

# The Real Scoop About Merchant Account Rates & Fees

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## About CDGcommerce

CDGcommerce is a registered ISO/MSP for Provident Bank and a provider of leading-edge payment processing solutions, specializing in Internet and e-commerce merchants. For more information, please visit their Web site at <http://www.cdgcommerce.com> or call CDG at (888) 586-3346.

So... you've decided to setup your own merchant account. You've seen the many different options available to you on the Internet. Chances are, you have even received some e-mails or postcards with great promotions and offers.

The big question now becomes - which merchant processor to select? And how can you tell whether the merchant account proposals you are getting are really a good deal or not?

Many merchants do not fully understand the nuances of merchant account pricing - and so they are often at a disadvantage when comparing proposals from various providers.

The purpose of this article is to explain common merchant account terminology and describe the various rates & fees that you should specifically look for and ask about.... before signing off on any merchant account application or agreement.

### Understanding the "hard costs" behind Merchant Accounts

The first thing to understand about merchant account pricing is to get a handle on the costs associated with a merchant account.

First and foremost, ALL banks and merchant processors have the same core cost - the InterBankExchange ("Interchange") costs, dues & assessments from Visa and MasterCard. It is important to note that the very same Interchange fees apply to all banks and most ISO/MSP's across the board - regardless of their size or volume.

On top of these costs, there are network costs. These network costs are the transactional costs that are incurred to send a credit card transaction request across the bankcard networks to interact with the cardholder's issuing bank. These network costs do vary from acquirer to acquirer based upon on the volume and contract(s) negotiated between the acquirer and the network provider(s).

Beyond the Interchange and network costs, there are other costs such as the payment gateway fees that are incurred, the "account on file" and other costs that are assessed to merchant providers for maintaining their merchant account portfolio, BIN sponsorship fees, risk reserves and customer service costs associated with operating a portfolio of merchant accounts. All of these fees do vary from one processor to another but are all generally in the same ballpark.

All of these costs add up and must be covered by the pricing structure that the merchant provider sets up for their merchants. Now that you have a little background on the costs of a merchant account, we will discuss the various pricing line items that you will commonly see on a merchant application / agreement.

### Merchant Account Pricing Terminology and Descriptions

Here is a list of common line items that what you need to know about them.

#### Qualified Discount Rate

The "qualified" VISA/MC discount rate is the most common % that will be charged on your credit card sales. This is often simply called "the discount rate" by some providers. This fee typically is 2.50% or less for an Internet or mail-order merchant.

#### Mid-Qualified and Non-Qualified Surcharges

A fee that is often listed in the "fine print" is the mid-qualified and non-qualified downgrade surcharges that apply on certain types of transactions. These fees are very important to understand, especially for an Internet or mail-order merchant.

VISA/MC transactions may "downgrade" to a mid or non-qualified level based upon the transactions matching the specified criteria for this from the processor. For instance, some processors may "downgrade" a transaction simply because the AVS result doesn't match. Others will automatically bill out any international cards and corporate cards on the non-qualified level.

When a transaction downgrades, you will end up paying the Qualified Discount rate PLUS the Mid or Non-Qualified Surcharge that is applicable. Most merchant processors have 3-tier billing but some processors only have 2-tiers for Internet and Mail-Order merchants.

In other words, if your qualified rate is 2.35% and your non-qualified rate is 2.00%, you will pay 2.35% for your qualified transactions but you will be paying  $(2.35\% + 2.00\% = 4.35\%)$  on your non-qualified sales.

Depending on how a processor configures their billing, the difference in cost can be dramatic. For instance, if Processor A offers a lower qualified rate but downgrades 50-60% of a merchant's total transactions, then the merchant would pay substantially more than if they paid a higher qualified rate with Processor B who only downgraded 5-10% of their transactions.

Thus, if you are a merchant that does a lot of foreign transactions or business purchases, it will be more important for you to negotiate a low Mid and Non-Qualified Rate than your Qualified Rate. One good question to ask of any potential merchant provider is how many billing tiers there are and what % of transactions for a business like yours typically falls into it.

Even if you primarily do business with other U.S. consumers & businesses... you -will- have a portion of your transactions that will be non-qualified. So - just be aware of the costs on both your qualified and your mid and non-qualified rates and make sure that you do not end up in a situation whereby you have a great

qualified rate but you are locked into a billing structure that causes the majority of your transactions to be downgraded to higher costs.

#### Per Transaction

In addition to the qual, mid-qual and non-qual discount rates... per transaction fees also apply on most merchant account deals.

The tricky part to watch for with "per transaction" fees is to make sure that you are truly comparing apples-to-apples.

For instance, some merchant providers quote a "per authorization" fee but then list the "network fee" separately. Or they charge a per transaction fee but also have a separate "WATTS fee", "network inquiry" fee or a fee line item under a different name. This can be confusing and in certain cases, deceptive. So you will want to make sure you really drill down on the actual, true per transactional cost with any merchant account offer.

#### AVS

AVS stands for "Address Verification Service". It is a validation system that determines whether or not the street number and zip code entered by the online purchaser is actually a match with the issuing bank's "on file" information for that same cardholder.

For Internet and mail-order merchants, AVS is a very important fee - because you will be charged it on every, single transaction! If the AVS fee is not bundled into the per transaction cost and instead assessed separately (which is very common in the industry), you will need to factor in this cost when you are analyzing one merchant proposal vs. another.

It is also important to know that AVS does NOT work on most foreign cards and the AVS service is not available overseas. This is one of the reasons why foreign transactions are considered "higher risk" by U.S. banks and why such transactions have a higher cost as well.

#### Non-Bankcard (or T&E) Per Transaction

American Express, Discover, Diner's Club and JCB are all considered to be "non-bankcard" cards since they are operated by private businesses and not the association of banks that comprise Visa & MasterCard.

There is a per transaction cost that is incurred by merchants to "piggyback" the transaction requests through the processing networks to these individual companies, and this fee is typically called a T&E fee or a Non-Bankcard Per Item/Transaction fee.

The bottom line is that you will pay this per transaction cost every time you process a sale for one of the aforementioned card types. You will not pay any VISA/MC discount rate but rather just the per transaction cost for this line item along with the discount rate charged by the 3rd party company.

What are these discount rate fees? For Discover, your rate is set based upon your average ticket size and business category... you can expect a rate of 2-3%... for Amex you are usually given the option of a \$5/month flat rate plan that covers up to \$5,000 in annual Amex transactions or a higher discount rate of over 4%.

It is important to know that these fees are NOT subject to mark up or discounting by individual banks or merchant processors. They are "set in stone" by these individual private card organizations.

#### Batch Header

The Batch Header fee is a cost that is incurred on a per-batch basis for transmitting and directly depositing your sales funds.

What's a batch, you ask? Here's what it is: whenever you run through one or more sales transactions, you are granted an "authorization code" for each successful one. These authorization codes and transactions are grouped together into a "batch."

At the end of each day, most payment gateways automatically "settle your batch" - which means they transmit the list of orders through the bankcard network which subsequently serves to begin the funds transfer process between the cardholder's bank and your merchant bank.

The batch header fee is a fee that is applied each time a batch of transaction is settled. It should be noted that the batch header fee is a flat fee regardless of whether it is 1 or 100+ transactions in the batch.

#### Statement Fee

The Statement Fee (sometimes listed as "Service Fee" or another name) is the simplest of all merchant account fees.

This is simply a monthly fee that covers the cost of printing & mailing the merchant statement and reports as well as offsetting some of the customer support and service costs associated with operating and supporting the merchant account.

One question that you will want to ask any potential merchant processor is whether they provide both a mailed statement as well as Online Real-Time Merchant Reporting. Some companies charge extra for this; others provide it free included with the service. This is a definite plus in that getting detailed online real-time reports can put you in the driver's seat with respect to your payment processing. You will want to note that some reporting technologies merely show batch totals whereas other options are far more verbose and allow you to see what credits & debits will hit your account in advance with bank-level detail.

The other related area that you will want to check into related to this is chargeback notifications. The vast majority of processors send out chargeback notifications via USPS mail. This can result in up to a several week delay prior to receiving chargeback notices and create delays in your response and rebuttal attempts. Thus, if you can find a merchant account provider who provides e-mailed notifications of chargebacks with a seamless online process to help you resolve disputes and issue rebuttals – this can be a major advantage to

you as merchant.

#### Monthly Minimum

This is a very important line item to understand. Most merchant processors assess a "monthly minimum" billing on the discount rate of a merchant account. This is not always clearly explained to merchants but if they are low volume merchants or just getting started - this can have a BIG impact on the price.

Let's use the example of a merchant that processes \$0 sales. If they were given a quote of a \$15 statement fee and \$20 gateway fee... their base cost would be \$35/month.

BUT if a "monthly minimum" of say \$25 also applies... the total cost would rise to be  $\$35 + \$25 = \$60$ /month... a big difference!

If a merchant processes more than \$0 in sales but under approximately \$1000-1500, they will be assessed the monthly minimum in lieu of their discount rate fees on VISA/MC.

Thus, the best way to look at a merchant account with a monthly minimum is that your cost will be: Statement Fee + Monthly Gateway/Other Flat Fees + the -greater- of either the Monthly Minimum amount OR your total % Discount Rate fees.

It should also be noted that not all merchant processors charge or require a monthly minimum. Sometimes it is very beneficial to find a merchant processor that doesn't have a monthly minimum as this can really save you a lot of money when you are just getting started.

#### Annual Fee

In today's competitive bankcard marketplace, it is not uncommon for annual fees to be charged by many providers as a means of "making back" some of the profit that is lost due to lower margins in other areas.

Some providers actually charge this "annual fee" ahead of time. For instance, there is one provider that charges this after only the first three months of service. Other companies charge it one year on the anniversary of the account setup and yet others charge it at the same time each year.

Some providers are willing to offer a discounted annual fee or even waive it entirely. Keep in mind that an annual fee is a real cost. For instance, if you have a \$100 annual fee... if you divide it by 12 months, it equates to paying an extra \$8+/month in effective cost.

#### Termination/Cancellation Fee

Last but not least, it is important to find out about the termination/cancellation policy that exists with any merchant account proposal. Most companies have a termination fee that costs from \$100-250 if you cancel or move your account to another company within a specified period of time - as little as 12 months to as much as 36 months.

This is an important area to look at and get a specific written answer on... the last thing that you want to do

is to sign up with a merchant account and then be "locked in" with a huge cancellation penalty if you decide that you want to later move your merchant account. Some companies are known to charge as much as \$1000-\$1500 for early cancellation so - make sure - that you understand and agree with this portion of the contract before you "sign the dotted line."

## Conclusion

Thus, by understanding the true costs behind merchant accounts and the terminology and line items that are associated with merchant pricing, you - as the merchant - can arrive at an educated decision as to which merchant account deal is really the best one for your needs.