CREDIT CARD PROCESSING GUIDE

Meet the PARTIES INVOLVED

- **Customers**
  The individuals or businesses buying goods and services.
- **Merchants**
  The businesses selling goods and services.
- **Card Associations**
  The big-name brands that establish the rules and set the wholesale rates on behalf of a network of banks. Think Visa, American Express and MasterCard.
- **Issuing Banks**
  The banks that actually issue credit cards to customers. Some examples of well-known banks: Wells Fargo, PNC, Bank of America and Chase.
- **Credit Card Processors**
  The intermediaries that pass on authorization requests between merchants and bank card associations. Also known as "acquiring banks" or "acquirers."
- **Merchant Account Providers**
  Companies responsible for managing the actual credit card processing, including data security, customer service and sales support. They usually work in tandem with acquiring banks.
- **Payment Gateways**
  Essentially "online terminals" that allow businesses to securely capture credit card data in e-commerce checkout processes. They serve the same function that point-of-sale readers do in brick-and-mortar stores.

View the TRANSACTION PROCESS

- Customer swipes credit card at cash register, or keys in information in online checkout form.
- Merchant captures information via a POS reader or payment gateway.
- Merchant sends data to credit card processor.
- Processor transmits information to relevant bank card association.
- Bank card association confirms transaction with customer's card-issuing bank.
- Card-issuing bank either approves or declines purchase.
- Notifications are sent back down the chain to all parties, including merchant and customer — within mere seconds of original swipe.

Different Types OF FEES

Transactional Fees

These occur every time a transaction takes place and represent the largest portion of credit card processing expenses.

- **Interchange Reimbursement Fees**
  Usually a percentage of each transaction plus a flat fee (e.g., 2.1 percent plus 11 cents). The percentage portion represents the wholesale rate and is nonnegotiable. The flat fee is the markup, and it's possible to negotiate or shop around for better pricing.
- **Assessment Fees**
  Set by individual bank card associations, and based on a percentage of your total monthly transaction volume. These fees are usually very low (about one-tenth of 1 percent) but also are nonnegotiable.

Flat Fees

These remain constant from month to month, regardless of transaction volume. Typical flat fees include:

- **Terminal fees for equipment rentals**
  You also can buy a POS reader and avoid these fees.
- **Payment gateway fees for e-commerce sites**
  Some services include payment gateways for free.
- **PCI fees for data security compliance**
  You also can be charged penalty fees for noncompliance.
- **Annual fees**
  Some merchant account providers charge yearly subscription dues. These are both negotiable and avoidable.
- **Early termination fees**
  Avoid these by shopping around — or by not breaking your contract prematurely.
- **Monthly fees**
  May be imposed to cover expenses for customer service and call centers. Shop around for lower rates.
- **Network fees**
  Nonnegotiable expenses charged by the major credit card brands.
- **Set-up fees**
  One-time charges to get up and running. You can avoid these by selecting the right merchant account provider.

Incidental Fees

- Address verification service fees for card-not-present transactions made online or by phone.
- Voice authorization fees for merchants who want an additional layer of security for card-based transactions.
- Retrieval fees, triggered whenever customers dispute certain charges.
- Chargeback fees, imposed whenever customers initiate refunds on their end. A "rolling reserve" of up to 10 percent might be included. This reserve isn't really a fee, but more of a deposit or "buffer" designed to cover potential losses.
- Refund fees, applied when a merchant issues a refund.
- Batch fees, which occur when a large group of transactions is submitted at once.
- Nonsufficient fund fees, the penalties for not having enough cash in the bank to meet ongoing merchant account obligations.

Four Common PRICING MODELS

How you pay fees varies from merchant account to account.

1. Interchange Plus

This is the most transparent model thanks to its itemized pricing. Statements clearly list all wholesale and markup fees separately, allowing you to identify areas to reduce spending. In most cases, you'll see these fees shown as percentages coupled with penny amounts (e.g., 0.2 percent plus 8 cents). The former represents the wholesale rate. The latter is the markup.

2. Tiered

This is the most popular pricing model, but also one of the more difficult ones to decipher. These plans combine interchange plus pricing with different tiers based on the type of transaction initiated. Some credit card processors use up to six different tiers, often without clearly defined rules, making it more difficult to identify the true markup rate. It's not uncommon for merchants to be downgraded or charged higher fees without warning.

3. Subscription

Also known as membership pricing, this model allows you to pay the wholesale rate plus a flat monthly or annual fee for the markup. You'll need to run the numbers to determine whether this plan is right for you. In most cases, large volume or big-ticket merchants benefit the most from this pricing model.

4. Blended

Sometimes referred to as "flat" pricing, this model uses a single, consistent fee for all transactions. Even if the wholesale rate changes, your transactional cost remains the same. The beauty is its simplicity. The downside is that the rate charged is usually higher than what you'd pay with other plans. This pricing model appeals most to those with low sales volume.

Funding SCHEDULES

The sooner each transaction clears, the sooner the money from the sale gets into your account. Having access to cash is essential for meeting other business expenses. The standard funding period depends entirely on the acquiring bank:

- Two business days is the most popular funding schedule.
- Some credit card processors offer next-day deposits.
- High-risk merchants may have to wait a week or more.

The Key TAKEAWAY

Even a basic understanding of how the process works will benefit you. Pay no attention to credit card processing fees and you likely will pay for services you don't really need or overpay for those services you do need. Don't make that mistake. Keep this resource handy as you begin shopping around for credit card processing solutions.

PERFORMANCE CARD SERVICE