

## THE TOP 10 MERCHANT ACCOUNT MISTAKES



EACH YEAR NEW BUSINESSES LOSE MILLIONS OF DOLLARS ON 10 COMMON MISTAKES

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# Top 10 Merchant Account Mistakes

## 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 Credit 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 Credit 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 almost 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 salesperson 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 wether they do this purely as a profit grab or to cover real increased costs. Visa and Mastercard generally raise rates to all merchants every 2 years. The increase is usually no more than .10-.20. Many providers use this opportunity to grab profits. Some even "Fake" Visa and Mastercard increases to get more money from you. Some 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 salesperson 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. 1) The Discount Rate, usually expressed as a percent (e.g.. 1.69% when sold to you and displayed as a decimal (e.g.. .0169) in your statement, of course to make it harder to read your statements. There are over 100+ fees levels from Visa and Mastercard usually only about 3 apply. In layman's term: Swiped rate- when a retail merchant swipes a credit card received from the customer. Keyed-in rate this is the rate for mail order and Internet merchants. Surcharged or non-qualified rate for when a merchant receives a non US Bank issued card, a "Business" card or consumer "Incentive Reward" card. It is very common to see merchants set up in the wrong rate code or simply overcharged, see number 6 and 1 below. This mistake can cost \$100s.

2) The Transaction Fee can be between .20 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**

This is the newest profit grab in the Credit 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. 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. This is a very hard fee 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 countless times seen advertisements that clearly state one thing and the merchant see another after they sign up. 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. Most providers supply equipment that costs up to \$600.00 wholesale. They 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 Lost Profit Fees**

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 \$1000 in a five year contract. This means that you will be personally liable to pay all the merchant account fees for 5 years or face a \$1000 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 plus interest. Run, don't walk away from these contracts. This mistake can cost \$1000s

## 2) Long Term Contract

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. And with the added insult of "Lost Profit Fees" it is business comedy, if the joke is not on you. 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 Credit Card Processing services from companies they no longer use. This is a hard lesson to learn. This mistake can cost you 1000s.

### 1) "Pass Through Plus" Pricing or Debit Rate Promotion - 0.75%, 1.11%, etc

Companies selling "Pass through" pricing try to make it seem like you are getting some amazing deal. In reality it is a slick way to not actually inform the merchant of exactly what they will really pay. It is nothing more than a marketing gimmick. Avoid companies that insult you like this at all costs. This mistake can cost you \$1000s.

At the time of this writing the lowest rate for a retail business, wholesale with no markup is about 1.55% and .17 cents. Visa and Mastercard set all rates for all banks. They are the same to every bank in the US. No one has a better deal because they are larger. This means all providers have the same costs from Visa and Mastercard and have to mark up the cost to make a profit. If you get a quote at this 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 than 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 than a few years. **You should also check the Better Business Bureau (BBB) at <http://www.bbb.org> look for a rating of A to AAA.** 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 run a Credit Card Processing company (1<sup>st</sup> American Card Service) and do want your business. 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 or help you analyze your quotations...

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