

# The Comprehensive, Yet Concise Guide to Credit Card Processing

Written by...

David Rodwell



[CreditCardProcessing.net](http://CreditCardProcessing.net)

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# Index

What is a merchant account?	2
The transaction lifecycle and cost	3
Choosing a credit card processor – Questions to ask	4
Fees associated with processing credit cards	6
Security – PCI compliance	7
Credit card processing terminals	9
Glossary	10



## 1. What is a merchant account?

A merchant account is simply the individual account that a merchant has with a credit card processor.

While many merchants enjoy the convenience of letting their bank process their credit card transactions and deliver payments directly to their account, third party processors offer the same services at a much lower rate. The actual work behind processing transaction is done by several large companies, most of which resell their services to smaller credit card processors and banks. These processors are only responsible for sales, customer service and underwriting (taking the risk).

The advantage of working with a large credit card processor is the value they are willing to offer you as a new client — their lower rates and the fact that they'll do their best to provide you with the best service in order to keep their reputation as industry leaders.

### Types of merchant accounts

The most common types of merchant accounts offered by credit card processors are retail and eCommerce. Other types of merchant accounts include restaurant, lodging, mail order and car rental.

There are two main differences between these types of merchant accounts. First, merchant accounts that have a higher risk of fraudulent activity like eCommerce and mail order typically charge a higher discount rate. Second, some merchant accounts provide customers with more information regarding the merchant and the transaction. For example, merchant accounts for lodging provide customers with some detailed information regarding their stay, such as check in time and room service authorizations, while retail merchant accounts simply provide customers with the basic details of a transaction.

### Credit cards you can accept

You will generally be able to accept Visa and MasterCard by default. Additional cards can be accepted with or without an extra fee and using different per-transaction rates. If you wanted to accept American Express or Discover, many processors will waive the signup fee associated with these options when signing you up for their services. Others may charge anywhere from \$25 to \$50 per type of card you want to accept. Both of these extra options will come with their own rates which are often much higher than what you would pay for Visa transaction. If you need to process international credit cards make sure to ask the credit card processor if they offer that service before signing the contract.



## 2. The transaction lifecycle and cost

Credit card processing tends to follow the same transaction life cycle, whether your customer pays with credit cards in person or uses a credit card online or by phone. The specific events and activities may vary from one merchant or card issuer to another, but the basic life cycle is the same. You can find charts on many websites that visualize this cycle but for clarity reasons, CreditCardProcessing.net prefers the written form below:

### Authorization of card

1. The credit card user presents their credit card to make payment in person, or enters their details into a form or dictates them to a customer service representative by phone.
2. The merchant swipes the card or the account details are digitally entered into the system for submission to the merchant's credit card processor.
3. The merchant bank electronically requests card authorization from the card issuer (Visa, MasterCard, Discover, American Express).
4. The card issuer approves or declines the transaction, and sends the response back to the merchant bank.
5. The merchant bank sends response back to the merchant, and the merchant processes the transaction based on whether the card is approved or declined.

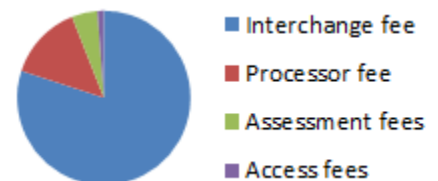
### Clearing and settlement of payment

1. The funds from the credit card payment are deposited into the merchant's bank, the merchant's account is credited and an electronic submission of the transaction is sent to the credit card processor.
2. The credit card processing system facilitates payment, pays the merchant bank, debits the cardholders account and sends the transaction on to the card issuer.
3. The card issuer posts the transaction to the cardholders account and sends the monthly statement to the cardholder for payment.
4. Cardholder receives their credit card statement and sends payment.

### The cost of a transaction

You are probably wondering which entities from the lists above are receiving the processing fees that you pay. Here is a simple breakdown:

1. **Interchange fee** – this is what the consumer's bank charges for transferring money from the consumer's account to the merchant. Interchange fees account for a whopping **70% to 90%** of the cost for processing the transaction! Larger merchants will often pay less.
2. **Processor fee** – this is the actual amount which the credit card processor charges you for their services and it's a rather small percentage of the total cost of the transaction.
3. **Assessment fees** – around 0.11% of the transaction if processing a Visa or MasterCard.
4. **Access fees** – from \$0.021 to \$0.022 per transaction, again charged by Visa and MasterCard.



### 3. Choosing a credit card processor – Questions to ask

If you are a small business and have chosen to take credit cards as a form of payment, you will need to choose a credit card processor. There are numerous factors to consider when it comes to making a choice and you should definitely not take the decision lightly. Here are some of the tough questions you should be exploring before entering into an agreement.

#### **Which credit cards can be accepted?**

It doesn't help if the processor doesn't process the credit cards your customers want to use. Make sure the processor can handle all Visa, Mastercard, American Express credit cards, gift cards, and related debit cards.

#### **What are the payment gateway options?**

Payment gateway services verify a customer's credit card information. After judging the transaction's authenticity, the gateway either declines or approves of the payment. Be sure to select a processor that offers the gateways you wish to use. Several popular payment gateways include First Data, Orbital, Auth, Global Gateway, Authorize.net, and Fast Charge.

#### **What is the average processing time?**

Processing time is the amount of time it takes for funds to clear the account after the customer enters his/her credit card information. Most processors take about 2 days to clear funds, but some are known to take anywhere from one to three days.

#### **Is recurring billing an option (if needed)?**

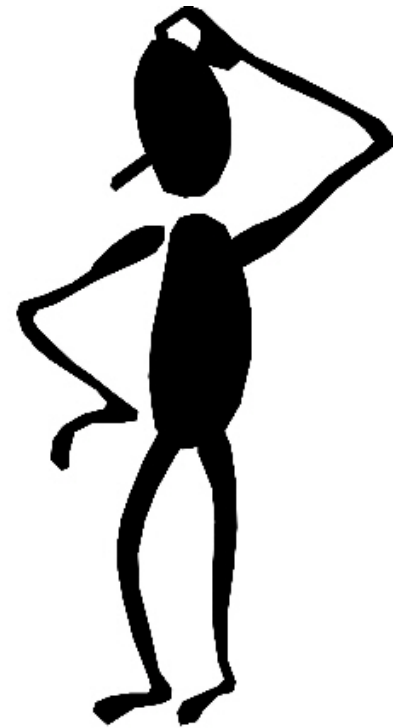
This is a process that allows businesses to set up accounts that continue to bill their customers on a monthly basis. This added convenience saves you time and helps "lock in" customers who have a tendency to let charges slip by when they don't have to manually pay them every month.

#### **What is the fee structure?**

Each credit card processing company has its own set of fees and you will want to compare. You will always pay a transaction fee and that can range widely. This will vary depending on how big your business is and how many transactions you do a month. Other factors that can play into the transaction fee include the type of business you run, how long you have been in business and what your credit score is.

#### **Other fees**

Other fees you will want to ask about include application fees, annual fees, fees for not meeting your monthly quota, service fees and more. Be sure to ask for a full list of all fees that you will be required to pay.



## What POS/Swiper terminals do they offer?

There are various types of terminals available for credit card processing and you will want to make sure that they have your preference available as an option. If you are a brick and mortar business you will need a traditional or wireless variety and if you are an online business you will need a virtual terminal. Ask for a free terminal but make sure that they aren't going to increase the cost of other services because of the free terminal!



## Do they ask that you buy or lease equipment?

Leasing equipment is always a bad deal. It will cost much more in the long run and you'll need to pay again if you need to switch processors. Make sure that the equipment you buy isn't locked for use only with your future processor.

## Is there a long-term contract with a termination fee?

Before signing up, be sure to find out how long your commitment is for. Often you may need to sign a contract for a certain time period, like one year, especially if you are a high risk business. Ask about the termination fee too. While some services may have fees around a couple hundred dollars, other may try to scam you with a couple grand if you wish to switch processors!

## 4. Fees associated with processing credit cards

Unless you are using a third party payment provider like PayPal to process credit cards, you will need a merchant account to process credit cards from your customers. Here is an overview of typical merchant account fees you can expect:

**Set up fee:** many new applicants of merchant accounts will be required to pay a set up fee to get their account open and ready to accept credit cards. Some merchant account providers will allow new account holders to sign up for free.

**Equipment:** unless you are 100% online, you will need credit card processing equipment to swipe customer credit and debit cards to start the processing. Again, some credit card processors provide free equipment.

**Monthly fixed fees:** merchant account providers charge a fixed fee each month to account holders. It covers the cost of supporting your account and will be the same regardless of how many credit cards you process each month. This fee may be between \$10 and \$15 per month.

**Minimum fee requirement:** most merchant account providers will set a minimum monthly fee for transactions each month, to ensure you pay them a minimum monthly fee. If you don't process more transactions than the minimum, you'll be required to pay the additional fee. Monthly minimum fee requirements may be in the \$25 range.

**Transaction fees:** each time a credit card is presented for processing, you'll be charged the transaction fee. This will be a few cents per transaction, and it is charged whether the card is approved for payment or declined.

**Chargeback fees:** if one of your customers initiates a chargeback request, most merchant account providers will charge you a fee for handling the claim. Average chargeback fees are \$25 per transaction.

### Fee structures for merchant accounts

The amount of per-transaction fees vary and depend on the fee structure your particular merchant account uses.

**Interchange Plus Pricing** – you'll pay the actual interchange charge plus a fixed rate.

**Flat Rate Pricing** – your fees remain the same even if your sales volume increases or decreases. There are no additional markup prices for interchange fees, it's a single flat rate charged by the merchant account provider. This could be a good deal from small businesses which rarely need to process transaction.

**Tiered Pricing** – the most popular method of merchant account pricing. You'll be charged one rate for qualified transactions (the base rate), another rate for mid-qualified transactions, and a higher rate for non-qualified transactions.

**Mixed Rate Pricing** – fees are calculated with a combination of interchange plus pricing models and tiered rate pricing models. You'll receive three different rates for debit transactions, qualified credit transitions and non-qualified transactions.

## 5. Security – PCI compliance

Visa Inc., MasterCard Worldwide, American Express, JCB International and Discover Financial Services created the Payment Card Industry (PCI) compliance standards to ensure customers' credit card information is securely processed whenever they make a payment using their card.

[The PCI Security Standards Council](#) comes up with best practices and standards to help keep personal financial information safe, particularly in the world of online commerce. Every business dealing with credit card processing must meet standards in order to continue accepting cards from their customers, from banks and financial institutions to payment processing companies and business owners. The standards are not laws per se, but they are rules that must be followed or the retailer will face fines from PCI, or lose the ability to accept cards.



### Not sure if you are currently PCI compliant?

Here's a checklist of the major areas that you must ensure you meet criteria in order to accept credit cards from customers as payments:

**Network Security** - The computer network involved in credit card processing must maintain the security of each customer's personal details when in transmission. You should not keep cardholder information longer than it takes to process the transaction; and your network must have a firewall installed.

**Limit Access to Those Who Need it** - Don't allow everyone in your business access to the credit card information of your customers. Only those who actually need to view it should have access. This will eliminate some of the temptation and also make it easier to pinpoint any data breach problems if they do arise.

**General Protection of Cardholder Data** - If your business must store individual cardholder data (for example, if you are processing recurring orders) it must be encrypted when it's stored so that even if a hacker managed to get into your database they would be unable to decipher the cardholder information stored in it. Credit card processing companies use secure, 128 bit SSL certificate encryption (or better) when transmitting data.

**Update Your Systems Frequently** - As a business owner that processes credit card payments, you must keep your anti-virus software up to date, update computer hardware and software systems and operating systems to ensure you have the most up to date protections.

**Test Security Measures on Your Network** - To make sure your security measures have not been compromised, you must test the network regularly. You should monitor network access to credit card data of your customers continuously, so you can identify any security problems as they happen and take appropriate action immediately.

**Have an Information Security Policy in Place** – Make sure all employees understand what their role is involving customer credit card information, and set rules for network and computer use by employees. Having a policy in place ensures everyone is aware of expectations and hopefully it can eliminate any claims of ignorance in the face of information or data breaches.



## Become PCI compliant

**Step One:** Fill out a self-assessment questionnaire, in order to determine what type of business you own and the appropriate PCI compliance steps you'll need to take.

**Step Two:** If it's determined that your business requires a vulnerability scan (merchants with external facing IP addresses), complete and obtain a document of evidence that you've passed the vulnerability scan with a PCI SSC Approved Scanning Vendor. You'll need to do this if you store your customers' credit card information electronically, or if your credit card processing is done over the internet. Scan at least once each quarter.



**Step Three:** Complete Attestation of Compliance.

**Step Four:** Submit evidence of your passing vulnerability scan and your Attestation of Compliance to your acquirer.

## PCI compliance improves business reputation

Having a successful business is more than just providing quality products or services and exceptional customer service. In fact, some will say that having a good business reputation is more important than what your business is actually selling!



Businesses which maintain PCI Compliance are taking the first steps to ensuring their customers' information is safe, but you'll want to go even further than that. If there are any security breaches within your system that affect your customers, even if you are PCI compliant, you may be liable. You'll want to take all precautions to prevent security violations to maintain your good business reputation. Hire an expert to handle these aspects for you if you aren't sure how to set up a strong security system to keep customer credit card data safe, if you're not

sure what scans and how often to run them or how frequently you need to update your records.

Becoming PCI Compliant may seem like it takes a long time and is expensive to implement – but if you compare the potential problems of security breaches and expense of fines for not being compliant – the financial and time investment is well worth it.

## 6. Credit card processing terminals

You have a variety of options when it comes to credit card terminal choices. Here is a look at the different types of terminals on the market and a brief overview of how each one works.

### Traditional processing terminal

The traditional dial up terminal is what you typically see at most merchandise retail locations. They have been around for quite some time and still remain the most common choice today. These standard processing terminals were typically dial up and worked over the phone line. Today, while dial up is still an option, more and more businesses are instead using IP based terminals which use a wired internet connection.

Standard processing terminals are wired and must be used in the location where they are connected and therefore are not portable. The terminals include a magnetic strip scanner, a key pad and either a built-in or separate printer for receipts.

### Wireless processing terminals

The up and coming trend is wireless credit card processing terminals. Wireless terminals are great for many businesses mainly because they are portable. They work over a wireless network so they do not need to be plugged in to work. They are truly the best choice for businesses that are constantly on the move. For example, they are great for taxi drivers, trade show vendors, food delivery, catering services, etc. Most machines offer easy card swiping strips and an attachable printer for receipts.

Wireless terminals are generally small and lightweight. When purchasing a wireless terminal you will want to make sure the battery life is adequate for your needs and that the machine is durable. Using your terminal on the go usually leads to more wear and tear over traditional processing machines.

### Smart phones as credit card processing terminals

Believe it or not you can even use your smart phone as a credit card processor. All you need to do is make sure that your phone is compatible and then purchase an app that will process credit cards for you. Credit cards are either processed by keying in the credit card number or in some cases you can purchase a strip reader to attach right to your phone. Many programs offer emailed or texted receipts.

### Virtual credit card terminals

If your business is strictly on line, then you will not need a physical terminal but instead a software program that will process credit card transactions on line. Usually, your merchant account will be able to provide a software package to fit your business needs.

## 7. Glossary

**Application Fee:** The fee that some processing companies charge to businesses when they open a merchant account.

**Annual Fee:** A fee that is often charged by payment processing companies on an annual basis in order to keep your merchant account active.

**Transaction Fee:** Fee charged by the processing company each time you process a customer's card for payment.

**Interchange Fee:** The fee that the credit card companies charge for converting a card payment to cash and transferring the cash to your account.

**Card-Not-Present:** Any transaction that takes place online, by phone, or through mail where a credit card is used for payment but the merchant doesn't physically see the card or swipe it through a credit card reader.

**Authorization:** Process completed for every credit card sale to make sure the card has enough money available to pay for the transaction. The merchant receives an approval response that verifies the card has funds available for the purchase and the sale is authorized.

**Authorization Response** – Response received by merchants when a credit card is presented for payment. Possible responses may include:

1. Approval – payment is made.
2. Decline – transaction is not approved.
3. Call center – merchant must call a toll free number to provide more information.

**Address Verification Service (AVS):** Term related to account security. It is a process that verifies a card holder's address before accepting payment. Address verification is most often used to help prevent fraud on both on line transactions and phone orders.

**Card Verification Code:** The card verification code is used to help with fraud prevention. Just like address verification it is most often used with on line transactions. The card verification code is a 3 or 4 digit number found on either the front or back of a credit card. When paying online the card holder would need to enter this number in order to be able to use their credit card for payment.

**Automated Bill Payment:** An automated bill payment is an agreement between a business and a customer that allows the business to automatically bill the customer's credit card for ongoing products, services or subscriptions. The customer's credit card is automatically charged on the contracted renew date which can be weekly, monthly, yearly or whatever other time frame the business and the customer have agreed to.

**Chargeback:** A chargeback is when a transaction is billed back to the business after payment has already been processed. A chargeback is in favor of the customer and often occurs when a card holder is not satisfied with the product or service they received.

**Mobile Credit card Processing:** Mobile credit card processing is a way for businesses to accept credit card payments from customers when they are on the go. Mobile credit card processing uses a wireless processing machine to process credit cards and can be used just about anywhere.

**Online Payment Gateway:** An application that businesses use on their website that allows for the secure processing of credit cards. It is the means of connecting a customer's shopping cart to the credit card processor.

**Third-Party Processor:** A third party processor is a company that will process credit cards for you. They then most often keep a per-transaction fee and deposit the rest of the sale into your account. PayPal is a popular third party processor.

**Mail Order / Telephone Order (MOTO):** Card-not-present transactions where payment is made through the mail, by phone, or internet.

**Magnetic Stripe:** The magnetic tape on the back of credit cards which contains cardholder data and the account number, and can be read by credit card readers.

**Private Label Credit Cards:** Sometimes called proprietary cards, private label credit cards only work in a certain retailer store.

**Point of Sale (POS)/POS Terminal :** Equipment merchants use to process credit cards for card present transactions. Credit cards are swiped and read magnetically, and the signature of the cardholder is obtained. Point of Sale transactions are considered the most secure type of credit card transactions.

## Do you have any questions?

Email [david@creditcardprocessing.net](mailto:david@creditcardprocessing.net) or visit the [Credit Card Processing](http://Credit Card Processing) website.

