

# *Merchant Account Buyer's Guide* ã 2002-03

With very little time investment you can come up to speed and make intelligent choices selecting the best Merchant Account Provider for your business. This guide will help you save time, save money and control your destiny in the world of credit and debit card processing. Here are some of the ways this guide can help you.

- Avoid those hidden surprise fees on your monthly statement
- Save weeks of valuable time searching for the best rates and service
- Estimate the total costs as a percent of your monthly sales.
- Know when you have a sales rep. you can trust
- Find safe & reliable providers for gateway and internet accounts
- How do get your Merchant Account started right away
- Know your fees to the penny – customized to your business
- Make sure your customers will be able to submit online orders to you with confidence.
- Make sure orders are encrypted and screened for possible fraud.
- Save time with recurring orders.
- Avoid multi-year contract commitments.
- This is the guide Merchant Account Providers DON'T want you to have
- Avoid the 10 Costliest Chargebacks.
- Bonus: Includes the industry's *only* "Buying Criteria Analysis" spreadsheet

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## Foreword

The purpose of this guide is to educate you to the issues involved in accepting credit cards, debit cards, and other non-cash forms of payment for your business. A quick read of this guide could save you thousands of dollars – and even tens of thousands – over the life of your current business and any future businesses you are involved with.

### About the Author

You most likely don't know me yet, but I own an Independent Agency for Cardservice International (CSI). CSI is known as a credit card processing company among other things. In fact CSI was the largest privately owned “non-cash transaction processing company” in the US until bought out by First Data Corporation (a public company) in 2002. Independent Agencies are the selling arm of CSI while CSI corporate does the day to day servicing for our clients. I bought and opened an Agency for Cardservice International in 1998. Since then, through a lot of hard work and help from excellent employees that I was lucky enough to find, our Agency has grown to being one of the largest CSI Agencies in the US. I knew very little about the Merchant Account world when I started back in 1998. I did have a small business at that time with a Merchant Account that accepted credit cards. Believe me when I say that I wish I could have read a guide like this back then. I would have saved time, money, and considerable headaches.

I hope you will consider using my Agency for your non-cash and credit card processing needs but *the purpose of the Merchant Account Buyer's Guide is to educate you to the advantages and pitfalls of accepting credit and debit cards properly – whether you use my Agency or not.*

You see, about once a week I get a call from a competing credit card processing company trying to recruit me and my Agency to leave CSI and come with them. The Merchant Account business is very competitive and people flip around with signing bonuses, offers of better buy rates, and claims of better service all the time. Anyway, they all tell me that I will make more money and they have better service. I still choose to offer Cardservice International products and services. I've concluded that CSI is as good as any competitor – and better than most – balancing price with service. I sincerely hope you will also.

Sincerely,

Jack Kimball



PS Cardservice International, Inc. has kindly provided a few articles for this guide which are designated as © 2002 Cardservice International, Inc. With this exception, the advice, concepts, and ideas are represented by me personally, as an independent Agency Owner, and not Cardservice International, Inc.

## **A Word About Our Partners**

You may have received this Guide through a Joint Venture Partner. Joint Venture Partners promote this Guide in turn for a referral share of the ongoing percentage fees that are generated to this Agency directly by their endorsement and promotion of this Guide. I can only pay them if I know that the business they generate was through their efforts. I value these Joint Venture Partners and you should also because it is through their efforts that you may have received this Guide. Yes, they are getting ongoing referral fees that come from my Agency from business they generate. However, there are two reasons you should work through the Joint Venture Partner who introduced you to this Guide. The first is that I know it is very important to protect our Joint Venture Partners and not offer any benefit to a Merchant who is trying to “go direct” – so we don't. The second reason is more important. I really believe you should treat others like you want to be treated. Should you want to be a Joint Venture Partner or not – and I encourage you to find out more about qualifying for this opportunity – you still would not want business owners trying to go around you - would you?

So should you desire more information on how our Agency can help you with your Merchant Account and non-cash transaction processing needs, please work through the Joint Venture Partner who introduced you to this Guide.. Should you be interested in the Joint Venture opportunity let the Joint Venture Partner know so I can give credit where credit is do.

Thank you.  
Jack

## Introduction

Frank Merchant owns a business called “Widgets Are Us”. It’s his life work. One day, a Credit Card Processing Salesperson enters Frank’s store. Joe Salesman declares that he can get Frank the cheapest rates and fees in town for Frank’s credit card processing. Joe explains that it really doesn’t matter what “Merchant Account Provider” Frank goes with because they all are pretty much the same. “As long as you shop around and get the best rate you are in great shape.” Joe explained that any company that quoted higher than Joe was a rip off. Frank Merchant was skeptical though. Later he made a few calls and got some rates over the phone and found out that Joe did have the best deal on both rates and the monthly payment on the terminal Joe was recommending. No one he talked to was able to really explain why they were higher so Frank, who is always looking for the best price, called Joe back and signed the paperwork. Joe Salesman went to work setting him up.

Joe brought out a terminal and printer that Frank knew was a really good deal based on Joe’s quote. The terminal looked “refurbished” but Joe explained that all the terminals today are refurbished but it was still state of the art. Each day Frank “batched out” his terminal to get the money sent to his bank account. He checked with his bank and the money for each batch of credit card sales were taking about three days to hit his account. Frank called Joe about this delay. Joe told him that the 24 hours he promised was dependent on his bank depositing the money. Joe suggested that Frank consider another bank. Frank liked his current bank though and decided to live with the late deposits.

Frank received his Merchant Account Statement at the end of the month. The first thing he noticed was that the statement reminded him of a telephone company service bill. He couldn’t understand it. The rate was on the statement that Joe quoted him - but when he divided the total amount taken from his bank account into his sales for the month the percentage was much higher. Much higher..

Not only that, the statement had a lot of terms and fees that Frank had never heard of before. What’s this “Representment Fee” of \$15.00? “Monthly Paper Reporting” of \$10.00? “Deposit Fees” looked like 15 cents per day? And what’s this “MC Dues and Assessments”? And what about something called a “Non-Qual” of an extra 2.25% on some transactions? Frank was confused so he called Joe.

Joe told him he wasn’t much good at math and Frank should call customer service. Frank called the non-toll free number and got someone on the phone after being on hold for twenty minutes. The person Frank talked to told him they didn’t understand the terms either. Frank asked to speak with a Supervisor. The person told him that they were a supervisor. Frank asked about closing his account. The person told him this was fine but he had a two year commitment because of the contract he had signed.

Frank decided to just live with it. About a month later he got a call from Customer Service. They explained that the terminal he was using was not in compliance with MasterCard Visa’s “truncation regulations”. They explained that he would need a new terminal that met the regulation. Frank asked to speak with Joe Salesperson but Customer Service explained that Joe was no longer with them. They heard Joe was selling mortgage loans.

Frank called the equipment leasing company that Joe had set him up with to lease the terminal. They told him that the lease was non-cancelable unless Frank wanted to pay it off by paying the aggregate of the 42 monthly payments remaining and the “fair market value”. Frank explained that he thought this was a lot of money for a refurbished terminal that was not in compliance with MasterCard. The leasing company told Frank that Joe and now Frank were being investigated for fraud because the terminal is not supposed to be refurbished and it wasn't in compliance.

About a month later a new Salesperson entered Frank's store. Sallie InternetSpecialist explained to Frank that he was losing a lot of sales by not selling his widgets on the internet. Frank already had a website that generated some calls but Frank wanted customers to order right on line. Frank was skeptical about Sallie's pricing so being a little bit computer savvy Frank got on the internet and shopped around. It looked like twenty thousand, five hundred, and sixty-two companies did the same thing as Sallie. Most of them not only looked pretty good but were much cheaper than Sallie. So Frank, who is always looking for a great deal, called a few. None of the salespeople he talked to could really explain why they were any better than any of the others so Frank went with the cheapest. Frank liked the Salesperson, Bill JustACommodity.com , because he explained that their pricing was less than their cost but they made it up in “volume”.

Bill JustACommodity.com explained that Frank needed a separate Merchant Account from his storefront business. Frank signed all new documents.

Frank's web designer helped set up a “shopping cart and catalog” and the Merchant Account Provider ( turns out that Bill JustACommodity.com was a “re-seller” ) made sure the information was given to the web designer to set the web site up to accept credit cards. There were some major headaches though. It turned out that the Technical Service Provider actually was a different company than the Merchant Account Provider. Frank's web designer explained to Frank that the “technical support software provider” was blaming the “Merchant Account Provider” and vice versa. It seems the “ETC Type” got messed up on the Merchant Account Application. There would be extra labor fees from the web designer to figure this out – but no problem.

Two days later Frank got excited. He was getting orders from his internet store! In fact the first week Frank's sales were about \$5,000.00. Frank knew though that a good number of those orders he had “keyed” in because they had stacked up prior to going live do to the delays.

A week later Frank got a call from his banker that Frank's business checks were bouncing. Frank asked about the \$5,000.00 in deposits from his internet orders. The banker knew nothing about it so Frank called non-toll free the Merchant Account Provider Customer Service. After forty-two minutes on hold he was transferred to the “Fraud Department”. Fraud explained that the money was being held up. It seems Frank's orders were higher than his approved limit. Not only that but Fraud needed to call Frank's customers to make sure they had placed the orders. No commitments were made on when the money would be released to Frank.

Just as Frank was getting off the phone a customer called. George BigVolumeAccount was a customer and friend of Franks for a long time. George explained to Frank that he was getting unknown charges on his credit card that he used to buy from Frank online. George was mad. George had checked into it and found out that the Internet Merchant Account Provider that Frank had used did not even issue a real Merchant Account. They were some kind of “third party”. Worse yet, George had found out that a “hacker” had broken into the computer servers at the company and stolen all the credit card numbers on file. That's how George's credit card got into

the wrong hands. George asked Frank how he decided on what Merchant Account Provider to use anyway. Frank explained that they all sounded the same so he just chose the cheapest one.

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Now YOU don't have to make a decision about a Merchant Account Provider based on price alone. The Merchant Account Buyer's Guide is meant to bring you up to speed quickly on all of the issues involved so you can make the best choice.

As you read though the Merchant Account Buyer's Guide you will notice that I have highlighted some areas in red. These are the "gold nuggets" of my experience. My suggestion would be to skim the Guide and just read the areas highlighted in red first. Should a particular section be of more interest to you than read the entire section.

Please provide feedback though the contact source provided in the Guide. This source could possibly be through the Joint Venture Partner who made the guide available to you – (See "A Word About Our Partners" above ). I have tried to condense the most important information about Merchant Accounts. If I am wrong about something, off base, too self serving, or totally nuts let me know. Your feedback is appreciated more then you know.

## The Internet Marketplace

A good part of this publication is certainly applicable for the business owner who has a storefront and accepts credit and debit cards in a "card present" environment with a credit card terminal or Point of Sale (POS) system. This guide is also applicable for those merchants who are Mail Order/ Telephone Order (MOTO) types of business. Almost without exception; however, any business owner should be accepting non-cash forms of payment over an internet website even if they are currently in a storefront location. Because of this, I have also attempted to address many of the questions and concerns related to Internet Merchant Accounts. We can help an Internet Merchant anywhere in the world.

Despite all the bad press in recent year with the dot.com companies, e-commerce sales for the retail industry boomed in Q2 2002. According to a new eMarketer report, the number of internet users worldwide will rise from 445.9 million in 2001 to 709.1 million in 2004.

The Commerce Department said total U.S. online retail sales for 2001 reached \$32.6 billion, an increase of 19.3% from 2000. This number is expected to exceed \$150 billion by 2004.

More than \$700 million in online sales were lost to fraud in 2001, representing 1.14 percent of total annual online sales of \$61.8 billion, according to a recent GartnerG2 research report. Online fraud losses for 2001 were 19 times as high, dollar for dollar, as fraud losses resulting from offline sales.

Today, we know a great deal more about what the Internet can and can't do, what creates an acceptable return on investment, and what customers are looking for. It is not a magic road to riches. It is a marketplace to do business. As the economy continues to be challenged, I believe successful companies will expand their marketplace by intelligent and effective use of Internet technologies.

Smart business people are always looking for ways to increase sales, introduce new profit centers, reduce costs, and create market awareness. The Internet medium is by far the easiest and most economical vehicle to achieve those goals if you understand how to use it, and have the right e-commerce partners.

Perhaps the best reason for accepting non-cash forms of payment including electronic checks over the internet is giving you more time to do what you do best. If you are spending significant time each month processing paper checks as example, this is taking away from your valuable sales or production time. Every day you spend processing small checks is an opportunity cost that reduces your sales or production. If you are like most small business owners, you are having more fun in sales or production, not in accounting. There comes a time for every small or medium size business owner to say “enough is enough”. While starting a Merchant Account does cost you some time & money up front, the long term increase in sales & production may be what you need to launch your business to the next level - and have some more fun.

**I firmly believe in ten years there will be two types of businesses – those that understand and use the internet; and those that are OUT of business.**

## What are the advantages (and disadvantages) of accepting credit cards for your business?

Today there are hundreds of thousands of small & medium size businesses in this country who take orders via credit cards. In addition, every day in this country, there are hundreds of companies entering the world of e-commerce. They come from many industries including retail, internet, mail order, home based businesses, B2B, professional services, wholesale and mobile businesses. In many cases they are “taking the plunge” to accept credit and debit cards for the first time. Some are successful and some are not. As with any other business venture, the companies that do their homework typically have a better chance at being successful. To help you start your homework, let's look at the advantages of accepting credit cards for your business.

### 6 Benefits of Accepting Credit Cards

- 1. Convenience** - You probably already know that accepting alternative forms of payment like credit and debit cards helps make it more convenient for people to pay you. This will increase your sales and profits. Some studies say by 30 -100% or more (Visa International).
- 2. Increases Your Credibility** - Did you also know that advertising your acceptance of credit and debit cards increases your credibility? It's true. The public knows that a Merchant Account status is not always easy to get and will look at you as more of a solid company - here to stay. "Hmmm...doesn't accept credit cards? Is there some kind of credit problem I should know about this company?".
- 3. Increases Your Average Sales Order** - Were you aware that your AVERAGE SALE AMOUNT GOES UP when you accept credit cards? Studies prove (and I am sure it's true of most of us) that when we are ready to make a purchase and we are paying with a credit card we are more inclined to purchase the "upgrade" product or service. Human nature seems to cause most of us to be inclined to purchase the "better model or service upgrade" when we can finance the purchase with a credit card.
- 4. Impulse Purchases Go Up** - Did you also know that your willingness to accept credit cards also causes impulse purchases to go up? Customers are more likely to purchase when they can use a credit card versus paying with cash or a check. For some reason human nature – especially in the US - causes us to think paying on credit is easier.
- 5. Increases Cash Sales** - I bet you didn't know that the mere presence of credit card logos at your business location increases CASH sales. A fascinating study was explained in the book [Influence](#) by Robert Cialdini. This scientific experiment documented that the mere presence of Master Card/ Visa logos will increase cash sales by as much as 29% in controlled studies - even though credit cards were not used! If your business accepts cash, this is an extra bonus of accepting credit cards and advertising that you do.
- 6. Cuts Back on Bad Checks and Collection Costs.** - By accepting credit and debit cards through a reputable Merchant Account Provider, credit cards orders will be screened for fraudulent transactions. Some providers, like Cardservice International, will take extra steps on address verification, verifying the extra four digits on the credit card, and blocking selected credit card numbers, internet protocols, names or addresses. These are extra safety measures you can

take to find peace of mind that the orders you are receiving – particularly on the internet – are legitimate. When a customer is a “slow pay”, a common collection technique is to call the customer and suggest they give you their credit card information over the phone *right then* to clear up the default. Without this option you would typically have to wait to see if the customer sends you a check like they said they would.

*“Switching over to credit card processing has been a no brainer... no more ‘checks in the mail’ ...in just 3 months my phone orders are way up and my accounts receivable have increased by 170%”*  
Chad M., Custom Audio/Video Dealer, Houston, TX.

## Disadvantages of Accepting Credit and Debit Cards

Like anything else, the benefits of increasing sales and profits by accepting credit and debit cards does not come without some risks. Sure, one disadvantage is that you have to pay a percentage of the sales that are paid to you with a credit or debit card in rates and fees. You also have to wait from one to three days for your money to post to your checking account. You should be aware of other issues also.

**1.) Chargeback Risk** The customer who paid you with a credit card has up to six months to dispute the charge. Should they not be happy with the product or service, they would typically call you and negotiate a resolution. **Should you decide to give the customer a credit than you will typically pay your Merchant Account Provider the same rates and fees that you paid when you accepted the charge – even though the money is flowing OUT of your account.**

Worse yet, the customer may still be dissatisfied after calling you because you felt a credit was not justified. The customer may not call you at all. In any event, the customer has the right to dispute the charge and write a letter to the bank that issued them the credit card they paid you with. The bank will contact the Merchant Account Provider who will then contact you to “retrieve” the signed receipt or possibly other evidence of the sale. This is called a “retrieval request” and usually costs \$10 or more. The Merchant Account Provider may “charge back” the amount which also has a fee of \$10 or more. Consumer Protection Law will usually side with the consumer and not you.

Should the order be a Mail Order / Telephone Order (MOTO) or an Internet order than your defense is very weak because you may not have a signed receipt. **Make sure your “Descriptor” includes your phone number. This is the name of your business which the customer sees on the credit card statement they get showing the charge.** If your phone number is included the customer will have a greater likelihood of calling you first to resolve the dispute. This could save you both a Retrieval Request fee and a potential Charge Back fee.

**2.) Your Money Can Be Held Back By the Merchant Account Provider** An ounce of prevention may be worth a ton of headaches. When you filled out your Merchant Account Application you were asked the type of business you have, the monthly volume of sales you anticipate, and the average order size you anticipate. **The reason Merchant Account Providers run a credit report on you and are concerned about your business type and sales volume is because ultimately the Merchant Account Provider has to make good your charge backs if you are not able to.**

Should you declare bankruptcy, not ship your product, provide your service inadequately or even be running fraudulent credit card orders the Merchant Account Provider could really be hurt. Because of this, a “Loss Prevention” department will watch your processing activities and has a good idea of the types of businesses that have greater risk to the Merchant Account Provider. A Merchant (or the sales rep) may describe the business differently than it really is in order to get the Merchant Account Application approved more quickly. Once the Merchant Account Provider finds this out, they may hold your funds until everything is straightened out.

Spikes in your processing above your average daily approved sales volume estimate and much larger average order sizes than you were approved for will also concern the Merchant Account Provider. Trouble sometimes arises when a Merchant is stacking up credit card orders waiting for their Merchant Account to both be approved and setup properly. The Merchant finally goes live and keys in a bunch of orders the very first day. Alarm bells go off..

The lesson learned is to make sure your business description, monthly volume estimate, and average order size (or average ticket) are all correct. If you have more than one business make sure you set up each business properly and separately. The expense to do this is not great compared to the risk. The right kind of credit card terminal, as example, permits multiple Merchant Accounts.

## **The Bottom Line**

Make sure you keep your Merchant Account Provider informed. Are your sales seasonal – which could cause a spike? Did you make a large sale that you keyed into your terminal or software that is well above your estimate of average order size? Are you getting into another business all together? Save yourself some headaches and call first for advice from your Merchant Account Provider.

You also may want to look at the cost of NOT accepting credit and debit cards. Never mind all the hype about “My sales increased 500% because I started accepting credit cards.” – although in some cases I have seen this to be true. DO think about the likelihood of getting even just a few “extra” orders for your product or service because you accept credit and debit cards. Based on your average order size, how much profit will you make on each of these “extra” orders. Add to that the savings on labor by possibly not having to send out invoices. What about the labor savings by converting to an electronic check service so you just enter the check information on the internet. Add to that using credit and debit cards as a collection technique for your slow pays. I know it sounds self serving because I am in the business but it is hard for me to imagine ANY business not choosing to offer as many payment methods as possible to their clients and customers. The question becomes one of choosing the best method of accepting credit and debit cards – not whether to accept debit and credit cards for your business or not.

What this guide is all about is giving you the education to make a decision on a Merchant Account Provider, a bank, or even a third party processor based on a cost benefit analysis and your service needs.

## Who are the players? How does the money get in your bank account?

It's really quite simple. The customer wants to make a purchase with a Merchant (M) who has entered an agreement with a Merchant Bank (MB) to accept credit cards. The Merchant Bank though actually contracts with an Acquiring Processor (AP) to route the transaction. The merchant's service contact however is not with the Acquiring Processor directly or the Merchant Bank but the Merchant Service Provider (MSP) who really is an Independent Sales Organization (ISO). The ISO however does not want to be called an ISO and prefers to be called a Non-Cash Transaction Provider (NCTP). The NCTP also routes the transaction data to the Acquiring Processor and may or may not take the chargeback risk depending on what they have worked out with the ISO, the Acquiring Processor (AP) and the MSP (who can really be themselves). So... the M has a problem and calls the ISO who calls the MSP home office who checks with the AP. The AP calls the Issuing Bank (they get most of the money) who blames the ISO for the problem. The ISO blames the MP who blames the AP. It all, of course, ends up being YOUR fault. Simple, huh?

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There can be as many as six parties participating in every credit card transaction.

### **The Issuing Bank**

The issuing bank extends a credit card account to a customer after verifying the applicant's creditworthiness and "issues" the consumer a credit card (bankcard). The merchant's payment will eventually come from this bank. **The Issuing Bank who gave (issued) the consumer a credit card actually ends up with a good part of the discount fee that the Merchant pays for the privilege of accepting credit cards. See "Interchange Fee" in the Glossary. This is why we get calls during your dinner hour to sell you another consumer credit card.**

### **The Consumer**

The consumer makes the purchase by presenting their credit card at the Merchant location. They use a bankcard (credit card) from an issuing bank and provide this information to the Merchant by the Merchant swiping the card on a credit card terminal, or in the case of a phone / mail order by the Merchant keying the transaction.

### **The Merchant**

The Merchant offers goods or services for sale. A **Merchant needs both a Merchant Account** (which means they have been approved for the chargeback risk) and **a method of communicating the credit card information with a credit card terminal, PC based software, or internet based software.** The days of taking batched credit card slips to your bank are essentially over.

### **The Merchant Bank**

The merchant bank provides merchants with an online Merchant Account (to accept "card present" transactions with a terminal or "card not present" transactions). This bank may contract with an Acquiring Processor to move the credit card transaction through the payment process, or it may function in this capacity itself. The Merchant Bank and the Acquiring Processor may also contract with an Independent Sales Organization (ISO) to find the Merchant in exchange for a part of the processing fees.

**ISO (Independent Service Organization):** a firm or organization which solicites offers to process non-cash and credit card transactions, usually in exchange for transaction fees or a percentage of sales.

### **The Acquiring Processor**

The Acquiring Processor routes the transaction through the electronic financial networks for processing and settlement, delivering the payment to the merchant's online account once it has been obtained from the credit-card holder's account with the issuing bank.

( For a complete listing of all the terms relevant to the Merchant Account Industry including internet terms go to the Glossary of this Guide. )

## **Credit Card Transactions Step By Step**

You may be surprised at the number of steps involved - and at the critical role played by an Acquiring Processor such as First Data. Credit card sales that are processed through a terminal also complete the same process as described below for an internet transaction but the security issues are not as detailed.

**1.) A consumer decides to buy something** - On the internet the merchant's commerce-enabled Web site prompts the customer for credit card information as well as "bill-to" and "shipping" addresses.

( At the storefront location the Merchant simply swipes the credit card on the POS system magnetic stripe card reader or credit card terminal for an authorization that the funds are good)

**2.) On the internet the customer enters the information into a form secured by the SSL (Secure Sockets Layer) protocol** - SSL encrypts the transaction data and sends the secured form over the Internet to the merchant. **The form should appear on a webpage with HTTPS . The "S" means the page is secure. If there is no "S" in the HTTP than the consumer should NOT enter any private information including credit card information. In addition, email is not a secure method of sending credit card information. If a form is being sent to the Merchant via email with the credit card information than this is a huge red flag. Credit card information should also not be stored on the server of the Merchant as this opens the Merchant to both hackers and employee theft.**

**3.) Using the payment software incorporated into the merchant's Web server, the encrypted transaction data is now sent to the acquiring processor, (i.e. First Data Merchant Services), for authorization** - The merchant can send the data via an Internet gateway service, which will reformat the information so that it is compatible with the acquiring processor's systems. Alternatively, in cases where the merchant has installed software on its Web server, which is compatible with and approved by the acquiring processor, the transaction data can be sent directly to the processor via a private dial or leased line.

(At the storefront location the POS system or credit card terminal communicates through a dial up phone line connection. More and more Merchants are moving to an internet connection. )

**4.) Whether a storefront or over the internet, the acquiring processor then**

**communicates the transaction data to the consumer's (issuing) bank** - The issuing bank now authorizes a certain amount of money and issues an authorization code, or declines the transaction. The authorization decreases the customer's available credit, but does not yet put a charge on his bill or move the money to the Merchant. At this point, the Acquiring Processor will communicate with the Merchant's Web site, which will notify the consumer that the purchase has been approved.

(At the storefront location the POS system or credit card terminal receives an approval code back from the Acquiring Processor that the funds are good. )

**5.) Once the transaction has been authorized, the next step is a capture** - After authorization and prior to capture, the Merchant is still able to “void” a transaction without paying discount fees. The capture uses the information from the successful authorization to charge the authorized amount of money to the consumer's credit card. In line with bank card (VISA®/MasterCard®) association rules, a merchant may not capture a transaction until the goods have been shipped. So there may be a lag time between authorization and capture.

**6.) The last step in the process is to settle the transaction between the merchant and the acquiring processor** - As captures and credits come in, the merchant accumulates them into a batch, which will then be settled as a group. When submitting a batch, the merchant's payment-enabled Web server connects with the acquiring processor (i.e., First Data) to finalize the transactions. If the merchant is using an Internet gateway service, such as Cardservice International's LinkPoint Secure Payment Gateway, it will decrypt the transaction and reformat it for the acquiring processor. When the acquiring processor receives the information and settles the batch, it sends payment instructions to the issuing and merchant banks, which will result in monies being transferred to the merchant's bank account. (If the consumer should return the goods after the transaction has been captured, a "credit" should be generated which typically will have the same discount and transaction fees as the original captured transaction. This means the Merchant pays double for credits.)

## **SHOULD I GO VISIT MY BANKER FOR MY MERCHANT ACCOUNT?**

When you start looking for a Merchant Account, many people get input from their local banker. However, you should be aware that there are over 45,000 banks in the US and less than 1% are able to actually process credit card transactions themselves. Most contract with a third party to do it. Then the bank becomes a middleman passing on additional cost to the merchant. Here are some more facts & figures you need to know about banks:

1. Banks decline more Merchant Account applications for credit card processing than Merchant Account Providers. In addition, the application process is usually much less intensive with a full service Merchant Account Provider.
2. Banks are in the banking business, Merchant Account Providers are in the credit and ATM/debit card processing business.
3. Banks outsource credit card processing and focus on lending and deposits.
4. Banks often have conservative pricing with higher transaction rates & fees because the Merchant Account business is an ancillary service. Merchant Account Providers have to offer competitive pricing because this is the only business they are in.
5. Banks are less likely to risk chargebacks and fraud. Because banks typically farm out their credit card business if there is any additional maintenance like administrative costs from chargebacks, you are in greater danger of losing your Merchant Account. Merchant Account Providers are much better prepared to take on risk through loss prevention and chargeback departments.

Should you be interested in accepting credit cards over the internet you will find there is a greater likelihood most bankers will have no idea about shopping cart rates, secure gateways, and internet credit card processing fees – particularly when something goes wrong. Do to the conservative nature of banks, they are many times unable to place high-risk merchants and/or start-up companies with merchant accounts. Full service Merchant Account Providers do this every day. Since this is their main business, they have the operations in place that cater to small & medium start-up companies who need Merchant Accounts, higher risk or not.

## **HOW CAN I TELL IF I WILL GET GOOD CUSTOMER SERVICE?**

When you are entrusting the collection of your funds to other parties, you need to make sure you will be getting excellent service before and after the sale. You should be aware that many discount house Merchant Account Providers are hiring low salary or commission sales reps who know very little about banking or credit card processing. In many cases these inexperienced sales reps are not properly trained to understand your business. You should beware of fast talking sales reps that don't take the time to learn about your business. Here are some of the things you can look for to rate the provider's service before and after the sale.

## Service Before the Sale

When shopping for your Merchant Account Provider, you want to find a sales rep who will be your advocate through the sales process and beyond. This means answering all your questions and advising you during the application process. You should expect a prompt, accurate and professional response to your questions within 24 hours. If the sales rep is not asking you questions to learn about your business, he is less likely to be your advocate during the application process (this is typical of discount houses with low salary sales reps). The application should be *fully prepared by the sales rep* and delivered to you quickly, by either hand delivery, e-mail or fax. When you read the application there should be no surprises on start-up fees & recurring fees. After your application is submitted, the provider will do a background & credit check on your company. This could take a matter of hours or 1-2 days. During this time, you should be able to call for a status on your application approval. If you are not getting this type of service before the sale, this is not a good sign.

## Service After the Sale

After you go live, you need the ability the process orders at any time. Your Merchant Account Provider must have the staffing and expertise to quickly help you with any of the following transaction roadblocks:

- Chargebacks
- Funds Not Transferred To Your Account
- Orders Put on Hold by the Processor's Bank
- Gateway Server Down

In addition to helping you with roadblocks, here are eight other things you should look for to assure good service after the sale:

### 8 Key Indicators for Good Service After the Sale

1. 24x7 tech support, toll free, multi lingual
2. 100% Money Back Guarantee on upfront costs if any
3. Members in Good Standing with the Better Business Bureau.
4. No High Pressure Sales Reps (not commission driven).
5. Sale Rep takes the time to fully learn & understand your business.
6. Free lifetime software upgrades for fraud control.
7. Ability to call Sales Rep as your advocate if you are not satisfied with tech support.
8. New storefront and internet marketing Ideas.

It's in your best interest to test the customer service response before you sign up with the Merchant Account Provider. Try calling tech support on a Saturday and see how quickly they respond. If you are not confident with their expertise and responsiveness before you sign-up, you need to keep on shopping.

## BE ON THE LOOKOUT FOR DECEPTIVE SALES PRACTICES

“There is no such thing as a free lunch”. Remember hearing this phrase when you were growing up? While the internet has certainly changed the way we live and conduct our business, there are some rules of business that have not changed. One rule is to be cautious when the offer looks “too good to be true.” Another rule is that you should not engage with companies that use deceptive practices to win your business. Here are some of the practices you need to watch out for:

### Start Your Own Merchant Account today for FREE!

As you gather information from Merchant Account Providers, you will likely find Providers luring you with “everything is free” type offers. If you call these Providers and start asking questions about what fees will appear on your monthly statements, you will quickly see that everything is NOT free. While starting a merchant account can be fairly quick & easy for you, the reliable Providers are expending significant resources to get you up and running. They must recover the costs for software engineering and hardware depreciation just like any other business. If they say start-up is free, they have to recover the costs elsewhere in higher discount rates and/or transaction fees. As an astute business owner you should know the old saying: “There is no such thing as a free lunch”. The same applies here.

### Suspiciously Low Discount Rates & Fees

Be careful about entering into a Merchant Agreement with a company based on rates & fees alone. Some Providers offer a really low discount rate to start and begin bumping it up a few months after you have enrolled in the program. Others make it up in surprise fees – ouch! Sometimes calling tech support is like playing Russian Roulette – on first shift you get fully capable support, and second shift it's total incompetence.

If the Provider's rates & fees are significantly lower than the others you should ask for references. Make sure to read the back of the Merchant Agreement before you sign and see if they have expensive exit penalties. If the provider's rates are really that low, why do they need an unfair exit penalty to retain customers? Did you know that every 0.1% difference in discount rate translates to only \$1 per month for every \$1,000 of orders processed? How much is reliable tech support worth to the success of your business? Again, ask for the customer service number and call it a few times to see how long you get put on hold. Ask if that really low discount rate is guaranteed in writing and if so, for how long.

**Remember - many Merchant Account Providers and Third Party Processors will offer a “great deal” on discount rates and fees only to make it up later by raising your rates and fees a few months down the line. History proves these to be "bait and switch” tactics. Don't take the bait.**

### Using Smoke & Mirrors on the Merchant Account Application

Have you noticed that some merchants are easier to get approved for a Merchant Accounts than others? Merchants who sell risk-sensitive products such as multilevel marketing, pyramid schemes, sexually oriented materials, military firearms, and pyrotechnic devices are harder to get approved – especially when they are not honest up front. If you are in this type of business you may have some trouble getting approval the proper way. Yet, you know there are companies online selling sexually oriented products while accepting Visa, Mastercard and American Express. How are they able to do this?

There are Merchant Account Providers who accommodate these types of businesses the right way and the wrong way. **Remember that sales rep in the Introduction to this Guide that used different wording on the application to hide what the company really did in order to get the Merchant Account Application approved more quickly.** It gets worse. While this may help the merchant get started in the short term, this could have devastating effects in the long term. As soon as there is a problem with a chargeback or cancelled order the processing bank will find out and **your merchant account will be closed.** Your funds will be frozen until the bank believes it is safe to release them. Also, you may end up on the Visa Certified Terminated Merchants File (CTMF) which means you may never be approved for another Merchant Account. If your funds are frozen, you could lose your business. While smoke and mirrors work well for magicians, your sales rep should not be using this type of magic on your merchant account application. If he is, find a new sales rep and a reputable company. Your approval process may take a little longer but your business will not be destroyed. The risk of a “too quick” approval is too high.

## **How to Avoid Your Money Being Held By Your Non-Cash Transaction Processing Company, or (“My Money For Credit Card Orders Never Reached My Bank Account!?”)**

What happens when you process credit cards for approval and then find out later the money never reached your bank account? This can be a very frustrating experience and can be avoided with a little knowledge.

Many business owners don't realize that the credit card processing company is at considerable risk for credit card orders that are processed. Imagine this scenario...

A fraudulent business owner (Mr. Crook) applies for a Merchant Account to accept credit cards and tells the salesperson that he sells “vitamins” over the phone, through the mail, or on the internet. The Salesperson is very happy because it is a very easy sale. Mr. Crook takes orders for about six months and he even sells the vitamins at his cost. This results in getting a lot of orders. After six months Mr. Crook “pretends” everyone who placed an order has re-ordered and keys in thousands of orders into his software or terminal; but Mr. Crook “forgets” to send the vitamins. People start calling Mr. Crook but Mr. Crook just tells them that the vitamins are on back order in order to buy himself some time to process more fake orders.

The credit card processing company deposits all the money for credit card orders taken in Mr. Crook's bank account 24 to 48 hours after each daily batch of orders. After Mr. Crook processes a few thousand orders over the next couple of weeks Mr. Crook empties his checking account and leaves town; never to be seen again ( until he calls the next eager Merchant Services Sales Representative with another company...)

So what happens? All the honest customers who paid Mr. Crook start calling Mr. Crook's company only to find out the phone number has been disconnected. The next call most customers will make is to the bank that issued them the credit card that they used to place the order. The bank typically tells the customer that if they didn't get the vitamins then they will get a credit on their next credit card statement. The Bank then contacts the credit card processing company that processed the order to alert the company of a “dispute”. The credit card processing company tries to contact Mr. Crook and gets the same disconnected phone number! Guess what? **The Merchant Account Provider probably takes the hit and has to reimburse the thousands of customers who didn't get their vitamins. This can be devastating to the credit card processing company.**

This is just one scenario but the exact same thing can happen even if Mr. Crook is honest and simply mismanages his business and declares bankruptcy as example.

These situations and others result in credit card processing companies always being on the lookout for the next Mr. Crook. One of the ways they do this is by approving each Merchant with a monthly estimate of volume and an average order size or ticket (like a credit line) and assessing risk factors to the type of business, etc. It's easier for Mr. Crook to get a Merchant Account with a lower monthly volume approved and a low average ticket approved but Mr. Crook will try for

the highest monthly volume that he can get approved and the highest average order size that he can get approved.

The credit card processing company looks for “spikes” in processing volume or a series of one or more large orders that are much higher than the average order size approved. Large average order size businesses are particularly scrutinized. When these “spikes” occur the bank of computer monitors at the Merchant Account Provider alert the “Loss Prevention” department. Imagine, if you will, the overhead monitors in the movie “War Games” ;-).

When a suspected transaction(s) occurs the credit card processing company will typically want to check it out. They will want to protect themselves by possibly not sending the money to the business owner’s bank account. Wouldn’t you do the same thing if Mr. Crook was YOUR last experience? They may want to call the customer to make sure the customer placed a legitimate order. You, the Merchant, may be looked at as guilty until proven innocent.

So how do you, the business owner, prevent this from happening?

Make sure you know what the monthly volume and average order size are that the credit card company has approved you for and stay within these limits on a prorate daily basis – particularly at first. Remember, the credit card processing company looks at this as sort of a credit line. Do NOT stack up a bunch of orders by accepting credit cards before you are approved for a Merchant Account and then key all the orders in the day you go live. This is exactly what Mr. Crook might do and you are asking for trouble. DO call the credit card processing company with large orders that are much higher than your average approved order size and tell them you would like to process the larger order. It probably helps if you have a signed invoice. DO let the credit card processing company know about increases in business due to your success, the season, or special promotions, etc. Keep the credit card processing company informed. Again, this is especially true early in your Merchant Account relationship.

Make sure you are dealing with a competent Sales Representative who is properly advising you. That “cheap deal” may become very expensive later when you find out your account was incompetently set up. As a final caution, make sure you are doing business with a financially sound credit card processing company. Check them out. It’s YOUR money that the credit card processing company has their fingers on. This is far more important than ordering office supplies as an example from the cheapest source. It doesn’t take very many botched orders or “lost money in the system” to make you quickly forget that “give away” up front pricing.

## **BANKING TERMS YOU NEED TO KNOW**

**Acquiring Processor** - The processor provides credit card processing, billing, reporting and settlement and operational services to acquiring and issuing banks. Many financial institutions don't do their own bankcard processing because it's more cost-effective to let someone like First Data invest in the equipment and people and do it for them.

**Address Verification Service (AVS)** - Since 1996 MasterCard / Visa has made available a fraud prevention measure available for taking credit card orders over the phone, mail, fax, or on the internet. The credit card processing company checks the billing address the customer tells you with the billing address on file with the bank that issued the card. If the addresses match, then the

card is approved at your basic discount rate. **If the addresses don't match, then typically the card will still be approved but a code in your reporting will tell you that AVS was not a match.**

You should know what this rate is whether you are "keying" an order into a terminal, accepting an order over the phone, or receiving an order over the internet.

Important: If your credit card terminal, PC based software, or Internet based software is NOT prompting your customers to give you their "billing address" then you may be paying what you think is a good rate but in fact all of your transactions are much higher because AVS is not even attempted.

**Authorization** - The act of insuring that the cardholder has adequate funds available against their line of credit. A positive authorization results in an authorization code being generated, and those funds being set aside. The cardholder's available credit limit is reduced by the authorized amount. **You are typically charged an authorization fee (transaction fee) even if you void the transaction before you batch out.**

**Batch** - The accumulation of captured transactions waiting to be settled. Multiple batches may be settled throughout the day. **Make sure you know if your sales are automatically batched out at the end of the day or if you need to manually batch out. Do not find yourself waiting for your money to hit your bank account because you never batched out your terminal or software.**

**Capture** - Converting the authorization amount into a billable transaction record within a Batch. Transactions cannot be captured unless previously authorized, and authorizations cannot be captured until the goods or services have been shipped or transmitted to the consumer.

**Cardholder** - Any person who opens a credit card account and makes purchases using a credit card.

**Credit Deposit** - The value of a merchant's credit card purchases that are credited to its bank account after the acquirer buys the merchant's sales slips. The deposit is credited. It is not funded until the acquirer gets the monetary value from the issuer during settlement.

**Discount Rate** - The fee a merchant pays its acquiring bank/merchant bank for the privilege to deposit the value of each day's credit purchases. The fee is usually a small percentage of the purchase value.

**Interchange** - The exchange of information, transaction data and money among banks. Interchange systems are managed by Visa and MasterCard associations and are very standardized so banks and merchants worldwide can use them.

**Interchange Fee** - A fee paid by the acquiring bank/merchant bank to the issuing bank. The fee compensates the issuer for the time after settlement with the acquiring bank/merchant bank and before it recoups the settlement value from the cardholder. **Interchange fees are roughly 1.4% and ten cents per transaction for a typical swiped business and 1.8% and ten cents per transaction for a Mail Order / Telephone Order (MOTO or internet business. This is the money that for the most part goes to the bank that issued the credit card. You could say this is the Merchant Account Provider's cost of sales.**

**Issuer** - The bank that extends credit to customers through bankcard accounts. The bank issues the credit card and receives the cardholder's payment at the end of the billing period. Also call the issuing bank or the cardholder bank.

**Merchant Bank** - The bank that does business with merchants who accept credit cards. A merchant has an account with this bank and each day deposits the value of the day's credit card sales. Acquiring Processors through the Merchant Account Porvider buy (acquire) the merchant's sales slips and credit the tickets' value to the merchant's account.

**Settlement** - As the sales transaction value moves from the merchant to the acquiring bank, to the issuer, each party buys and sells the sales ticket. Settlement is what occurs when the acquiring bank and the issuer exchange data or funds during that function.

**Ticket** - Another name for the sales slip or its monetary value that results when a credit card purchase is made.

**Transaction** - One example of transaction is the process that takes place when a cardholder makes a purchase with a credit card.

( For a complete listing of all the terms relevant to the Merchant Account Industry including internet terms go to the Glossary of this Guide. )

## Benefits of Debit as a Payment Option

**Q: The terms “PIN-based” and “signature -based” often come up in discussions about debit card acceptance. What do these expressions mean? And how do the payment options differ?**

A: The terms refer to the two distinct ways in which debit payments are processed: *online* and *offline*. Online debit transactions call for customers to endorse payments by submitting their personal identification numbers (PINs) at the point of sale, while offline transactions require shoppers to sign sales receipts. The following information can help you understand more about PIN-based and signature based debit transactions, and how each payment option can benefit your business.

### Online (PIN-based) Debit

PIN-based debit transactions are fast, convenient and secure. In brick-and-mortar environments, shoppers initiate online debit payments by swiping their debit cards through magnetic card readers. The customers then key their secret codes into encryption devices called PIN pads. The transactions are authorized in real time, funds in the customers' accounts are captured immediately, and money is transferred into storeowners' accounts in two to three business days. Merchants pay a nominal transaction fee. And because the customers authorize their purchases with PINs, the risk to merchants of chargebacks is virtually nonexistent.

To accept online debit payments, you must have a merchant account, debit processing service, a payment terminal, a receipt printer and a PIN pad. Many payment processing companies offer both credit and debit card services, but you must be approved for them separately. You can obtain a terminal and printer with an integrated PIN pad or purchase a discrete—free-standing—PIN-entry device and connect it to your payment system. Just remember that your customers must be able access the device and enter their codes in private.

Practically speaking, this type of debit transaction is currently available in the physical world only, not the Internet. A number of financial institutions have introduced technology that may advance the development of PIN-based debit processing on the Web, such as digital certificates, smartcard solutions and compact disk-based systems. But no widely-accepted operating standards have yet been established.

### Offline (Signature-based) Debit

Unlike online debit transactions, offline debit payments do not involve PINs. Offline debit cards (aka check cards) are typically issued by credit card companies through their participating banks. The cards may be used everywhere credit cards are accepted, including over the Internet.

In the physical world, customers who choose to make offline debit purchases must hand over their check cards. Merchants swipe the cards through their payment terminals and complete the debit sales the same way they process credit card transactions. The customers then sign sales drafts that authorize the merchants to charge their accounts. On the Web, customers enter check card information into browser-based forms, just as they would for credit card purchases. The data is

encrypted, captured by transaction processors, and sent to the credit card processing networks for authorization. Transactions normally settle in two to three business days. Because check card transactions are processed through the same networks as credit cards, they often incur the same discount rates and transaction fees. If your business is already equipped to process credit card transactions (i.e., you have a merchant account, credit card processing service, and either a terminal and printer or payment-processing software), you should also be able to process offline debit payments.

## Why PIN Is In

Both forms of debit acceptance let merchants offer payment flexibility to their customers, which in turn can capture impulse buying, generate higher-ticket purchases and improve customer loyalty. But PIN-based debit transactions offer added advantages, such as:

- 1.) The option to provide cash back to customers, which increases store traffic
- 2.) A fast way to move shoppers through the checkout line
- 3.) Virtual elimination of chargebacks and fraud
- 4.) Lower transaction costs
- 5.) Higher transaction approval rates
- 6.) Potential for additional revenue from surcharges

The benefits are clear. With minimal investment, brick-and- mortar merchants can use PIN-based debit transactions to help increase their sales and profits. Get yourself a PinPad if you are a storefront merchant and make sure your Merchant Account Provider has properly set you up to accept On-Line (Pin-Based) Debit cards. By recognizing a “check card” as a Debit Card you can convert say a 1.5% discount rated fee – or \$1.50 your cost on a \$100.00 purchase – to a \$0.57 cent transaction fee. This is a savings of almost \$1.00 per sale. It doesn't take long to add up.

## How Debit Card Acceptance Can Help You

What does the distinction between signature-based and PIN-based debit mean to your business?

If you're an Internet merchant, check card acceptance can give you access to buyers who may not qualify for credit cards, such as teenagers. Plus, you receive funds from approved transactions quickly and securely. Perhaps most important, you can accept signature-based debit payments with relative ease because they're processed much like credit card sales.

If you own a business in the physical world, you enjoy the flexibility to process signature-based debit payments as well as PIN-based transactions, which provide increased security and opportunities to generate additional revenue.

Contact a payment service provider with experience in debit processing to learn about the payment options that best suit *your* business—and discover how debit card acceptance can help improve your company's bottom line.

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**Are you thinking of leasing a credit card terminal/  
printer, or credit card processing software?  
( Here's some of what you need to know to save money and protect  
yourself.)**

Do not jump to the conclusion that leasing is better than buying just because you do not have to come up with all the money for the purchase price of credit card equipment up front. Do not assume that leasing is a big ripoff either. The decision to lease or buy deserves greater thought than a snap decision and can save you considerable money. Leasing companies will typically require at minimum the first month's lease payment instead of an outright purchase. As example, you could be choosing between paying \$695.00 up front for a terminal/software or making a first month's lease payment of \$39.95. The lease payments however might last 36 to 48 months resulting in an effective interest rate of greater than 20% per year borrowing cost. Be aware that leases don't have interest rates but "factors". Convert your payment stream obligation to an annual interest rate.

In my opinion, this is a clear financial decision. Try to keep your emotions out of it. Although the effective interest rate is high on the lease remember that the leasing company is taking the risk of the default and you are joining a pool of lessees who are typically higher risk. Remember, most business owners lease when money is tight and this increases the risk of default to the leasing companies. That said, here are some things to think about in the decision making process.

**Try to purchase the equipment or software outright but only if you have readily available funds, or if you have plenty of credit available - even credit on a credit card if necessary.** The effective percentage rate of the lease usually exceeds twenty percent annual interest. This is expensive. If you have the money, or even can borrow the money, then buying up front could also give you the power of possibly negotiating the purchase price of the equipment or software.

**However, if money is tight ,or your ability to borrow the sums necessary to purchase the equipment or software outright is limited, then leasing may make the most sense.** Using the above example, and again assuming money is tight, by purchasing you are tying up \$695.00 which could be used to invest in your business. Investing an extra \$695.00 made available by leasing your credit card equipment or software rather than purchasing can return far greater than a 20% annual return. For example, let's say you invest \$695.00 in a better website than you could afford without the \$695.00 and this results in getting an extra \$210.00 PER YEAR in profit. Well, you are making the right decision because the \$210.00 per year is giving you a better than 30% annual return on your investment – which is greater than the 20% annual cost of the lease.

The decision to borrow money at 20% annual interest and re-invest it at 30% annual interest makes sense all day long don't you think? Run your own numbers on your business. Be very conservative on the annual return you will get from what you choose to spend the \$695.00 on. I think you will find that if money is tight it is very easy to find an investment for your \$695.00 that more than offsets the annual interest expense of leasing.

In addition, if you are leasing equipment or software to provide your business with the ability to

accept credit and debit cards then the decision becomes fairly easy either way. Run the numbers on an up front investment of \$695.00 OR a lease. Factor in the additional profit from just a few extra sales each month that you would not have unless you accepted credit cards. Be very conservative in your estimates. Subtract your monthly investment to accept credit cards from the extra profit. In most cases the net profit after accounting for the upfront investment and the ongoing monthly investment even with a lease payment clearly provides a greater return on investment whether you purchase OR lease.

There are two other advantages to leasing to be aware of and may factor in your decision making process. Your accountant will probably tell you that the lease payment is 100% deductible for the full amount of the payments you made that year which will lower your tax liability. On the other hand, when you purchase outright you may not be able to deduct the entire amount of the purchase that year. This is true because even though you paid for the equipment or software up front the investment may be "depreciated" over some years.

Even though the lease is a financing tool you may not have to list the lease as a liability for your remaining payments. This is an advantage to check on with your accountant but if you purchase the equipment or software outright with a credit card, the liability for the remaining balance due will show up on your financial statement as a liability. If you lease then your income statement will simply have a lease payment expense with not necessarily a liability on your balance sheet. Leasing typically will not use up your available credit lines. Banks; however, will sometimes ask about lease liability also.

## Conclusion on Leasing

Purchase your terminal/printer or software outright if you can possibly afford it. You are usually better off to negotiate price and pay for the terminal with a credit card if you have to – then entering into a long term lease. **Try to negotiate the price. A great technique is to negotiate with your salesperson for a very short financing period. \$695.00 divided over four months is \$173.75 per month. \$39.95 over 48 months is \$1,917.60. You get the idea.. If you still need to lease than know the answers to the below questions before you decide on the best leasing source.**

**1.) What is my lease payment?** Try to negotiate a lower payment. Even a \$5.00 per month difference can add up over 48 months.

**2.) How many months do I have payments?** A terminal lease may be \$39.95 per month for 48 months as example. Try to negotiate a lower term – like 36 months. Ask the salesperson to calculate their funding on a 48 month lease versus a 36 month lease. The salesperson may be surprised to learn that the funding to them is nearly the same – so they won't care too much about lowering the term.

**3.) What do I have to pay in addition to the lease payment such as monthly sales tax or "Loss and Destruction Insurance"?** Sales tax is usually added depending on your state. Avoid "Loss and Destruction Insurance" if at all possible by having your insurance agent provide a "rider" for the equipment leasing company making, them the loss beneficiary of the terminal. If you don't do this right away, remember to do it when you get business insurance that can provide a "rider".

**4.) Is the lease cancelable?** Leasing companies have been in the game for a long time and don't like to cancel leases. Your best bet is to possibly find someone to take your terminal for the remainder of the payments. If your salesperson is paid solely in upfront commissions they usually won't help you.

**5.) Are there penalties to cancel?** The leasing company wants the lease to continue through the term.

**6.) What happens if I default on the payments?** The leasing company WILL go after you.

**7.) What happens at the end of the lease?** Usually the lease is not "lease to own" but will require you to pay the "fair market value" at the end of the lease. If your lease is 48 months as example this fair market buyout would typically be 10% of the aggregate of the payments over the 48 months. ((48 times \$39.95) times 10%) = \$159.60.

**8.) What happens if I want to pay the lease off early?** Again, the leasing company will charge you the "aggregate" of the remaining payments plus typically "fair market value".

**9.) What happens if I want to sell my terminal/ printer or software for any reason including selling my business?** There is not much of an after market for the resale of terminals. In the event of a sale of your business, the new business owner can pick up the lease payments with the permission of the leasing company – but you remain on as guarantor in case of default.

**10.) What are the hidden fees to look out for?** (Sales tax, loss and destruction insurance, and the payoff at the end of the lease of "Fair Market Value")

**11.) What is the difference between leasing and renting?** Renting can be a good option depending on your cancellation rights. Be careful about long term rental agreements.

**12.) Can I rent a terminal/printer or software?** Yes, but harder to find.

## **FRAUD PROTECTION 101**

The Internet age and fast, new methods of communication have caused credit card fraud to rise. Make sure your Merchant Account Provider is keeping you up to date with the latest developments in credit card technology and information. Awareness of steps you can take to reduce fraud for your business can save you considerable money.

The advent of secure online payment gateways and new encryption technology will make credit card fraud increasingly difficult. Yet despite efforts to protect merchants, we still need your cooperation to combat fraudulent transactions. Teamwork between merchants and credit card processors is required if we are to stay one step ahead of the criminals.

### **Waging War on Fraud**

Make sure your Merchant Account Provider has a first line of defense against losses due to fraudulent or unauthorized transaction processing. A Loss Prevention staff should monitor daily merchant processing activity and investigate potential financial crimes – on the fly while it is happening.

Make sure your Merchant Account Provider enables you to use Address Verification Service (AVS) to merchants, giving you the ability to verify a cardholder's street number and zip code before shipping the customer's merchandise.

### **Stopping Chargeback in Their Tracks**

Occasionally, merchants are approached by criminals pretending to be legitimate cardholders. If everything about a purchase appears too good to be true, it probably isn't true. Before shipping a customer merchandise, merchants should always attempt to verify the cardholder's information by using the fraud-prevention services/features available to them. Tools such as AVS help verify street numbers, and contacting the cardholder and/or the cardholder's bank can also minimize chargebacks. The customer service number for the cardholder's bank is printed on the back of his or her credit card, and the bank should be able to verify a billing address and the cardholder's name. If the two don't match, you should discuss the matter with the customer and resolve the issue before shipping him or her any products. Using common sense and obtaining a little extra information from the customer can go a long way toward reducing chargebacks and protecting your business.

### **The Dangers of Factoring**

“Factoring” means letting someone use your merchant account (and/or point-of-sale device) to process transactions for his or her business. Merchants run the risk of losing their Merchant Account when they agree to factor for another party. This type of transaction processing violates Visa and MasterCard guidelines. The greatest problem with factoring is that cardholders may not recognize the charges on their billing statements and, although you have no control over what services are being provided, you will be liable for any chargebacks. Remember: It's your merchant account, and you are liable for all sales that are processed. Factoring is a risk merchants should not take

## Common AVS Response Codes

An Address Verification Service (AVS) confirms numerical address information with the cardholder's bank and works only with domestic (United States) credit cards. If, for example, the cardholder lives at 123 Oak Street , you would enter 123 into the system, then input the customer's five-digit ZIP code. After completing the AVS and sales process, you will be given an authorization code and an AVS response. Some AVS response codes are:

- A – the system recognizes the cardholder's street number, but not the ZIP code.
- Z – the system recognizes the cardholder's ZIP code, but not the street number.
- Y(yes) – the cardholder's street number and ZIP code match.
- N (no) – the cardholder's street number and ZIP code do not match.

If you receive an "N" response, understand that the transaction was authorized, but none of the billing data matched the bank information. If this occurs, you must use your discretion whether or not to ship the merchandise to the cardholder. You may elect to call the cardholder or even the cardholder's bank. Common sense is your best resource at this point. Ask yourself the following questions: Is this a new customer? Do the reasons given by the cardholder seem feasible, and do you believe them?

## Credit Card Security Features

Here are some of the most important security features found on credit cards:

- The hologram on the credit card changes color in the light.
- The image of the hologram is visible in a larger scale under fluorescent (black) light.
- The signature line resists erasure and protects the cardholder's signature.
- The magnetic stripe transmits special coded information that is recognized by your bank only, making duplication of the stripe nearly impossible.
- The embossed credit card number on the front and back of the card should match.
- The card number on the terminal ticket should match the terminal ticket should match the number on the credit card.

## State of the Art Security Features

CVV2 is a fairly new verification method to be aware of designed to minimize Internet and mail-order fraud. This system allows greater security when processing transactions in which the customer's credit card is not present. It works as follows:

The customer will find a printed three-digit number on the back of the credit card near his or her name. That information, along with the credit card number, is transmitted to the processor. If all of the information matches at the cardholder's bank, the bank sends back a response code of "M." The CVV2 system prevents a cardholder's bank from processing "fraudulent mail/telephone order transactions"

## Ask for Identification

It is your right as a merchant to ask for identification any time a credit card is presented to you. In fact, many cardholders actually write "Ask for ID" on their credit cards to prevent unauthorized use. Customers should always have identification when presenting a credit card to a merchant, and you should use diligence when accepting cards. Here are some tips to aid you when requesting identification:

- If the back of the customer's credit card is unsigned, say, "I see your card is not signed. Could I check your ID to verify your signature?"
- Try calling the customer by the name on the card. If the cardholder does not respond, you should definitely ask for identification. Or you might purposely mispronounce the customer's name so that he or she will correct you. If the cardholder ignores the mispronunciation, you should definitely ask for identification.
- It is clearly stated on the back of all credit cards that a card is not valid unless signed. You can point this out to customers who have unsigned cards and no ID in an effort to get them to sign their cards.

#### Code 10 Security Authorizations

If you determine that a transaction is "suspicious," you should call your Merchant Account Provider "Toll Free Hotline" (Make sure they have one). If they are doing it right an automated system will guide you through the code 10 call by asking you to enter the customer's card number and the transaction information.

## Request for Further Assistance

From time to time, the Loss Prevention Department of your Merchant Account Provider may contact you to help them identify a specific transaction. If this occurs, please understand the following:

- The transaction authorization code verifies only that a cardholder has funds available for that particular inquiry.
- The transaction authorization code does not guarantee that security work has been done to confirm the sale with the cardholder.

Be aware that Merchant Account Providers typically do not have access to a cardholder's information and, occasionally, they may contact you to assist us in verifying a charge. They may request an invoice or shipping documents to help them verify that a charge is legitimate. They may even call to let you know that your business has been so successful you have exceeded your initial approved volume. A good Loss Prevention Department should be there to prevent not just the Merchant Account Provider's, but YOUR loses as well.

## Fraud-Stopping Tips

Stopping fraud begins with the merchant. You are the first line of defense against potential losses. Here is a summary of some of the security measures available to you that could help prevent fraudulent credit card purchases:

- Use AVS to its fullest potential by inputting all of the numerical address and ZIP code information.
- Check the AVS response codes.
- Check the security features on the credit card.
- Compare the signed credit card to the signed sales receipt.

- Do not hesitate to call the toll-free customer service number on the back of the card to verify a cardholder's information.
- Ask for identification, or ask the cardholder to fax you a photocopy of his or her driver's license and credit card for first time mail/telephone purchases and Internet orders.

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## **Four Key Components to Conduct E-commerce Successfully. What Are They - and How Do They Work?**

Full-service credit card processors and their catalog and shopping cart partners provide merchants with valuable technology resources and services to assist them with utilizing the best Internet tools to grow their online businesses. However, it is important to understand that there are four key components to conduct e-commerce successfully over the Internet:

- Your Web site
- Your merchant account
- Secure payment gateway/payment transaction software
- Shopping cart

### **Your Web Site**

Your Web site is your online connection to your prospects and customers. You can host your own or work with an Internet service provider (ISP) or a commerce service provider (CSP), such as EarthLink. Your Web site design is essential to the success of your e-business. It must look appealing, attractive and be very easy to navigate. Most important, it must appear professional to ensure that customers and prospects perceive you as a legitimate, credible business. The appearance of your Web site is crucial-it is the first experience that customers and prospects have with your business. It forms a long-lasting impression of the type of business you are.

### **Your Merchant Account**

This is your bank-authorized transaction processing account, which allows you to accept major credit cards and electronic checks online. Many banks avoid Internet merchant accounts, which they classify as high risk. Look for a transaction processor with experience in both traditional and Internet commerce, one that has made Internet accounts an important part of its business model. Find a processor with high approval rates and relationships with many different shopping cart vendors. In addition, with a one-stop processor, your account can easily and conveniently be set up online through an Internet service provider.

### **Secure payment gateway/payment transaction software**

This is the software that actually processes your customer order information, address verification, credit card number, etc. The software-or gateway-sends the data to a credit card authorization network, which verifies that the customer's credit card is valid, and it verifies that the shipping address matches the billing address. This software helps reduce fraud, because a card where the billing and shipping addresses do not match could be stolen.

Your secure payment gateway is your link to a special computer that encrypts confidential ordering data and protects you and your customers. Your customers know they are on a secure server connection when the uniform resource locator (URL) in their browser reads https://. The "s" stands for "secure." If your customer's ordering information is not sent via a secure payment gateway, it can be intercepted by computer hackers.

## Shopping Cart

Online shopping carts are electronic order forms for a merchant's business. Customers access the order form via a hyperlink placed on the merchant's Web site. Similar in concept to a physical supermarket shopping cart, customers can put in as many or as few items as they wish, selected from the merchant's Web site catalog.

Shopping cart software allows merchants to accept product orders for multiple products from their Web sites. Shopping cart software automatically calculates and totals your customers' orders, including tax and shipping.

Some setup is required to make your shopping cart operate on your Web site. The shopping cart software must be installed on the server that hosts your Web site or on the secure server that accepts sensitive ordering information. A credit card processor that is considered a one-stop shop for e-commerce can get you started with all five of these essential Internet business components.

## Which Shopping Cart Is Best for Your Business?

Whether you are a startup or established business, there are certain shopping cart criteria that should be available to your Web site. These criteria include:

- Customizable -Your shopping cart should be able to manage the size of your business today, as well as grow with you as your business expands and evolves.
- Real-time shopping -Your customers want to place their orders when they are ready to check out, and they want to know the status of those orders. Is the product they ordered in stock? Did the credit card authorization go through?
- Multiple-store management -Can your shopping cart manage your business if you have more than one store? Some carts can, but others cannot.
- Security -Does your shopping cart offer state-of-the-art security and encryption capabilities (e.g., 1024-bit encryption; Secure Sockets Layer [SSL] security)?
- Professional appearance -Will your shopping cart allow you to generate a professional-looking storefront for your business, customized and personalized with your logo, products, categories and shipping methods.
- Does your shopping cart feature back-end browser-based administration that helps ensure quality service and customer satisfaction, including:
  - 1.) Automatic tax and shipping calculation capabilities
  - 2.) Live customer inquiry or customer service e-mail capabilities
  - 3.) Immediate order confirmation to customers
  - 4.) Invoice and inventory management
  - 5.) Site-wide discount capabilities
  - 6.) Integrated search capabilities

- 7.) Product variations (e.g., sizes and colors) and product personalization
- 8.) A drill-down menu system
- 9.) Minimum product quantities
- 10.) Statistics reporting for merchant data-mining capabilities
- 11.) Product group and cross-selling opportunities
- 12.) Customer-friendly navigation

- **International capabilities-Do you conduct business in other languages, in other countries, in other currencies? Your shopping cart partner should be able to accommodate these needs with true multi – currency capabilities.**

## **How Can a Shopping Cart Benefit My Business?**

The right shopping cart relationship can facilitate building and managing your consumer and e-business catalogs, as well as making online shopping as easy as point, click and fill in the blanks. Browser-based shopping cart management lets merchants control all aspects of their storefronts, from product maintenance to category management to order and credit card processing. Your customers want shopping and payment options. The right credit card processor and shopping cart relationships ensure that you make it easy and pleasant for customers to shop on your Web site. The right shopping cart ensures that your e-commerce platform is easy to implement, use and customize. This makes your business a full-service e-commerce solution for your customers. It encourages them to buy from you and to return to your Web site again and again.

## **How Much Do Shopping Carts Cost ?**

Prices vary widely depending on a number of considerations:

- Who will do the site hosting?
- Is the secure server or secure payment gateway included in the cost?
- How long is the contract?
- Do you pay yearly or monthly?
- Is there a maintenance fee after the first year?
- Is there a real-time credit card processing interface? (That component usually costs extra.)
- What kind of backup program is available?

Your best bet to select the right shopping cart is to develop a relationship with a trusted, one-stop credit card processor, which can help you conduct e-commerce securely, safely, quickly and effectively over the Internet.

## Shopping Cart Primer

Imagine how frustrated you would be if you walked into your local grocery store to gather your family dinner and they had no shopping carts and would not allow you to go down the aisles to grab any food. This is what life is like for your customers if they come to your website and cannot select and purchase the products or services they want. (Unless you have only one or a few product choices) This should help you see why having a robust shopping cart and catalog is essential to your future in e-commerce.

When searching for a shopping cart solution, you are looking for a package to transform your Web site into a shopping environment without extensive effort, complicated programming or high-cost support. Here are some of the key things you should look for in your quest for an online shopping cart:

1. Compatibility with reputable gateways.
2. Easy setup-simply cut and paste
3. Online user guide
4. Secure Sockets Layer data protection
5. Real-time, offline ordering
6. No need for common gateway interface programming
7. Scalable to any business-unlimited products and orders
8. Fully customizable -order form /shopping cart with background image, logo and test- color input
9. Calculates all shipping, handling and sales tax charges.
10. Supports UPS, Federal Express and U.S. Postal Service shipping.

## Secure Gateway Primer

Just like telephone lines allow storefront merchants to send in a credit card order, the internet Gateway will send in your customer's online credit card order to your Merchant Account processor. To protect your customer's credit card data, make sure your Gateway provider has a Secure Sockets Layer (SSL) protocol with cryptographic tools. With SSL, transaction data sent by the merchant to the payment Gateway server can only be read and used by that server.

Your Gateway provider should also have a secure communication channel to minimize message handling errors and allow an uninterrupted data stream between the gateway server and merchant account processing bank. With today's Gateway technology, your transaction response time should be in seconds.

You also want to look for scalability in your Gateway system. As your business grows from hundreds to thousands of transactions per month, your Gateway provider's server must be able to handle this. The last thing you want is a Gateway provider with a history of extensive downtime. Make sure your gateway provider has a track record of at least 99.9% uptime and a support team that can get the servers back online at any time -- 24 hours a day, 7 days per week.

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## SHOULD I USE A THIRD PARTY PROCESSOR LIKE PAYPAL?

Paypal and services of that nature, in my view, serve a true need. If you are selling products on Ebay as example, a Third Party Processor can get the job done. These work best when you are in touch with the person who wants to pay you and you can direct them properly to the steps to join the Third Party Processor service if necessary – which may be required in order to transfer funds to you. If they don't make it through the process you can contact them to follow up and make sure you get your funds.

If your monthly volume of sales is low (considerably less than US\$1,000.00) than you may be able to save on monthly servicing fees and find that a solution such as this works just fine. As soon as you approach US\$1,000.00 per month in credit card volume it's time to consider your own Merchant Account because the Third Party Processor is typically not saving you any money at this level of sales.

A few things to be aware of ...

Some Third Party Processors hold your money as long as possible in order to benefit from the "float". Make sure you know the time it will take to receive your money and you may find that as your sales grow getting your money more quickly is more important to you.

Make sure you know the process that a paying customer will need to go through in order to pay you. As your sales grow, will you lose orders because of the extra steps necessary to join your service, deposit funds, and then transfer funds. This can be inconvenient to a paying customer who just wants to give you their credit card information and be done with it. Maybe this is not a problem if your number of transactions are low but doesn't it make sense that you could lose orders if you are adding extra steps? It doesn't take very many orders to lose to justify investing in your own Merchant Account and maximizing the convenience of your customers to pay you.

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WOW. I finally got a real merchant account and I no longer have to live with PAYPAL. Once again, thank you so sooo much for your help and extremely sorry for being an irritant.

Regards,  
Syed M.

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Sorry I did not get back to you earlier on this.

Please send me a link to your demo, as well as your prices and a statement of your 100% money-back guarantee.

I'm tired of the clumsiness of pAYPAL and ready to move to something more user friendly. I feel as though I am losing sales because of PAYPAL.

Thank You,  
James Sydnor

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**Appendix D** has a more in depth look at some of the concerns.

## Quick Summary of Costs

Depending on the Merchant Account Provider you may have some startup costs like setup fees and application fees. Unless you are leasing or purchasing a credit card terminal, your **Startup Fees (Setup Fees)** should be free or very low. The Merchant Account industry has become very competitive. Do NOT find yourself paying setup fees, application fees, or “site visit” fees. These fees are all profit excuses for the Merchant Account Provider. Should you be an internet Merchant, you may run into a “licensing fee” but do not expect to pay more than a one-time licensing fee. You should not be “leasing” anything related to “software”.

Your next step is to look at **Monthly Recurring Fees**. Depending on your actual monthly sales, your monthly cost as a percent of sales will vary. If your business is accepting MasterCard and Visa cards in a “card present” environment you can expect to pay 1.4% or higher of your credit card sales. Should you be accepting orders over the phone, through the mail (MOTO), or over the internet, you should expect to pay 2.0% to 2.5% at most. Transaction fees vary but can be “bundled” meaning you pay NO transaction fees. Transaction fees range from a nickel to up to thirty cents, or more. Make sure that your percentage rate or “discount rate” is all inclusive – meaning you should not be paying a Merchant Account Provider AND someone else like a bank or a software provider. You should be paying all your fees to one entity.

## DETAILED SUMMARY OF SETUP FEES, RECURRING FEES, AND RISK ESTIMATE?

When comparing the cost of internet merchant accounts there are three major areas you need to evaluate – **Set-Up Fees, Monthly Recurring Fees and Total Risk Estimate (TRE)**. After reading and fully understanding this section of the guide, you can use the worksheet in Appendix A to help you compare the fees and risks from various providers. This worksheet is also available in an Excel spreadsheet. If you did not get the spreadsheet just use the contact information at the bottom of this page to have one emailed to you.

### Setup Fees

Setup fees are the costs associated with starting the account and “going-live.” Note that setup fees are normally non-refundable, ( except through our Independently Owned Agency of Cardservice International ) Our Agency offers a 100% Money Back Guarantee of any upfront fees. While searching for a Merchant Account Provider you may find companies which advertise free setup fees. As shown in other sections of this guide, totally free start-up usually means poor service and hidden fees down the road – but not always. Setup fees should be very reasonable but if you see free setup fees, proceed with caution. The following is a summary of setup fee terms you may hear.

**Application or Setup Fee** - A one-time charge for processing a merchant application and activating the new merchant account. **Should be \$0.**

**Re-programming/Programming Fee** - A charge assessed for reprogramming your existing terminal, software, or Point of Sale (POS) equipment. You know that you are talking with a commission sales person when he or she insists on a “reprogramming fee”. You should negotiate this. If you are anticipating any kind of credit card sales volume at all than you can **get this fee reduced or waived.**

**Site Inspection Visit** – A Merchant Account Application sometimes requires a “site visit” of your place of business to make sure you are legitimate. **You should not be paying a fee for this.**

**Installation or Training Fee** – Just an excuse to add fees. **Don't pay any.**

**Activation Fee** – Just an excuse to add fees. **Don't pay any.**

**Software Licensing Fee (Internet)** – You may run into this, particularly if you are licensing software to do business over the internet. Depending on your relationship, this fee should range between \$195.00 and \$495.00. **Do NOT lease software.**

**Shopping Cart and Catalog Setup Fee (Internet)** – A shopping cart and catalog is a tool to both total the amount of money a customer wants to pay you on the internet and a system to organize your products prior to ordering on the internet by the person viewing your website. The setup fee for this is usually \$0 to \$195.00 depending on the sophistication of your needs and number of products. If your needs are very sophisticated – which is rare – you may pay much more because you need a customized solution.

## Recurring Fees

Recurring Fees are primarily the monthly fees to process and track transactions and pay the Merchant Account Provider.

**Discount Rate** - A percentage charged on the volume of a sale or a returned (credit) transaction. This can be from 1.4% on up depending on your transaction fee and whether you use a terminal and “swipe” the credit card in a “card Present” environment; or key the credit card information into a terminal, software, or on the internet. **Generally swiped rates are about 1.5% to 1.75% and keyed rates are 2.25 to 2.75%.**

**Transaction Fee** - A charge assessed per each type of authorization submitted by a merchant. **Try to “bundle” your discount rate so you do not have a transaction fee. Your rate will be higher but by doing this you may be able to save on the transaction fee for authorizing a transaction which you later void; and also save on the transaction fee when you batch out your transactions – typically each day. A transaction fee usually ranges from a dime to thirty cents per transaction.**

**Monthly Customer Support Fee** - A charge which should provide quality customer service 24 hours a day, 365 days a year. **Customer support should be NON -Toll Free and you should not have to stay on hold to speak with someone.** Should English not be your language of choice than customer support should be available in your language. **Call at variable times including weekends – before you commit to a Merchant Account Provider.** You will need good customer service which is available for no additional charges – like long distance.

**Monthly Statement Fee (hardcopy)** – **Should be available online.**

**Monthly Minimum Fee**—A fee charged if the total monthly discount rate amount for MasterCard and Visa does not reach a threshold. **Usually you do not need to worry about this if you are expecting MasterCard and Visa sales to be more than \$1,000.00 per month.**

**Daily Batch Fee** - Monthly fee paid for processing each daily batch. Batches are typically processed each day the merchant has transactions. This should be no more than your actual transaction fee per batch. Merchants typically batch out each day.

**Annual Fee** – **This is a “gotcha fee”. Make sure you know if you have one.** You shouldn't - especially if you have a monthly minimum processing fee. Annual fees, if any, usually range from \$50.00 to \$150.00.

**Address Verification Service Transaction Fee (AVS)** – A storefront Merchant who is swiping cards on a terminal will not have an AVS fee for swiped transactions. However, **all orders that are keyed; whether storefront, mail/telephone order, or internet, shall many times have an AVS transaction fee. This should be no more than five cents for each transaction that AVS is attempted.**

**Monthly LinkPoint Secure Payment Gateway Fee (internet)**—A charge assessed to provide merchants with the ability to process transactions securely over the Internet. This should range between \$10.00 and \$30.00 per month.

**Monthly Shopping Cart and Catalog Fee (internet)** – Many times your shopping cart and catalog for your internet web site is hosted with the shopping cart and catalog hosting company.

## Total Risk Estimate (TRE)

The third and most overlooked area is the **Total Risk Estimate (TRE)**, which is a composite of eight key indicators of risk. The TRE will help you estimate your opportunity costs and hidden fees after the sale. The **Opportunity Cost** is the revenue you give-up when distracted by operational problems or bad customer support. **Hidden Fees** are surprise payments that show up on your monthly statement. As you could imagine, if your opportunity costs and hidden fees are high it could truly harm your business.

**Many times Merchants call around for rates and fees from a variety of different Merchant Account Providers. Using the spreadsheet following this section you can both apply a rating to each company you talk to (Low, Medium, or High) – AND apply a weight to how valuable each of the below indicators of risk is to YOU. Review the example below and then take a look at the Appendix – “Merchant Account Comparison Worksheet”. I have included extra worksheets for you to do your own cost benefit analysis.**

Here is a summary of my 8-Point Rating you need to determine your **Total Risk Estimate (TRE)**:

1.) **Knowledge Level of Salesperson** – **Is the Salesperson competent** in answering your questions? Does the Salesperson respond to your enquires in a timely way? Again, this may – or may not – be important to you. Go to Appendix A and “weigh” how important this is to you and then rate the category.

- 2.) **Ease of Application Process** - Merchant Account Applications can take days and even weeks to get approved – and with extensive paperwork and financial statement submission requirements. Ask your Merchant Account Provider the tough questions on how long the process will take and what documentation they will need. Do not be led down the path. **The entire process should take from a few hours to no more than a week and without much paperwork hassle.**
- 3.) **Merchant Account Provider Years in Business and Industry Recognition** – **Has the Merchant Account Provider been around for some time or are they a new ISO?** Can the Merchant Account Provider representative or salesperson share with you any industry recognition that the Provider has been given. Can they send you testimonials? These are indicators of a quality Provider. The fewer the years and lack of testimonials or recognition the higher the risk.
- 4.) **Acquiring Processor Years in Business and Relationship with Provider** – **Who's the Acquirer behind the Merchant Account Provider** and what relationship do they have to the Merchant Account Provider? The stronger the relationship and the greater the number of years the Acquiring Processor has been processing for Merchant Account Provider the better. Over 10 years is rare. The looser the relationship and the lower the years - the higher the risk.
- 5.) **100% Money Back Guarantee** – A few reputable providers will offer 100% Money Back Guarantees on any upfront investment you make. This independently owned Agency office of Cardservice International has offered this since 1998. **Beware of Merchant Account Providers who do not offer this. If their service is so good, why can't they back it up with a guarantee?**
- 6.) **Single Point of Contact** – When diagnosing an authorization or settlement problem, your valuable time is at risk. If you have a separate (where applicable) equipment servicing source, tech support department for your software, Gateway Provider, and Merchant Account Provider, you may have to call any or all of them separately to resolve the transaction problem. Rest assured, this can result in one servicing or tech support company pointing fingers at another to get you off the phone. **Try to get as many service sources under one roof.** Make sure most transaction problems can be resolved by calling one toll free phone number. This lowers your time risk. **What about security? Does the Merchant Account Provider have dedicated loss prevention and chargeback departments or are these services subcontracted out? This can help protect your account from fraud.**
- 7.) **Bundled Solutions with a Full Service Provider** – A Merchant Account Provider should be a full service, long term, relationship with your business. Does the Merchant Account Provider just offer bargain basement pricing for internet businesses and has nothing to do with the brick and mortar category of business - **or are they educating you to other profit centers and marketing techniques for all types of businesses.** There may be new technologies and ideas that you haven't thought of. Is the zero discount fees available to you by your accepting debit cards discussed? What about gift and loyalty at minimum replacing your paper gift certificates? What about check guarantee? Phone cards as an add-on profit center? Internet solutions? **Are you offered incentives for adding ancillary services?**

**Remember, business owners have likelihood of opening and purchasing other businesses as the years go on. A proven credit card processor should have merchant customers in a variety of business environments, not just the Internet.** Look for a processor that serves retail businesses, internet businesses, mail order/telephone order businesses, home-based businesses, business-to-business merchants, businesses referred by their banks, associations and franchises, professional

services (e.g., physicians, attorneys, chiropractors, etc.) and wholesale businesses. This versatility ensures that your processor has the experience to transact *your* processing accurately and effectively even as you get involved in other business types.

8.) **True 24 x 7 Service and Tech Support From One Toll Free Number**– Murphy's Law states "if something can go wrong it will". That means you need tech support on nights and weekends. Anything less this means higher risk. **Call the customer service line at least once at various times including weekends to see if the number is both toll free and without exorbitant hold times.**

### **Total Risk Estimate Worksheet (Low-Medium-High)**

This is an example of the composite of the 8 key indicators above. You need to rate all eight indicators for each Merchant Account Provider and determine the TRE. See the table below for two examples and then go to the Merchant Account Comparison Worksheet following this section to do your own risk estimate and cost benefit analysis. You should **not only rate the risk but also weigh the value of each indicator to you.**

<b>Total Risk Estimate (TRE) for Two Merchant Account Providers</b> (See the “Merchant Account Comparison Worksheet” to make your own spreadsheet) These are the company and service standards – other than rates and fees 1 is safest / 3 is medium risk / 5 highest risk (higher number is riskier source)				
	<b>Merchant Account Provider A</b>		<b>Merchant Account Provider B</b>	
<b>Key Indicator</b>	<b>Sales Rep. Information/ Independent Research</b>	<b>Risk (1 to 5)</b>	<b>Sales Rep. Information/ Independent Research</b>	<b>Risk (1 to 5)</b>
Knowledge Level of Salesperson	New guy/ used car salesman approach	High (5)	6 Years, knew what he was talking about	Low (1)
Ease of Application Process	Claims sound kind of loose. Need to send hard docs.	Med (3)	Application can be sent as a pdf attachment within the hours	Low (1)
Merchant Account Provider Years in Business and Industry Recognition	2 Years, none the salesperson knew about	Med (3)	14 Years	Low (1)
Acquiring Processor Years in Business and Relationship with Provider	Who’s the Acquiring Processor? Never heard of them.	Med (3)	Acquirer owns the Provider/ public company	Low (1)
100% Money Back Guarantee	Says yes but kind of vague	Med (3)	Sent me a statement of the guarantee	Low (1)
Single Point of Contact	Terminal / software service is really a third party company.	High (5)	Software, terminal support, and service all in one	Low (1)
Bundled Solutions	Partial	Med (3)	Wow	Low (1)
True 24 x 7 Service and Tech Support From One Number	Yes	Low (1)	Yes	Low (1)
Something you want to measure (Lease terms as example )		Med (3)		Low (1)

## ABOUT CARDSERVICE INTERNATIONAL ( An Agency's Perspective)

Cardservice International is a global leader in providing real-time, secure credit card transactions to more than 185,000 businesses in both the traditional and Internet marketplaces.

Founded in 1988, our company processes more than 180 million transactions each year and an annual credit card/debit card volume of more than \$12 billion. With more than 850 on-site employees, including a customer service staff of more than 200 representatives, merchant support 24 hours a day, 7 days a week, in 140 languages and dialects, 295 agent offices and more than 3,000 sales representatives nationwide, Cardservice International is committed to its customers and to provide complete merchant satisfaction.

Cardservice International has a long-term processing relationship with and is an affiliate of First Data Corporation (FDC), Denver, Colorado. FDC currently provides Cardservice with a transaction delivery system, including front- and back-end processing services. Cardservice uses the most sophisticated network available, while maintaining control of all support services channeled directly from Cardservice to the merchant.

Cardservice International can help you experience higher sales and profits by enabling your business to accept non-cash forms of payment such as:

- All Major Credit Cards
- ATM/Debit Cards
- Corporate Procurement Cards

### How Cardservice International (CSI) works...

Editorial By Jack Kimball, Agency Owner

What I have to say may help you make a decision about any Merchant Account Provider, not just CSI. Either way, here's some facts that clients have told me you need to know.

How do all the pieces fit together?

Many prospective clients and existing Merchants call me wondering how all the pieces fit together at Cardservice International (CSI). **Particularly frustrating is the variances of pricing which can result from talking with different Agencies – or even what "Independent Agencies" are all about.**

CSI has a corporate office in Moor Park , California with better then 500 employees. Until the recent (January 2002) buyout by First Data Corporation, CSI was the largest independently owned transaction processor (credit card processing company) in the US. By definition though, CSI Corporate is a “Transaction Service Provider”. This means that as a company they “acquire” businesses to help those businesses accept credit cards for a consortium of banks. CSI Corporate, for the most part, makes money on the discount rate and transaction fees that you pay for the privilege of accepting credit and debit cards. Remember though, a big part of this fee which you will see on your Merchant Statement is paid to the Issuer of the card that was used to pay you, not the Credit Card Processing company. This is called the Interchange Fee.

## **Independent Agencies: Know BEFORE you commit..**

The “Selling Arm” of CSI Corporate is a network of better than two hundred independently owned Agencies. A good parallel is Nationwide Insurance which has a big corporate office which services accounts. If you open up the yellow pages you can find a local Independent Agency under Nationwide Insurance which can help you with your insurance needs. CSI works much like this but many Agencies do business on a national level. If you call CSI Corporate you will be referred out to an Agency so it's important to know which Agency you are working with. Agencies vary widely on software and hardware pricing – and on standards of service.

CSI Corporate also pays a piece of your processing fees to it's Agency offices on a monthly basis. Should you enter into a lease which you get through an Agency Office then basically you are financing the software or terminal purchase. The CSI Agency then sells your lease to the leasing company. The leasing company writes a check to the Agency.

**Each CSI Agency has unlimited territorial rights and can do business anywhere in the US and even the world.**

## **What are the pitfalls?**

Be careful about entering into a Merchant Agreement with a Credit Card Processing Company based on price alone. One of the benefits of CSI is that the lower ongoing rates and fees you are quoted are for the most part set by the Corporate Office and are less likely to be "tinkered with". Many Credit Card Processing Companies will offer a “great deal” on software or hardware (and low rates and fees) only to make it up later by raising your rates and fees some months down the line. In my experience these are "bait and switch” tactics. In fact, I get a call a week from a competitor Credit Card Processing Company recruiting me to leave CSI, as I own one of the largest CSI Agencies in the country. Usually the selling point is that I can “increase the rate” and make more in residuals once I have you as a client. No thanks.

## **Three things are important to know.**

- 1.) As a new client you actually enter into a Merchant Agreement with the corporate office of CSI who then services your account. CSI Corporate, not the Agency, for the most part sets the discount rate and transaction fees.
- 2.) Each Agency has to make money somewhere. How the pricing is structured is up to the Agency. Some Agencies try to get more up front - resulting in fewer accounts but higher short term profit. Some Agencies however think long term, price very competitively, gain valuable referrals, and make money by retaining clients with better service. In my opinion, this builds a far more stable Agency.
- 3.) **The service levels of different Agencies varies widely so make sure you are doing business with an Agency with the experience and competence to properly serve you AFTER the sale. An Agency relationship can be valuable to help you with CSI Corporate. Make sure the Agency has full time customer service as a fall back to the corporate office.**

## Appendix A

### Loss Prevention Tips

#### ***Are you being stung with “Non – Qual” fees for keyed orders?***

As a Merchant you should be aware that you can “screen out” orders based on whether the billing address the customer gives you matches the billing address that the card issuer has on file.

Make sure you are avoiding fraudulent transactions, unauthorized activity, and costly chargebacks by properly using the Address Verification Service (AVS).

To use Address Verification properly you should perform a credit card sale or an authorize-only transaction that verifies the availability of funds. AVS then compares the numeric portion of the customer's street address and ZIP code entered in the point-of-sale terminal or software with the address that the card-issuing bank has on file. If both the ZIP code and street address match, the AVS code will begin with a Y. If they do not match, the AVS code will begin with an N.

A merchant typically receives an AVS code for approved transactions only, regardless of whether the addresses match. If an AVS code indicates that the address or ZIP code does not match, it is then up to the merchant to decide whether he or she will complete the sale. AVS works only for US addresses.

**Alert! If you are “keying” orders into a terminal and the machine does NOT prompt you for an address and zip code then you may be paying an excessive rate for those keyed orders.** Many credit card processing companies will quote you very low “swiped” rate to gain your business and then sting you with very high “Non Qual” add-on percentages for your keyed business, especially if you are not checking for AVS. Make sure your provider and terminal gives you this capability.

Business owners should use their own discretion when a transaction's validity is in question. AVS is just another tool to help them make sound business decisions.

## Appendix B

### Have you ever felt betrayed by your Credit Card Processing Company?

Many Merchants have learned a valuable lesson about making sure they are doing business with a reputable processing company. There are many honorable credit card processing companies out there - not just Cardservice International – although we ARE the Electronic Transaction Association's "Acquirer of the Decade" - Sorry, I couldn't help myself. ;-).

Make sure, BEFORE making a decision on which credit card processing company is going to handle your money, that you ask the right questions. The following article was provided by The Green Sheet, which in their words is "the definitive financial services publication dedicated to meeting the informational, educational and inspirational needs of today's busy ISOs and ISAs." [www.greensheet.com](http://www.greensheet.com)

Remember, should you ever desire a free analysis of your current Merchant Statement or Agreement, please do not hesitate to call me – without obligation. The article begins here.

#### ***First Federal Trade Complaint against an ISO***

The Federal Trade Commission announced its first federal district court complaint against an Independent Sales Organization (ISO) for unfair and deceptive practices related to the marketing of credit card and debit card merchant accounts to small businesses nationwide. In its complaint, the FTC stated that the defendant and its principals misrepresented the terms of - and then inserted fine print into - merchant account agreements, allowing the company to fraudulently debit previously undisclosed fees from the merchants' bank accounts.

This complaint may be just the first shot across the bow of the bankcard industry, as the Federal government begins to look closely at how ISOs in general and Certified Merchant Services in particular do business. While the initial focus on the part of the FTC seems to be bankcard-related, the Commission has included Certified Merchant Services's check-conversion business in its complaint, which means that check conversion also will get its first federal scrutiny.

Our readers should know that the FTC files a complaint when it has "reason to believe" that the law has been or is being violated and it appears to the Commission that a proceeding is in the public interest. A complaint is not a finding or ruling that the defendants have actually violated the law.

At the FTC's request, a federal district court has issued a temporary restraining order (TRO) against the defendants, has frozen the defendants' assets and has appointed a receiver to oversee the company's future operations. The FTC filed the complaint against Certified Merchant Services, Ltd.; Certified Merchant GP, Inc.; Certified Merchant Services, Inc. (collectively Certified Merchant Services); Jonathan Frankel; Craig Frankel; and Randal A. Best, of Plano, Texas. The companies also do business under the names Transaction Merchant Services (TMS), Transaction Merchant Services.com and Electrocheck. Jonathan Frankel and Craig Frankel are

both officers and directors of Certified Merchant Services. The former is also believed to be the President, and the latter the Vice President and Treasurer, of the corporate defendants.

"Processing credit card transactions is essential for anyone in business," said J. Howard Beales III, Director of the FTC's Bureau of Consumer Protection. "But small-business owners shouldn't have to worry about unauthorized charges from someone who is supposed to be working for them. The FTC will continue to follow up on reports of unfair and deceptive sales and billing practices and stop perpetrators cold." The Commission's Allegations According to the FTC, since at least 1999, Certified Merchant Services and the individual defendants - either directly or through sales agents - initiated contact with small-business owners throughout the United States to induce them to purchase their goods and services, including the establishment of merchant accounts.

The Commission's complaint alleges that Certified Merchant Services and the individual defendants violated the FTC Act by unfairly and deceptively (1) modifying customer contracts; (2) debiting their accounts without authorization; (3) making misrepresentations regarding various goods or services offered; and (4) failing to disclose various charges or fees. Specifically, the complaint states that in numerous instances, after merchants had signed applications and without their knowledge, Certified Merchant Services inserted pages of fine print, including fee and expense information. Certified Merchant Services allegedly then used these pages to justify debits of fees or expenses from the merchants' deposit accounts with no notification.

Certified Merchant Services allegedly tried to disguise these debits, listing "H-Semi," and "H-Can," instead of Certified Merchant Services, as the company withdrawing the fees. The FTC further contends that in many cases Certified Merchant Services debited the fees from the merchants' accounts before providing the merchants with promised card-processing equipment or supplies, before the merchants signed up for processing services or before such services were activated, and even though some merchants had canceled their service.

In addition, according to the complaint, Certified Merchant Services deceptively represented that:

- If merchants purchased its services, it would save them money each month on their card-processing expenses.
- If merchants were dissatisfied with any services or representations made by the company, they could cancel or transfer the service to another card processor at any time with no further obligation.
- There was no minimum monthly fee for the services offered.
- If merchants were charged cancellation fees by prior card processors, the company would reimburse them.

Finally, the Commission said that in many instances Certified Merchant Services deceptively failed to disclose, clearly and conspicuously, that it would charge merchants certain fees, including a minimum of \$25 if the merchants did not reach a certain level of card sales; a semi-annual fee of between \$33 and \$50; and a cancellation fee of between \$300 and \$400 for canceling within three years of signing a service contract. Relief Sought In addition to seeking and securing the TRO and asset freeze, the Commission sought and obtained the appointment of a receiver to oversee Certified Merchant Services's business operations while the FTC seeks to obtain redress from the court to remedy the alleged law violations. As many merchants depend on credit- and debit-card transactions on a daily basis, the Commission proposed a limited asset freeze that would allow the receiver to operate the merchant accounts and deposit net card sales' proceeds into the merchants' deposit accounts.

The Commission vote authorizing staff to file the complaint was 5-0. It was filed in the U.S. District Court for the Eastern District of Texas on Feb. 11, 2002 . More information may be found at [www.fts.gov](http://www.fts.gov)

## Appendix C

# Your Customer's Credit Card Numbers Are At Risk

### Hacker Gets Access to Credit Card Numbers

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Feb 18, 12:30 PM (ET)

By EILEEN ALT POWELL

NEW YORK (AP) - A computer hacker gained access to more than 5.6 million Visa and MasterCard account numbers by breaching the security of a company that processes transactions for merchants, the card associations said Tuesday.

Visa USA spokesman Mike Riley said ... he could not identify the third-party processor or say exactly when or how the hacker got access to the account information, which involves some 3.4 million Visa accounts and 2.2 million MasterCard accounts.

A source with knowledge of the situation who spoke on condition of anonymity said that the incident occurred in early February.

Processors handle transactions for merchants, bundling and transmitting charges to the banks that issue the cards.

Visa, which is based in Foster City, Calif., said that after learning of the incident, the company's fraud team "immediately notified all affected card-issuing financial institutions and is working with the third-party payment card processor to protect against the threat of a future intrusion." ... MasterCard Inc., which is based in Purchase, N.Y., said that affected banks had been notified. A MasterCard spokesman did not immediately return calls seeking comment.

## Appendix D

### PayPal

I have not checked out this source to see if they have some sort of gripe against PayPal but this website ( [www.paypalwarning.com](http://www.paypalwarning.com) ) does at least cause me some concern. I am not trying to single out PayPal. Some people have told me that they are very happy with this service. It just seems whenever I start shopping one of these Third Party Services the other foot drops sooner or later. I just received an offering from StormPay which was “ready to take the internet by storm”. Digging down in the site I found that customers must open an account and pay a 10% discount fee for deposits from their credit cards!

Anyway, here's a text of the page that was sent to me.

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This page is intended to provide advance warning to users of the Paypal.com transaction processing system.

It also provides information on resolving your Paypal issue and an alternative for anyone who may be considering a Paypal account.

***PaypalWarning.com is in no way affiliated with Paypal, Inc.***

PayPal, Inc.  
[1840 Embarcadero Rd](#)  
 Palo Alto CA 94303

PayPal, Inc.  
[11128 John Galt Blvd](#)  
 Omaha, NE 68137

#### **Known phone numbers:**

(402) 935-2000 / (402) 935-2001 / (402) 935-2062 / (402) 935-2258 [this is Craig, complaints resolution manager] / (402) 935-7733 / (402) 537-5740 (fax) / (650) 251-1100 / (888) 221-1161 / (800) 836-1859 / (877) 672-9725 / (866) 272-9725 / (402) 935-2338 [Carrie, Paypal Security]

#### **WARNING:**

**Your Paypal account can be frozen at any time, without advance notice leaving you without your money for weeks (if not forever), and there isn't much you can do about it. Paypal is currently being investigated by regulatory authorities in three states!**

Last updated: November 4, 2002

**NEW** eBay tries to bully our domain from us!

**NEW** SCAM ALERT!!! EVERY PAYPAL USER NEEDS TO READ THIS NOW!

**NEW** **Judge says PayPal's arbitration rules unfair**  
**Company attempts to isolate itself from challenges, he rules**

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**Be warned** that Paypal is not a bank and is not FDIC insured. Paypal provides for a new concept – “pass-through FDIC insurance coverage”. They do this by pooling funds into checking accounts at about four different banks. This is great in case any of those banks go out of business (highly doubtful), but we are not yet sure of the coverage offered in case of another Paypal "dot com" failure.

Many Paypal accounts are frozen for almost anything and without warning until the owner faxes in lengthy and intrusive private information – several times over. Even then, the account may not be released. The account can usually receive money while it is frozen, but it certainly cannot withdrawal money.

Merchants finding themselves on the wrong end of a frozen Paypal account will still have to find some way to pay their obligations and fill orders for the weeks and months while the account is restricted. A domino effect occurs when a merchant's account is frozen, leaving them with no means to fill orders. Those orders are then disputed by customers, creating more chargebacks and the illusion of fraudulent activity on the part of the merchant.

While anyone paying into the Paypal system with a credit card does still have the protection of their own bank by disputing the transaction to create a “chargeback”, Paypal will eventually insist that a customer begins depositing money through their checking account. This will eventually prove to be a mistake as all chargeback protection through a credit card is then lost, leaving the customer at the mercy of Paypal.

Anyone experiencing these Paypal nightmares could always threaten to sue them, but that may be difficult at best. A thorough reading of the Paypal terms of service will reveal that you cannot even sue them should you have a legitimate claim. Their terms of service make it very hard to sue them! There have been several [class-action lawsuits](#) filed against Paypal.

Fraud seems to run rampant on the Paypal system. Merchants doing business through Paypal are simply not given any of the same tools to identify fraudulent transactions that real credit card merchants enjoy, yet they seem to take even more risk. Paypal is quick to chargeback transactions months after the fact, for seemingly any reason.

Any Paypal customer with a problem typically has an impossible time calling and talking to a real live person, and personal attention to electronic mail is virtually non-existent. According to Vince Sollitto (PayPal spokesman), Paypal [\*intentionally makes the phone number very difficult to find in order to save costs.\*](#)

This is fine, except their Email "customer service" also leaves a lot to be desired. Many times you will get a canned response that doesn't address your initial Email message, if you get a reply at all. It doesn't do any good to complain anyway. When asked about customer complaints, Sollitto said the company reads them, but takes them with a grain of salt... (source MSNBC article, above).

None of this is very surprising when you consider that Paypal, Inc. publicly admits "[we have limited experience in managing and accounting accurately for large amounts of customer funds.](#)" Their EMail "customer service" is also outsourced to a company in New Delhi, India. Additionally, regulatory authorities in three states (California, Idaho and Louisiana) are investigating whether PayPal, Inc. is engaged in a banking business because of their customers' ability to retain a balance for future transfers. Because Paypal is not licensed as a bank, they are not permitted to engage in a banking business! (Source, [IPO Prospectus](#)) Louisiana has already ordered Paypal to stop doing business in the state. This could spell REAL trouble for anyone with funds "deposited" in Paypal.com!. Paypal also recently shelled out \$200,000 to the NY Attorney General and has agreed to stop service to NY gamblers.

This website is a collection of horror stories, news reports and other information addressing problems with Paypal, Inc.. While we do not have the resources to verify each and every complaint we receive, we do believe that all reports posted here are true based on our own experience with Paypal and the growing number of corroborating horror stories we receive every day.

## Exhibit E

# Marketing 101: Gift and Loyalty Smart Card Technology Ensures Customer Loyalty

Beyond offering great customer service, what can merchants do to make more sales and keep customers coming back? The notion of customer loyalty seems almost quaint today, when shoppers openly defect to competitors that offer lower prices. But the good news for merchants is that shrewd shoppers also value flexibility, convenience and security. And a simple way for merchants to de-emphasize price—and attract more business—is to offer customers other incentives to shop, such as a wider range of payment options or the ability to earn loyalty card rewards. Thanks to smarter payment technology and changes in consumer attitudes, electronic payments have become more prevalent than ever. MasterCard International, one of the world's largest credit card networks, reports that its branded cards were used in more than 11.6 billion transactions in 2001, generating a gross dollar volume of \$986 *billion*. This almost trillion dollar volume is up 17.6% from 2000.

It's no mystery why the number of e-payments is growing. Consumers love credit cards because they are easy to use, offer increased buying power and are safer to carry than cash. Debit cards offer shoppers another fast, secure way to pay. And electronic checks—secure transactions that verify the availability of funds and automatically transfer money—represent a third, increasingly popular alternative to cash.

For storeowners, accepting these electronic payments has never been easier. Merchant accounts can be approved in as little as 24 hours. And payment solutions exist for virtually every type of business, from restaurants to online retailers, mobile merchants to home-based enterprises. Best of all, business owners don't have to pay up front for terminals, printers or software, because most payment providers offer short and long -term equipment leases. Merchants who offer more payments options to their customers enjoy many advantages, including:

- Access to a wider customer base
- Higher frequency of sales
- Larger ticket amounts per sale
- Increased customer traffic
- Augmented revenue from customer impulse buys
- Strengthened credibility
- Lower incidences of employee theft

In addition to credit, debit and e-check acceptance, businesses are using gift and loyalty cards to attract and keep customers. Research shows their efforts pay off. In a national survey on plastic card usage, 45% of respondents said they spent more money at stores where they were loyalty program members. **The same study revealed that gift cards, like loyalty cards, help merchants increase store traffic and boost incremental sales. Approximately 55% of survey respondents who have received gift cards reported that they needed more than one trip to deplete the value stored on their cards. In addition, the majority of return shoppers said they spent more than their cards' initial value. Not surprisingly, many businesses that once offered gift certificates have traded in paper for plastic.** *Card Marketing* magazine estimates that by 2005, plastic cards will represent 80% of the gift certificate market, a total of about 850 million cards. The advantages plastic cards offer merchants are undeniable. For one, retailers no longer have to refund cash for unspent balances. To storeowners, this means more positive cash flow and repeat business. Plastic cards are also great advertising tools because they are brandable, durable and are easily carried by

shoppers. Equally important, the cards are much more difficult to forge than paper gift certificates. And that's just the beginning. **A business owner can also use the information encoded on a gift card's magnetic stripe to determine where and when the card was purchased, where and when it was used, and what the card recipient bought.** In addition to these benefits, loyalty cards offer merchants even more options, including the ability to:

- Track customer behavior and history
- Allow cardholders to earn points toward rewards
- Overcome slow sales by offering extra points on purchases made during off-peak seasons
- Encourage customers to spend more by offering bonus points for purchases over certain amounts
- Create special promotions, such as members-only discounts
- Allow customers to apply their points toward future purchases or to redeem points for free branded merchandise

The list of benefits grows as payment technology gets both smarter and more economical. But the bottom line remains the same: One of the best ways to attract new business while maintaining existing customers is to offer shoppers more ways to pay for goods and services. Payment flexibility helps clinch sales and encourages new customers to return.

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## Exhibit F

### Check Guarantee and Check Acceptance Policies

**Question:** I'm opening a business and want to know what kind of check policy I should have. If someone bounces a check, do I lose the money? How can I protect myself against fraud and returned checks? How does accepting checks over the Internet differ from accepting paper checks? Do the same rules apply?

**Answer:** You are very smart to want to accept checks safely. Offering your customers a variety of payment options increases sales and captures impulse purchases. And American consumers love to write checks. In fact, checks are customers' preferred method of payment when they make a purchase, and checks accounted for 73% of all noncash transactions in 2000, according to the Federal Reserve. This is a convenient payment option for your customers, but can be a challenge if the check bounces. To help prevent returned checks, follow these fraud-prevention tips from experts such as the National Crime Prevention Council, the National Check Fraud Center and Bankrate.com:

- Always ask to see the check writer's driver's license or identification card. Compare the signature and the address on the card with the information on the check. A photo ID is even better.
- Ask the purchaser to sign the check in your presence and compare it with the signature on the identification.
- Accepting check cards, such as MasterCard's Master Money Card and the Visa Check Card, may actually be safer than taking paper checks. A check card is an instantaneous debit from the purchaser's bank account, while paper checks can take up to 14 days to clear. In addition, the billing address on the check card can be verified with the Address Verification Service, the same system used to verify addresses for credit cards.
- Watch for checks with low numbers. Nine out of 10 bad checks bear numbers from 101 to 499, which usually indicates a new account.
- Look for apparent alterations in the check (e.g., changes in the handwriting, water spots, color or background picture). This could mean it's a forgery.
- Don't accept pre-dated or post-dated checks. The funds may not be available in the account when you try to deposit it.
- Compare the last three or four digits of the Federal Reserve number in the right -hand corner of the check with the first three or four digits of the routing and transit numbers on the bottom left of the check. They should match.
- Establish a waiting period for refunds. Make certain your customer's check clears before refunding the money.

### *Guarantee Your Money*

Checks are most frequently returned for nonsufficient funds or closed bank accounts. If you accept checks as payment for goods and or services, and you want to ensure that you receive your funds, you may want to contract with a check guarantee service. If your credit card processor is a one-stop-shop transaction processing company, signing up for check guarantee services is as simple as checking off a box on your merchant application. When you have a check guarantee service, you run your customer's check through your point-of-sale terminal, which connects directly to the check guarantee service. The service reviews its database of good and bad check writers, and if your customer does not appear in the negative database, you can probably accept the check. Keep in mind that this review does not guarantee that there are sufficient funds to cover the check. If it bounces, your bank account will be debited for the full amount. But you can then submit the check for reimbursement, following the service's specific criteria, and they will reimburse you for that bad check. Check guarantee or check verification coverage depends on the type of service you choose. Various check services offer the following:

- Standard check guarantee service, which guarantees the full amount of the check or a predetermined amount, depending on your agreement.
- Verification only, which verifies if an individual is on the database of bad check writers, but the service will not cover the check amount if it bounces.
- Electronic check processing, which processes the paper check as if it were a debit card. The money is deposited in your bank account, usually within 48 hours. (Note: The exception is a disputed check. The same rules and regulations that apply to a disputed credit card transaction or chargeback apply to a disputed check.)

### *Internet Checks*

Virtual checks—an online payment option rapidly growing in popularity—present some additional challenges. Because this is a non face-to-face transaction, you can't ask for a driver's license to compare the signature. There is no signature—only the consumer's online agreement. And because it is not a physical check, you can't look for the inconsistencies mentioned earlier. To protect yourself from Internet fraud, don't ship the merchandise until the virtual check clears.

### *Check Policy*

Post your check policy in full view of your customers—whether it's a brick-and mortar environment or your Web site. Make certain your customers are aware they will be charged a penalty if they bounce a check. Establish a policy that fits your company, and make certain your employees understand and implement it. Check acceptance boosts sales; *safe* check acceptance is a matter of being careful. Investing in a check guarantee service is a business strategy that you must evaluate for your needs. But even if you don't select one of these services, be cautious on the front end: When your customer issues you a check, be sure to confirm his or her identification, telephone numbers, addresses, the MICR code numbers and the signature on the check. This may save you from financial loss.

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## Exhibit G

### How Can I Prevent Credit Card Fraud?

*Question: I hear credit card fraud is increasing. What can I do to accommodate my customers, yet prevent fraud?*

You are so right. Credit card fraud is on the upswing—in both traditional and online businesses. While there is no doubt that doing business on the Web can be lucrative, it also invites Internet fraud. As a merchant, you need to stay up to date with the latest developments in credit card technology and information, which your credit card processor should willingly share with you.

State-of-the-art online payment gateways, such as the LinkPoint Secure Payment Gateway, enable merchants to process transactions securely over the Internet, which you need to access today's extensive global e-commerce marketplace. Secure online payment gateways and sophisticated encryption technology make credit card fraud increasingly difficult.

#### Stop Fraud Before It Starts

Before shipping merchandise to a customer, verify the cardholder's information by using the fraud-prevention services and features available. Address Verification Service (AVS) helps verify street numbers *before* the merchandise is shipped, and direct contact with your cardholder or your cardholder's bank can also minimize chargebacks (a disputed credit card transaction).

Your cardholder's bank customer service number is printed on the back of the credit card, and the bank should be able to verify a billing address and the cardholder's name. If the two do not match, resolve this with your customer *before* shipping the merchandise. If you don't have AVS, contact your credit card processor to add this service to your arsenal of fraud -prevention weapons.

#### Every Credit Card Has Security Features

These characteristics are a credit card's most important security features:

- The credit card's hologram changes color in the light.
- The hologram's image is visible in a larger scale under fluorescent light.
- The signature line resists erasure and protects the cardholder's signature.
- The magnetic stripe transmits specially coded information that is recognized by only your bank, making stripe duplication virtually impossible.
- The embossed credit card number on the front and back of the card must match.
- The card number on the terminal ticket should match the number on the credit card.

CVC2 (MasterCard) and CVV2 (Visa) are new verification methods designed to minimize internet and mail order/telephone order fraud. These methods allow greater security when merchants process transactions where the customer's credit card is not present. This is how it works:

- The customer finds a three-digit number on the back of the credit card located on the signature panel.
- The last three digits of that number—along with the credit card number—is transmitted to the card-issuing bank.
- If all the information matches at the cardholder's bank, the bank responds with an approval code.

The CVC2 and CVV2 systems minimize the likelihood that a cardholder's bank will process fraudulent mail order/telephone order transaction chargebacks.

### **Always Ask for Identification**

You may ask for identification anytime you are presented with a credit card. Many cardholders write "ask for ID" on their credit cards to prevent unauthorized use. Customers should always have identification when presenting a credit card to a merchant, and you should review it consistently when you accept their credit cards. Here are some tips that can help you when you request customer identification:

- If the back of the customer's credit card is unsigned, say to the customer, "I see your card is not signed. Could I check your identification to verify your signature?"
- Call the customer by the name on the card. If the cardholder does not respond, *definitely* ask for identification.
- A credit card is not valid unless it is signed, and this is clearly stated on the back of the card. Point this out to customers who have unsigned cards and no identification, and encourage them to sign their cards.

### **Summary: Fraud-Stopping Tips**

Stopping fraud begins with you. Each merchant is the first line of defense against potential losses. These are some of the security measures available that can help you prevent fraudulent credit card purchases and save your business money:

- Always use the Address Verification Service (AVS); input all of your customer's numerical address and ZIP code information.
- Check the security features on the customer's credit card.
- Compare the signed credit card to the signed sales receipt.
- Call the toll-free customer service number on the back of the card to verify a cardholder's information.
- Ask for identification. If the customer is a first-time mail order, telephone order or Internet order customer, ask him or her to fax you a driver's license and a credit card photocopy *before* you ship the merchandise.

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## Appendix H

### Identity theft

Identity theft is one of the fastest growing white-collar crimes according to the Federal Trade Commission. Millions of individuals will become victims of Identity Theft. So, how do you protect yourself from the Identity Thief?

- 1.) Don't give out personal or financial information over the telephone unless you know the caller or initiated the call.
- 2.) Report lost or stolen checks, credit, and/or debit cards immediately.
- 3.) Shred any financial statements, credit card bills, and other personal information. Cheap shredders are available in just about any office supply store.
- 4.) Put outgoing mail, such as bill and credit card payments, in an official US Postal Service collection box.
- 5.) Contact creditors if your monthly credit card bills do not reach you.

Never leave your checkbook, wallet, or other valuables unprotected even when you are at home. Visitors to your home should not be able to gain access to your personal or financial information.

## Appendix I

<b>Total Risk Estimate (TRE) for Two Merchant Account Providers</b> (See the “Merchant Account Comparison Worksheet” to make your own spreadsheet) These are the company and service standards – other than rates and fees 1 is safest / 3 is medium risk / 5 highest risk (higher number is riskier source)				
	Merchant Account Provider A		Merchant Account Provider B	
Key Indicator	Sales Rep. Information/ Independent Research	Risk Risk (1 to 5)	Sales Rep. Information/ Independent Research	Risk Risk (1 to 5)
Knowledge Level of Salesperson	New guy/ used car salesman approach	High (5)	6 Years, knew what he was talking about	Low (1)
Ease of Application Process	Claims sound kind of loose. Need to send hard docs.	Med (3)	Application can be sent as a pdf attachment within the hours	Low (1)
Merchant Account Provider Years in Business and Industry Recognition	2 Years, none the salesperson knew about	Med (3)	14 Years	Low (1)
Acquiring Processor Years in Business and Relationship with Provider	Who’s the Acquiring Processor? Never heard of them.	Med (3)	Acquirer owns the Provider/ public company	Low (1)
100% Money Back Guarantee	Says yes but kind of vague	Med (3)	Sent me a statement of the guarantee	Low (1)
Single Point of Contact	Terminal / software service is really a third party company.	High (5)	Software, terminal support, and service all in one	Low (1)
Bundled Solutions	Partial	Med (3)	Wow	Low (1)
True 24 x 7 Service and Tech Support From One Number	Yes	Low (1)	Yes	Low (1)
Something you want to measure (Lease terms as example )		Med (3)		Low (1)

Blank worksheets on following page . Print the page and then fill in your own. This will be transferred to your Merchant Account Comparison Worksheet (Decision Matrix Spreadsheet)

<b>Total Risk Estimate (TRE) for Two Merchant Account Providers</b> (See the “Merchant Account Comparison Worksheet” to make your own spreadsheet) These are the company and service standards – other than rates and fees 1 is safest / 3 is medium risk / 5 highest risk (higher number is riskier source)				
	Merchant Account Provider A		Merchant Account Provider B	
Key Indicator	Sales Rep. Information/ Independent Research	Risk (1 to 5)	Sales Rep. Information/ Independent Research	Risk (1 to 5)
Knowledge Level of Salesperson				
Ease of Application Process				
Merchant Account Provider Years in Business and Industry Recognition				
Acquiring Processor Years in Business and Relationship with Provider				
100% Money Back Guarantee				
Single Point of Contact				
Bundled Solutions				
True 24 x 7 Service and Tech Support From One Number				
Something you want to measure (Lease terms as example)				

## Appendix J

The following pages are a “picture” of the spreadsheet available to you of the Merchant Account Comparison Worksheet with a focus on a brick-and-mortar Merchant. The excel file addendum “Merchant Account Comparison Worksheet” - Addendum to the Merchant Account Buyer’s Guide can be customized to your particular business whether brick-and-mortar, home/office based software, or internet.

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**Merchant Account Provider**  
A

**Provider**  
B

**Provider**  
C

**STEP ONE**  
*\* Fill in blue cells with your estimates about your business*

**Part One**

**Your Sales and Transaction Summary Estimates**

Monthly Sales (MasterCard/Visa only)	\$20,000.00	0	100%	
Average Order Size	\$50.00			
Number of Transactions Per Month	400			
Number of Deposits to your checking account each month (# of batches)	30			30 if you batch out each day per month, low volume may batch out less often

**Part Two**

**Storefront "swiped" merchant details**

Percentage of Business you will "swipe" card present	80%	These are the cards you "swipe" at your brick-and-mortar store
If you "swipe" more than 1% above, how much will you "key"	20%	These are your phone and mail orders for a "storefront" merchant

**These percentages should be 0% or 100% here ----->**

100% — 100% should be here

**Mail Order / Telephone Order (MOTO), Internet Details**

Percentage of Business you will "key" not card present (MOTO)	0%	or here. (one or the other)
Percentage of Business over the internet including Virtual Terminal	0%	
<b>These percentages should be 0% or 100% here -----&gt;</b>	0%	

**Part Three**

**Storefront Only**

Percentage "Debit" Transactions with a PinPad (30% a standard)	0%	Do you "swipe" but don't have a PinPad? Change the % here and check out your savings.
Percentage you will "key" without attempting AVS (should be none)	0%	These will all go non-qualified rate unless you attempt AVS properly

**All Merchants**

Percentage corporate credit cards taken (Non Qual)	10%	Corporate cards usually are a non-qualified rate
Percentage credit cards taken issued from outside US (Non Qual)	0%	Cards issued from banks outside US usually a non-qualified rate

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**Merchant Account Provider**

**Provider**

**Provider**

**A**  
**( Example )**

**B**

**C**

**STEP TWO**

**Fill in the quotes you get from different Providers**

Quoted MasterCard / Visa Discount Rate	1.71%	1.59%	1.49%
Quoted Transaction Fee	\$0.20	\$0.20	\$0.30
Quoted Debit Transaction Fee (average network fee)	\$0.57	\$0.60	\$0.55
Quoted Monthly Service Fee	\$10.00	\$0.00	\$0.00
Quoted Monthly Statement Fee	\$0.00	\$10.00	\$5.00
Quoted Monthly Minimum Processing Fee if any	\$25.00	\$0.00	\$0.00
Quoted Batch Out Fees (usually same as transaction fee)	\$0.20	\$0.00	\$0.00
Quoted AVS Transaction Fee (every time AVS used for keyed or internet)	\$0.05	\$0.05	\$0.00
Quoted "Mid Qualification" Rate (enter the zero before the decimal)	0.85%	0.75%	0.50%
Quoted "Non Qualification" Rate	1.65%	1.50%	1.25%

**Fill in Internet Related Fees if Any**

Quoted Monthly Secure Gateway Fee	\$0.00	\$0.00	\$0.00
-----------------------------------	--------	--------	--------

**Estimate of Total Monthly Rates and Fees (automatically calculated for you)**

Discount Fees (If less than monthly minimum use monthly minimum)	\$342.00	\$318.00	\$298.00
Transaction Fees	\$80.00	\$80.00	\$120.00
Mid Qual Fees	\$34.00	\$30.00	\$20.00
Non Qual Fees	\$33.00	\$30.00	\$25.00
Address Verification Fee (All keyed or internet orders)	\$4.00	\$4.00	\$0.00
Debit Transaction Fees	\$0.00	\$0.00	\$0.00
Batch Out Fees	\$6.00	\$0.00	\$0.00
AVS Transaction Fee	\$4.00	\$4.00	\$0.00
Monthly Service Fee	\$10.00	\$0.00	\$0.00
Monthly Statement Fee	\$0.00	\$10.00	\$5.00
Monthly Secure Gateway Fee (Internet Only)	\$0.00	\$0.00	\$0.00

<b>Total Monthly Estimate of Rates and Fees</b>	<b>\$513.00</b>	<b>\$476.00</b>	<b>\$468.00</b>
<b>Rates and Fees As Percentage of Sales</b>	<b>2.57%</b>	<b>2.38%</b>	<b>2.34%</b>

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Merchant Account Provider	Provider A	Provider B	Provider C
<b>( Example )</b>			
<b>STEP THREE</b>			
<b>Start-Up Costs</b>			
Setup Fee	\$0.00	\$0.00	\$0.00
Application Fee	\$0.00	\$0.00	\$0.00
Other Fee	\$0.00	\$0.00	\$0.00
Equipment Price (To Buy)	\$595.00	\$495.00	\$395.00
Software Price (To Buy)	\$0.00	\$0.00	\$0.00
Equipment Lease Upfront cost	\$0.00	\$0.00	\$0.00
<i>Internet Specific</i>			
Gateway Software Licensing Fee	\$0.00	\$0.00	\$0.00
Shopping Cart and Catalog Setup	\$0.00	\$0.00	\$0.00
<b>Total Start-Up Costs</b>	<b>\$595.00</b>	<b>\$495.00</b>	<b>\$395.00</b>

**STEP FOUR**

**Putting It All Together -  
Your Decision Matrix**

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Merchant Account Provider	Provider A	Provider B	Provider C
<b>( Example )</b>			
Total Monthly Estimate of Rates and Fees	\$513.00	\$476.00	\$468.00
Total Startup Costs	\$595.00	\$495.00	\$395.00

**Weigh the Importance to YOU**

**1 = Least expensive, 3 = medium expense, 5 = most expensive**

Fill in your percentage "weight" of importance to YOU

(Add up to 100%)

Fill in 1 to 5 scale of least to most expensive monthly rates and fees, and startup costs

	Weighting	Aggregate	Weighting	Aggregate	Weighting	Aggregate	
Total Monthly Estimate of Rates and Fees	40.0%	4	1.6000	3	1.2000	2	0.8000
Total Start-Up Costs	20.0%	5	1.0000	4	0.8000	3	0.6000

Fill in from your Total Risk Estimate Worksheet(s)

Risk Estimate Rating(Rate between 1 =safest, 3=medium, 5=riskiest)

**1 = safest, 3 = medium, 5 = riskiest**

	Weighting	Rating	Aggregate	Rating	Aggregate	Rating	Aggregate
Knowledge Level of Salesperson	10.0%	1	0.1000	3	0.3000	5	0.5000
Ease of Application Process	10.0%	2	0.2000	4	0.4000	4	0.4000
Merchant Account Provider Years in Business and Industry Recognition	5.0%	1	0.0500	4	0.2000	5	0.2500
Acquiring Processor Years in Business and Relationship with Provider	5.0%	1	0.0500	3	0.1500	4	0.2000
100% Money Back Guarantee	2.5%	1	0.0250	3	0.0750	5	0.1250
Single Point of Contact	2.5%	1	0.0250	4	0.1000	4	0.1000

Bundled Solutions	2.5%	1	0.0250	4	0.1000	5	0.1250
True 24 x 7 Service and Tech Support From One Toll Free Number	2.5%	2	0.0500	3	0.0750	4	0.1000
Something you want to measure (Lease terms as example)	0.0%	0	0.0000	0	0.0000	5	0.0000

Total Risk Estimate 100.0% times 100 = Decision Score. Choose the Provider with lowest score

3.1250	3.4000	3.2000
--------	--------	--------

**Decision Score (The LOWEST score is the best decision)**

	<b>312.5</b>	<b>340.0</b>	<b>320.0</b>
YOU made the best decision based on what's important to you	<b>Provider A</b>	<b>Provider B</b>	<b>Provider C</b>

## Glossary

**ADSL (Asymmetric Digital Subscriber Line):** a communications protocol for connecting computers and other electronic devices to a network, such as the Internet. ADSL offers more bandwidth than current telephone modem connections. ADSL can operate over most existing telephone lines but is currently available in only a few areas and generally costs more.

**Address Verification Service (AVS)** is an important fraud-prevention mechanism that verifies customer addresses within the United States. This ensures the identification of the cardholder and guarantees that you ship merchandise to a legitimate customer.

**Automated clearing house (ACH).** This is one acronym you'll want to remember. ACH is a national electronic network that transfers and clears funds between banking institutions on behalf of merchants and their customers. In other words, ACH helps you get your money from your customers' transactions.

**Bandwidth:** the amount of electronic data that can be transferred through an electronic connection in a given time. For modems connected by telephone to the Internet, the modem's "speed" represents the maximum possible bandwidth of the connection, such 56.6K.ps (kilobits per second). Competent web site operators strive to keep the size of web page files low to conserve bandwidth and speed downloading.

**Batch:** a collection of credit card transactions saved for submitting at one time, usually each day. Merchants who do not have real-time verification systems must submit their transactions manually through a POS terminal. Batch fees are charged to encourage a merchant to submit his or her transactions at one time, rather than throughout the day.

**Browser:** a software package used for locating, requesting and displaying web pages. Examples include Netscape Navigator, Microsoft Internet Explorer, and Opera.

**Business-to-business (B2B) commerce** refers to businesses purchasing goods from other businesses, generally over the Internet. It is a strong Internet growth component, and B2B connects companies' supply chains of companies through comprehensive Internet communications and offers goods through online catalog and portals. B2B is also known as BBP, or business-to-business procurement.

**Business-to-consumer (B2C) commerce.** When customers purchase products or services from a merchant—whether in an online or brick-and-mortar environment—they conduct B2C commerce.

**Capture:** the submission of a credit card transaction for processing and settlement. POS terminals and real-time processing software capture transactions to submit to merchant account providers or credit card processors.

**Card validation code 2 (CVC2) and card verification value 2 (CVV2)** are important fraud prevention mechanisms initiated by MasterCard and Visa to protect merchants. MasterCard's CVC2 and Visa's CVV2 codes help merchants distinguish between legitimate customers from those who try to commit fraud. These codes are the three digits on the back of a MasterCard or Visa credit card that follow the cardholder's credit card number. These codes protect Internet merchants by helping to identify a cardholder in anon- face-to-face transaction.

**CFR** (Cost & Freight): indicates that a quoted price includes the cost of the goods and transportation charges, but not insurance

**Chargeback** is a procedure in which the bank that issues the credit card returns a customer's disputed transaction to the merchant—via the merchant's transaction processor—for resolution. For example, the Cardservice International Chargeback and Retrieval Department defends its merchants' rights by making sure that the MasterCard or Visa dispute resolution guidelines have been met when the cardholder-issuing banks send us transaction receipt requests and contested transactions. Having a dedicated, experienced chargeback and retrieval department protects merchants and reaches favorable resolutions for them by reviewing the merchant's responses to transaction requests and contested transactions for completeness and proper documentation.

**CIF** (Cost, Insurance & Freight): a term indicating that a quoted price includes the cost of the goods, insurance, and transportation charges.

**Client:** a computer that requests and receives data over a network, including the Internet. The most common types of client on the Internet are computers running browsers or email programs.

**Commerce Server:** a web server which contains the software necessary for processing customer orders via the web, including shopping cart programs, dynamic inventory databases, and online payment systems. Commerce servers are usually also secure servers.

**Commerce service provider (CSP)** supplies businesses with the tools and services they need to buy and sell products and services over the Internet and manage their online enterprises. CSPs provide service in areas such as hardware and software design, risk management, online payment, brand recognition, distribution control, taxes, site development and hosting, site performance monitoring, fulfillment management, online marketing, building a customer base and order processing and delivery.

**Cookies:** small files that are automatically downloaded from a web server and installed on the computer of someone browsing a web site. Information stored in cookies can then be accessed any time that computer returns to the site. Cookies allow web sites to "personalize" their appearance by identifying visitors, storing passwords, tracking preferences, and other possibilities.

**Credit card processor** is an organization that manages the process of transferring authorized and captured credit card funds between different financial accounts. Credit card processors charge merchants a discount rate and a transaction fee for this service, and these fees vary from processor to processor. Cardservice International is an example of a credit card processor.

**Database:** a file containing organized information and, most commonly, a filing and retrieval system for storing information. Most database software also include tools for data analysis. Examples of database software include Oracle, Sybase, and Microsoft Access.

**Debit card** is used similarly to a credit card, but the funds are transferred immediately from the customer's bank account to the merchant's account. The advantage of debit cards to merchants is instant access to funds. Watch for Internet and e-commerce debit card capabilities in the near future.

**Destination Control Statement (DCS):** a document that accompanies nearly all commercial shipments, which declares that shipments contents are licensed for export to a particular

destination. The anti-diversion clause in the DCS precludes the diversion of the shipment to any other destination or use.

**Digital Wallet:** a consumer account set up to allow e-commerce transactions through a particular credit card processing system. Before the consumer can make a purchase, he or she must first establish an account with the credit card processor, who provides an ID and password. These can then be used to make purchases at any web site that supports that transaction system. CyberCash's "Digital Coin" system is an example of a digital wallet system.

**Direct deposit account (DDA)** is the bank account you establish to receive the funds your credit card processor transmits directly to you for your customers' purchases. It is the term that banks use for your checking account.

**Discount Rate:** a percentage fee paid to the merchant account provider or ISO for handling an electronic transaction. Most web merchants pay between two and 10 percent of their revenue from online credit card or electronic check orders.

**Domain:** a designation for particular location on the Internet. Domain names work alongside IP Addresses

**E-Commerce:** the processing of economic transactions, such as buying and selling, through electronic communication. E-commerce often refers to transactions occurring on the Internet, such as credit card purchases at web sites.

**EDI (Electronic Data Interchange):** EDI is a global computer network, separate from the Internet, used to handle financial transactions between banks and other institutions, including large businesses.

**Electronic soft-good download (ESD)** is the delivery of purchased merchandise (software programs, text, graphical images, music and information) by electronic means over the Internet.

**Encryption** is the process of scrambling a message so that a key, held by only authorized recipients, is needed to unscramble and read the message. This is an important security and fraud prevention measure for merchants conducting e-commerce.

**Euro:** the common currency shared by most of the members of the European Union (Britain, Greece and Denmark are not participating). Introduced in January 1999, the Euro will eventually replace national currencies, such as the German Mark, French Franc, and Italian Lira.

**Export License:** a permission granted to ship a product to a foreign recipient. In the U.S., export licenses are either general licenses or individual export licenses.

**Factoring:** the purchase of debts owed, or "accounts receivable," in exchange for immediate payment at a discount. In e-commerce, the term is often applied to ISOs that offer to process credit card transactions through their own merchant account, rather than through an account established by the merchant, in exchange for a percentage of the transaction or other fee. Factoring of credit card debt is illegal.

**FAQ (Frequently Asked Questions):** a file or location containing basic information and, not surprisingly, the answers to frequently asked questions.

**Freight Forwarder:** a firm which handles export shipments for other firms.

**Front-End:** The user interface that appears on a web page, which allows a visitor to the site to interact with dynamic features, including databases, shopping-cart programs, and online purchase processing software.

**FTP (File Transfer Protocol):** a set of standard codes for transferring files over the Internet. FTP is usually used for retrieving large files or files that cannot be displayed through a browser. Windows FTP and Fetch are examples of FTP software.

**General License:** a declaration by the U.S. Bureau of Export Administration that permits the open export of certain nonstrategic goods and services to designated countries. Exporters of these goods need not acquire an individual validated license (IVL). GIF (Graphic Interchange File): a file type that contains a graphic, photo or other image. GIFs are commonly found on the Web, along with another graphic file format called JPEG. GIFs tend to take less memory and bandwidth than JPEGs, and can contain animation. JPEGs offer greater image clarity, especially for photo images.

**Holdback:** a portion of the revenue from a merchant's credit card transactions, held in reserve by the merchant account provider to cover possible disputed charges, chargeback fees, and other expenses. After a predetermined time, holdbacks are turned over to the merchant.

**Hypertext markup language (HTML)** is the standard set of formatting codes, which are inserted into a text file that is published on the World Wide Web. If you develop a Website, your developer will probably create it using HTML.

**Hypertext transmission protocol (HTTP)** transfers information, graphics and text over the Internet.

**Individual Validated License (IVL):** Written declaration by the U.S. Dept. of Commerce granting permission to export specified products to a specified foreign recipient. See General License.

**IP Address (Internet Protocol):** A designation for a particular location on the Internet, such as 140.23.719.6. IP addresses often operate in parallel to domains, but domain names used are more often since they are generally easier to remember.

**ISO (Independent Service Organization):** a firm or organization which offers to process online credit card transactions, usually in exchange for transaction fees or a percentage of sales. Merchants must generally establish a merchant account before contracting for ISO services, although some ISOs claim not to require separate merchant accounts. See Factoring.

**Interchange** is the exchange of information, transaction data and money among banks. Interchange systems are managed by MasterCard and Visa associations and are very standardized so banks and merchants worldwide can use them.

**Interchange Fee** - A fee paid by the acquiring bank/merchant bank to the issuing bank. The fee compensates the issuer for the time after settlement with the acquiring bank/merchant bank and before it recoups the settlement value from the cardholder. **Interchange fees are roughly 1.37% and ten cents per transaction for a typical swiped business and 1.8% and ten cents per transaction for a MOTO or internet business. This is the money that for the most part goes to the bank that issued the credit card. You could say this is the Merchant Account Provider's cost of sales.**

**Internet service provider (ISP)** allows an online merchant to access and conduct

business over the Internet. EarthLink and America Online are examples of ISPs, and—for a monthly fee—provide their members with a software package, user name, a password and access telephone numbers. Once merchants contract with an ISP, they are ready to

host a Web site and conduct e-commerce.

**ISO 9000:** a set of standards for electrical and electronic products, formulated by the International Standards Organization. Product quality standards in most nations either meet or exceed ISO9000 standards.

**Issuing Bank:** the bank that maintains the consumer's credit card account and which must pay out to the merchant's account in a credit card purchase. The issuing bank then bills the customer for the debt.

**JCB.** This was originally Japanese Credit Bureau, but today only the acronym JCB is used. JCB is Japan's leading credit card, and it is similar to MasterCard and Visa credit cards. Accepting JCB may be very important for merchants that conduct international e-commerce. You can apply for JCB through your transaction processor.

**Java:** a programming language frequently used on web sites. Java programs, or "applets" are downloaded from the web server to the visitor's own computer, which then runs them. This distinguishes Java programs from other web programming languages, like PERL, which reside and run on the web server. Only the results are downloaded to the visitor's computer.

**JPEG or JPG:** a file format used for storing graphic images, usually photographs. JPEG files are larger than GIF files of the same image, but offer better color control and clarity. See GIF.

**LinkPoint Secure Payment Gateway (LSPG)** is Cardservice International's secure payment gateway, and it is one of the most secure in the industry. A secure payment gateway translates information from a merchant's Web site into a format that can be read by an electronic processing system. By operating in real time, a merchant can immediately capture funds upon delivery of goods to customers. The LinkPoint Secure Payment Gateway supports sales, returns, real-time authorizations, captures, batch settlement processing and refunds. State-of-the-art technology provides merchants with numerous benefits, including fraud screening for every transaction submitted and providing real-time reporting via merchants' Web browsers.

**Mail order/telephone order (MOTO) businesses** conduct transactions through the mail or over the telephone.

**MAP (Merchant Account Provider):** a bank or other institution that hosts merchant accounts and processes credit card transactions. The term is also often used broadly to include any credit card processing service, including ISOs.

**Merchant Account:** a bank account established by a merchant to receive the proceeds of credit card purchases. By establishing a merchant account, the merchant bank agrees to pay the merchant for credit card purchases in exchange for the right to collect on the debt owed by the consumer.

**Merchant Bank:** a bank that holds the merchant account. After a consumer buys a product using a credit card, the merchant bank places funds into a merchant account in exchange for the right to collect on the debt owed by a consumer.

**Micropayments:** very small charges, perhaps even less than a penny, processed through e-commerce systems. Until this time, E-commerce has been largely limited to purchases of \$10.00 or more. With micropayment, however, e-commerce merchants can sell products for far lower prices, such as small fees for downloading documents or charges per click for online advertising. Micropayment systems are still largely experimental and not widely available.

**MOTO Discount Rate (Mail Order / Telephone Order):** the discount rate charged by the merchant account provider for credit card transaction where no actual credit card was available to the merchant. MOTO rates are generally higher than swipe rates to account for the increased chance of fraud or non-payment.

**Personal identification number (PIN)** is a cardholder's unique identification number, which is used when making a debit card transaction.

**Point of sale (POS)** refers to anything that is used at the merchant's point of sale, such as a credit card or debit card terminal.

**Public Key Encryption:** a method of encrypting electronic data. Developed to account for weaknesses in symmetric encryption, public key encryption does not require the transmission of decoding keys themselves.

**Recurring Fees:** regular, usually monthly, charges for maintaining a merchant account. Recurring fees include the discount rate, transaction fees, statement fee, and monthly minimum.

**Real Time Verification and Capture:** the verification and processing of credit card transactions immediately following purchase. Real time verification on the Web usually takes less than five minutes. Real time verification is especially important for web sites that sell products and services that consumers expect immediately, such as memberships to the site or software downloads.

**Reserve Account:** See Holdback.

**Robot:** a software application that automatically finds and retrieves information from the Web. Also called a "spider" or "crawler."

**SET (Secure Electronic Transaction):** a system for encrypting e-commerce transactions, such as online credit card purchases. Developed by Visa, MasterCard, Microsoft and several major banks, SET combines 1024-bit encryption with digital certificates to ensure security. SET is still in development.

**Secure Sockets Layer (SSL).** This protocol, designed by Netscape Communications, allows encrypted, authenticated communications to travel safely and securely across the Internet. SSL provides merchants with privacy, authentication and message integrity. Advise your customers that your Web site is secure—show them the key or closed lock on the bottom left-hand corner of your site, which tells customers they are on a secure page when they make an online credit card transaction.

**Secure hypertext transmission protocol (SHTTP or HTTPS)** transfers credit card information safely and securely, using special encryption techniques. It is used to secure a Web site for electronic transactions and enables credit card users to make safe online purchases.

**Secure Server:** a web server or other computer connected to the Internet that is capable of establishing encrypted communication with clients, generally using SSL or SET.

**Setup Fees:** fees charged for establishing a merchant account, including application fees, software licensing fees, and equipment purchases.

**Shopping Cart Program:** a software package that runs as part of a web site to collect and record purchasing decisions by a visitor. Shopping cart programs are stored on web servers.

**Smart Card:** a plastic card containing a computer chip that can store electronic "money." Unlike a credit card, a smart card can only spend out what the owner has already put into the card. Similar in function to a pre-paid calling card, but available for all purchases. Trail runs of smart cards have returned mixed results.

**Spam:** unsolicited emails. There are two common usages: 1) mass emailings by commercial sites to recipients who have not requested any contact, and 2) emails sent to intentionally annoy or harass the recipient, including crashing their computer my overloading its email capacity. The former often provokes that latter.

**Swipe Discount Rate:** the discount rate charged by a merchant account provider for transactions where a credit card is available for inspection by the merchant. Swipe rates are generally lower than MOTO rates since the merchant can match signatures and other checks on fraud or misuse.

**T-1** (also **T-2**, T-3): commercial-sized connections to the Internet. T-1 connections offer approximately 25 times the bandwidth of 56.6K telephone modems.

**Transaction Fee:** a charge for each credit card transaction, collected by the merchant account provider or ISO. Transaction fees usually fall between US\$0.10 and US\$0.25.

**Turn-Key Application:** computer software which requires little or no modification when inserted into a web site. In e-commerce, many merchant account providers and ISOs offer turn-key applications for processing credit card orders online.

**Uniform resource locator (URL)** is the global address of different documents, Web sites and other resources found on the World Wide Web. Typically the “www” address.

**World Wide Web** (or simply Web): the entire collection of files written in HTML and similar mark-up languages available on the Internet. Clients on the Internet use their browsers to request these files from web servers and then display them as web pages. The Web is only a portion of the Internet; other parts include email communication, FTP, and gopher.