

# HOW TO BE A CREDIT CARD PROCESSING NINJA



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# WHAT THE HECK IS CREDIT CARD PROCESSING?



**Y**ou've built your website, or opened your shop and are now ready to accept payments. What next? **Now comes the seemingly daunting task of choosing a credit card processor** (also called a merchant account provider). Don't worry though, **FeeFighters has you covered.**

**With this ebook as your weapon, you will have all the knowledge needed** to get a great deal on credit card processing for your business. Read on to become a true credit card processing ninja.

When you sign up with a credit card processor, they open a merchant account for your business. A merchant account is a passthrough account, so you will not actually maintain deposits with the credit card processor. The money from each transaction is transferred from the customers' account to your merchant account at the end of the day and deposited in your regular bank account either today or the following day (chart on page 3).

## WHAT DOES A CREDIT CARD PROCESSOR ACTUALLY DO?

**T**here are more than 800 processors registered with Visa and Mastercard. Yikes! What do these guys actually do? For the most part, **processors are responsible for collecting the customers' money and passing it along to you**, the business owner. Since the actual flow of money is highly automated, however, the majority of their work comes from finding, signing up, underwriting and providing customer service to new businesses like yours.



Here comes the complicated part: the actual processing of the transactions is most efficient when done at very large scale, so over time the processing networks have been consolidated into just a few networks. Some examples of credit card processing networks are First Data North, First Data Nashville, First Data Omaha (all owned by First Data), Vital / Visanet (owned by TSYS), Paymentech and Global Payments.

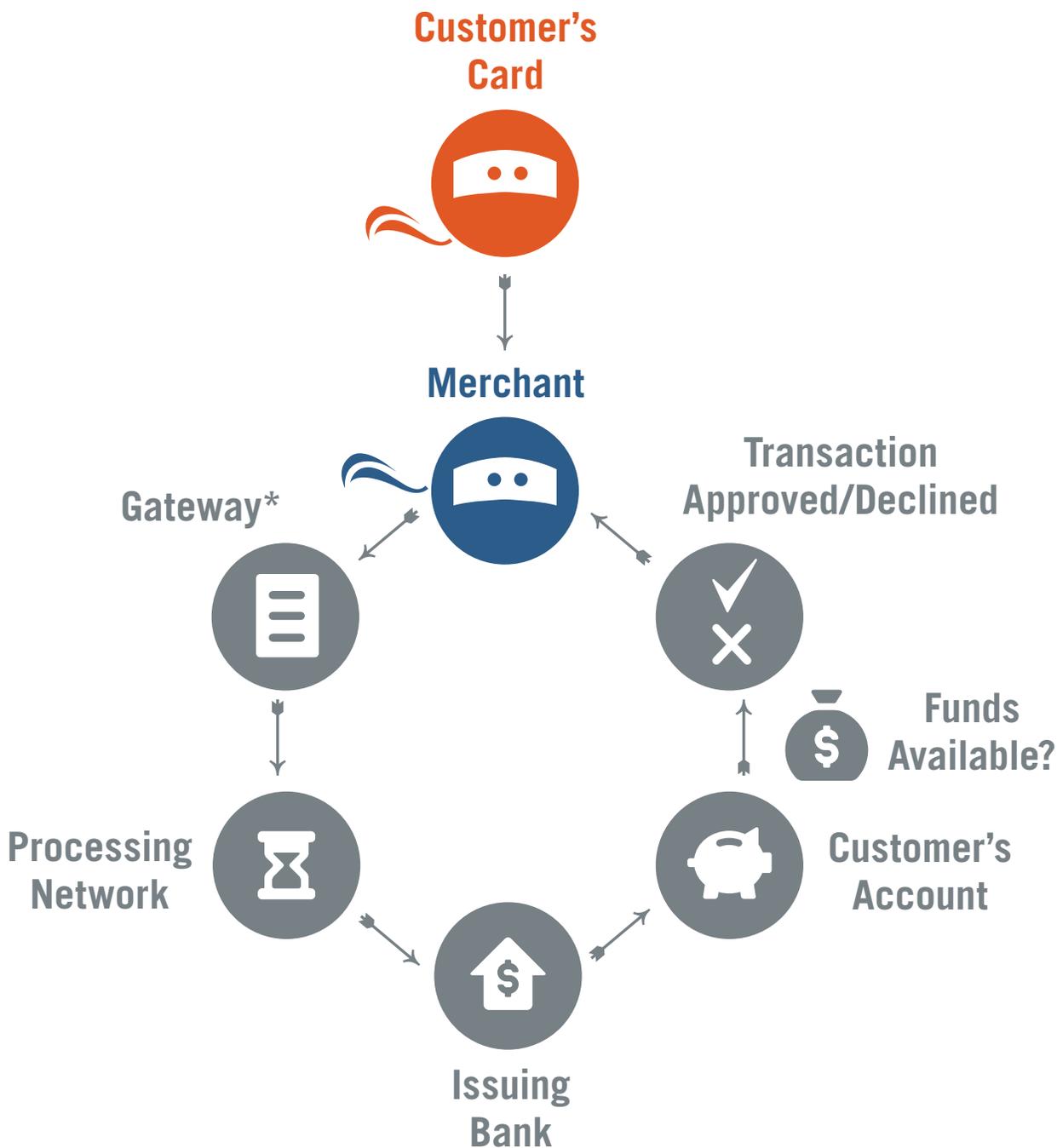
The companies that own the processing networks sell access to them on a wholesale basis to other companies who then resell it under their own brand. Those companies are responsible for the sales, marketing, customer service and underwriting. Some of these companies, called Merchant Acquirers, are very large, like Wells Fargo Bank (which outsources the actual processing to First Data) but there are also many smaller ones.



**BOTTOM LINE** It is not true that going with the larger company is always better; some of the worst deals come from the large processors. It actually just varies on a case by case basis.



# FLOW OF DATA Authorization

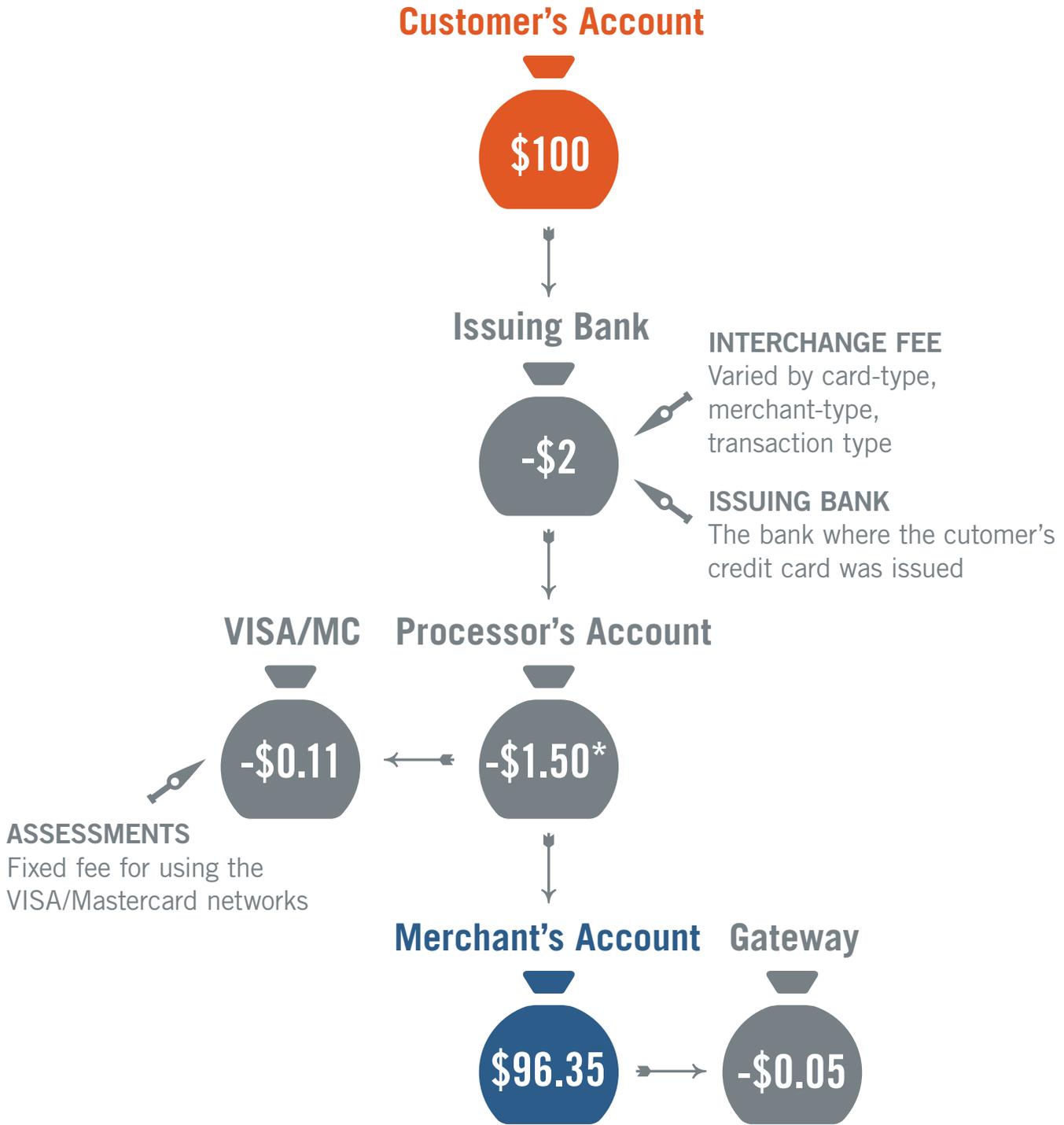


\*If the transaction does not happen online, data will flow from the merchant's terminal straight to the processing network.



# FLOW OF MONEY

## Settlement



\*The processor's markup varies depending on the pricing of your merchant account. To be sure that you are getting a good deal, get competing bids from FeeFighters.com.

# PROCESSING FEES DEMYSTIFIED

**W**ho gets the money you pay when a credit card transaction occurs?

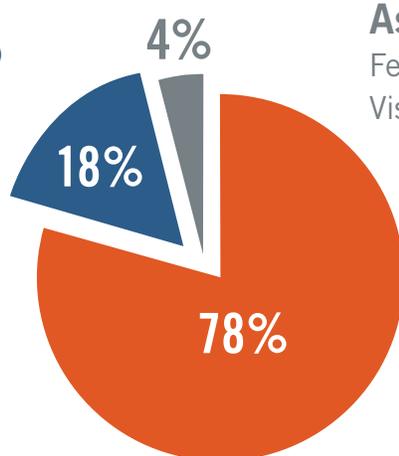
-  **Visa and MasterCard**—these fees are called assessments
-  **The bank** that issued the credit card being used (for example, Chase or Capital One)—these fees are called interchange
-  **The credit card processor / merchant account provider**—the processor markup

Usually the merchant account provider will not explicitly tell you how much money is going to each party (see Pricing Structures section on P. 10). It is important for you to know where your money is going and what parts are negotiable, since it will help you negotiate effectively.

## Interchange

**Set of fees, established by Visa & MasterCard, that is passed on to the banks** that issue the credit cards to your customers.

**The Processor Markup**  
The credit card processor/  
merchant account provider



**Assessments**  
Fees associated with  
Visa and MasterCard

**Interchange**  
Fees associated with the  
bank that issued the credit  
card being used (for example,  
Chase or Capital One)



# Important facts about Interchange

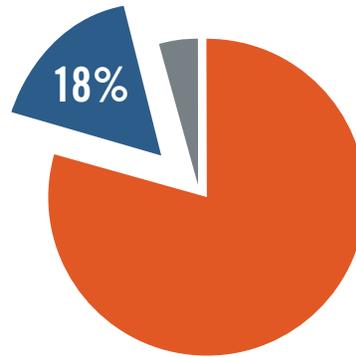
-  **Set by Visa/MasterCard and non-negotiable**
-  **Composed of a flat rate for each transaction** plus a percentage of the transaction amount example: \$0.10/per transaction +1.75% of transaction volume
-  **Interchange is the largest chunk of processing costs** at an average of 1.77% (higher for ecommerce)
-  **The pricing rules for Interchange are very complex.** There is a 200+ page book published by Visa & MasterCard with all of the pricing rules! For example:
  -  Each type of card (rewards, business, debit, etc) gets a different rate
  -  Many different types of businesses get special rates (gas stations, convenience stores, taxi cabs, movie theaters, etc)
  -  Different size businesses can get different rates (Companies like Wal-Mart get special rates because of their size)
  -  How the transaction is processed can determine the rate (if the card was swiped vs. keyed-in, or if it was charged via an online gateway)





# Processor Markup

The fee that credit card processors charge for their services.



## Important Facts about Processor Markup

- ✍ It is based on a number of factors, including your business' assessed **risk, size, and negotiating power.**
- ✍ It is the **only negotiable portion** of your credit card processing fees.
- ✍ **Comprised of different fees** depending on the processor:
  - ✦ **Base fees:** Processors offer different types of pricing contracts, each with different rules for charging the merchant. These fees almost always involve a per-transaction & volume-based fee.
  - ✦ **AVS fee (address verification):** Per-transaction fees charged for performing address-verification checks.
  - ✦ **Monthly fee / Statement fee:** A flat monthly fee for maintaining the processing account.
  - ✦ **Cancellation Fees:** You may be surprised to find a cancellation fee in your contract. Getting rid of this fee should not be a problem: most salespeople have the authority to waive it. Talk to the salesperson and make sure the fee is waived.
  - ✦ **And more... ?!** Many processors try to sneak in extra fees (and give them creative & complex-sounding names). The above list are the only typical fees you should agree to in a processing contract.



# WHERE TO FIND A CREDIT CARD PROCESSOR

**C**redit card processors can be found in many places, and often how you find them will influence the prices they quote.

## Common places to search for a processor

-  Use **FeeFighters to run an instant reverse auction** and get the best rates from pre-screened processors, in minutes!
-  **Your bank** probably has an arrangement with a processor, or may act as a processor themselves if they are big enough (Chase or Bank of America).
-  Local processors can be found in a **phone book, Yelp or in the Credit Card Processor Directory.**
-  Ask a **friend** who also owns a business and is happy with their provider.



# PRICING STRUCTURES

It is important to recognize the different pricing structures that processors use in order to be able to **compare different quotes on an apples-to-apples basis**, and not get ripped off. Often, quotes are confusing and can have **many hidden fees**. These are three most common ways that rates are quoted:

 **Interchange Plus, Tiered Pricing Billback / Enhanced Billback / Enhanced Reduced Recover (ERR), Fixed Rate**

## Interchange Plus

Interchange plus is **the most transparent form of pricing** because it's clear how much of your total fees were due to interchange, assessments and processor markup. This is preferable because you can easily keep an eye on the processor to make sure they aren't ripping you off.

Every large business insists upon interchange plus, because they know it is the best, most transparent option. Until recently, small business were largely not offered interchange plus pricing, but due to the highly competitive marketplace now, savvy business owners should not only want it, but demand it.

**BOTTOM LINE** Credit card processing ninjas prefer interchange plus pricing.

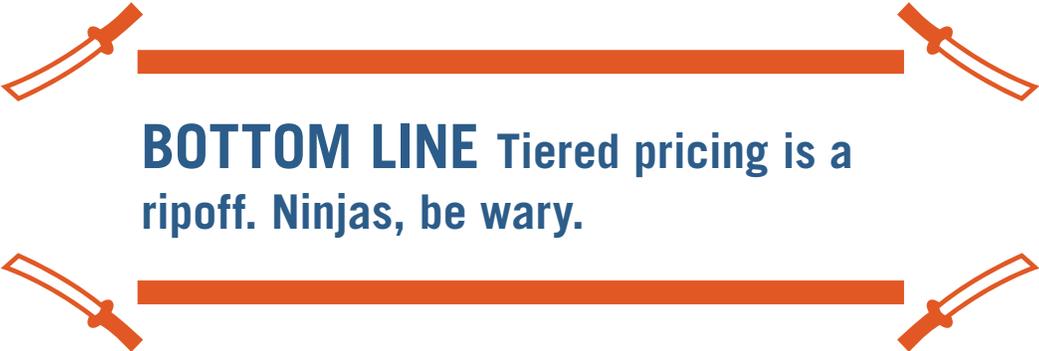


## Tiered Pricing

With Tiered Pricing different types of transactions are grouped together into arbitrary “tiers,” and a different rate is determined for each tier. When you receive a quote for tiered pricing, **processors will often quote the price from the lowest tier** (typically in-person debit cards transactions), which usually make up a very small portion of processing volume. **For example**, advertisements for credit card processing will often say “rates as low as 1.03!” without really disclosing how few transactions will really qualify for that rate.

The **downgrade fees are hidden in the fine print** and deemphasized although they often constitute the majority of a merchant’s transactions. In their purest form, downgrading transactions makes sense. If the interchange rate is higher for a transaction, it is fair for the processor to recoup the higher cost from the merchant. However, processors almost always recoup more than the additional cost. This is called “marking up the downgrades” and can ending up costing business owners 2-3 times more in processing fees, often without their knowledge.

There is **no way to figure out exactly how much the processor is making off of you because the actual interchange categories for your transactions are being hidden within the tiers**. One trick often played by processors is to progressively reclassify interchange categories into less favorable tiers. Tiered pricing also makes it more difficult to address the root cause of your downgrades.



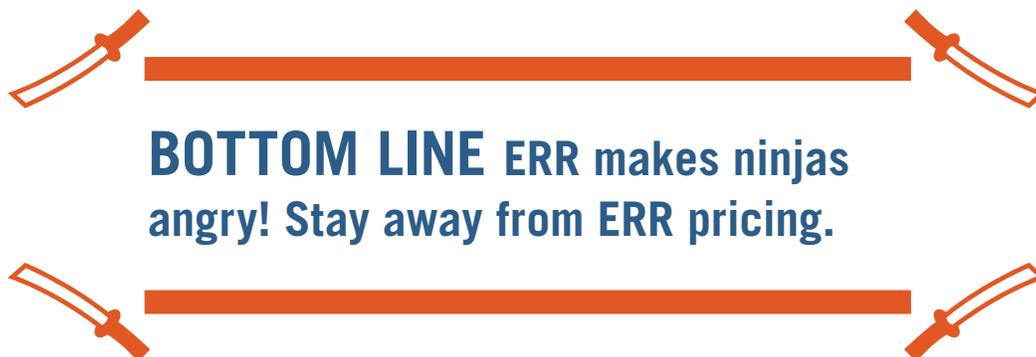
**BOTTOM LINE** Tiered pricing is a ripoff. Ninjas, be wary.



# Enhanced Reduced Recovery (ERR) / Enhanced Billback

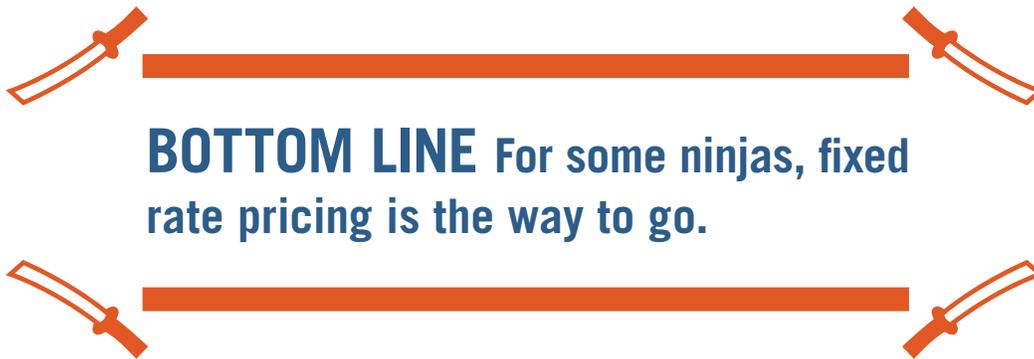
With this form of pricing the processor quotes a rate, for example 2.00% + 0.20 / transaction and charges you that rate for every transaction. What often is not disclosed, however, is that for any transaction that falls into a higher interchange category, for example business and rewards cards, the processor will charge an additional fee. In the best case scenario, the processor only passes on the incremental interchange cost. That rarely happens, however, since processors use that opportunity to charge you extra (the Enhanced actually denotes the enhanced margins the processor earns by utilizing that method).

The worst thing about this pricing scheme is that the **downgrades are charged a month later than the original transaction occurred, which makes it more difficult to determine the overall cost of your processing.**



# Fixed Rate Pricing

The simplest type of merchant account contract, fixed pricing is **structured with a single percentage-based and per-item for all transactions**. Some of the alternative payment methods, such as **Google Checkout and Paypal**, have fixed rate pricing. Fixed rate pricing can be fair, if you can get it at a reasonable rate.



**BOTTOM LINE** For some ninjas, fixed rate pricing is the way to go.



# HOW TO TELL THE DIFFERENCE

## Interchange Plus vs. Tiered Pricing

**A**s mentioned before, **interchange plus pricing is usually the most cost effective option for business owners. With tiered pricing, processors often try to sneak in extra fees or mark up the downgraded transactions exorbitantly in hopes that the business owner will not notice.** Even worse, most tiered quotes do not clearly disclose which types of transactions will fall into each tier... and some processors even add clauses into the contracts that allow them to change the structure of the tiers over time without informing the merchant!

**Always ask specifically for an interchange plus quote.**

**Here are some ways to tell the difference: (for more info click here)**

-  An interchange plus quote will look like this: “Interchange PLUS 0.10% PLUS \$0.08—that’s why its called Interchange Plus. The PLUS part is the markup that the processor is making on top of interchange. It will always be less than 0.50% of your volume and less than \$0.30 per transaction, anything more than that is way too high.
-  With tiered pricing usually just one price is quoted (called a qualified rate or discount rate). It will always be more than 1%. For example they will quote 1.6% or 2.3%. What they do not tell you is that there are ALWAYS downgraded transactions, and a potentially large portion of your transactions could be classified into the Mid-Qualified or Non-Qualified rate. Often, the salesperson will not tell you about those rates unless specifically asked—they count on making most of their money by marking up those rates very high without you noticing.



Let's say you are quoted a rate of **1.6% (tiered)**.

Some good questions to ask are:

-  **1** 1.6%, does that apply to every single transaction?
-  **2** What about a rewards card? How much is that?
-  **3** How about a business card? How much is that?
-  **4** What happens if the customer calls in the order and doesn't sign the receipt? How much does that cost?

Asking those questions and being as informed as possible will help you get a fairer deal and be ninja-like, but the only way to be entirely sure you are getting the best deal is to get interchange plus pricing from a reputable processor that is FeeFighters Certified.

To request a bid, click on [FeeFighters.com](http://FeeFighters.com).



# HOW TO CHOOSE A CREDIT CARD PROCESSOR

**T**he choices are endlessly confusing, so here are a few things to keep in mind when choosing a credit card processor:

-  **1 Do The Research** The more you know before talking to salespeople, the larger advantage you have in making sure you don't get ripped off. Salespeople are less likely to be sneaky when they deal with informed potential customers.
-  **2 Only Interchange Plus Pricing** For the reasons mentioned above, and also to compare bids from different providers on an apples-to-apples basis, opt for interchange plus pricing.
-  **3 See What Others Say** Check out the Credit Card Processor Directory to get reviews on processors from business owners. Also, use the resource to get other info such as BBB ratings.



-  **4 Comparison Shop** The number one way to ensure that you are getting the best deal is to comparison shop. Make sure that bids are on an apples-to-apples format for true comparison. The easiest way to get comparable bids from top tier processors is to use FeeFighters.
-  **5 No Cancellation Fees Allowed** You may be surprised to find a cancellation fee in your contract of at least \$250 and as high as several thousand dollars. Getting rid of this fee should not be a problem: most salespeople have the authority to waive it. Talk to the salesperson and make sure the fee is waived in writing either in the contract or as an amendment. For new businesses, making sure to have the no cancellation fee clause is a great hedge in case anything goes wrong.
-  **6 Don't Rent or Lease Equipment** Those little black terminals that you see in small retail stores usually cost \$100 – \$300 and a full-fledged POS system is a little more than a desktop computer, less than \$2000. If you own your own equipment there is less chance for processors to sneak in extra profit by padding your lease payments and it also makes it easier to change processors if something goes wrong in the relationship.



# TERMINAL, GATEWAY, OR POS SYSTEM?

**I**n order to access the payments network, you will need either a terminal or a gateway. Some merchants use a more complex solution called a “Point of Sale” system, which is more like a computer with specialized software that does more than simply charge credit cards. Here is some info on each option, in order for you to make the best choice for your business.

## Terminals

**A terminal is a small piece of equipment that many retail stores have on their checkout counter to swipe a customer’s credit card.**

-  A terminal is used in brick and mortar shops to swipe credit cards.
-  Information is encoded and passed onto your processor safely and quickly.
-  NEVER lease credit card terminals. The devices themselves are not that expensive, and often offering to lease equipment is a way for processors to charge you higher rates.
-  If you’d like to switch processors, you most likely do not need to buy a new terminal. They can be reprogrammed by your new processor by a quick phone call.



**BOTTOM LINE** Terminals are the cheapest and easiest way for brick and mortar shops to process credit cards.



# Gateways

A gateway is a piece of software running on a server that receives the credit card information from a company's website (or virtual terminal) and passes it securely along to the credit card processor.

-  The gateway sits between your shopping cart software and your credit card processor.
-  The most widely used gateway is Authorize.net.
-  Note that some processors can be both a gateway and processor (PayPal, for example).
-  Many processors and their resellers will attempt to convince you to use either a gateway that they have written or one that they bought from a third party and put it's label on. They may even offer a below-market price on that gateway, which is fine, just keep in mind that using such a captive gateway reduces your flexibility to switch processors later and ensure that the processor isn't charging you elsewhere to make up the subsidized price of the gateway.



**BOTTOM LINE** If you have an ecommerce website, you will need a gateway in addition to a merchant account.



# POS Systems

A “Point of Sale” system is a computerized solution with specialized software that typically connects through a gateway. Many PoS Systems have custom functionality that is unique to the type of business (restaurant software, inventory management, etc).

- ✍ POS systems can integrate into processors in a few ways:
  - ✦ They connect directly to the processor.
  - ✦ They use a piece of software that runs locally like PCCharge or ICVerify to connect to the processor.
  - ✦ They use a gateway to connect to the processor.
- ✍ These systems often consist of a computer, bar code scanner, a cash drawer, and magnetic swipe reader.
- ✍ Most POS Systems have software that collects data on purchases, and can generate reports for the business owner.

**BOTTOM LINE** POS Systems are fancier terminals with a lot more features.



# FREQUENTLY ASKED QUESTIONS

## What is a 3rd party processor?

**Third party processors act as both gateways and processors for online payments.** They include Paypal, Google Checkout, 2CO, CCNow, 2Checkout, etc.

**Usually 3rd party processors are cheaper for small businesses with low volume** (<\$5,000 revenue/month) because they offer lower setup fees and a fixed pricing model. But, they also charge a higher discount rate (as much as 5.5%).

**Merchant account providers have more monthly and up-front costs but charge a lower discount and per transaction rate.**

## Why the price difference?

-  **1** 3rd party processors have automated systems which allow them to add new low-volume merchants to their systems in a cost-efficient manner.
-  **2** 3rd party processors work exclusively with online merchants so they are more familiar with ecommerce business models.
-  **3** The higher price is because 1. there are fewer 3rd party processors, so there is less competition and 2. they are doing extra work on the behalf of the small merchant and need to charge more to cover costs.



## Some other important differences:

-  **1** When you use a 3rd party processor, their name will show up on the customer's statement (not your business's) which increases your risk for chargebacks.
-  **2** Depending on which 3rd party processor you use, they may route your customer to their site which may hurt your conversion rate.
-  **3** Because their underwriting is more automated and they focus on small online businesses, which have the highest fraud risk, 3rd party processors tend to be more aggressive in shutting down accounts that show suspicious activity. In many cases the suspicious activity is actually legitimate, which can be a problem for the business owner.

## What about American Express and Discover?

**Accepting American Express and Discover is easy** and if you don't already have an account with Amex or Discover your credit card processor will set one up for you, usually for free.

**Discover rates are usually about the same as Visa and MasterCard. American Express is usually 1.50% higher.**

## What is a chargeback?

**A chargeback is caused when a customer disputes a charge that appears on their bill.**

One of the benefits of shopping with a credit card is the ability to dispute the charge later, however, the merchant bears the primary risk of such an event, called a chargeback. If the merchant is not able to



pay back the customer, or provide them a new product, the merchant account provider is liable for the amount.

Overall, the number of chargebacks that occur is tiny. In a 2005 study done by Global Payments, a merchant account provider, chargebacks comprised only 0.3% Global Payments' revenue, and Global Payments' revenue is only 0.35% of total volume processed by its customers, meaning that only 0.00105% of transaction volume is charged back.

## What is a reserve?

**A reserve is when a credit card processor requires a certain amount of money to be put aside to cover chargebacks.**

Reserve requirements vary greatly between processors, and most of the time, business owners do not know what the requirements are, which is a great danger and can be so hurtful as to force a business to shut down.

### Here's the good news:

-  Most businesses are not subject to a reserve requirement. Businesses that are subject to a reserve are usually in risky industries like travel and porn, have terrible credit, or are experiencing increase in risk. Processors view spikes in sales, chargebacks and returns as signs of increased risk.
-  To avoid reserves, warn your merchant account provider if you anticipate a spike in sales or returns.



## Can I still use Quickbooks without having Intuit as a processor?

It depends. **If you're using Quickbooks POS then you have to work with Intuit.**

However, if you're only using Quickbooks accounting software, then you can easily integrate with a different processor by using a plugin such as ChargeAnywhereDirect.com.

## I'm a non-profit. How is it different for me?

The first step is to **consider what types of transactions your non-profit has: one time donations or recurring donations.** Handling recurring donations is easiest with a merchant account since the process can be automated based on the payment schedule and payment amounts. If your non-profit rarely takes donations but would still like to have the option, consider Square, a new service which allows the iPhone/iPad to be used as a terminal without signing up for a merchant account. The fees are higher than a merchant account, but are worth it for infrequent transactions.

### **Non-profits should generally avoid 3rd party processors:**

-  With 3rd party processors, the processor's name shows up on the donor's credit card statement instead of the non-profit's name, thus increasing the chance for chargebacks.
-  Since you are using a 3rd party processor's merchant account, there is a bit of a time lag to get money into your bank account.



**Merchant accounts can often be the cheapest and easiest way for non-profits to accept donations. However, the key to getting a good deal on a merchant account is to be well informed and know exactly what pricing structure to request.** Otherwise, the process can become frustrating and complicated. With a merchant account provider, your organization's name will appear on the donor's statement and funds will flow directly to your bank account without lag time.

Since the biggest challenge to getting a merchant account is a lack of knowledge, make sure to do your research. Make sure to demand an interchange plus pricing structure (learn more about interchange plus here) and use FeeFighters to get the best apples-to-apples comparison.

## What is PCI Compliance?

**PCI Compliance rules are designed to ensure that credit card numbers are not kept on merchants' computers in a form that is easy to steal.**

It can be expensive to achieve and complicated, especially for online merchants. Most business owners have no idea what they have to do to meet the PCI compliance requirements.

**The best way to achieve PCI compliance is simple: don't store cardholder data.** Most smaller businesses do not even require an audit if numbers are not stored. The easiest thing to do is pass the card info on to your gateway and let them store it. Most small to midsize businesses can achieve PCI compliance simply by filling out a self-assessment questionnaire-as long as they don't store customer data.



# CONFUSED YET?

## More Resources for Ninjas



**N**avigating the credit card processing industry can be frustrating, difficult, and downright annoying. Luckily, with the information provided in this ebook, you will be better equipped to choose the best payment processing options for your business.

Ninjas everywhere are welcome to refer to FeeFighters as a resource and advocate to make sure they get the best deal for their business.

 [Start an auction on FeeFighters to get apples-to-apples bids from top tier processors.](#)

 [Check out the FeeFighters blog for comprehensive articles on all the topics in this ebook and more, including business tips and news.](#)

 Questions? Feel free to email us at [ninja@feefighters.com](mailto:ninja@feefighters.com)

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