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**The Ins and Outs of Merchant Accounts**

**By Robert Levings**

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THE INS AND OUTS OF MERCHANT ACCOUNTS

By Robert Levings, President, EasyPay123

Merchant accounts are necessary in order to accept payments made by credit card from your customers, whether you are operating a retail store or an online business. The following article answers the key questions that you may have regarding merchant accounts. It is part of a series of articles offered by EasyPay123 to help merchants understand the many facets of processing credit card payments.

1. Why Do I Need a Merchant Account?

Merchant accounts provide you with the ability to accept credit card payments from customers for goods and services. A merchant account establishes a relationship between your business, a bank and a credit card processor such that funds generated from credit card sales are deposited into your bank account on a regular basis, less merchant account fees (to be discussed later).

Without a merchant account, your customers will not be able to pay you using their credit card. Given that credit card payments are still the dominant form of payment on the Internet, this would place you at a competitive disadvantage in a highly competitive business environment.

2. What Are the Different Types of Merchant Accounts?

There are two primary kinds of merchant accounts that are issued, depending upon your method of capturing the credit card information at the time a payment is made.

The first type of merchant account is called a "card present", "signature-based" or "retail" merchant account. This type of account is issued to merchants whose customers will be physically present at the time of payment. In such a case, you would be able to inspect the card and the signature on the reverse of the card, and would also be able to match the sales receipt signature against that on the

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back of the card. Typically, these types of payments are captured by using either a card imprinter (using credit card slips) or a "card swipe" (Point of Sale) terminal.

The second type of merchant account is called a "card not present", "non–signature–based", or MOTO (Mail Order/Telephone Order) merchant account. This type of merchant account is issued to merchants whose customers are not physically present when they make a payment. This is typical of most Internet payments – where customers key their payment information into an online payment form – and phone–in payments – where operators key the payment information into some kind of payment application.

The types of merchant accounts will be a key factor in determining your fees, since banks typically view card not present payments as higher risk (i.e. a higher risk of fraud) than card present payments.

### 3. Where Can I Obtain a Merchant Account?

Merchant accounts are traditionally obtained through a bank that issues merchant accounts called an "acquiring bank" or "acquirer". Generally, there is a separate group within the bank that processes merchant account applications.

When you apply for a merchant account, there is no guarantee that your application will be accepted. The merchant account risk group will assess a number of factors before approving your application, including (but not limited to):

- Your company and/or personal credit history
- The type of product/service you are selling (note that it is extremely difficult to obtain merchant accounts in the U.S. for certain types of "high risk" products and services such as online gambling, pornography, outbound telephone sales, prepaid phone cards, travel agencies and others. What is perceived as high risk varies by acquirer). Falsifying the nature of the product or service you are selling when applying for a merchant account could lead to termination of your merchant account.
- Estimated dollar volume
- Average order size

A good place to start is with your existing bank, since you already have a relationship with them. You may also choose to inquire about merchant accounts with other banks to compare rates and policies (in fact, we strongly recommend this). It is possible to have a merchant account with an acquiring bank that is different from the one where you have your bank account, although they may encourage you to move your bank account if you obtain a merchant account from them. It is likely that you will need to open a bank account with your acquiring bank so that funds can be deposited there. Some acquiring banks will route funds to a bank account of your choice (within the U.S.) if you request it, although there may be an additional fee for this service.

Note that American Express and Discover are their own acquiring banks, so if you want to accept either of these cards, you will typically complete a merchant account application directly with them.

Another option for obtaining merchant accounts is through a credit card broker or "ISO" (Independent

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Sales Organization). These companies have relationships with many banks, and attempt to match your credit history and type of business with a bank that will accept your application. They are typically paid a commission from the acquiring bank for your business, and this is passed on to you in the form of a set-up fee or a percentage of sale fee. There are many ISO's to choose from. Be aware that not all of them are reputable, so you would be well-advised to do some research on them before "signing on the dotted line".

When you start the process of investigating merchant account options, we recommend strongly that you shop around so that you can compare rates and service levels. The merchant account business is highly competitive, and it is not uncommon for rates to vary even within acquiring banks, depending upon which merchant account representative you speak with, and how valuable they perceive your business. Having said that, price should not be your sole factor in obtaining a merchant account. Service is important too. Understand the acquiring bank's policies with respect to such factors as charge-backs (when a customer refuses to pay a charge). You may wish to reevaluate your merchant account provider if their policy is to revoke your merchant account status after a small number of charge-backs.

Finally, if you are using a payment gateway such as EasyPay123, make sure that your acquiring bank connects to a payment processor that your payment gateway also connects to. In the case of EasyPay123, this would include First Data Merchant Services, Global Payments, Vital, NOVA, First Tennessee and UPP.

### 4. What Fees are Associated With a Merchant Account?

The fees that you will pay for a merchant account vary depending upon many of the factors discussed earlier, such as perceived level of risk, estimated dollar volume, the aggressiveness of the acquiring bank, etc. In general, however, the following rates will apply:

**Setup Fee:** sometimes called an "application fee", this one time fee varies widely, from \$0 to \$500 depending upon the acquiring bank.

**Discount Rate:** the discount rate is the percentage of the total sale that you pay to the acquiring bank. These rates are determined using a number of factors, including the average order dollar amount, estimated total monthly dollar volume, the perceived business risk, etc. Discount rates range from approximately 2% to 4%. Small variations in discount rate can have a large impact on your total cost if you are processing significant dollar volume.

**Transaction Fee:** some acquiring banks levy a transaction fee in addition to the discount rate. Of those that do levy a fee, they typically range from \$.10–\$.30 per transaction. Note that banks that waive the transaction fee sometimes "build it in" to the discount rate to make their fees appear more competitive. Comparing the total cost of different providers will allow you to make informed decisions by comparing "apples to apples".

**Statement Fee:** this fee covers the cost of producing your monthly statement. Typical fees are \$10 or under, although some banks will not charge a statement fee at all.

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**Monthly Minimum:** some acquiring banks will charge you a minimum fee (e.g. \$25) if your discount rate plus transaction fees do not exceed some minimum amount.

**Chargeback Fee:** if a customer successfully repudiates a charge from you, the bank will charge you a "charge-back" fee. This rate varies from \$10 to \$25 for each chargeback. Note that too many charge-backs will likely result in the loss of your merchant account status, so be sure to take advantage of available fraud control technology and apply sound business judgment in order to reduce incidences of charge-backs.

**Reserve Funds:** if the acquiring bank perceives that your level of risk exceeds their standard guidelines but is not high enough to result in a rejected application, you may be required to set up a reserve account with the bank. This typically consists of a percentage of your sales volume (e.g. 10% of your estimated first six month's sales). This provides a fund that the merchant account provider can access should you exit the business.

Because of the number of fees involved, we recommend that you prepare a spreadsheet to calculate the total cost of the various merchant account alternatives that you are exploring. This will help you make your final decision. EasyPay123 has a simple online fee calculator available on our website that helps simplify the process of comparing different merchant account providers' fees.

### Merchant Account Tips

1. Determine what software you are going to use to process credit card payments before you get a merchant account. This will determine whether you will need a card present or card not present type of merchant account.
2. Be sure to shop around in order to get the best value from your merchant account provider. Remember that price should only be one factor in your selection process. Service, reputation and policies should be evaluated as well.
3. Ensure that your merchant account provider connects to a processor that your payment gateway also connects to.
4. Minimize your charge-backs by employing the latest fraud detection technology and exercising good business judgment before shipping products.
5. Be sure to calculate total costs when comparing merchant account providers. Often fees are "hidden" in the discount rate to make it appear that, for example, transaction fees or setup fees are being waived. Understand the various components that will determine your cost and take a few minutes to do the necessary calculations. It could save you a lot of money down the road. To speed up your comparison process, use EasyPay123's merchant account fee calculation located on our site.

### Summary

Obtaining a merchant account is a necessary step in providing your merchants the convenience of paying by credit card. If you haven't gone through the process before, it can be somewhat confusing, since many players and fees are involved. Shop around, understand all of the related fees and policies associated with the merchant account, and ensure that you're dealing with a reputable company. Your business deserves nothing less. If you have any questions about the process, please call us at

EasyPay123 toll-free at 866-438-8767.

### About EasyPay123

EasyPay123 is a leading supplier of payment processing solutions to businesses across North America. Offering world-class solutions at affordable prices, EasyPay123 helps merchants simplify the process of acquiring, launching and using payment applications to improve the way they do business. Visit us at [www.EasyPay123.com](http://www.EasyPay123.com).

For a description of some of the e-commerce terms used in this article, please visit our online glossary at [www.EasyPay123.com](http://www.EasyPay123.com).

If you found this article helpful, you may wish to request one or more of the other articles in the EasyPay123 series by visiting our website. Articles in this series include:

- Understanding E-commerce Transactions
- How Transactions are Processed
- Getting Merchant Accounts
- How to Design and Build Payment Applications
- How to Choose a Payment Gateway
- How to Pick a Shopping Cart
- Preventing Online Fraud
- Gaining Visibility for Your Website
- Understanding Wireless Payments

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Robert Levings is President of EasyPay123, a leading North American provider of online payment solutions.

### **Merchant Accounts – How to save money**

#### **By Ben Cloutier**

Your business is successful, but now your ready to take it to the next level and begin accepting credit card transactions, or you have already taken this step but your feeling that your merchant account provider has high fees and your not sure what to do, or what other providers are out there?

You can save hundred's even thousand's of dollars per year by switching over to a new merchant. How is this so?

Just in transaction fees alone if one provider is charging you 35 cents per transaction and another

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Merchant account provider charges 25 cents you are already saving 10 cents per transaction.

If you process over 1000 transactions per month that's already \$100 per month savings and over one year this amounts to \$1,200.

Merchant Accounts can make or break your business, whether it is online, retail, phone, mail, or wireless. Every Merchant Account provider has fees that can affect your business in different ways.

We have compared the best merchant account providers currently in the business and we have detailed their fees so you know exactly how much you will be charged.

If you would like to find out who our trusted merchant account providers are and a list of their fees you can find it all on

.

Ben Cloutier

You can use any information in this article and can even use it in its entirety, but please make sure you link to my site

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Merchant Accounts – How to save money

Applying For Merchant Accounts

Applying For Merchant Services Account The Easy Way

Restaurant Merchant Accounts

Helping Merchant Accounts and Checking Accounts Play Helping Merchant Accounts and Checking Accounts Play Nicely Together

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