



# Credit Where It's Due

By Jeff Mandel

Credit Card Processing Expert



How many more pizzas do you have to sell each month to recoup the hundreds of dollars you may be over-spending in processing credit, debit and prepaid card transactions?

Not sure how much you are overpaying? The more information you have, the better you can control your expenses and the better decisions you can make. This holds especially true when selecting a credit card processor. Making the right choice may help you add thousands of dollars to your bottom line with no extra work.

Why? Stock market and real estate transactions are subject to federal regulation. Likewise, the banking and insurance industries are strictly regulated, and violators are subjected to steep fines and criminal sanctions. Yet, the processing of card transactions – clearly, an immense financial services industry – is basically unregulated by any federal law. Scary, but it is true.

The cost of processing cards isn't always what you consider when you contract for what you believe are "low" rates. It's a confusing situation as processors and brokers (middlemen) lure you with low introductory fees and then tack on hidden charges, holding you hostage for a service that is mission-critical to your business.

Here are some tips to help you determine if your processor and/or broker are increasing their profits at your expense. These tricks are damaging your bottom line.

## THE FIRST THING YOU CAN DO

### Eliminate the middleman and keep his cut.

There are only a small handful of companies that actually do both the front end (authorizations) and back end (settling) processing. The rest are often banks and brokers who purchase the processing services from the processors and re-sell them to you at a profit. Eliminate the middleman. Go direct and reduce your processing fees by as much as 50-60%.

For example, say your monthly bill is \$1000, and the hard cost from the card associations (VISA, MasterCard, etc.) is \$600. The actual cost to perform your processing is \$400. Keeping the middleman's cut of that \$400 could be as much as half! That's \$200 that goes directly to your bottom line.

**THREE DISCOUNTS YOU SHOULD BE RECEIVING BUT LIKELY ARE NOT!**

Sponsored By



[www.heartlandpaymentsystems.com](http://www.heartlandpaymentsystems.com)



### 1. A rebate on check/debit cards.

The card associations charge processors less for processing check and debit cards. That's because the card-issuing banks receive their money immediately as opposed to waiting for payment when cards are used for credit. Many card processors, however, do not pass these savings on to their customers. If you aren't getting the full discount, someone else is pocketing it.

### 2. Small ticket discount.

We've all seen them – you may even have them! They are the signs that are posted in your restaurant or pizzeria that say "Minimum Credit Card Purchase-\$10.00" or some other amount. Based on the "rate" you may have been quoted by your processor, running small-dollar transactions for a couple of slices and a drink will just about eat up your profit margin on that purchase. The card associations charge processors lower fees for transactions under \$15.00. If you are paying a middleman's "rates," then the processor (and/or broker or intermediary) is likely being charged your discounted fee, charging you full price and keeping the difference as profit.

### 3. Discount on keyed-in transactions.

Most businesses are told by their brokers that keyed-in transactions - on pizza deliveries, for example - have a much higher rate than swiped transactions. This is only partially true.

Indeed, processors are charged more for keyed-in transactions. However, Visa offers a little-known program called **AVS (Address Verification Service)** which lessens that cost. In an effort to reduce fraud, when additional information is provided at the time of the sale (the card - holder's house number and zip code), your processor receives a substantial discount. That savings should be passed through to you.

If you aren't receiving the discount, you are not only over-paying VISA, but your broker is likely making additional profit by surcharging these "downgraded" transactions.

## FOUR WAYS YOUR PROCESSOR OR BROKER IS OVERCHARGING YOU

### 1. You were quoted your "processor's rates" rather than that of the card associations.

Every April and October, VISA and MasterCard adjust the rates they charge credit card processors. Most of the time, they raise just a few of their almost 200 different categories, and sometimes they make adjustments downward. Despite the fact that VISA and MasterCard raise just a few of these categories, card processors and their middlemen often use this as an opportunity to raise all of their rates, further padding their profits at your expense. If costs have risen this spring, it's most likely due to cost increases created by your

processor or broker, NOT VISA and MasterCard.

### 2. The rate you were quoted is not the rate you are paying.

You likely don't always have the time to check the bottom-line payment on your statements to ensure you are receiving the rate you were promised. This exercise takes just a few moments. Divide the cost of your processing by the volume processed. For instance, if customers charged \$32,000 in your restaurant in a given month, and you paid \$774.40 to your card processor – dividing 774.50 by \$32,000 will result in .0242 or 2.42%. This is the actual percentage rate you paid to your processor. See if the rate you were quoted matches this rate. It probably will not. Why? Because you signed on based on a "qualified" rate. "Qualified" is a term fabricated by processors to lure you into thinking you are paying one rate when, in fact, you are paying nothing of the sort.

### 3. You are seeing only three or four "tiers" on your statement.

Tiers are the different rates card processors charge retailers for the privilege of accepting card payments. The card associations 200 different rates are based on the type of merchant (pizzeria, book store, gas station, etc.), the type of card (platinum, affinity rewards, etc.), and the type of transaction (PIN-based, over the phone, etc.). If your statement shows only three, four or six different tiers (often labeled qualified, or VD,V,VB,MCDT,M, & MBS – all arbitrary fabrications by card processing companies) you are doing the card equivalent of making a 30-second cell phone call and paying a full minute. Your rates are getting rounded up, assuming you are getting all the rates and discounts you are entitled to receive. Many processors simplify the 200 original rates—and make it more profitable for themselves – by rounding up to the highest of their completely arbitrary tiers.

### 4. Your statement is hiding fees your card processor has already taken out.

For example, your statement may state, "Total amount of charges to your account: \$1000." Look for a small line item that mentions a "less discount paid" – or other similar term - - which is money the processor has deducted every day from your account. By removing a fixed-daily amount, card processors can lessen the number they trumpet as total charges and hide the fees they charge. This amount is not part of that \$1000 mentioned in big letters. You are paying more than what is stated in big letters.

Sound complicated? It is. The best defense is knowledge. Educate yourself about card processing so you can make good business decisions that are good for your bottom line. Visiting [www.merchantbillofrights.com](http://www.merchantbillofrights.com), an educational website for merchants, will give you a good start.

---

Created by: Russell C. Teter III. Layout by Ben Smith. Copyright 2008 University of Maryland. All rights reserved. This material may not be reproduced, displayed, modified or distributed without the expressed written permission of the copyright holder. For permission contact [rsprow@mdsbdc.umd.edu](mailto:rsprow@mdsbdc.umd.edu). This material is based on work supported by the U.S. Small Business Administration. Any opinions, findings, conclusions or recommendations expressed are those of the authors and do not necessarily reflect the views of the SBA.