers

Once you have determined your credit card processing needs, it's time to start finding providers who specialize in it. Many merchant account providers partner with other companies to supply their payment hardware and gateways, but there are also companies that are "one-stop-shops" and include everything under the same roof. Generally speaking, the one-stop-shops offer the lowest rates & fees and have the best service. Narrow down your list to three providers and then go to "Step 2."

We're Awash in Resellers

Many companies in the merchant services industry simply resell merchant accounts of an actual provider, or ISO. These sales organizations make money by either marking up the transaction rates, or supplying a product (such as a virtual terminal or e-commerce shopping cart) and charging a monthly fee for it. Always ask a company if they are supplying their own merchant account or reselling one provided by a different company. If they are reselling the merchant account, you can often go around the reseller and straight to the source. Sometimes going to the actual provider can mean better rates and better service, but this is not always the case.

Resellers aren't all bad. Sometimes they have more pricing flexibility than the actual merchant account provider because of agreements stating that the provider will not undercut its resellers. Also, the resellers often supply the customer service of the accounts they sell. In any case, be sure to research the company, and any other involved companies, before signing any documents.

Step 2 – Negotiate

The merchant services industry is fiercely competitive. Picking three providers and making them compete for your business will leave you as the winner when the dust settles. On the flip side, it could also mean that you will be dealing with relentless phone calls from sales agents during the process. In the end, the brief nuisance will be well worth it in the money you will save in fees.

Demand Interchange-plus

We've already established that Interchange-plus is the best rate structure. As soon as you request it, you will put the power on your side of the negotiating table. Just mentioning Interchange-plus pricing will announce that you know what you are talking about and will help to squelch deceptive sales tactics by a would-be dubious agent. If a company refuses to consider Interchange-plus, then kindly end the conversation with them. Keep in mind that if you have a "high risk" business type, or have poor credit, that you may not qualify for Interchange-plus during the underwriting process. Once you've gotten the Interchange-plus quotes from your three providers, begin making the companies compete against each other.

Lower and Eliminate Other Fees

The fees below can usually be lowered or eliminated with a little negotiation:

- Setup Fee
- Batch Fee
- Monthly Statement Fee
- Gateway Fees (if applicable)
- AVS Fee
- Chargeback Fee
- Monthly Minimum Fee
- Annual Fee
- Monthly Service Fee
- PCI Compliance Fee
- Early Termination Fee

If you see fees by any other name, get clarification on them. If they sound negotiable, then try to get rid of them. Keep in mind that these companies must make a profit too, so they might not be willing to acquiesce to all of your demands. At the end of this book, there is a sheet that you can use to track rates and fees while comparing providers.

Negotiate Service Agreement

If you have a new business, it may be in your best interest to negotiate a term of no more than one year. However, if you are confident that you are going to be in business for a long time, then a longer agreement may be in your benefit. Just make sure that the language of the contract says that the merchant account provider is held to the agreement as much as you are. You don't want to give them the flexibility to raise your fees while keeping you locked in. In many cases, month-to-month agreements are ideal.

Step 3 - Close the Deal

Once you have negotiated a great deal for yourself, choose a provider and ask for the contract. Be sure to read the entire document. Make sure that all of the rates and fees you agreed upon are stated correctly in the contract itself and refuse to sign it if you see any discrepancies. Once you are satisfied, sign the contract, make copies for yourself and store them in a safe place.

What to Expect Next

As mentioned earlier, the underwriting process may require you to undergo a credit check. If you have poor credit history or a high-risk business type, you may have to settle for higher transaction rates to get approved. Depending on your business type and sales volume, you also may be asked to submit any or all of the following:

- Business license
- Incorporation documents
- Bank reference
- Trade references (current suppliers or vendors with whom you have credit terms – i.e. Net 30 days)
- Photos (exterior photos of your business with signage, and/or an interior picture of inventory or office environment.)
- A lease document, or deed
- Marketing materials
- Website address

- Bank statements
- Balance Sheet
- Profit & Loss Statement
- Previous merchant account statements

To mitigate risk with certain business types, some merchant account providers may want to establish a "Cash Reserve," "Daily Discount," or "Personal Guaranty" for the account.

Cash Reserve

Like a deposit paid for an apartment, this is a cash deposit paid by the merchant to the provider in order to establish a fund to protect the provider against losses due to fraud, malicious activities, and excessive Chargebacks.

Daily Discount

Instead of establishing a deposit upfront, this method sets aside a portion of daily transaction income to establish a Cash Reserve.

Personal Guaranty

This establishes a reserve with the use of asset other than cash, or by attaching the owner's credit history to the account.

The entire underwriting process from application to approval/denial usually takes 2-5 business days, but can take longer if additional actions are needed.

You're All Set!

We've covered everything you will need to know to about getting the best rates and fees that the credit card processing industry offers. By using the information and advice in this guide along with the worksheet on the last page, I'm confident that you will save a huge amount of money in comparison to others who do not have this information. In fact, if you have a friend or family member who would benefit from this guide, please feel free to send them a copy.

I want to hear from you! Please leave a testimonial on one of the following pages about how "Fee Sweep" has helped you.

- Our Website: http://www.cardpaymentoptions.com/feesweep/
- Facebook: http://www.facebook.com/pages/CardPaymentOptionscom/144715022249
- Twitter: https://twitter.com/#!/paymentoptions
- Google+: https://plus.google.com/116635423323138552564/posts

Find a Top Rated Processor

On CardPaymentOptions.com, we review and rate processors to help business owners find the best ones for their needs. Check out http://www.cardpaymentoptions.com/find-a-provider/ to find providers that know how to treat merchants right.

Merchant Account Cost Estimation Worksheet

This worksheet is for estimation purposes only. It is based on a hypothetical situation of processing 200 transactions for a total of $10,000. It does not matter if your own processing would look much different. This sheet simply provides a consistent scenario so that you can get an apples-to-apples cost comparison between providers. Mark the fee in the right column (multiply or divide if instructed and then place the total in the column). Leave fields blank that do not apply. Extra fields have been added, if needed. Add up the fees to get the total average monthly estimated cost.

Provider Name:	
Agent Name:	
Contact Number:	
Transaction Rate Quote: Interchange + __________ and $___________ per transaction	
Take the percentage to the right of the "+" and add 1.79% to it, and then multiply the percentage by 10,000 (For Example: 0.30% + 1.79% = 2.09% then 0.0209 X $10,000)	
Multiply the second part of the quote by 200 (For Example: 0.15 X 200)	
Monthly Service Fee:	
Annual Fee: (divide by 12)	
Annual PCI Compliance Fee:(divide by 12)	
Monthly Statement Fee:	
Batch Fee: (multiply by 30)	
Gateway Transaction Fee:	
Monthly Gateway Fee:	
Other Transaction Fee(Multiply by 200):	
Other Transaction Fee(Multiply by 200):	
Other Transaction Fee(Multiply by 200):	
Other Monthly Fee:	
Other Monthly Fee:	
Other Monthly Fee:	
Total Average Monthly Estimated Cost of $10,000 in Sales in 200 Transactions:	

Setup Fee:

Contract Term:

Cancellation Fee: