



**ADVANCE YOUR  
BUSINESS WITH  
THE RIGHT  
MERCHANT  
ACCOUNT**

Credit and debit cards have become increasingly important in business commerce. A Merchant Account acts as a clearing account for credit and debit card transactions, allowing your businesses to accept card payments directly from customers.

If your business is considering what forms of payment to accept, or if you'd like to expand the payment options of your cash-only business, be sure to go over the pros and cons of accepting card payments. Here are some tips from the Small Business Association (SBA) that you'll want to consider in making your decision:

### **Advantages of Accepting Card Payments:**

- Card payments are evolving into the most common method of customer payment.
- Businesses can easily accept card payments.
- The convenience of using credit cards generally increases the likelihood of consumer "impulse purchases," which ultimately contributes to an increase in a business's average sale. Customers are more likely to make these purchases if they have access to credit or their available bank account funds.

### **Disadvantages of Accepting Card Payments:**

- Card payments come with an increased risk of fraud. Although there are laws and security measures that help protect and secure customer information, card payments are inherently more susceptible to foul play than cash. Read more about your responsibilities to protect your customers' privacy and secure their personal information.
- Businesses that accept card payments encounter small processing fees for purchase transactions. These fees seem insignificant but they can add up if your business accepts a lot of small purchases on credit cards. Setting up the necessary equipment to accept cards also carries additional costs.
- Card transactions add another layer of detail to your business's bookkeeping practices. Your business will have to take into account the additional time and resources it takes to maintain these records.

### **The Bottom Line**

A merchant account allows you to offer your customers a variety of payment options, which will make it much easier to do business with you. It also demonstrates to your customers that their convenience is a top priority for you.

Accepting card payments will, at least initially, cost your business money and add extra processes in your daily operations. Many small business owners look at this as a necessary operating expense.

Without the advantage of a merchant account, you could be missing out on sales from a large base of consumers who prefer to pay with a debit or credit card.

As card payments become more popular, customers will likely begin to expect a plastic option as a rule, rather than a courtesy.

### **Types of Merchant Accounts**

There are two basic categories of merchant accounts; "card present" accounts, typically used in retail establishments, and internet or mail order/telephone order (MOTO) accounts that do not require the physical presence of a credit card.

Cardless transactions will require additional data before approval. If you expect more than half of your sales to be processed without a card present, then you should consider establishing a "card not present" account.

Several variations exist within these categories, offering different processing options, including:

### **1. Retail Merchant Accounts**

These are the standard type of merchant account, where a credit card is presented during a transaction in a retail establishment. The card can be either swiped through a terminal, or, if the retailer uses card processing software, the card information will be manually entered into a PC for processing. Approval usually takes three to fifteen seconds, and the customer receives a printed receipt.

### **2. Internet Merchant Accounts**

If you want to accept online orders, you will need an Internet merchant account, even if you already have a standard merchant account. This is because there is a different set of regulations for processing credit transactions over the Internet. Attempts to process online transactions via a traditional merchant account could result in your account being closed.

### **3. Telephone and Mail Order Merchant Accounts**

This type of account allows you to accept credit card payments over the phone for catalog, Internet or any type of sale where the customer is not present.

### **4. Wireless Merchant Accounts**

With a wireless merchant account, you can process credit card transactions from remote locations. This works well for any type of on-site service provider, merchants at fairs and trade shows, outside sales reps and others.

### **5. Payment Gateways**

A payment gateway is used in conjunction with an Internet merchant account, and allows unlimited credit card orders to be processed simultaneously. Purchases are first authorized by the credit or debit card issuer, then by the payment gateway. This process takes about two seconds, and offers you an extra layer of security when accepting online payments. All payments are settled in a batch at the end of the day, and will appear in your bank account, usually within one or two business days.

### **6. Mobile Credit Card Processing**

This essentially transforms your iPhone or iPad into a credit or debit card processing terminal. Many providers of this service will require you to sign up with Authorize.net for transaction authorization.

### **7. Alternative Payments**

This includes such online services as PayPal, Google Checkout, Yahoo! Wallet, and Bill Me Later. Customers store their debit or credit card information with these providers, making online transactions quick and easy.

## **How to Set Up a Merchant Account**

If you're already in business and have a reliable sales history, you should be able to get a Merchant Account from your personal bank or through another financial institution that specializes in e-commerce. There are many companies offering Merchant Account services, and you will likely come across a wide variety of "deals."

It is important to do your research to avoid scams or overcharging. If you're just starting up, or don't have a sales history, you may need to work with an independent sales organization (ISO) that acts a reseller, or middleman, between your business and the merchant processor. An ISO can help relieve some the bank's risk by taking on your account, but it may not come cheap. It is common for ISOs to charge fees for their services, but many new businesses accept this as a cost of doing business.

## How will my business receive the funds cleared through a Merchant Account?

Most transactions are electronically processed through a card terminal or online payment gateway. The transaction is verified and the appropriate funds are confirmed by the customer's card provider. Once approved, funds are transferred from the card holder's bank and deposited by the merchant processor. It sounds complicated, but the process can be complete in just seconds.

Actually seeing payment takes a little longer, though - customer payments cleared through your merchant account are usually deposited directly into your designated business checking account within two to three days.

## What fees should I expect when setting up a Merchant Account?

Merchant Account fees are similar to those of interest rates for a loan. Fees will vary based on the amount of risk your business poses to the bank or financial institution. Start-up costs generally range from \$50 to \$200, while monthly fees are significantly less - ranging from about \$4 to \$20. In addition to these standard fees, merchant accounts often require "per transaction" and/or authorization fees that can range anywhere from \$0.05 to \$0.50.

Depending your provider and account status, you could also see fees in monthly minimums, batch processing, early termination, customer service, etc. Be sure to research merchant service providers to find the best rates and terms for your business.

## What factors are assessed when applying for a Merchant Account?

When applying for a Merchant Account, the provider will assess many different aspects of your business. Several of these factors include:

- The percent of transactions made where the card holder is not present (ex. online purchases)
- The type of products sold by your business (certain "high risk" products will require higher fees than others)
- The average amount charged per transaction
- The projected monthly sales volume of your business
- The type of cards your business accepts (some card companies are more expensive than others)
- Your business reputation (ex. business age, credit rating, etc.)

## Things to Consider when Choosing a Merchant Account Provider

When selecting a vendor, you will want to consider the fees and percentages assessed by each provider. Most merchant account vendors charge a monthly or annual fee in addition to a percentage of every transaction. It is also important to find a provider with a good reputation. Be sure your vendor is a member of the Better Business Bureau. Here are some additional questions to ask when making your final decision:

- Should you use a bank or an independent provider? Independent merchant account providers have a couple of advantages over banks that offer credit card processing. A bank will require you to open an account with them, whereas an ISO/MSP will allow you to use the bank of your choice. Also, most banks have limited card processing options, and may not be up to date on the latest developments in mobile processing and other card processing technologies.
- What does the vendor charge for credit card processing equipment or an electronic gateway? You can either purchase or lease your equipment. If you have an online business and simply need an electronic gateway to process payments, you will be charged either a one-time fee or a monthly payment.
- Is there a set-up or application fee? If so, is it refundable if your application is not approved? These fees can be up to \$500, so this is something you should find out before you apply.

- What is the monthly service charge? This will typically be between \$15 and \$25 per month, in addition to your monthly equipment or gateway fee.
- How much are the vendor's per-transaction fees and transaction percentage fees? Most providers will charge a few cents (usually about .25 to .35) per transaction, and a percentage of every transaction. The credit card companies set this amount, but some merchant account providers will add extra percentage points.
- Are there any hidden fees to be aware of? Some vendors charge extra for such services as tech support or expedited card processing. Read the agreement carefully and look for any details that could affect your business, such as the company's chargeback policies and fees.
- Will your customers be charged transaction fee for using the credit card terminal?
- Find a provider that does not charge a reserve fee. Some vendors charge this additional fee to companies they consider high risk, to offset the possibility of chargebacks.
- How long will payments be held by the vendor? Some providers release funds after two days; others hold payments for up to two weeks.
- Is there a limit on your monthly volume? This could cause problems if you suddenly experience a surge in sales. If this is a possibility for your business, you would do best to find a vendor that does not impose such limits.
- Conversely, is there a set minimum amount of transactions, and what is the penalty for falling below the minimum?
- Does the vendor provide a monthly or yearly statement or transaction record? Some providers charge extra for this service, but it can be an invaluable aid to your record keeping.
- Does the company require a long-term contract? Many providers require only a short-term contract or no contract at all. This would be a good choice when starting out, so you have some flexibility if you find that your provider is not a good match for your business.
- How is the vendor's reputation? It will take some research to find out how each company handles disputes, for example, and whether they provide good customer service and support. If you utilize the free services of a company that matches businesses with vendors, this will save you time and simplify your decision-making process.

## Merchant Account FAQ

**Q: What information do I need to submit when applying for a merchant account?**

**A:** You be asked to give basic information about your business, and yourself. You will need to supply your business name, address, and phone number, along with your e-mail address, and your anticipated sales volume.

**Q. Do I need to have a business checking account?**

**A.** You only need a business checking account if you are a corporation. If you are a sole proprietorship you may use a personal checking account or a business checking account.

**Q. Do I need to be a U.S. Citizen to have a merchant account?**

**A.** Most U.S. based merchant account providers will require proof that you are a U.S. citizen, with a valid social security number. For non U.S. based businesses, there is a completely different processing procedure.

**Q. What is the discount rate?**

**A.** This is the percentage of each sale, which the bank collects as payment for their credit card processing services.

**Q. How long does the approval process take?**

**A.** Most accounts can be approved within 24 hours, once all necessary information has been received.

**Q. Will I be required to have a business license?**

**A.** You can obtain a merchant account without a business license, name registration, or dba certificate, although having one or more of these can be helpful.

**Q. What if my credit score is not as high as it could be?**

**A.** Look for a merchant account vendor that has high approval rates. They might be able to get you approved even if your credit isn't stellar.

**Q. What credit cards will I be able to accept?**

**A.** With a merchant account, you will be able to accept MasterCard, Visa and bank ATM debit cards. Some merchant accounts also allow you to process gift cards and electronic checks.

**Q. How will I get my money?**

**A.** Your money will be deposited directly into your bank account.

**Q. What security and fraud prevention measures do vendors use?**

**A.** With most vendors, you can set up your account to accept or reject transactions based on the card code verification (CW2) system, which uses the three or four digit code located on the back of every credit card. You can also use the Address Verification System (AVS) to compare the billing address supplied by the customer against the one on file with the bank that issued the card. Your vendor should also make additional layers of security available to you, with solutions such as the Advanced Fraud Detection Suite, which uses powerful tools and filters to prevent fraudulent transactions.

**Avoid These Pitfalls and Keep Your New Merchant Account in Good Standing**

Once you have gone through the process of selecting a provider and establishing an account, you will want to keep your account open and available for use at all times. Reasons for merchant account holds typically fall into two categories violation of the account service agreement and suspicion of fraudulent activity. Here are a few tips to prevent either of these situations from occurring:

- Study your merchant agreement carefully when you first sign up for an account. Many credit card processing providers will ask you to declare the average volume your business will experience each month, as well as the expected average ticket amount. Exceeding these limits can result in your account being frozen, so make a note of the amounts you project, or find a vendor that does not impose these limits.
- Never accept payment for goods or services other than those described in your merchant agreement. Consider carefully what you agree to sell when you sign up for the account, and give yourself some flexibility. If you own a carpet cleaning company, for example, listing your business as “floor care” will allow for the future addition of related services. If you plan to sell items that are completely unrelated, you may need a separate merchant account.
- Excessive chargebacks can also constitute a service agreement violation and cause your account to be frozen. Good customer service and communication will prevent many chargebacks. Some merchants find it worth the effort to call their customers to verify each sale, and customers usually appreciate the extra security measure.

Suspicious processing activity can be more challenging to prevent. However, there are some steps you can take to avoid having your account frozen for suspected fraud:

- Let your bank know ahead of time if you expect any changes in processing behavior such as a sudden increase in your average ticket amount or if you expect an unusually large single transaction. In this case, you should ask to speak to someone in your bank’s risk department.
- Be aware of your ratio of swiped transactions to card-not-present transactions, and try not to deviate from the amount set out in your agreement. If you see this becoming an issue, you may need to open more than one merchant account.
- Reputable credit card processing providers are as concerned about their customers as you are about yours, and finding such a provider will prevent many future frustrations. Plans and pricing differ, however, and most businesses find they need help sorting through all the variables. Below is a list of top vendors, and the services they offer.

## Merchant Account Vendor Comparison

There are several trustworthy and well established merchant account providers available. Below are a few of the top vendors, and an overview of the services they offer.

### American Express

24% of American Express Cardmembers used only American Express in the past month and no other major credit or charge cards, and 32% of American Express Cardmembers use American Express for both business and personal purchases. American Express has no annual fee, no online application fee, and no monthly minimums.

## **Authorize.net**

Control and monitor payments through your website with Authorize.net's Merchant Interface feature. Accept all major credit cards, signature debits, Internet auctions, and gift cards. Authorize.net helps you prevent fraud by flagging suspicious transactions using their built-in fraud tools, and value added products. They will store sensitive data for you in their PCI-compliant data center. Funds from your transactions will automatically be deposited into your bank account within days. Free tech and account support is provided.

## **Capital Merchant Solutions, Inc.**

For more than ten years, Capital Merchant Solutions Inc has been helping business owners with affordable debit and credit card processing services and retail merchant accounts. They offer discounted credit card processing rates, free POS terminals, and free wireless programs.

## **CDGcommerce**

Direct response and mail order merchants, as well as "brick and mortar" retail merchants will find a full range of merchant payment processing services with CDGcommerce. They offer a full line of point of sale solutions for businesses in every category.

## **Charge.com**

With a Charge.com merchant account, you will get immediate transaction processing, secure, encrypted transactions, and a web based terminal for easy manual processing of credit card orders. Their online payment processing software lets you accept debit and credit card payment over the Internet in real-time. Your funds will be wired promptly into the banking account of your choice. Accept all major credit cards including MasterCard, Visa, Discover, and American Express.

Chase PaymentechAccept electronic checks, all major credit and debit cards, and private label gift cards with a retail merchant account. Chase Paymentech offers a free terminal, free setup, free online reporting, low monthly service fees, and no application fee.

## **GoEMerchant**

Businesses or individuals can use GoEMerchant's easy credit and debit card processing solution for secure, real time credit card sales transactions. They offer custom merchant account solutions tailored to your unique business needs, with no application or acquisition fee, and no customer service fees or cancellation fees. GoEMerchant provides low cost credit card processing equipment and software.

## **Google Merchant Services**

A fast, convenient checkout process helps Google Checkout users convert 40% more than shoppers who have not used Checkout before. Google Checkout users click on ads 10% more when the ad displays the Checkout badge, meaning more traffic to your site. There are no monthly fees, no setup fees, and no gateway fees. Google Merchant Services keeps your transactions secure with proprietary fraud detection technology.

## **Itransact**

With Itransact you can accept credit cards, debit cards, e-checks, and even gift cards, online or in store. Use their wireless merchant account to accept credit cards from Visa, MasterCard, American Express and Discover. iTransact offers both merchant accounts and the payment gateways, with secure transactions 24 hours per day, 365 days per year.

## **Merchant Accounts Express**

A retail merchant services provider that gives you everything you need to accept credit cards. Merchant Accounts Express provides a free shopping cart, free check software, a free Authorize.Net account and free 24/7 support.

## Merchant Plus

Accept credit cards online today with a retail merchant account with Merchant Plus. They offer low-rate, flat-fee, direct merchant accounts with excellent customer service, with no long term contract and no annual fees or minimum monthly fees.

## Merchant Warehouse

With quick and easy retail merchant account setup, and one of the highest approval rates in the industry, Merchant Warehouse guarantees the lowest overall processing costs, and the lowest prices on all processing hardware and software.

## PaymentMax

Get paid in just twelve hours with PaymentMax's fast payment processing. PaymentMax can have you set up to take cards in one day. They work with customers worldwide in 140 languages, and offer friendly, knowledgeable, 24/7 customer service. State-of-the-art security keeps your financial info safe. Never any hidden fees, no batch fees, and no statement fee.

## Paynet Systems

Get approved in 24 hours with Paynet Systems. They offer wholesale equipment prices, no monthly minimum fees, no long-term contract, and no annual fee.

## PayPal Merchant Services

Get paid by anyone, even by customers without a PayPal account. Accept credit cards, debit cards, bank transfers, and PayPal. Add payment buttons with simple HTML, or use a PayPal-ready shopping cart. Free setup, low transaction fees, no monthly, setup, or cancellation fees.

## Total Merchant Services

A wholesale retail merchant account provider that guarantees to beat any competitors rates or they'll pay you, the merchant, \$500. Total Merchant Services signs up over 4000 new accounts every month. All new customers receive free new credit card equipment and software. Total Merchant Services will also pay you \$200 to refer them another retail business.

## Yahoo! Merchant Solutions

Accept credit, debit, and PayPal payments online with Yahoo Merchant Services. Get step-by-step details on how to switch painlessly to Yahoo! Merchant Solutions. No additional fees to use the Yahoo Merchant Services payment gateway. Accept secure payments online, and protect your customers' data while it is in transit with SSL encryption. \$50 setup fee waived.

## Glossary

There are several terms you will typically encounter when researching merchant account providers. Here is a brief definition of some of the more common ones to help you through.

**Acquirer:** A bank that processes and settles a merchant's credit card transactions with the help of the credit card issuer.

**Authorization:** In merchant accounts, authorization is the process of verifying that the credit card holder has sufficient funds or credit available to complete a purchase.

**Batch:** A collection of daily credit card transactions stored in the merchant's terminal or processing equipment. Typically, these transactions are submitted simultaneously for processing at the end of the business day.

**Cardholder:** The cardholder is the owner of a credit or debit card, which is used to make purchases through your merchant account.

**Card network:** Card processing networks such as Visa, MasterCard, American Express and Discover, which act as an intermediary between the acquirer and the issuer to authorize credit card transactions.

**Discount fee:** A discount fee is the fee that merchants pay to acquirers for processing their credit card transactions.

**Interchange fee:** Charges that merchants pay to the credit card issuer and the card network as a fee for their credit card processing services. These fees typically range from 1 to 3 percent.

**Issuer:** A bank, financial institution, credit union, or company that issues or helps to issue credit and debit cards to cardholders.

**Merchant account:** An agreement between a bank or third party provider and a business, which allows the business to accept debit and credit cards.

**Merchant account provider:** A bank or other institution that provides merchant accounts to businesses that want to accept credit and debit card based payments.

**Payment gateway:** A service used by merchants who accept debit and credit cards online. Usually a combination of both hardware and software, this service securely sends credit card data, using encryption, to a merchant account provider.