



The Future of Merchant Processing

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THE ABC's of Credit Card Processing

Credit Card Processing

As you well know, the fee's you pay to process credit card transactions represents a large portion of your monthly overhead. At AMG Payment Solutions (AMG), our goal is to provide our clients with all the information you need to make the right choice when it comes to deciding on a merchant services provider. In line with that goal, we would like to share with you some basic information that most of our competitors are not willing to share because the more you know, the easier it will be for you the merchant to negotiate down your processing fees.

How does credit card processing work?

You may receive credit card payments from customers from a variety of sources. You may swipe their credit card through your credit card terminal, you may key in the credit card information you received over the phone or in the mail, or you may even receive the information from your web site. They all follow the same process. Once the card information is entered in, it sends out a request to the bank that issued the card. The issuing bank will verify that the account is in good standing and that the funds are available. They will then send a response with either an approval or a decline. If the transaction is approved, the issuing bank will put the funds on hold for you and the terminal captures the authorization code and prints a receipt. At the end of the day you do a daily close out for all of your credit card transactions. Most of you have the terminal automatically do this process for you. What happens next is the terminal uploads all the transactions that were captured for the day to the processing company (First Data for example). The processing company sends a request for the funds that are on hold for you to each issuing bank. The issuing bank electronically deposits the funds into the processing company's bank account. The processing company then deposits into your bank account the funds for all your transactions minus their fees. The issuing bank now bills the card holder either on their monthly statement or a deduction from their bank account in the case of a debit card.

What are the different types of cards out there?

There are roughly nine different card brands in the market today. The cards that you see regularly are Visa™, MasterCard®, American Express® and Discover®. Each card brand has different types of cards out in the market. There are basic credit cards, check cards, rewards cards and business cards. Each card type has a different rate structure that the processing company will charge which will affect your bottom line. Did you know that a check card should be cheaper to accept than a credit card? Did you know that you are helping to pay for the cardholders reward points when you accept their rewards card? To tell the difference in the card type you basically just have to look at the card. A check card should have either debit or check card printed on the front of the card. This type of card takes funds directly out the cardholder's bank account. A rewards card will usually have a business name on it like US Airlines, Amazon etc. This type of card gives the cardholder either cash back or points to be redeemed for trips or rewards. Rewards cards are the fastest growing card type. Soon all cards issued in the US will be a rewards card. The business card is the hardest one to identify. A lot of the times the business name will be on the card, but you can always tell it is a business card when the credit card terminal prompts you for the tax amount. That is if your terminal is set up correctly.

How do I know what fees I am paying and am I getting the best possible rate?

The cost of accepting credit cards is going up every year. Every April and October Visa™ and MasterCard® review their rate structure to decide if changes should be made. There is almost always a change. The change could be better, but most of the time it is a change to a higher rate. Visa™ and MasterCard® call this rate structure Interchange. There are roughly one hundred and fifty different categories within Interchange. These categories are set up based on the type of card, how the card transaction was performed (swipe or keyed in) and when the transaction was settled. Each category has a percentage rate and a per item fee attached to it. These rates range from three quarters of a percent, to just over three percent. Interchange fees are the amounts of the transaction that will be given to the issuing banks participating in the vast banking network. There is also a fee called dues and assessments which is Visa™ and MasterCard®'s piece of the pie. For Visa™ the percentage is 0.0925% and for MasterCard® it is 0.095%. You might think that is not that much, but if you consider the billions of dollars Visa™ and MasterCard® process each year, the numbers are staggering. On a billion dollars that equates to ninety two million dollars for Visa™ and ninety five million dollars for MasterCard® annually. Now you see why there are class action law suits and why congress is getting involved to make them change Interchange.

The other piece of this puzzle is the processing company. The processing company gets charged the Interchange fee which they pass on to the merchant, but they have to make their money as well. This is where the flexibility exists as to how they price your account.

There are four (4) main pricing strategies that processors use. Only one of them truly provides the merchant with a clear understanding as to how their fees are being calculated.

(1) The **flat rate program** is where the processor sets one high rate that covers every card type. This means the processing company makes more money on the cheaper card types like check cards. For example, if you were to be priced at a 2.50% flat rate and the card used by a customer is a debit card with an Interchange rate of 1.40%, you are paying 2.50% and the difference between 2.50% and 1.40% is what the processor makes on that transaction. So for that transaction you are being charged 1.10% over Interchange for accepting that particular card. Yes, there will be instances where a card you accept will have a higher rate than your flat rate but trust me, that will happen in very few instances.

(2) The **ERR rate program** is where the processor takes a bit of a different angle and says to the merchant that they will receive a low rate on their credit card transactions. That rate will typically be below 2.00%. Let's assume that rate is equal to 1.50%. So what happens is for the 1-2% of the cards you accept that meet the stringent criteria for that 1.50% rate that is the actual rate you will pay. For the other 98%-99% of the cards you accept you will be assessed a "downgrade" based on the actual Interchange rate plus additional profit to the processor. So for instance if the Interchange rate is actually 1.90% and the processor is looking to make an additional 1.00% you would be assessed a downgrade of 1.40% on the transaction amount in addition to the 1.50% base rate that was also charged. So for this card you actually paid a rate

of 2.90% and not 1.50%. Now this will not be very clear to you on your statement and often the downgrade amounts are not clearly labeled. What will be clearly labeled is the 1.50% offered rate which you now know you are not actually paying.

(3) The **3-tiered rate program** is the most popular pricing strategy. This is the hardest one to understand. Basically, processors lump all one hundred and fifty interchange categories into three groups, Qualified, Mid Qualified and Non Qualified. Qualified is usually the cheapest rate and Non Qualified is usually the highest rate. The problem with this program is that you do not know which categories are being lumped into which group. They could be setting rewards cards into the Non Qualified group even though it only has a rate of 0.10% higher than the swiped credit card and they could be charging as high as 3.5% on top of your qualified rate for that transaction. While it might be easier to follow 3 rates, again this pricing strategy does not give a merchant a clear understanding of what they are actually being charged for each and every card they accept.

(4) The last type of pricing strategy is the **Interchange plus program**. This is where the merchant is charged pure Interchange fees plus a discount rate. This discount rate provides compensation to the processor but with Interchange plus, you know exactly what that compensation is. With Interchange plus you are getting the best possible rate on every card you accept. We believe this is the best pricing structure for a merchant to have and is how AMG Payment Solutions charges its customers.

If you are currently under a pricing strategy other than Interchange plus, AMG can help you and very likely save you a sizable amount of money on your monthly transaction fees.

Most processing companies have other fees that they charge as well. An authorization fee is a fee charged for every approval request your terminal makes. It is even charged on declines. A per item fee is a fee charged for every approved transaction you close out at the end of day. The batch header fee is charged every time you close out the terminal at the end of the day. The statement fee is simply the charge to send you a paper statement each month. The monthly minimum is a charge to make sure the processing company makes at least a minimum fee from you each month. It can be as high as \$25 / month. At the end of the month all of these additional fees are added up and if it is lower than your monthly minimum you are charged the difference. The annual fee is self explanatory, where the processor charges you a fee annually for their service. An application fee is charged when you first apply to take credit cards with the processing company.

The best way to find out what you are really paying in processing fees is to ask your processing company for an interchange break out for your transactions. Most companies will be glad to give this to you, but if they don't you should be a little concerned. Visa™ and MasterCard®'s interchange pricing sheets are available on their web site, but if you cannot find it we will be glad to give it to you. You should compare your interchange break out to Visa™ and MasterCard®'s pricing sheet and see how you compare. If you do not want to do all the research feel free to contact AMG Payment Solutions and we will be glad to look over your statements to see where you can save money.

There are some ways of making sure you are not paying extra for your transactions.

Swipe the card

Swipe every card through the credit card terminal whenever possible. This is the cheapest way to process.

Hand keying the card

If the card is present and will not swipe, make sure your terminal is prompting correctly and that you input the cardholders billing zip code and the cvv2 number from the back of the card. Also get out the old knuckle buster, the manual imprinter and take an imprint of the card and have the customer sign the imprint. This will be the only way to prove that you had the card present if you receive a chargeback.

Card is not present

If you received the card information over the phone, in the mail or over the internet make sure the terminal prompts you for and you input an invoice number. If you don't have an invoice number then create one for the transaction. Also input the cardholders billing zip code, house number of the billing street address and the cvv2 from the back of the card.

Close out your transactions daily

Always make sure your transactions are closed out at the end of every day. You have 24 hours from the time you ran your first transaction to have the transactions closed or the transactions will be charged at different interchange rate.

Business cards and tax information

If you are taking a business card, make sure the terminal prompts you to input the tax amount. This tax amount will not increase the amount of the sale you are processing but it is reported separately on the cardholder's statement and must be at least 0.1% of the total transaction to qualify for the best interchange rate for business cards.

Does the signature match?

Always check the signature on the card to the receipt. If it does not look close ask to see identification. Did you know if the card it is considered invalid? Visa™ and MasterCard®'s policy is if the card is not signed you should ask them to sign the card and verify it with their identification. We have never heard of Visa™ or MasterCard® declining to pay a merchant for taking a non signed card but anything is possible.

Keep all receipts

Make sure you are keeping all credit card receipt for at least two years. Make sure they are in a secure location and if you have thermal paper make sure they are in a cool place and not in direct light or they will turn black. You want to keep the receipts just in case you receive a retrieval request or a chargeback request.

Retrieval requests and chargeback's

A **retrieval request** is when a cardholder requests a copy of the transaction from the issuing bank. The issuing bank will contact your processing bank and they will request the receipt from

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you. You want to make sure you send in the receipt in a timely fashion because you do not want this request to turn into a chargeback. A chargeback is when a cardholder refuses a charge on their statement. This could be for many reasons, such as they don't remember making the purchase, the card was stolen, they are unsatisfied with the product or service, or they did not receive their refund in a timely fashion. When you receive a chargeback you want to reply with all your documentation and a copy of the receipt as soon as possible. Remember when it comes to Visa™ and MasterCard®, you are guilty until proven innocent. So you want to make sure you have all of the necessary documentation to dispute the chargeback.

Is the card number truncated?

It is now a federal law that the copy of the receipt that the customer takes out of your location cannot have more than five digits of the card number and no expiration date. Also, in some states the merchant copy can only have five digits of the card number and no expiration date. It pays to keep abreast of the changing laws when it comes to card number truncation something we provide to our clients free of charge. Visa™ and MasterCard® fees for not having the customer copy truncated are very steep. The 1st violation - \$5,000, 2nd violation - \$10,000, 3rd violation - \$25,000, 4th violation - \$50,000, and willful or egregious violation - \$500,000/month. This does not include the federal penalties of up to \$10,000 per transaction and possible felony charges.

PCI compliance

For more information on PCI Compliance, please see our PCI Details document.

Is there anything you would suggest to make life easier when it comes to accepting payments?

Do you take payments for your services?

Recurring billing is growing every year. You can set up your checking account to pay your electric bill automatically every month, so why can't you offer this service to your customers? There are software and payment gateways that will allow you set up your customers to pay on your billing cycle and it is very cost effective with low labor cost. This is not just for credit cards. You can give them the option to have automatic withdrawals from the checking account as well.

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Are you still taking checks to the bank?

With check conversion service you simply have the customer fill out the check and run it thru your credit card terminal. The check company verifies the check writer's history for any bad checks. If they approve the check, you stamp it void and hand it back to the customer. Your terminal prints a receipt for the customer to sign and you keep it for your records. The check company deposits the funds into your bank account. When you have check conversion with check guarantee, if the check returns for non sufficient funds (NSF) the check company still pays you for the check and they contact the check writer for collection. With banks raising charges for the number of paper deposits and NSF fees, this is an easy and convenient way to save some money.

My credit card terminal is so slow.

Credit card terminal technology is always changing. There are reliable credit card terminals that can use your high speed internet connection and the transaction goes through in a couple of seconds.

I have multiple doctors in my office and they all want to accept credit cards but we don't want the accounting nightmare of figuring out who gets paid for which transactions. Also we don't want a bunch of credit card terminals cluttering up our office.

The newer credit card terminals can hold multiple merchant accounts in one terminal. Each doctor in the office can be set up for a merchant account and receive their deposit into their own bank account and receive a separate monthly merchant statement. The terminals are easy to use and with most of them you simply select the applicable doctor and run the card. The receipt will even have the doctor's name on it.

Feel free to contact **AMG Payment Solutions** at **1-301-519-8900** for any additional questions you might have.

We look forward to earning your business.