

5 Mistakes to Avoid When Choosing A Credit Card Processor!



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ElectronicMoneyCompany.com

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Every merchant wants the lowest rates and fees. The credit card processing salesman presents a comparison, but it can be so utterly confusing. Here are 5 mistakes that merchants make because they do not take the time to thoroughly understand the rates, fees, and contract. Understanding these mistakes will give you control and allow you to beat the credit card processing salesman at his game.

Mistake #1 – Not Understanding the Pricing Structure!

Are you being proposed Tiered Pricing or Cost Plus Pricing?

True Story – Only Charging 1% Scam!

One of my long time clients called me and asked a strange question. She was so tired of companies calling her to switch her processing that she finally said yes, she would listen to the salesman's program. She made an appointment with him and called me and asked if I would be at her side explaining what they were going to tell her. So I agreed.

We had her statements out ready to show the salesman when he showed up. He walked in, introduced himself and immediately opened his mouth and started to rattle off that he had rates as low as Walmart, only 1%. I immediately recognized the scam coming out of his mouth, so I asked if that was 1% over wholesale interchange rates. He asked who I was and we

explained. Then he immediately and quickly excused himself and left. He knew that I knew he certainly didn't have rates of 1%, which was lower than the wholesale interchange rates and must be adding it on top.

Let me educate you so you, too, can avoid getting sucked into a contract from a scammer salesman. There are three determinations of the fees for accepting credit cards: the interchange cost, the brand fees and the processor's surcharge.

- a. **The interchange cost.** This is the rate and transaction fee set by the bank associations to collect "interest" on the money "loaned" to the cardholder for 30 days until his credit card payment is due. The bank that issued the card to the customer, who is handling the risk of loaning the money to the customer, receives the interchange rate and transaction fee. This fee comprises the dominant amount of the total fees collected from the merchant. These rates range from .05% and \$.22 for a debit card to 3.4% plus \$.10 for some American Express cards. There are over 100 different rates in between depending on the risk associated with a particular transaction.
- b. **Brand Fees** – A non-negotiable cost. In addition to interchange, there are the Visa, MasterCard, American Express and Discover brand fees which are passed through on the merchant statement. These fees amount to approximately .15% to perhaps .20% of the transaction amount. These fees have names like assessments, acquirer fees, network fees, location fees, transmission fees, and nabu fees.
- c. **The Processor's Surcharge** is on top of the interchange fees and brand fees. The processor services the merchant, monitors fraud, transfers money from the card to the merchant's bank account, and provides customer service such as troubleshooting equipment hiccups, questions about transaction deposits, questions about fees, or service requests such as address changes or bank account changes.

The processor surcharge fees are the only fees that can be negotiated with the processor via the credit card processing salesperson.

Interchange Cost Plus

The interchange rate chart is a complicated system with over 100 different categories of rates and transaction fees depending on the risk. Debit cards have a lower risk and have a lower rate than corporate cards which have a high risk and a high rate. There are multiple conditions in between broken down by industry, type of card, and whether the card is swiped or entered over the phone or via the internet. All those conditions have different risk, different rates and different transaction fees.

With Cost Plus Pricing, you get charged the actual interchange rate and transaction fee, the brand fees plus an extra percentage rate and an extra transaction fee for the processor's surcharge. The processor also adds monthly and annual fees. The rates and fees should be fairly straightforward on your merchant statement as to whether the fee is an interchange fee, pass through brand fee or a service fee from the processor. When they are not, the processor could be trying to hide something.

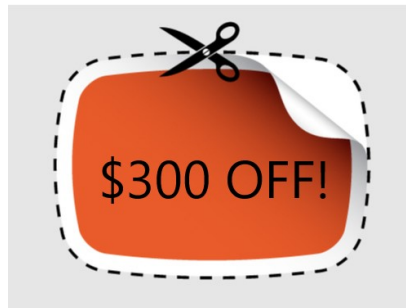
Tiered pricing

With this pricing format, the processor throws all transactions into three buckets with only three rates. Generally, one bucket is for swiped transactions, one for keyed transactions and rewards cards, and a third for business cards or keyed-in rewards cards. The buckets are called qualified, mid-qualified and non-qualified. This pricing system allows for an easy to understand merchant statement because there are only 3 rates listed instead of multiple rates and fees on multiple types of card transactions. However, generally the processor is charging a slightly higher surcharge than with cost plus pricing. The processor has to make sure he has his buckets covered for all the scenarios of rates. Tiered pricing gives the advantage to the processor. Interchange Cost Plus pricing gives the advantage to the merchant.

Some processors have an expanded variation of tiered pricing with six or more buckets. They add additional buckets for swiped rewards cards, keyed-in rewards

cards, swiped debit cards, and keyed-in debit cards. They can even get more creative than that with extra surcharges on any cards that are mid-qualified or non-qualified. This pricing is so confusing that it is difficult even for a veteran in this industry to disentangle. This type of pricing is used deliberately to confuse the merchant and pad the pocket of the processor and the processor's sales person.

With tiered pricing it is nearly impossible to figure out how much your credit card processing salesman and the processor are adding on to interchange for their profits.



This \$300 coupon is our gift to you when you join up with Electronic Money Company. You can apply it towards a purchase of a credit card terminal, a POS system, or simply use it as a discount on credit card processing fees.

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We guarantee to give you an honest evaluation of your current merchant statement compared to our low rates, and a consultation on the best hardware/software solution for you.

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Mistake #2 – Missing the “Hidden Fees”!

(Don't Miss Reading About the Last 2 Very Expensive Hidden Fees!)

These are possible, extra surcharge fees for the processor. They are not usually included in a rate comparison, so look them over carefully on the processor's application.

- a. Monthly Fee – All processor have monthly cost they have to cover to minimally service a merchant account, but it is usually marked up.
- b. On File Fee or Statement Fee – Another name for a monthly fee for servicing the account.
- c. Extra Transaction Fees – These are transaction fees on top of the interchange rate and transaction fees.
- d. Batch Fees – There is a cost to the transaction to settle the batch at the end of the day, but it is also marked up.
- e. Gateway Fees – If you process via an ecommerce site or a mobile app, there is a monthly cost for the gateway connection and many times also another
- f. Transaction fee. This is usually marked up by the credit card processing salesman.
- g. PCI Compliance – These fees are mandated by the industry to give guidance to merchants on how to prevent fraud, of which we all need to be vigilantly aware. The United States has more fraud than the rest of the world all together. There is a required annual PCI fee and an additional monthly fee if you don't fill out the required annual survey, where questions are asked of you in regard to whether you are following good security practices to prevent fraud. Some processors also sell breach protection with an add-on

fee to the annual PCI compliance fee. Data breach protection is something you should consider adding to your business insurance policy.

- h. Monthly Minimum Fee – Some processors add an additional fee for the processor to cover his cost of servicing your account even if you do not have any transactions.
- i. Annual Fees – Surcharge for the processor.
- j. Maintenance Fee – Surcharge for the processor.
- k. Regulatory Product Fees – A fee to cover the processor’s cost to report your credit card volume to the IRS. This fee is negotiable.
- l. Chargeback fees – There is some cost to handling the servicing of any chargebacks, but again it is marked up.
- m. Technology fee – A fee to recover the processor’s cost for investing in better technology or to make more money.
- n. Customer Insights – An added marketing program which carries a cost but can also be marked up by the processor. You may not even be using this program and it can be removed.
- o. Facebook Marketing Program Fees – Again this is a program that carries a cost and could be useful to a merchant. Again it is marked up for the processor to make money.
- p. EMV non enabled fee – A charge for not having the capability of taking EMC chip cards. Since you are not following best practices against fraud, the processor adds an extra fee to cover more risk.
- q. Monthly Club Fees – A monthly subscription fee that allows you to order all the paper you want for your terminal. This fee also sometimes allows a replacement terminal should the need arise. There is some cost involved here but it is also marked up.
- r. Other Fees – There are many more names for more monthly fees.

Especially Beware of these Next 2 Very Expensive Fees!

- s. **Termination Fees** - A fee for ending your agreement before the term.

- t. **Liquidated Damages – WARNING!!!** – These are fees in the fine print of the 30+ page terms and conditions, a copy of which should be given to you by the card processing salesperson. Liquidated damages means the processor will continue to charge you all their surcharge fees they would normally be collecting from you should you terminate the agreement before the end of the term. **This can be an unbelievable amount of money!**

Many times these fees are not listed on the credit card processing salesman's comparison. They are only on the application. Many times they are denoted in very small print. So ask to review the application. Review every fee listed.

Liquidated damages is buried inside the terms and conditions! Beware of salespeople who handwrite in, "No termination Fee." Many times in the fine print there is verbiage saying that the salesperson is not allowed to waive the termination fee or liquidated damages fee.

Understand that the processor does need to make money. They are servicing and managing your merchant account, watching for fraud and managing deposits for you. They assist with chargebacks, provide technical support and answer questions about your merchant statement. Just be careful that you understand how much you are paying your processor to do this for you and what kind of service they are giving you for that surcharge payment.

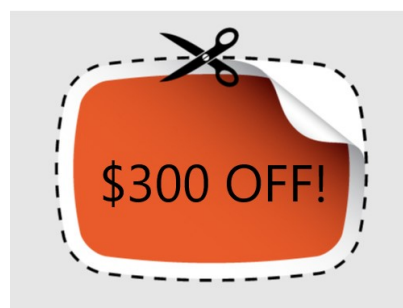
Mistake #3 – Believing Myths About the Effective Rate!

The effective rate is the total monthly cost of credit card processing divided by the volume of processing. The effective rate usually varies from 1.5% to 4%+ depending on the merchant's industry and type of transactions. If a merchant receives mostly debit cards which have a low risk and low interchange rate, the effective rate will be a lot lower than a merchant taking transactions over the internet, which has a higher risk and higher interchange rate.

True Story - The Bob from Brand X Restaurant Scam!

One of our large volume, fine dining restaurant clients was approached by Bob from Brand X who said he would save them over \$300/month on their fees! Our client asked us to evaluate. We said we needed to see the rates Bob was presenting, not just a number of \$300 with nothing to back it up. It took the client 10 days to get a copy of the rate presentation. Bob doesn't like to leave the facts behind on a piece of paper. That way he can't get found out. He just blab's "Savings of \$300" over and over again and hopes the prospect bites.

Well, we looked at Bob's handiwork and the new proposed rates were 50% higher than the rates our client was currently paying! The savings of \$300 was a scam! The small print in Bob's presentation exposed this scam. He was taking an average effective interchange rate for all restaurants in the United States, (ignoring the actual effective rate of this particular restaurant), and adding his markup, which came up to less than what the client was paying currently. This fine dining restaurant takes lots of rewards cards and corporate cards which have a higher interchange rate than low interchange debit cards used primarily at a fast food establishment. So the effective rate for a fine dining establishment will always be higher than the effective rate at a \$10 burger place and will also always be higher than the average interchange rate for all restaurants lumped together. Too bad you have to lie to get business, Bob. You might fool some of the people some of the time but not our clients, because we give honest, full disclosures and educate our merchants.



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Mistake #4! – Thinking Your “FREE” Equipment is Actually FREE!

It sounds so wonderful to get FREE equipment. But beware, if it sounds too good to be true, it is too good to be true. The hard cost of equipment runs in the neighborhood of \$200 to \$600 depending on the terminal and whether it processes via the internet or wirelessly. The price also depends on whether it includes check processing. Even mobile phone swipers have a cost varying between \$25 and \$100.

The credit card processing salesman has to make up this cost somewhere if he is giving it to you for “FREE”. This cost can be hidden inside an extra monthly fee called a maintenance or club fee for example. The name of the monthly fee can get quite creative.

Should you decide to lease equipment, understand that the leasing company is separate from the processor. There will be a separate deduction from your bank statement from a separate company. Leased equipment returned before the end of the term does not release you from making all the rental payments. Instructions for ending the lease, such as notification requirements and where to send the equipment, must be followed exactly or the lease and the lease payments renew automatically.

Mistake #5! – Not Inquiring About the “Services” in Merchant Services!

Ask questions about the servicing of your account. Ask for the 24/7/365 help desk number. Dial it and see how long it takes someone to answer. If a time comes that your terminal is down and people are standing in line to pay you, the last thing you need is to be on hold for 30 minutes before your technical support answers their call.

Ask for your salesperson’s number and dial it and see how long it takes that person to respond, if at all. Many salespeople never talk to their clients again after the initial application.

These things are important when you get in a pickle. Perhaps the terminal is not responding or the monthly statement reconciliation does not match up or perhaps a customer thinks they have been double charged. Will your new terminal arrive in a box with a good luck sticker on it, or will the salesperson install it personally or over the phone with you? Ask to see testimonials or get a referral so you can verify the support you expect from your merchant services provider. You might want to consider paying a little more to get additional personalized service. If you negotiate a super cheap rate, beware that the processor may not be able to afford personalized service or may not be able to afford a big enough technical support staff to answer the phones without a wait time. The choice is yours.

If you have more questions or you want us to give you a simple breakdown of your merchant statement to show you how much surcharge you are paying your processor, email us at info@electronicmoneycompany.com or feel free to call us at [505-296-2847](tel:505-296-2847) or toll free at [866-898-7618](tel:866-898-7618). You can also browse through our blogs at ElectronicMoneyCompay.com/blog.

Bonus Mistake To Watch Out For!
Falling for the Lie About No Rate & Fee Increases!

Because we at Electronic Money Company always under promise and over deliver, I want to educate you as to how 99 % of processors function out there.

This is the way the game is played. Bob from Brand X signs somebody up with as low a rate and transaction fee as he can get away with in order to win the business. Then Bob's processor raises rates and fees over time, usually once per year. The merchant is always notified by the processor, however it is easily missed for the following reasons:

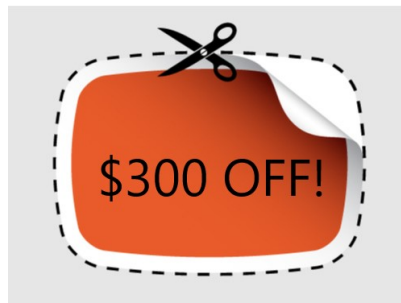
1. It is printed on the bottom of the last page of the merchant statement.
2. It is in printed with a small font and buried in a long paragraph.
3. Most owners don't examine their merchant statement each month and their bookkeeper merely makes an entry for the fees into the books.



So just like the story of the live frog swimming happily in the warm pot of water, where the temperature gets raised little by little until the frog gets cooked, the merchant doesn't notice the increase until a few years go by. The processor makes more money. The salesman makes more money. Everyone is happy until the merchant realizes he has been taken.

Electronic Money Company always refuses all rate increases from our processor!

Our merchants rates and fees stay the same throughout the years as they were at the beginning of our relationship. Give us a call at [505-296-2847](tel:505-296-2847) or toll free at [866-898-7618](tel:866-898-7618). Email us at info@ElectronicMoneyCompany.com. OR check out our blogs at ElectronicMoneyCompany.com/blog.



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