

# THE TOP 10 MERCHANT ACCOUNT MISTAKES



EACH YEAR BUSINESSES LOSE MILLIONS OF DOLLARS ON 10 COMMON MISTAKES

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## **Introduction**

Today a Merchant Account is no longer just an option for a business, its a requirement. Customers expect you to accept credit cards and do not care to know that this form of payment has a cost to the business (actually cash has a cost to a business also- much higher then expected- another story). With this in mind it is imperative that you stay on top of the true costs of a merchant account. I have written this report with the experience of over 20 years in the Payment Card Processing industry. I have been on both sides of the table and feel it is important to arm business owners with the right questions. Of course as the industry has matured so has the tactics many providers use to entice an instant “close” and secure a contract with your business using high pressure sales tactics. The Payment Card Processing business is very competitive with companies entering it every day with dreams of large income. Its hard not to find at least a few of these issues at work with al- most all providers. I choose to list the Top 10 in reverse order with number 1 being last...

## **10. Not Getting It In Writing**

A Merchant Account is a contract with an FDIC bank governed by many US banking laws and regulations and Visa/ MasterCard rules. By law, all terms and conditions must be spelled out in a contract (this is not to say it is easy to read or understand). Most providers have an Application and a Contract. The Application could be just with the sales office and the Contract with the Bank. If something is told to you by a desperate salesperson STOP, ask for the application and contract and have them point out exactly where it appears in the contract. It is very common for a sales- person to make many statements that they hope you will forget a few months from now. BAWARE of online “applications” that are really contracts, they will ask for an “electronic signature” that obligates you before you see an actual contract, run, don’t walk away from this trick. This mistake can cost you \$1000s.

## **9. Rate Inflation**

All Merchant Accounts MUST have the contractual ability to raise rates, all banks are required to have this ability. The question is if they do this purely as a profit grab or to cover real increased costs. Visa and MasterCard generally raise rates to all merchants every 3 years. The increase is usually no more than .05-.10%. Many providers use this opportunity to increase profits. Some providers “Fake” Visa and MasterCard increases to get more money from you. Other providers make it a policy to raise “Bait and Switch” (see number 5) rates a little bit every few months. It is very hard to know if a provider will do this and one should not trust any “customer testimonials”--simply said they violate Federal Bank privacy laws, even if the customer agrees. This mistake can cost \$100s.

## **8. Hidden Fees, Added Fees, Account adjustments, Merchant Club Fees and Annual Fees**

This is really two parts, “name the fee” and undisclosed fees. The most common “name the fee” (e.g.. Does not reflect a true cost to the provider and they make up a name) is the “Merchant Club”, “Free Supplies”, etc fees-- all the supplies are forever “free”. These programs never make sense for the merchant and are usually added by the sales- person when you least suspect it. No doubt they got a bonus check for selling this program and it can cost you up to \$55.00 per month. The undisclosed/hidden/added/etc fees are obviously the hardest to find. They usually hit your account with entries on your statement like “Account adjustment”, “Assessment Fee” and the funny (maybe not so funny) “Standard Fee”. The only true way to know is to see a sample statement and ask for an explanation for every line item. You may also find some of these fees spelled out in the Contract and maybe the Application. It never ceases to amaze me how many new fees some providers invent. Annual fees can run as high as \$500 and be charged monthly, quarterly or yearly. Some providers assess this fee with a little noticed message hidden on a merchant account statement a few months after a merchant signs up. This mistake can cost \$100s.

## **7. Discount Rate, Transaction Fees**

All Merchant Accounts have 2 main costs. A) The Discount Rate, usually expressed as a percent (e.g.. 1.69% when sold to you and displayed as a decimal number (e.g.. .0169) in your statement. There are over 100+ Interchange fees levels from Visa and MasterCard usually only about 4 apply, In layman's term: 1) Swiped rate- when a retail merchant swipes a credit card received from the customer. 2) Keyed-in rate this is the rate for mail order and

Internet merchants. 3) Surcharged or non-qualified rate for when a merchant receives a non US Bank issued card, a “Business” card or consumer “Incentive Reward” card. 4) NonPin Based Debit Card rates. It is very common to find merchants set up in the wrong rate code or simply overcharged, see number 6 and 1 below. This mistake can cost \$100s. B) The Transaction Fee can be between .11 through .80 cents based on the type of account and if there are added “Communication” fees. If you see a very low transaction fee you will always see a “Communication” fee (e.g.. The cost to receive the call from your credit card machine). I have seen “Communication” fees as high as .50 when the transaction fee was .25 cents. Another related fee is the AVS (Address Verification Service) fee this costs providers either nothing or a few pennies they charge up to .75 cents. This mistake can cost 100s.

#### **6. Downgraded Transactions Or Enhanced Bill Backs**

This is one of the newest profit grab in the Payment Card Processing business. It can be a very complex subject but the basic idea is to state a very low “Qualified” Discount Rate and then “Downgrade” most transactions into a higher rate. Or worse yet “bill-back” merchants in the following month’s statement for a unreached profit goal the Payment Card Provider did not achieve. I have seen some Merchant Account statements with 100% of the Discount Rate “Downgraded”. If you swipe 100% of your transactions and almost never see a credit card issued by a non US bank usually no more then 10% of your transactions should downgrade. I have also seen some Merchant Account statements that show a great rate in the statement and then have a “Bill-Back” that increases costs to the merchant by as much as 500%. This is a very hard situation to diagnose, even by an expert. This mistake can cost \$1000s.

#### **5. Bait and Switch**

This is the old fashioned tell-you-one-price sell-you-another game. It can actually be any rate or fee you pay for your Merchant Account. I have performed 1000s of rate analysis over the years and have seen in countless examples advertisements that clearly state one cost and the merchant sees another cost on the actual Merchant Statement. Just be aware that if it seems too good to believe it probably is. This mistake can cost \$1000s.

#### **4. “Free” Equipment**

This is yet another new way to grab your attention. Free “sounds” good to everyone. Of course there is nothing that is “Free”. In the case of “Free” Equipment you will pay for the equipment many times over in other fees listed in this report and others. Most providers supply equipment that costs up to \$600.00 wholesale and must get this money back from your account in some way. Many use “Long Term Contracts” (number 2) and Cancellation Fees (number 3) as the primary way to protect them from losses or charge monthly “insurance” fees. The sad part about this is even if the business closes early the owner is personally libel for all fees. If you read the details of the contract it will be stated that it is a “Free Terminal Placement” with some terms so severe that if the terminal is not returned in “new” condition the merchant will have to pay for “reconditioning” fees. This mistake can cost \$1000s

#### **3. Cancellation Fees and/or Lost Profit Fees With Long Term Contracts**

These fees are a pure and simple profit grab and are used as a force to keep you locked into a relationship that has become way overpriced. I have seen cancellation fees as high as \$5000+ in a five year contract. This means that you will be personally libel to pay all the Merchant Account fees for 5 years or face a \$5000+ invoice. And it gets worse, much worse. Some providers who supply “Free Equipment” have a “Lost Profit Fee”. To put it simply, they will bill you personally for what they predict would have been realized profits if you stayed on for your full contract term. I have seen invoices as high as \$8000.00+ with interest. Almost all providers will try to make you sign up for at least a 2 year term contract. There is simply no reason for any merchant to be locked into a relationship with high fees or bad service, it is an invitation to have your fees raised. This is not a cell phone contract, it is a key part of your business and a bad relationship can cause you to go out of business. The sad truth is I know 100s of merchants that continue to pay for Payment Card Processing services form companies they no long use. This is a hard lesson to learn. Run, don’t walk away form these contracts. This mistake can cost \$1000s

## **2. PCI Compliance Fees, Data Security Compliance Fees, Etc.**

All Merchant Accounts that use Payment Card Terminals that are “programable” by an honest Payment Card Provider are by default PCI Compliant. PCI compliance is a rather new way to impose very large fees on merchants just to answer a few questions or to perform a “scan” on a device that can not possibly be scanned by any outside computer system or test. This is also true to some degree with Merchant Accounts that use Payment Gateways as the Payment Gateway must constantly test for issues. In just about all cases there is little that a Merchant can do to expose Payment Card Numbers if the shopping cart and Payment Gateway are set up with the correct defaults. There are some issues with PCI compliance with very complex, non standard systems that hold Payment Card numbers on Merchant’s computers. However, a vast majority of circumstances a majority of Merchants should not be paying outrageous fees to “test” compliance. It gets worse when a Payment Card Provider offers you “insurance” that is just about worthless. You should not pay these fees, run, don’t walk away from these providers. This mistake can cost \$1000s

### **1. Invalid Interchange “Pass Through- Plus” Prices or Debit Rate Promotions (eg: 0.75%, 1.11%, etc)**

Companies selling Interchange “Pass through” pricing try to make it seem like you are getting an amazing deal, however in reality they are really just offering rates based on *internal* “Interchange” and not the true Interchange that is published at Visa and MasterCard’s website. Visa and MasterCard set all rates for all banks called the Interchange Rate. They are the same to every bank in the US. No one has a better deal because they are larger provider, thus when a salesperson states that “we are the largest processor in the world” is meaningless as there is no price or service advantage to your business. All providers have the same costs from Visa and MasterCard and all have to mark up this cost to make a profit. If you get a quote at just the Interchange rate or lower, only one of two things are happening 1) They are lying, no one can operate at a constant loss and soon they will go out of business (with your money tied up) 2) They are quoting a PIN (Personal Identification Number) based Debit transaction. This is when a customer uses a bank card that is tied to a checking account AND remembers to enter in a PIN number, most do not and you get charged at the normal Visa and MasterCard rate. The truth is only less then 1% of your customers will ever do this even if you ask everyone to enter in a PIN number if they have one. So in both cases it is really a lie, you simply will not see very many transactions like this and to advertise it as “Your Rate” borders on fraud. This mistake can cost you \$1000s.

That is the Top Ten. By no means does it cover every situation and new ones are created all the time. Please use it as a guide in your quest for a Merchant Account. The simple take away message here is: Never sign a long term contract, nothing is free, research and look for a company that has a history of more then a few years. You should also check the Better Business Bureau (BBB) at <http://www.bbb.org> look for a rating of A+ to A. No BBB rating is a very bad sign, either the company is too new or keeps changing information so that the rating can not be found. The BBB is not perfect, but you will quickly see if the company keeps its promises. I am obviously biased in my view, I have been running a Payment Card Processing company (1st American Card Service) since 1986 and do want to help your business accept Payment Cards. I hope this report saves you from ever experiencing any of these mistakes and puts you on the road with a relationship that will help your business grow and prosper. I want to personally make myself available to answer any questions you might have and help you analyze your quotations or current relationship. You may contact me directly via:

Email: [brian@iAcceptCreditCards.com](mailto:brian@iAcceptCreditCards.com)

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# Merchant Account Evaluations

## Objective

A clear and easy way to evaluate Merchant Account offers.

## Goals

To create a simple form to assist businesses understand the true costs of a Merchant Account offer.

To help businesses find hidden costs or otherwise undisclosed costs.

## Solution

We have created the Merchant Account Evaluation Form attached below as a guide to aid you in your research of Merchant Account Providers. It was created based on our experience in offering Merchant Accounts.

## Instructions

To use the form it is best to separate this overview page and the Top Ten Merchant Account Mistakes Report. Just send the two pages of the actual Merchant Account Evaluation Form. You can just print this out the forms directly from this PDF or you can download just the Merchant Account Evaluation Form PDF here (please do not supply this link to competing companies):

<http://www.iAcceptCreditCards.com/research/MerchantAccountEvaluation.pdf>

It is in your best interest to slow down the process of selecting a provider and contain the evaluations to the basic questions on the form. Over the years we have found that many Merchant Account Providers may not be happy to receive this form and try to convince you not to use it in your evaluation process

If you have any questions and/or would like to see our company's responses to the Merchant Account Evaluation Form:

Please call: **800 438 8262**

Or email: [Sales@iAcceptCreditCards.com](mailto:Sales@iAcceptCreditCards.com)

# Merchant Account Evaluation Form

I am evaluating a Merchant Account with your firm. I am requesting that you complete all the information below so that I can best understand your program. Please complete all the requested areas and return it to me by Fax or Email.

For Business Name: \_\_\_\_\_ Phone: \_\_\_\_\_

Fax Number: \_\_\_\_\_ Email: \_\_\_\_\_

My estimated average transaction amount: \_\_\_\_\_ My estimated average monthly volume: \_\_\_\_\_

Proposed Pricing Type (circle all that apply):      Interchange      Tiered      Blended Rate      ERR/Billback

If **Tiered Rates** are being proposed (If you use terms like "Reward Card" or "Business Card", please write this in), please fill in rates for the following:

## Debit Cards

Qualified Debit %: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_      Qualified Debit Transaction Fee: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_

Mid-Qualified Debit %: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_      Mid-Qualified Debit Transaction Fee: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_

Non-Qualified Debit %: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_      Non-Qualified Debit Transaction Fee: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_

Pin-Debit Transaction Network Fee: \_\_\_\_\_      Pin-Debit Transaction Fee: \_\_\_\_\_

## Credit Cards

Qualified Debit %: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_      Qualified Debit Transaction Fee: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_

Mid-Qualified Debit %: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_      Mid-Qualified Debit Transaction Fee: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_

Non-Qualified Debit %: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_      Non-Qualified Debit Transaction Fee: Swiped \_\_\_\_\_ Keyed \_\_\_\_\_

If **Interchange** type pricing will be proposed, please fill in rates for the following:

Added Basis Points: \_\_\_\_\_      Transaction Fee: \_\_\_\_\_      Auth/Capture Fee: \_\_\_\_\_

Added Dues: \_\_\_\_\_      Added Assessments: \_\_\_\_\_      Other Fees: \_\_\_\_\_

## Per Item Fees:

Non-Bank Transaction Fee: \_\_\_\_\_      Additional Per Item Fee: \_\_\_\_\_      AVS: \_\_\_\_\_

Batch Fee: \_\_\_\_\_      CVV2 Fee: \_\_\_\_\_

## Monthly Fee:

Monthly Minimum Discount Fee: \_\_\_\_\_      Monthly PCI Fee: \_\_\_\_\_      Monthly Fee: \_\_\_\_\_

Customer Service Fee: \_\_\_\_\_      Supply Fee: \_\_\_\_\_      Support Fee: \_\_\_\_\_

Reporting Fee: \_\_\_\_\_      IRS Reporting Fee: \_\_\_\_\_      Security Fee: \_\_\_\_\_

Accounting Fee: \_\_\_\_\_      Over limit Fee: \_\_\_\_\_

## Misc. Fees:

Chargeback Fee: \_\_\_\_\_      Retrieval Fee: \_\_\_\_\_

Voice Fee: \_\_\_\_\_      ARU Fee: \_\_\_\_\_

Programming Fee: \_\_\_\_\_      Setup/App/Download Fee: \_\_\_\_\_      Gross Billing Fee: \_\_\_\_\_

**Yearly Fees:**

Annual PCI Fee: \_\_\_\_\_ PCI Non-Compliance Fee: \_\_\_\_\_ Other Annual Fee: \_\_\_\_\_  
Insurance Fees: \_\_\_\_\_ Merchant club/supplies/warranty program Fees: \_\_\_\_\_

**Example Transactions:**

How much will I be charged for a Chase Visa Signature Platinum Reward card: \_\_\_\_\_% + \_\_\_\_\_ Transaction Fee  
How much will I be charged for a Chase Visa Business Platinum Reward card: \_\_\_\_\_% + \_\_\_\_\_ Transaction Fee  
How much will I be charged for a Chase Visa Debit Reward card: \_\_\_\_\_% + \_\_\_\_\_ Transaction Fee  
What are the totals costs for a \$100 swiped transaction cost for a Chase Visa Signature Platinum Reward card: \$ \_\_\_\_\_  
What are the totals costs for a \$100 Keyed transaction cost for a Chase Visa Signature Platinum Reward card: \$ \_\_\_\_\_  
Do you offer free paper/supplies: \_\_\_Yes \_\_\_No

**About Your Terms:**

How many times has your company raised rates over the last 3 years: \_\_\_\_\_  
When does your company raise fee: \_\_\_\_\_  
How many years is your contract: \_\_\_\_\_ How many years is any contract related to your service: \_\_\_\_\_  
What is the total fee from any and all parties, if I canceled my service with your company: \_\_\_\_\_

**About Your Company:**

How many years has your company been in business: \_\_\_\_\_  
What is your company's Better Business Bureau rating: A+ A A- B+ B B- C+ C C- D+ D D- F F-  
How many years has your company been listed at the iBetter Business Bureau: \_\_\_\_\_  
Will your company guarantee to not sell my account/contract to another party: \_\_\_Yes \_\_\_No  
Will your company guarantee all customer service will be based in the US: \_\_\_Yes \_\_\_No

**About You:**

How long have you personally been in the credit card processing business: \_\_\_\_\_  
Are you bonded : \_\_\_Yes \_\_\_No  
How long have you represented the current processor: \_\_\_\_\_  
Your supervisor's name and phone number: \_\_\_\_\_

Sales Rep Name: \_\_\_\_\_ Sales Organization: \_\_\_\_\_  
Sales Organization phone number: \_\_\_\_\_ Processor: \_\_\_\_\_ Platform: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

By signing, I agree that I have been truthful in all the responses.

**Notes:**