

Credit Card Processing FAQs

Due to increased interest about credit card processing among WordStock's customers, we've assembled this list of Frequently Asked Questions which we hope you'll find informative. For more information, please contact Norm Gosselin, njg@wordstock.com.

Q. What does "Issuer" mean?

- A. The "Issuer" is the bank that issues and controls the charge account. For example, Chase MasterCard is issued by Chase Manhattan Bank and Bank America Visa is issued by Bank of America.

Q. What is an "Association"?

- A. Visa /MasterCard

Q. What is an "Acquirer"?

- A. A processing company, such as Bank of America [hereafter "BAMS"]. The Acquirer's role is to take the merchant's end-of-day settlement and verify that the funds are moved from the Issuing Bank's Cardholder account to the merchant's account

Q. What is the "Visanet/Vital" network?

- A. Visanet/Vital is the international telecommunications network that ultimately handles authorizations for credit card transactions. It is managed by the Associations, not by the Acquirers.

Q. How does Visanet/Vital work?

- A. When you swipe a card an authorization request goes to the Issuing Bank. The authorization comes back from the Issuing Bank via Visanet/Vital. The Acquirer has no direct role in this process. When Visanet/Vital goes down, BAMS, like all other processing companies, is down. Whenever that happens, the Acquirers act as advocates for their clients and press Visanet/Vital for answers and problem resolutions.

Q. What does "Interchange Rate" mean?

- A. The Interchange Rate is the Issuer's [bank's] fee. It has two components: the rate plus a transaction fee.

Q. What are "assessment fees"?

- A. These are additional fees for the Associations.

Q. What does "Average Ticket" mean?

- A. Average ticket is the dollar value of your average sale. Acquirers use your average ticket to estimate how much demand you'll be placing on the system's resources. The average ticket for the book industry is \$30-\$35. For bookstore customers, we use an average ticket of \$40, unless we have specific information to justify using a higher average ticket.

Q. What Merchant Rates are available through WordStock and BAMS?

- A. The Rates that WordStock offers through BAMS are:

Flat - The rate blends the Best/Non-qualified so the merchant is charged a single rate no matter how the transaction was processed. A good rule of thumb is if your Non-qualified Transactions are more than 10% of the total transactions, a flat rate should be considered. If projecting a fixed cost is important then this might be the rate you want. This consists of the following components: interchange fee on net dollars, assessment fee on gross sales and processing fee.

Best/Non-Qualified - This rate type has a best rate for customer present transactions. A transaction qualifies for the best rate if all the required elements are received by the authorizing bank and transmits transaction within 2 days of the transaction date. The authorizing bank has final say on whether a transaction meets the requirement or not. If the transaction does not qualify the merchant is charged a higher rate for the transaction. Mail Order/ Telephone Order are considered as Non-Qualified, for example. This consists of the following components: interchange fee on net dollars, assessment fee on gross sales and processing fee.

Best/Non-qualified with transaction fee - Same as above except the Best/NQ rates are lower and the merchant is charged a fixed transaction fee for each authorization. Currently both Visa & MC charge \$.10 a transaction + interchange fees from the issuer. We do not offer this type at this time, as we feel it is more expensive.

One more thing about rate types. You can try one on for size. The only requirement is that you keep a rate type for a minimum of 1 year. If you don't like it after a year, you can change.

Q. What transactions do not qualify for the Best Rate?

- A.
- Any transaction that is not swiped.
 - Business Corporate or Purchasing Cards (swiped or not)
 - Key entered
 - Transactions not settled in 48hrs (federal business day)
 - No Auth

Q. What is 'off-line debit'?

- A. These are Visa/MC Check Cards. Normally these are the same cards you use at ATMs and have a Visa or MC logo. The card itself usually says 'Check Card'.

Q. How do I evaluate a competing offer?

- A. The first thing to remember is that the banks never lose. Therefore, if you get a bid that looks to good to be true, it probably is.

Every year, Visa, Mastercard, and the Issuers raise rates a few hundredths of a basis point. For example, in October 2002, Visa lowered their Interchange rate by .01% and announced it as a rate reduction. However, Visa simultaneously increased their transaction charge from \$.05 to \$.10 per transaction. One way or another, the merchant always pays for that increase. Therefore, when you evaluate a bid from an Acquirer claiming to offer a better deal than you're getting, you'll want to ask them to freeze the rates and fees for 3 years as part of the Merchant Agreement. If you accept a counter-offer of one year, you aren't getting rate protection because the rates normally are increased only once a year.

So the issuing bank claims that their rate is frozen, which it is, in fact. However, there's usually a paragraph in the agreement that allows them to pass through any increased Association Assessment fees. The net result, of course, is that your overall processing costs do, in fact, go up.

In sum, the key thing to understand is that the Merchant Agreement is the controlling document: if you were promised something that is not explicitly included in the Merchant Agreement, then you will not receive it.

Q. I understand that service fees that are often 'hidden' in the Merchant Agreement — can you identify them?

- A. Among the fees you might be charged are:

- Application Fee
- Setup Fee
- Weekly/Monthly Fee
- Monthly Minimum Fee
- Voice/ARU Authorization Fee
- Dial/CPU Authorization Fee
- Authorization Research Fee
- Chargeback Fee
- Retrieval Fee
- Annual Fee
- Interchange Management Fee
- Online Reporting
- Bank Charge Fee
- Restructure Fee

Q. Which of these fees will BAMS charge me?

- A. None!

Q. Am I getting a good deal from WordStock and BAMS?

- A. Yes, we think you are because, whenever we've had the opportunity to analyze all the rates and fees from a bid compared to our offering through BAMS, processing through BAMS is always more than competitive. (Unfortunately, we rarely get all the facts we need from the bidding company to do a real analysis!)

Q. Does WordStock review every customer's account activity to make sure customers are getting the best rates?

- A. No, we do not automatically review every customers account activity. If you ask, we'll review your activity if you provide a current copy of your merchant report. If we find your specific business activity has changed in volume or average ticket we will review your current rate and if warranted, qualify you for a new rate. Because we use BAMS to process our own credit card activity, we can take quick action if something changes that has implications for our customers.

Q. What is WordStock's relationship with BAMS?

- A. We've been working with BAMS for more than 12 years. We chose BAMS because the company is stable; they are always one of the top processors of credit card transactions; they have a competitive product; and our relationship gives us a level of access beyond that of a merchant on their own.

Early on, BAMS recognized the benefits of a long-term relationship, and invested in the development of an interface to their services. This relationship has benefited both parties and through us, you. We, the collective WordStock account are considered a major account within BAMS. If nothing else, we can cut through the banking bureaucracy and get answers when we need them.