BEGINNER'S GUIDE TO

Payment Processing

merchantmaverick

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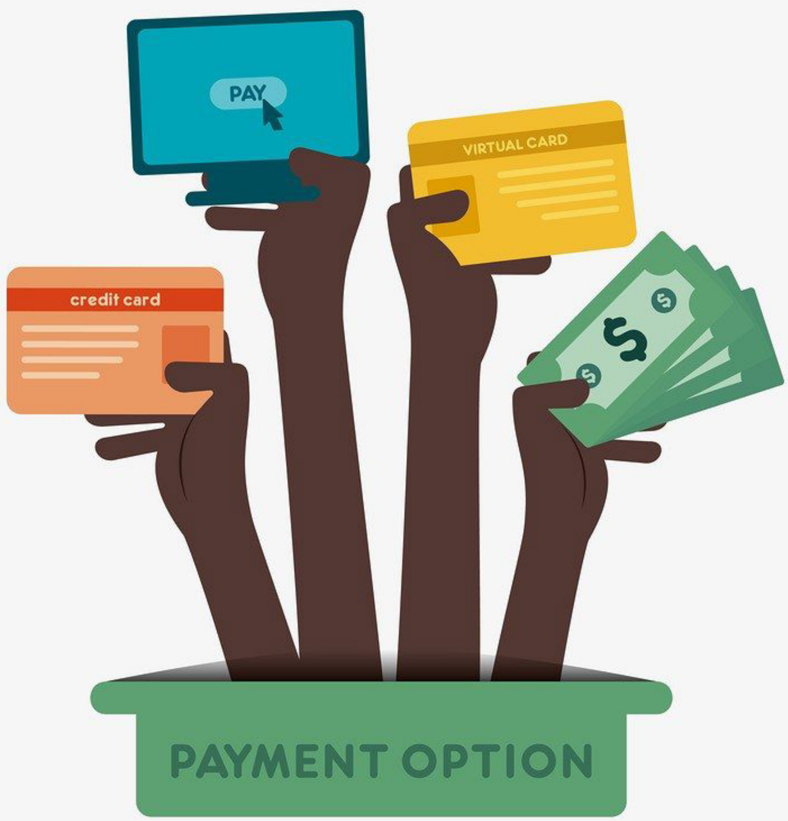
Introduction

We know that payment processing is a confusing topic. Owners of businesses small and large come to us every day with questions about their merchant services contracts and fees. These merchant are unable to understand their processing statements, unsure if they are getting ripped off, and often completely confused about how the whole process for card payments works and why they have to pay these fees in the first place. If you're lost in a sea of percentages and sales gimmicks, know that you are in good company and that we are here to help you find your way back to solid ground.

This guide is designed to give you all of the information you need and none of the information you don't. In it, we address the most common questions we receive about payment processing and provide simple, straight-forward, actionable answers with no fluff or unnecessary jargon. By the end, you will be able to make informed decisions regarding your payment processing options. You will know how to tell if you are getting ripped off and how to avoid paying too much for credit card processing in the future. And most importantly, you will be on your way to feeling confident enough about your payment processing service that you can stop stressing about it and get back to running your business.



SECTION 1

Basics

Why do I need a payment processing service?

> For businesses that pay a fair rate for processing, accepting cards translates to increased profits compared to cash-only businesses.

Well, you don't really. If you don't want to accept card payments, you are free to accept cash and checks with no intermediaries. Many businesses choose to do this, although their ranks are shrinking.

Most business owners we hear from say that they have held out on card acceptance because of the fees they anticipate, and that's a valid concern. But being a cash-only business comes with its own costs, including risk of employee theft, robbery, miscounting change, more time spent counting and making deposits, lost sales due to customers not having enough cash, and risk of accepting counterfeit payments with no recourse. Yes, there are counterfeit cards too, but it's very difficult to make counterfeit cards now that **microchips** are embedded in standard credit and debit cards. **This is not to say card acceptance is without its own unique risks and expenses**, which we will cover in the coming sections, just that cash is not perfect, either, and these costs must be factored in when you weigh out the pros and cons.

For businesses that pay a fair rate for processing, accepting cards translates to increased profits compared to cash-only businesses. For those on the fence, we suggest trying it out for a few months to see how the math works out. **Our preferred providers have no-commitment contracts, meaning you can cancel anytime without penalty.** Your only expense will be the credit card machine or card reader, and some business won't require any hardware purchase at all.

Okay, I want to accept card payments. What kind of account do I need?

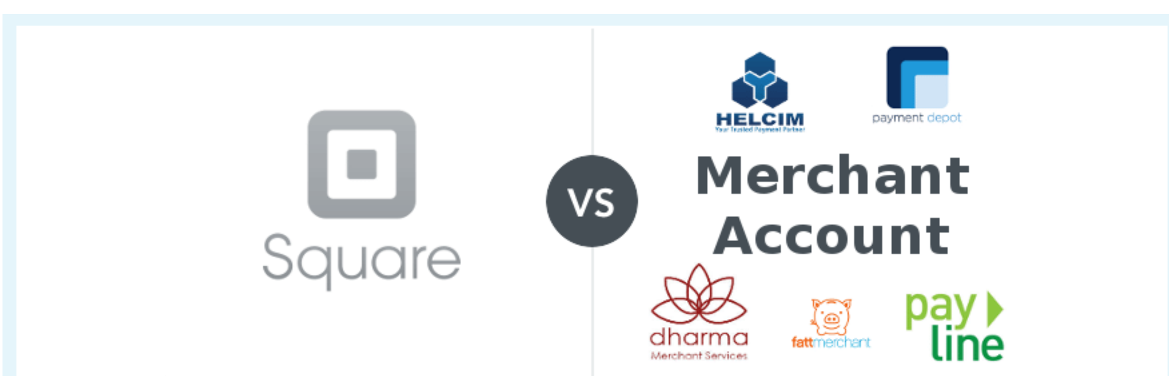
You've come to the right place. The type of account you need mostly depends on how much of your sales volume will come from card payments. If you run an eCommerce or mail order/telephone order (MO/TO) business, then the answer is likely near 100%. For in-person retail businesses, the answer is a little harder to predict. For many businesses, 90% or more is typical, but some companies may see less depending on clientele and average sale size.

There are two types of accounts to consider:

- **Merchant accounts:** If you operate a business, you are a merchant. "Merchant" is just another name for a business owner. If you plan to process large transactions ($300 or more) or a sizable monthly volume in card payments (about $10K or more, NOT INCLUDING cash and checks), you will want a merchant account to get the best rates. Even at lower volumes, a merchant account will always be the safest, most stable and dependable payment processing option. With a merchant account, you enter into a direct agreement with the processing bank. Because of monthly fees and setup costs, merchant accounts are not usually the best value for businesses processing under $5K per month. (Example: Any of our **featured providers**.)

- **Payment service provider (PSP) accounts:** This is a low-cost substitute for a merchant account. If you plan to process a very low volume in cards ($5K or less monthly), you may opt for processing through a payment service provider, also known as an **aggregator** or **third-party processor**. With a PSP, you have an indirect agreement with the processing bank. The PSP is a middleman. Instead of opening an account just for you, a PSP will funnel your transactions along with hundreds or thousands of other users through shared accounts. While transaction fees might be a little higher than if you had your own merchant account, PSPs usually do not charge a monthly fee or other scheduled fees. You just pay for what you use, which is ideal for businesses that only process sporadically. The downside is that account terminations and funding holds are more likely with PSPs, especially for those working in industries where customers are prone to dispute charges. (Example: Square or Stripe.)

Either of these accounts will provide you with credit card and debit card processing services.



PRO TIP

As a rule of thumb, any processing account that does not have a monthly fee will be a PSP account. It's only possible for these companies to provide a processing service with no monthly fee because the cost of maintaining PSP services for an individual merchant is much less than a merchant account. This includes most mobile processors and many eCommerce providers.

Merchant account compared to PSP account

	Merchant Account	Payment Service Provider
Cost	Lowest for mid- or high-volume businesses, usually negotiable	Lowest for lower-volume businesses, usually nonnegotiable
Value	Sometimes includes software or hardware at no additional cost	Always includes basic business software at no added cost along with low-cost hardware
Setup	Can take days	Usually instant approval
Reliability	Account terminations and funding holds are uncommon	Account terminations and funding holds are somewhat common and difficult to predict
Support	Usually high-quality, including dedicated account manager	Usually self-service, with little or no quality phone-based support
Versatility	Works with a variety of third-party hardware and software	Works with a limited selection of usually proprietary hardware and software
Commitment	Should have no early termination fee, but might have setup/closure costs	Almost never has an early termination fee

How do the credit card brands like Visa and MasterCard play into this?

The major credit card brands, which are Visa and MasterCard, set the rules that govern how their cards are used and accepted, how much it costs to run a transaction, and much more, because they run the networks that make credit card payments possible. They rule over basically everything to do with credit card processing. Both merchants and credit card processors alike must follow these rules. When you enter into an agreement that allows you to accept cards on the Visa and MasterCard networks, you will be given a long list of protocols and responsibilities you must abide by. The truth is that many merchants do not even read these guidelines. We recommend that you do. Note that these are not laws, they are just rules. You don't go to jail for breaking them, but you could lose your ability to accept payment cards or, perhaps worse, end up owing a lot of money.

If you'd like to accept American Express, you'll have to enter into a separate agreement with completely separate rules, rates, and fees. This is entirely up to you. The same goes for other smaller card brands.

SECTION 2

Rates & Fees

> If you know only one thing about payment processing pricing, know what interchange is.

So how much is this all going to cost me?

This always seems to be the question of the hour. The answer is - it depends. You should expect to pay at least 1.7% of your gross card payment volume, but hopefully not more than 3.5%. As a rule, the more you process, the lower your percentage should be. But other factors contribute to your overall cost. Unfortunately, most of it is out of your hands.

Factors that determine your payment processing cost

Your business type	Some business categories qualify for lower rates.
How you accept the card payments	In-person transactions cost less than eCommerce or telephone order transactions because there is a lower risk of fraud.
Your monthly card payment volume	The higher your monthly volume, the more negotiating power you have.
The types of cards your customers use	Different cards have different interchange and assessment fees (see below). Business cards, international cards, premium rewards cards, and American Express cards will all be more expensive. Debit cards will typically be the least expensive.
Your add-on services	If you need additional services, like a payment gateway or POS software, you may have to pay additional fees.
Your processor's markup	This is the main negotiable price point, but it is only a tiny percentage of your overall cost.
Junk fees	For some businesses, junk fees can make up a substantial portion of their costs. These are fees that processors use to pad their profits without providing you with anything extra.

What do I need to know about processing fees?

You don't need to know how an engine works to drive a car, so we won't be going into all of the technical details of how credit card processing works and where the fees go. You will benefit from some rudimentary knowledge, however, because merchant account sales representatives will often use misinformation to sell you an account. With just a little bit of expertise, you can avoid being taken for a ride.

If you know only one thing about payment processing pricing, know what **interchange** is. Interchange is the major wholesale cost involved with credit card processing. About 90% of your card processing fees will be interchange fees. The credit card networks determine these fees, and the money you pay in interchange fees DOES NOT go to the merchant account provider. **The fact of the matter is that the merchant account provider (represented by the salesperson you speak to) has absolutely no control over interchange fees and other wholesale costs.**

A small excerpt from Visa's published interchange fee tables

Visa U.S.A. Consumer Credit Interchange Reimbursement Fees

Visa USA Interchange Reimbursement Fees

<table>
<tr><th>Fee Program</th><th>Visa Signature Preferred / Visa Infinite†</th><th>Visa Signature / Visa Infinite‡</th><th>Traditional Rewards</th><th>All Other Products</th></tr>
<tr><td>CPS/Retail Key Entry</td><td>2.10% + $0.10</td><td colspan="2" rowspan="3">CPS/Rewards 2
1.95% + $0.10</td><td>1.80% + $0.10</td></tr>
<tr><td>CPS/Card Not Present</td><td rowspan="3">2.40% + $0.10 (except for B2B which receives 2.10% + $0.10)</td><td>1.80% + $0.10</td></tr>
<tr><td>CPS/e-Commerce Basic</td><td>1.80% + $0.10</td></tr>
<tr><td>CPS/e-Commerce Preferred Retail</td><td colspan="3">1.80% + $0.10</td></tr>
<tr><td>CPS/e-Commerce Preferred Hotel and Car Rental</td><td rowspan="7">2.40% + $0.10</td><td rowspan="6">EIRF
2.30% + $0.10</td><td rowspan="6">CPS/Rewards 2
1.95% + $0.10</td><td>1.54% + $0.10</td></tr>
<tr><td>CPS/e-Commerce Preferred Passenger Transport</td><td>1.70% + $0.10</td></tr>
<tr><td>CPS/Hotel and Car Rental Card Present</td><td>1.54% + $0.10</td></tr>
<tr><td>CPS/Hotel and Car Rental Card Not Present</td><td>1.54% + $0.10</td></tr>
<tr><td>CPS/Passenger Transport</td><td>1.70% + $0.10</td></tr>
<tr><td>CPS/Restaurant</td><td>1.54% + $0.10</td></tr>
<tr><td>CPS/Account Funding</td><td colspan="3">2.14% + $0.10</td></tr>
</table>

These costs are the same for every merchant account provider. Don't believe anyone who tells you that they can offer lower interchange or wholesale rates than you can find elsewhere. It's simply not true.

Assessment fees are similar to interchange fees in that they are wholesale. But the assessment fees are much lower and are often implicitly lumped in when we talk about interchange fees. **Interchange-plus**, **cost-plus**, and **wholesale-plus** all refer to plans where interchange and assessments are separated out from the service provider's margin.

Wholesale costs consist of a percentage fee and a per transaction fee, such as 1.51% + $0.10. Different cards will cost different amounts to process.

Common interchange examples

	Swiped/Dipped	Keyed-In/eCommerce
Basic Credit	1.51% + $0.10	1.80% + $0.10
Signature/Traditional Rewards Credit	1.65% + $0.10	1.95% + $0.10
"Preferred" Rewards Credit	2.10% + $0.10	2.10% + $0.10 / 2.40% + $0.10
Small Bank Debit	0.80% + $0.15	1.65% + $0.15
Big Bank Debit	0.05% + $0.21	0.05% + $0.21

Anything above the wholesale transaction cost is considered **markup**. With an interchange-plus quote, the markup is expressed in terms of:

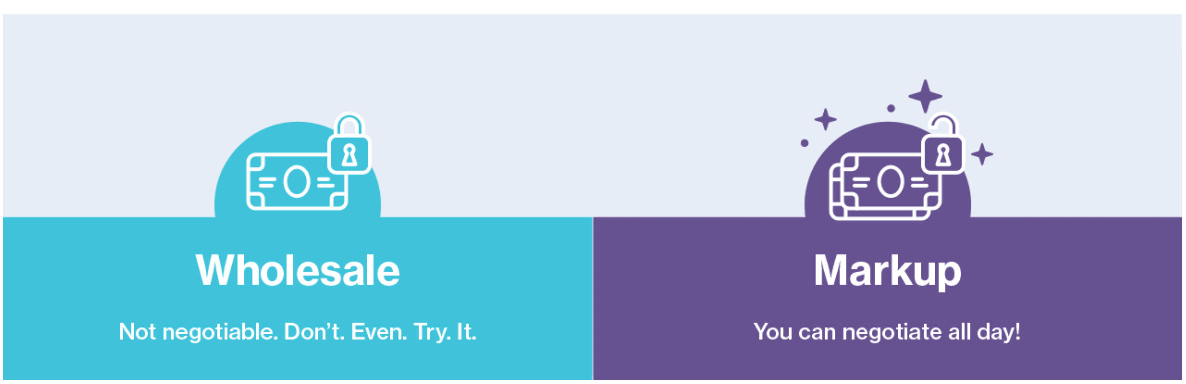
- **The percentage markup** (e.g., 0.30%)
- **The transaction fee markup** (e.g., $0.20)

Many providers try to obscure their markup margins by providing "**tiered**" pricing quotes. With tiered pricing, you are usually given three different fees.

- **Qualified tier rate and transaction fee** (e.g., 1.75% + $0.20)
- **Mid-qualified tier rate and transaction fee** (e.g., 2.25% + $0.25)
- **Non-qualified tier rate and transaction fee** (e.g., 2.90% + $0.30)

Because it's impossible to know what percentage of your transactions will fall into each tier, and the markup and wholesale costs are not separated, making meaningful comparisons between tiered pricing quotes is simply not possible most of the time. **For this reason, we highly recommend that you get an interchange-plus quote to ensure that you receive a fair deal and can make apples-to-apples comparisons.**

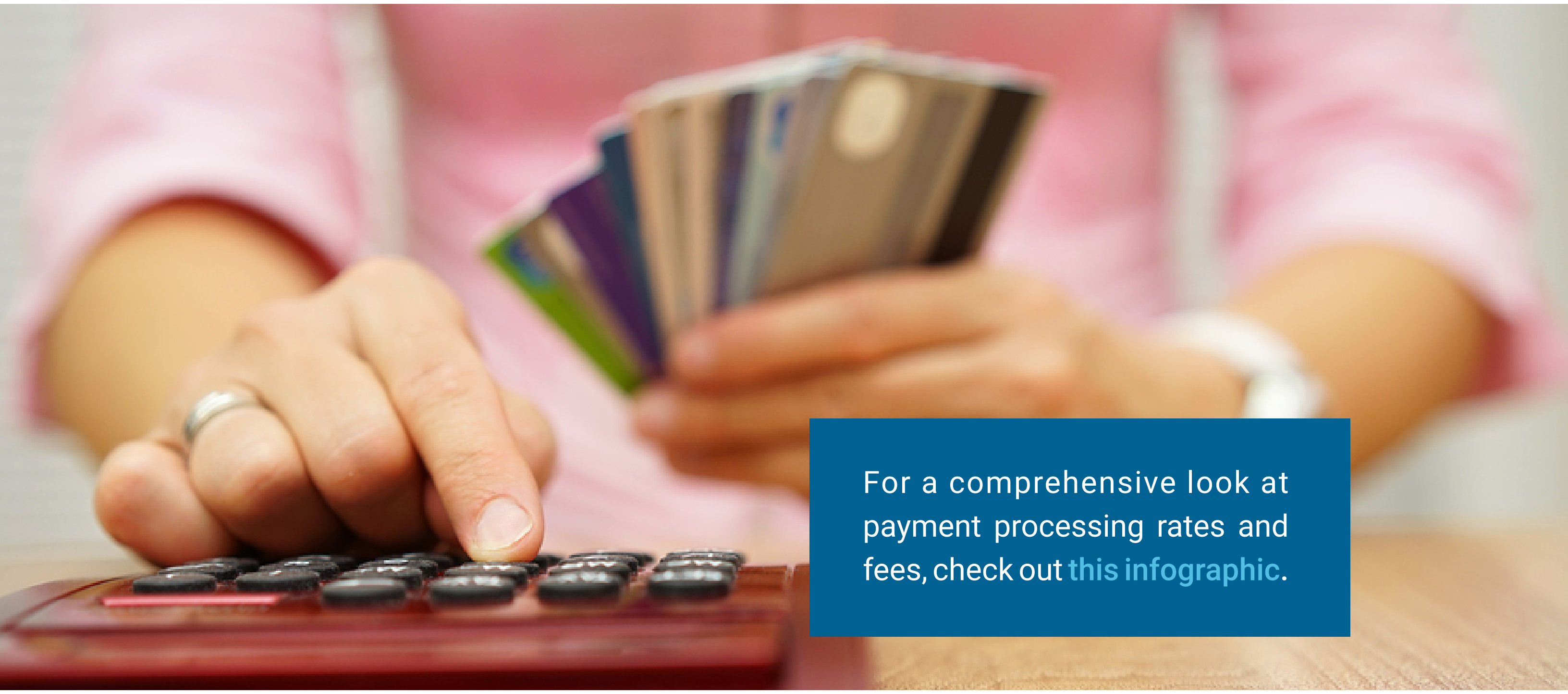
Some providers, especially third-party payment service providers, will just have one flat rate for all transactions. This is called **flat-rate** or **blended pricing** because it blends all interchange rates into one flat number. This rate will usually be highly inflated in order to cover even the most expensive interchange rates. But because no monthly fee is charged in most cases, it can sometimes be a good deal for low-volume merchants.



What about other fees?

Almost all fees should be considered part of the markup. So far we've only looked at transactional fees. You will also find scheduled fees and incidental (or one-time) fees as part of your processing agreement. Scheduled fees will occur again and again at regular intervals, while incidental fees only come up when certain incidents occur. One-time incidental fees will only occur once, usually during setup or cancellation.

Scheduled Fees	Incidental Fees
Monthly or annual fees	Chargeback fee
PCI compliance fee	Early termination fee
Equipment warranty fee	Application fee
Monthly minimum surcharge	Setup fee



For a comprehensive look at payment processing rates and fees, check out this infographic.

SECTION 3

Contracts

> Confidence is key to successful negotiation. If you can't confidently say that a deal sounds good or bad, all is lost.

How do I negotiate a merchant account contract?

If you want to avoid negotiation but still get a good deal, we recommend that you sign up with one of our **carefully vetted merchant services companies**. Our preferred providers are incredibly consistent and transparent, offering fair contract terms to every single merchant without any negotiation necessary.

Negotiations are intimidating, and for good reason. You probably don't have to negotiate pricing very much in your everyday life, and you only have to negotiate a credit card processing deal maybe a few times in your entire life. Sales representatives at merchant services providers, on the other hand, negotiate these contracts every single day. **When you deal with these agents, you are immediately at a disadvantage, which hurts your overall confidence.**

Confidence is key to successful negotiation. If you can't confidently say that a deal sounds good or bad, all is lost. Here's a rundown of all the necessary tools to stack the negotiating deck in your favor and give you the confidence to get the merchant processing contract terms you deserve.

1. GET AN INTERCHANGE-PLUS QUOTE

If you want to have any concrete, meaningful bargaining power, it's **interchange-plus or bust**. As we learned earlier, with **interchange-plus** the salesperson must separate the markup from the wholesale transaction costs, and thus provide you with two simple sets of numbers that you can easily compare with quotes from other vendors.

2. EXAMINE FEES TO CALCULATE THE EFFECTIVE RATE

So you've got your interchange-plus quote in hand, along with a complete list of fees. Now what?

Well, it helps if you have some expertise in payment processing, but a careful newcomer can do a fairly good job of examining and sorting fees. This is the first step toward calculating the **effective markup rate**, which is the number you can use to make apples-to-apples comparisons across multiple processors.

Looking at your fee page, highlight all of the fees that are "**scheduled**," meaning they occur at regular intervals. These fees figure into the markup cost. **Incidental fees**, on the other hand, are excluded from the markup. It's important to pay attention to these fees as well when you make comparisons, but they do not count as part of the effective markup.

PRO TIP

If you process a lot of card-not-present transactions (telephone order, mail order, or eCommerce), look out for an **AVS (Address Verification Service) fee**. Usually this fee is built into the markup quote for card-not-present businesses, but some providers are sneaky and include it as a separate fee. The AVS fee is charged every time you run a transaction without the card present. The fee is usually small (maybe $0.10), but it adds up quickly. Multiply this fee by the number of card-not-present transactions you'll have in a month, and add that number in with your other scheduled fees.

3. CALCULATE THE EFFECTIVE MARKUP RATE

With your fees carefully examined and sorted, you're ready to calculate the magic number. The effective markup gives you a single number that serves as a simple metric to compare actual costs, not just quoted rates, across a number of processing quotes. **It's the single most important number to consider when rate shopping, so pay attention!**

You are given a rate and fee quote that includes the following:

- **Interchange-plus:** 0.25% + $0.20
- **Monthly fee:** $15
- **Annual PCI compliance fee:** $72
- **Monthly gateway fee:** $10

You predict that you will process **$20,000.00** per month in card payments, with **$100.00** being your average card payment transaction size.

Follow these steps:

Instructions	Example math
1. Multiply your markup rate by your monthly volume.	20,000 * .0025 = 50
2. Divide your monthly volume by your average transaction size to get your average number of transactions per month.	20,000 / 100 = 200 transactions
3. Multiply your average number of transactions per month by your per transaction fee.	200 * 0.20 = 40
4. Add up all scheduled fees. For fees collected annually, divide by 12 to get the monthly figure.	15 + 6 + 10 = 31
5. Add totals from lines 1, 3, and 4 to get your total cost above wholesale.	50 + 40 + 31 = 121
6. Divide total cost above wholesale by your total monthly card payment volume to get the effective markup rate.	121 / 20,000 = 0.00605

So in this example, the effective markup rate is about **0.61%**, which is **$121** in negotiable fees per month. (Not a huge margin, as you can see.) This is the ultimate test to see if one provider will actually be less expensive than another, or if it just looks less expensive. Trust me, sales reps are experts at making a quote look less expensive without actually saving you any money.

4. ASSESS THE OVERALL VALUE

> By educating yourself about payment processing, you build the confidence necessary to deal with professional sales representatives.

The effective markup is a powerful number, but it's not the whole story. **Without assessing overall value, you could end up choosing the cheapest provider but not the *best value*.**

For example, let's say you process **$20,000** per month and you get three quotes. You do the math and get the following results:

- **Provider A:** 0.60% effective markup, nothing else included
- **Provider B:** 0.70% effective markup, includes gateway and **virtual terminal**
- **Provider C:** 0.90% effective markup, includes gateway, virtual terminal, and **shopping cart integration**

If you don't need a payment gateway or shopping cart integration, and all other things are equal, then the choice is clear. But let's say you do need the gateway and shopping cart, now what?

At $20,000 per month volume:

- **Provider A** costs about **$120**
- **Provider B** costs **$20 more** than A
- **Provider C** costs **$60 more** than A

How much are the gateway and the shopping cart integration going to cost if you get them elsewhere? The gateway could easily be $20 per month or more, so option B is at least as good as A. If Provider C is offering a good shopping cart, that could cost $40 or more elsewhere. This means that they are all about the same in terms of value, despite the effective markup differences. But Provider A offers the best flexibility, since you are free to choose the gateway and shopping cart you'd like to use.

Other things that impact value might include quality of customer support, quality of the online reporting system, deposit times, etc. These are more difficult to quantify, but should be considered when you make comparisons of value.

5. LOOK OUT FOR CONTRACT TERMINATION TERMS

Everyone will tell you to read your contract, us included. But the reality is that it's a very long contract, and if you're not familiar with the industry terminology, standards, and legalese, you likely won't be able to glean much useful information from the majority of it. And the truth is that the vast majority of the contract is non-negotiable and standardized across the industry.

We still recommend that you try to read it since it is a legally binding agreement. And if you only read one section carefully, make sure it's the part that outlines the termination procedures. Ideally, your contract will have an **early termination fee waiver** so that the contract is ostensibly month-to-month. (Note that the contract terms will still outline the termination fee, which is why it's so important to make sure the waiver is included.)

If you can't get the early termination fee waived, at least look out for the **auto-renewal** clause. This clause – which was present in literally every contract I've ever read – makes it so that after your initial contract term expires (usually three years), the contract AND early termination fee renew automatically! This means that even if you satisfy the initial contract term, you could still end up stuck with the early termination fee. If there's no early termination fee, then this clause doesn't matter.

Perhaps the most important thing to look out for in the termination section of the contract is any language referring to "**liquidated damages**." This type of early termination fee allows the provider to collect thousands of dollars in "damages" from projected revenue loss based on your early cancellation. **Never agree to this.**

6. SHOP AROUND

> Don't buy into any limited-time offers or high-pressure sales tactics.

One of the best negotiating tools you can arm yourself with is a collection of multiple rate and fee quotes. Talking to at least three different providers before making a final decision not only helps you build confidence in the process, it gives you real-world information regarding the fees and rates appropriate for your business.

Everyone wants to know how much he or she should pay for credit card processing. The answer is *the lowest quote you can find without sacrificing value*. The numbers vary too widely for us to give a concrete answer, but the fact of the matter is that **if one provider can offer you a low quote, any other processor will be willing and able to match that rate and fee quote to win your business**. So even if you have your heart set on one processor, it doesn't hurt to get another quote or two. If one of the other quotes is lower, show it to the provider you'd prefer to work with and get them to match it.

As we discussed earlier, you have to be careful to assess the effective rate and overall value here, since one rate and fee quote might look better than another, but not actually be as valuable to you.

7. NEVER AGREE RIGHT AWAY

Here's a rule to live by: ***take your time***. Don't buy into any limited-time offers or high-pressure sales tactics. Even if you're pretty sure that you want to sign on with a particular provider, give yourself a day to think it over and look at the numbers. The salespeople might be in a rush to close the deal, but *you* shouldn't be. If the representative is trying to rush you into signing, remember that **you don't owe him or her anything**. If the pressure escalates, take your business elsewhere.

By educating yourself about payment processing, you build the confidence necessary to deal with professional sales representatives. Leveling the playing field in this way helps to ensure that both parties get a fair deal. With that in mind, realize that not every merchant services provider is out to rip you off. Sometimes the opening offer is 100% fair and won't require any negotiation, so don't feel like you need to talk down a fair offer out of principle.

PRO TIP

There is really no such thing as a limited-time offer in merchant services sales. Any deal offered today can be offered tomorrow. Sales representatives use this limited-time tactic to put pressure on you to make a decision on the spot. Tell them that you need more time to think it over, and then come back at a later date to demand the lower promotional rate or fee waiver offered earlier if you decide to sign on. They'll give it to you to win your business.

Why should I bother with small merchant services companies? Won't I get a better deal by going directly to one of the major payment processors?

Although we admit that it makes intuitive sense that you would save money by going directly to the company at the top of the food chain and cutting out perceived middlemen, this is rarely the case, especially for small businesses. Here's how it works.

At the very top, you have the payment processor and the bank attached to it. Sometimes these are owned by the same company, sometimes not. The processor is in charge of handling all of the transaction data, while the bank is in charge of handling the actual money. The nomenclature here gets a little sketchy in the industry, with some designations having multiple different definitions. For our purposes, we will call this bank and data processing combination the **backend payment processor**. There are only a handful of large backend payment processors in the world.

In the next layer, we have **merchant services providers (MSPs)**, also called **independent sales organizations (ISOs)**. These are companies that set up merchant account contracts and sell the services of the backend payment processors, helping you to enter into agreements with the credit card networks. They might also provide some additional customer service and software for the merchant that the backend processor does not. All of our favorite merchant account providers fall under this category.

Yes, you could go directly to the salespeople working for the huge payment processing company, but you are not actually cutting out a middleman when you do this. **You are just choosing a different middleman, and oftentimes a worse one.** The sales staff and merchant account division at the big processor need to get paid just like those same people do at a smaller company. And, unfortunately, the standardized pricing terms provided by the bigger companies are rarely interchange-plus and tend to be overinflated. You are left to negotiate, and you will have to negotiate carefully because good contract terms, like waived termination fees, will not likely come standard.

When you sign up with a high-quality merchant services provider, however, you get a contract and pricing package that are pre-negotiated, totally standardized, and openly disclosed. The company might include additional products and services that create even more value for you alongside everything the big payment processor offers. But your money is still handled by that big, reliable company behind the scenes. You get support and extra attention from the smaller company, but you also have access to all of the support and tools offered by the bigger company. **You get the best of both worlds.** This is why signing up with a smaller merchant services provider is usually the better route to take, especially for small or new businesses. Of course, there are plenty of bad smaller merchant services providers out there. Avoiding the big guys is no guarantee to save money. But - as long as you use a good one - signing up with a small reseller will expand your options, give you more control, and provide a better value.

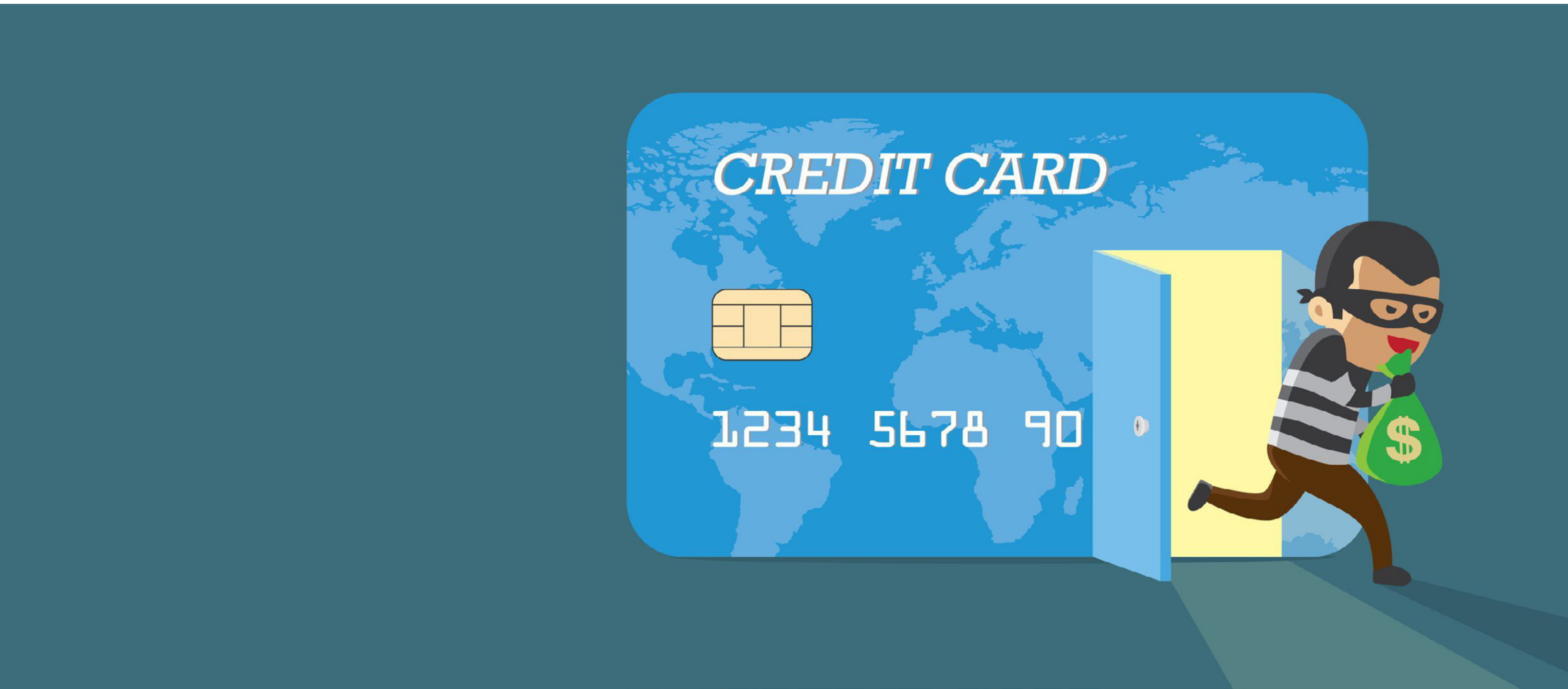
SECTION 4

Security

> Is it riskier to process one thousand $1 transactions, or a single $1,000 transaction?

Is credit card payment acceptance safe and reliable?

Although it's easy to think of credit as being interchangeable with cash - especially considering this is how most shoppers use credit these days - the truth is that accepting credit card payments comes with certain risks for you and your processor. It's safer than ever with the advent of new technologies like **chip cards**, but no form of payment is perfect. While you worry about customers committing fraud, your processor is worried about you, the merchant, committing fraud. And just like you take certain measures to prevent losing money due to fraud, so does your processor.



The following could prevent you from accessing your money:

- **Rolling reserves:** This means that your processor releases funds on a delayed basis, kind of like how employers will usually withhold two weeks of pay. The reserve period could be as little as a week or as much as a few months. Usually this is agreed upon at the time you sign the contract, but it can be initiated without warning later on, too. Rolling reserves are designed to protect the processor if something goes wrong with your transactions.
- **Chargebacks:** A chargeback occurs when one of your customers disputes a transaction that you ran. Sometimes it's done by mistake because they didn't recognize the charge, but other times their card might have been stolen and used at your place of business. If a chargeback occurs, you will have the opportunity to defend yourself. But whether you are found at fault or not, the transaction amount will be removed from your bank account and held for potentially many months. If you are found to be at fault (due to not following the card network rules), then you will never get the money back.
- **Funding holds:** If your processor believes that transactions might be charged-back in the future for whatever reason, it might take all of the funds out of your account and hold them until it determines a chargeback will not occur, usually 90 days but up to 180 in some cases.
- **Account termination:** If the processor decides it no longer wants to continue its relationship with you, usually because your risk level has increased or you breached a contract term, it will terminate your account and often hold a chunk of your money as well for up to 180 days.

No one wants to hear this, but every time you accept a credit card payment, you should be prepared for that money to get tied up for 30 to 90 days. If that risk is unacceptable for your business, you may not want to encourage credit card payments. It might never happen, but you must prepare for the worst and hope for the best.

What factors make a processor more likely to withhold funds, freeze accounts, or terminate services altogether?

Here are the most important factors to consider when determining the risk you pose to a payment processor:

- **Business type:** Different business types represent different amounts of financial risk for a payment processing company due to the varied likelihood of fraud, customer disputes, or legal issues. Generally speaking, high-risk businesses will need to sign up with **a processor that specializes in setting up these difficult accounts**. Some examples of high-risk businesses include gun and ammo dealers, tobacco and vaporizer supply stores, online pharmaceutical sales, and anything related to gambling or financial services.

- **Age of business:** If you have a longstanding, well-established business with loyal customers and a lengthy processing history, you pose less risk to the processor than a business that is brand new with no processing history or business records. The likelihood of a business with a decade of processing history and general good standing suddenly becoming involved in serious financial fraud is much lower than that of a business that just materialized when filling out the application. Of course, having a seasoned business doesn't make you immune to these issues, and being a startup doesn't automatically curse you. But if you can produce at least a few months to a year of financial documents, you will significantly increase your chances of application approval or good outcomes in cases of account freezes.

- **Transaction size:** Here's a question: is it riskier to process one thousand $1 transactions, or a single $1,000 transaction? The answer is the single $1,000, by a long shot. This is because, in any industry, it's far more likely to see one fraudulent high-ticket transaction than a ton of fraudulent small ticket transactions. What's more, a processor would see it as even riskier if you usually process only $1 transactions, and then suddenly one day you process a random $1,000 transaction. A processor's risk assessment algorithms like to see consistency, above all things. If you will be processing transactions of $100 or greater on a regular basis, make sure you accurately describe your processing habits in the application and try not to process unusually large transactions out of nowhere.

- **Processing volume:** Just like transaction size, more equals riskier regarding processing volume. This risk compounds when you have a high volume of large tickets. As long as you accurately describe your processing needs on your application and do not deviate from the norm, you should be fine.
- **Transaction type:** You might process payments by swiping, chip reading, contactless **NFC**, manual entry, or online customer entry. The most secure of these are chip reading and contactless NFC, which are both **EMV-compliant** payment methods. Swiping is relatively secure, but not as safe as chip or NFC. Manual entry and online sales are the least secure, and therefore the riskiest. The more manually entered or online sales you have, the greater your risk of having chargebacks, account suspensions, and sudden account terminations.
- **Chargebacks:** Most chargebacks occur as a result of a customer disputing a charge with their credit card companies. A buyer can dispute a charge for any reason, but most commonly disputes occur because a customer does not believe he or she authorized the charge, or else does not feel as though the product or service was delivered as described and could not resolve the issue with the business directly. Because of this, processors view chargebacks as potential indicators of fraud, and thus also possible signs of risk and expense. Receiving any chargebacks soon after opening an account could trigger an account suspension or prompt the processor to freeze of all the funds in your account. Too many chargebacks will get your account terminated.

Most importantly, third-party payment service providers (the PSPs we discussed earlier) are much more likely to cause these account stability issues than a merchant account provider is. If you need the most stable account possible, please go with a **merchant account** even if it will be more expensive for you. The extra cost could save your business, and in most cases the merchant account ends up being less expensive anyway in the long run.

What is EMV compliance?

EMV stands for **Europay**, **MasterCard**, and **Visa**, which set out to create world-wide standardized protocols for so-called "integrated circuit" cards and the hardware necessary to accept these cards. This was no easy task, but by 2005 – over a darn decade ago – chip cards became status quo in the European Union. By 2012, Canada also joined in on the EMV party. The US only joined in late 2015.

These cards are manufactured with a small integrated circuit (or "chip") in the card. Payment data is read from this chip instead of from the magnetic stripe. This technology protects against fraud in two ways. First, the chip itself is more difficult and expensive to counterfeit. Second, the way the data is transmitted varies each time it is read, making it dynamic instead of static. Thus, while info from a magnetic stripe can be "skimmed" easily, chip information is much more complicated to glean.

If you do not have EMV-compliant hardware to process chip cards, then you will be liable for transactions where a counterfeit card is authorized, when that transaction could have been prevented with a chip card reader.

Should I be worried about PCI compliance?

The answer to this question really depends on your business. PCI compliance refers to the data security regulations maintained by the **Payment Card Industry Data Security Standard (PCI DSS)**. For most businesses, the vast majority of PCI considerations will be taken care of by your payment processing provider. As the merchant, you will handle and store very little, if any, sensitive payment data on your own system. **All of the payment hardware and software that you use is designed to minimize your responsibility and liability with regard to transaction data.** But if you decide to take this data handling and storage into your own hands, then the complexity of PCI compliance increases sharply.

The main factor that determines how you need to proceed with PCI compliance is the number of transactions you run in a given year. If you are not planning to process many millions of transactions per year, then your responsibility is simply to complete a questionnaire designed to ensure that you are handling data safely (assuming you are handling data), and in some cases to have a quarterly system scan performed by an approved scanning vendor. The questionnaire is about as complicated as tax paperwork, which is to say that it is tedious and unfun, but gets significantly easier after you've worked through it the first time.

For more information on PCI compliance and standards, check out the **official PCI DSS website**.

SECTION 5

Add-Ons

What's the best hardware and software I can use to accept payments?

> About 99% of the time,
> a terminal lease is a terrible idea.

We'll take a closer look at hardware and software in another guide, but here's a quick rundown of your options.

1. Credit card machines:

Most businesses that accept payment in-person will use a credit card machine, also called a *terminal*. This is a dedicated device that uses a phone line or internet connection to transmit swiped, dipped (in the case of chip card), or keyed-in payment information. These machines usually have a receipt printer built in, and can function as a standalone point of sale (POS), or in conjunction with a computer or tablet that is loaded with additional **POS software**. Wireless payment terminals exist, but they are expensive and will require a costly monthly data plan unless they operate via Bluetooth. Peripheral devices like a signature pad, PIN pad, and **NFC reader** (**Near Field Communication**, for mobile payments like Apple Pay) can connect to the terminal if they are not built-in.

- **How much does a credit card machine cost?:** About $200 for a basic machine capable of accepting chip cards. For a machine with NFC capabilities, expect to pay about $325. Wireless machines will cost about $550.
- **Should I lease a credit card machine?** About 99% of the time, a terminal lease is a terrible idea. Almost all of these leases are for **48 months and are non-cancellable**. That means that you are stuck paying for all 48 months no matter what, and the total comes out to $1,000 to $2,000 per machine, sometimes more. Since these machines cost about $200 brand new, you can see the problem here.

- **What's the difference between leasing and renting?** If your merchant services provider can rent you a machine, that is an option you might consider if you can't afford to buy. Rentals are month-to-month, and shouldn't cost more than $10 per month. You can cancel anytime as long as you ship the machine back. But be careful here. Returning the machine can end up being a headache, and you might find yourself still paying for the equipment months after you sent it back.

- **Is a free terminal offer legit?** Sometimes, yes. These deals are usually rentals. While you pay nothing for the rental itself, you will usually have to pay for an insurance plan (about $100 annually), and you may be automatically enrolled in a "membership" that provides you with supplies or services, usually for about $10 per month extra. If it seems too good to be true, you know what they say.

- **What about NFC/Apple Pay?** To accept **Apple Pay** or other NFC-based mobile wallets, you either need a credit card machine with a built-in NFC reader, or a separate NFC reader that you can attach to your POS system. For quick-serve businesses, this could be a beneficial investment. As mobile wallet adoption grows, it might become useful for other types of merchants as well.

- **Don't I need POS software?** For some businesses, all you need is the credit card terminal. If you have more complex inventory management needs, require in-depth reporting, need special sales features, or just want to make your life easier and more organized, then you ought to consider additional POS software. This software will help you to ring up sales, print nice receipts, access advanced sales analytics, manage inventory, manage staff, utilize loyalty programs, and a lot more depending on the system. We have an extensive catalog of **POS software reviews**, including options for **iPad POS**, **restaurant POS**, **cloud-based POS**, and more.

2. Credit card readers:

Here's an important distinction in the world of credit card processing hardware. A credit card terminal is a standalone device capable of processing card payments. A credit card *reader*, on the other hand, must be connected to a tablet, smartphone, or computer to function. As such, credit card readers are much less expensive than credit card terminals (if you don't count the cost of the separate tablet or smartphone plus a receipt printer if you need one). Many companies provide a basic card reader capable of swiping only at no cost to you, and a chip-card-capable reader for $50 to $100.

3. Virtual terminals:

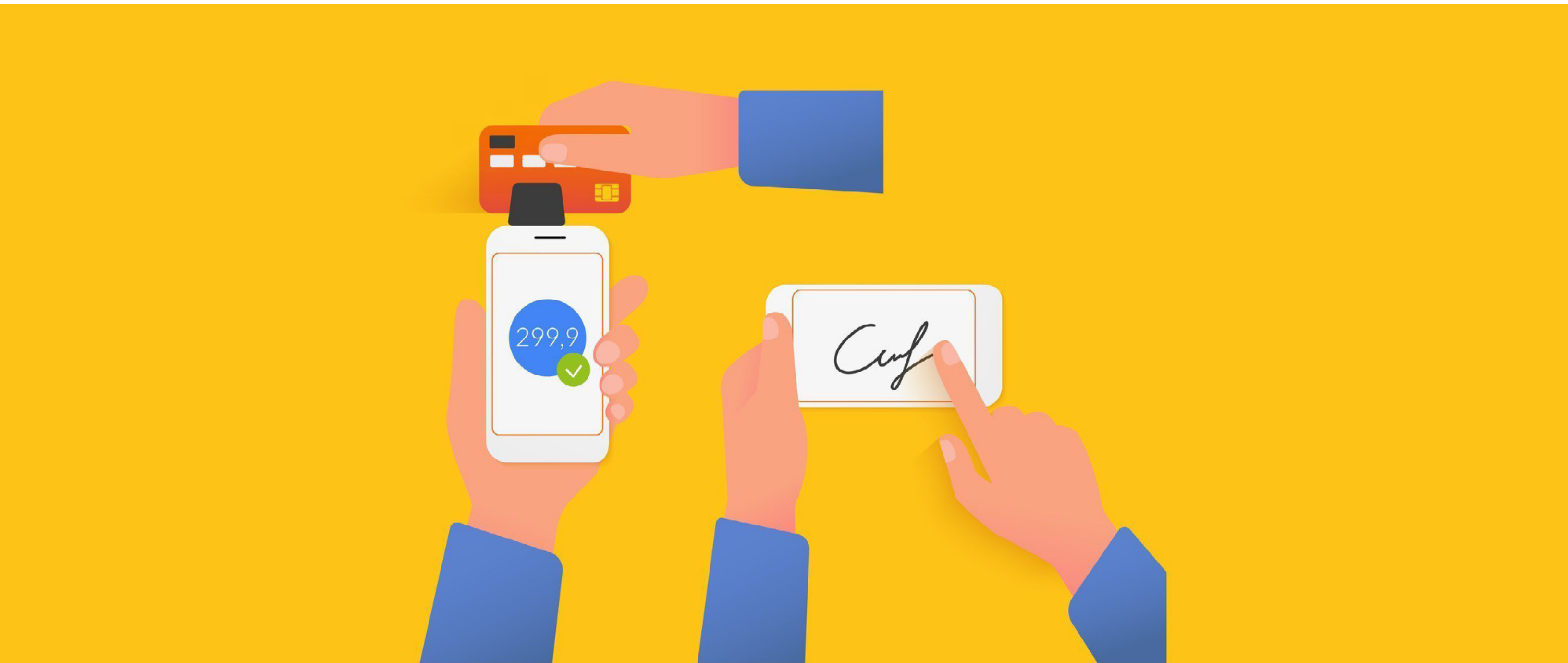
For mail order/telephone (MO/TO) order businesses, there's usually no need for a credit card machine or POS device. If most of your clients pay over the phone or are on recurring payment plans, then you can process payments from any internet-connected device by using a **virtual terminal**, which will be included with your MO/TO processing account. A virtual terminal performs the same task as a credit card machine, transferring transaction data to the banks. Most virtual terminals run in a web browser, so you can use them on your office computer, smartphone, tablet, or laptop. Some virtual terminals allow you to connect a card reader via USB in case you have card-present transactions.

What about mobile processing?
How do mobile processors fit into this?

The idea of a mobile payment processor as distinct from any other payment processor is mostly a matter of marketing. Almost any payment processor can be used for mobile payments, and any so-called mobile processor can be used in a non-mobile capacity. **In fact, most mobile processors these days include tools for in-store retail as well as eCommerce.**

The vast majority of payment services providers and merchant account providers offer cheap or free mobile card readers and payment processing apps. The capability of these apps and hardware varies widely, with some functioning as full POS software and others more like a basic virtual terminal. Your unique needs as a business will impact your calculations of value regarding any included software or hardware that a given provider offers. If you need a capable tablet-based POS application for a cafe, for instance, a company that offers this application at no added charge as part of its processing services will provide a lot of extra value for you. But if you only need a basic virtual terminal, then that same POS software will be less meaningful in your calculations.

If mobile processing is a big part of your business, you will need to carefully review the mobile offerings of the merchant account providers you research. While all providers offer mobile capabilities, you will find that **companies specializing in mobile processing** tend to include better software. You might also consider checking out **other point of sale software** to increase the power of your mobile system.



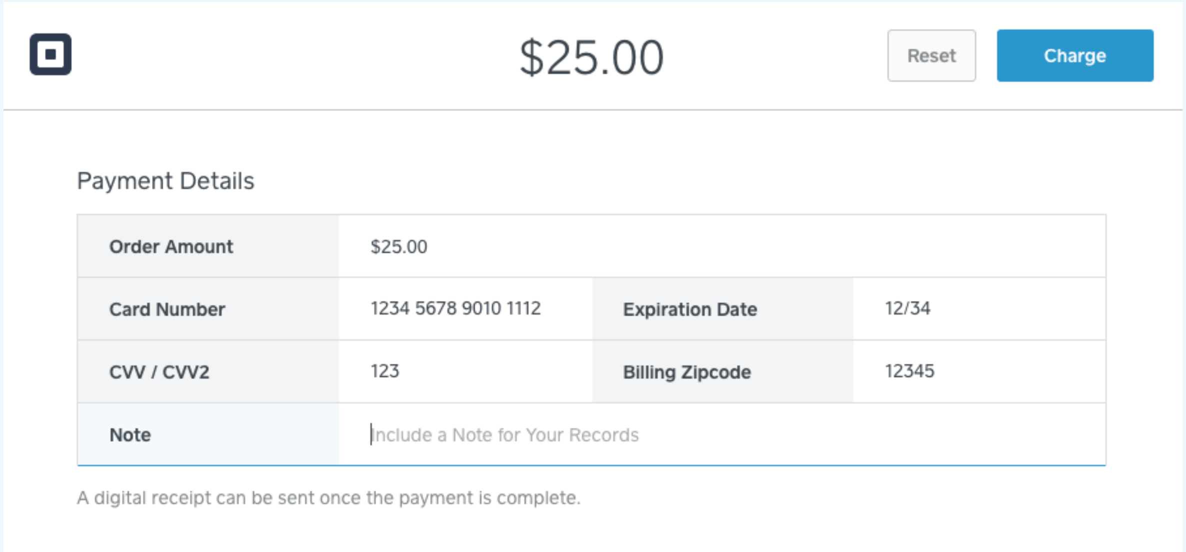
What's a payment gateway and do I need one?

A payment gateway is the connection between an online payment device (like a website or some POS systems) and the bank that processes any given credit card transaction. Whether being used for an eCommerce store or a mobile payment application, the payment gateway is a piece of software that works behind the scenes to securely transfer sensitive credit card information from an online payment form to the payment processor.

Just about all eCommerce businesses will need a payment gateway, but some in-person businesses might need one too. POS software often requires a payment gateway to operate if it is integrated with credit card processing. If you just need a virtual terminal to key-in card information, you might not need a dedicated gateway.

Gateway Feature	What It Does
Recurring billing	Allows customers to sign up for periodic, automatic charges. You can set up the billing for the customer, or the customer can sign up via your website. Most gateways have this feature, but in some instances, it might cost extra.
Information vault	Stores sensitive information off of your server. This feature allows customers to store their credit card details for quick checkout in the future without increasing your liability.
Virtual terminal	Allows you to accept payment over the phone, by mail, or in-person by typing in the payment details. Virtual terminals are usually browser-based, meaning that you don't need any special software and you can access the terminal from any internet-connected device.

Example of a basic virtual terminal



PRO TIP

Some merchant account providers will give you access to a basic virtual terminal even if you are a retail merchant without a payment gateway. You won't get access to advanced features like recurring billing, but it will allow you to process payments from any internet-connected device at no additional charge. Just be aware that these are card-not-present transactions, and so will cost a little bit more to process than your standard swiped or dipped card payment. Be sure to ask about this feature.

How do I use a payment gateway?

To use a payment gateway, you will have to "integrate" it with your website or software. This can be as easy as typing in a numerical key. It can also be difficult enough that you will have to hire a web developer to help you out. It all depends on your gateway, your software, and your needs. In general, integrating with a POS system is not difficult. Your gateway provider's website should include detailed instructions regarding shopping cart integration for websites. **Only those in need of customized solutions tend to run into complicated integration issues.**

Are all gateways compatible with all payment processing services?

Not quite, but all the major payment gateways tend to be compatible with all the major credit card processors. This includes smaller merchant account providers that use a major payment processor behind the scenes (like our **preferred providers** do). However, some gateways are built into payment processing services. Stripe, for instance, bundles these two services and does not allow merchants to use just one or the other. This is good for simplicity, but not so good if you want the freedom to change. If you love the Stripe gateway but hate the payment processing, tough luck.

How much should a payment gateway cost me?

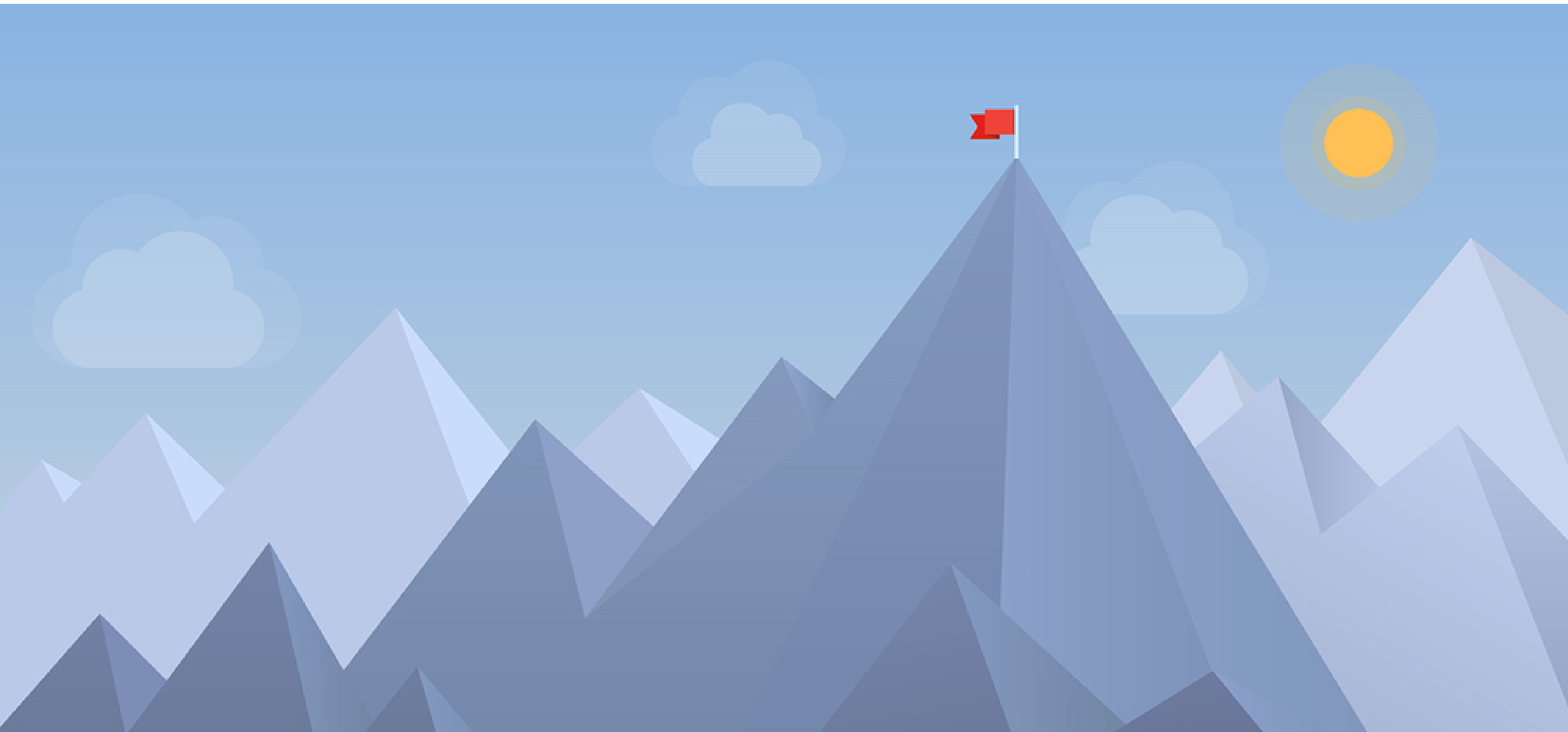
Some processors provide free payment gateways, but most of the time you will have to pay a monthly fee up to about $25. Some providers will also ask for a setup fee, which is fair but not incredibly competitive. Beyond these fees, you will also likely have to pay a per-transaction fee (sometimes called an authorization fee) for each gateway transaction. This may be included in the processing markup, or it may be charged separately.

Interested in other business software and add-on services?
We review **all kinds of software**.

Conclusion

Phew! That was a lot of information, we know, but every last bit of it is important for you to understand and consider in order to make informed decisions. Kudos for making it to the end! You now know the answers to all of the most common questions in the payment processing industry. This will prove to be a useful base of knowledge as you research payment processing companies to get all the services you need - and none of the services you don't - for a fair price point that provides the highest value for your unique business needs and circumstance.

As you continue your research, you will find **our in-depth and unbiased reviews** helpful. **We aggregate and interpret a lot of information on each company, spending hours snooping around so that you don't have to.** Don't take our word for it, though. We encourage you to use our collection of resources as a guide to form your own conclusions that make the most logical sense for your business. With that said, we are extremely confident in the providers that we give high marks to, so our recommendations will be a good place for you to begin your search. Good luck!



About the Author

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Tom loves asking tough questions and getting straight answers, so he has a lot of fun calling payment processors for Merchant Maverick to cut through their smoke and mirrors and find the real deals. He has run a full-time editorial business from his home in New York's Hudson Valley since 2010 and could not imagine a better job.When not busy writing and keeping credit processors honest, Tom enjoys backpacking in the mountains or playing various musical instruments.

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