



# The **Secrets** of Payment Processing

What Credit Card Companies  
Don't Want You to Know About  
Processing Payments

## An Introduction

As a business owner, you work hard for your money and expect your service providers to do the same. Unfortunately the merchant services industry is extremely antiquated and often hides fees and complexities that end up costing businesses thousands of dollars a year in excess credit card processing costs.

The unfortunate reality is that most merchant services providers make their services difficult to understand and as complicated as possible on purpose. They're banking on you not understanding and not questioning how payment processing works. Why? Because the less you know, the more they can earn. We call this "the secrets of credit card processing"

“Why? Because the less you know, the more they can earn.  
We call this “the secrets of payment processing.”



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It seems impossible to get everything you want and more out of a merchant processor, doesn't it? Well, we're here to tell you it's not impossible. This is the Business Owner's Secrets to Payment Processing Guide. We're here to give you the ins and outs of payment processing, the hidden fees to look for, and why you shouldn't settle for anything less than the best. While merchant services might seem complicated now, let's break down the fees in a way that is simple to understand. Here are the most common fees that you should be looking out for broken into 3 major categories - what you have to pay, what you might have to pay, and **what you should never pay.**



## Fees Everyone Has to Pay

**Interchange Fee:** You will see this fee often but only when you actually process a transaction. These are fees that are a percentage charged by the credit card companies themselves for every transaction run, and cannot be avoided. The rates are exactly the same, no matter who you are processing with and there's no avoiding them. Interchange is typically the largest processing expense of merchants. Interchange consist of a percentage of each transaction accompanied by a flat per transaction fee. Interchange is different for every card type from every credit card company. Credit Card associations publish their interchange online (e.g. Visa, MasterCard, Discover, American Express).

**Transaction Fees:** You should always expect to pay some sort of transaction fees. Similar to interchange, these are created by the credit card companies so there is no way to completely avoid them. It's important, however, to have a good understanding of the size of these transaction fees so you know if your provider is taking advantage of you. Many merchant providers are less than transparent when it comes to additional fees that a business may incur from processing transactions such as debit pin cards over the phone, or other less common transaction types. Be sure to ask and to understand any possible fees of this kind before you sign up with a provider and to keep your eyes peeled for them after you do. Keep in mind that these fees might sometimes be averaged into a flat rate with a provider.

- Average swiped credit card processing fees: 10 to 20 cents per transaction
- Average keyed in credit card processing fees: 25 to 30 cents per transaction

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## Fees You Might Have to Pay

**Flat Fees:** Fees that are incurred regardless of what you transact.

**Terminal Fees:** This is the cost of the terminal machine. These are charged to merchants who have physical stores and require the hardware to accept and swipe credit cards. The good news is up to date EMV terminals aren't expensive. If your processing company offers to include a terminal in your contract, be sure to read any fine print or ask them how much they're actually charging you for it. Sometimes it's better to buy one yourself to get a cheaper rate. A good terminal can cost around \$250 but do your research and know the retail value of a terminal before you buy it. You can also look for companies that offer free terminals in their plans.

- We strongly suggest you do not lease a terminal as it will be significantly more expensive in the long run.
- Select a terminal that is not "closed" and allows you to switch providers without requiring the purchase of another terminal. Your business may find a better merchant fit as it grows.

**Payment Gateway Fees:** Consider these the online version of "terminal fees". These fees are applied to ecommerce businesses. The most common payment gateway is [Authorize.net](https://www.authorize.net/). You should expect to be billed about \$15-\$30 monthly for the gateway service. These are rarely hidden fees, but make sure you are accessing a gateway from a merchant provider that is not overcharging you for the service or using the gateway to lock your business into an unfair processing contract.

**PCI Fees:** Like any highly regulated industry, there are important security measures you must stay up to date with to help avoid fraud and similar issues. Some PCI fees are charged by the Credit Card Industry itself in order to fund the industry's efforts to track, check, and maintain provider compliance. These are the PCI fees you should expect to pay. Other PCI fees are charged by the merchant services provider in exchange for keeping you PCI compliant. These fees are not charged by every provider and are easy to avoid.

- By staying compliant with PCI standards, you can greatly reduce or even eliminate PCI fees.

**Monthly Fees:** These are fees that are charged monthly. Fees can be anything from a monthly flat-rate from providers who don't charge any markups, to less transparent fees like random monthly charges.

**Incidental Fees:** These fees are incurred only when triggered.

**Address Verification Service (AVS):** This fee is charged on transactions for ecommerce and telephone businesses in order for the merchant to verify or change their address and location.

**Chargeback and Retrieval Fees:** These fees are incurred when one of your customers reaches out to their bank to dispute a charge you made on their credit card. This will happen, so be prepared by knowing what fees you should expect and how a provider will handle it. A typical cost will be about \$15.

**NSF / Non-Sufficient Funds Fee:** If for any reason you don't have enough funds in your bank account to cover merchant expenses you may be charged a "Non-Sufficient Funds" fee.

**IRS Report Fees:** Fees charged for reporting transaction information to the IRS (1099-K).

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## Fees You Should Never Have to Pay

The fees above are every fee you may or may not run into while processing credit cards. Some of them are fees you will have to pay no matter what provider you're with and some of them are easily avoidable. The fees outlined below are the ones that, if you're with the right provider, **you will never have to pay**. These are the same fees, however, that merchant services providers will try to hide the best they can. Be sure to specifically look out for these fees or ask about them before you sign up with a provider.

“The fees outlined below are the ones that, if you're with the right provider, **you will never have to pay.**”



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**Early Termination Fees:** This fee is charged when a merchant terminates their contract with a merchant services provider early. Some are fixed termination fees and others are variable termination fees which can be costly. If you choose to go with a provider that requires a contract, be sure you know what their termination or cancellation fees are before you sign anything. You'll likely need to pay them later because providers who provide quality service do not lock you into contract. However, many providers are focusing on service and offering “No Contract” and “No Termination Fees”.

**Setup Fees:** Seriously? Unless your business is setting up 20+ machines and needs assistance, you should not be paying a setup fee. These days, you can purchase new equipment that is sent to you activated and ready to go or switch your machines provider with a phone call and just a few seconds. More and more providers are doing away with this fee, but keep your eyes peeled for it.

**Annual Fees:** Some providers charge annual fees as a way to lock down more revenue from a merchant's account. Any fee with a vague description, such as "Annual Fee" should be avoided at all costs. While some providers will have legitimate costs associated with your account they need covered, others will come up with flimsy answers while they attempt to mask the fact this is just another way for them to make money off of you.

**Monthly Minimum Fees:** Since many providers charge based on transaction volume, some will charge a fee if you do not reach the agreed monthly minimum transaction volume. While not uncommon, this fee is also easily avoidable by switching to a different provider.

**Statement Fees:** This fee averages \$10 - \$15 and is charged by some merchants, to cover printing and mailing cost for credit card statements. However, if you receive your statements electronically these statements are completely unnecessary and should be removed.

**Batch Fee:** This fee can be charged to a merchant whenever the merchant "settles" their terminal. Settling a terminal, also known as "batching", is when a merchant sends their completed transactions for the day to their acquiring bank for payment. Batching out is something you are required to do in order to deposit the money you've transacted into the right accounts and therefore should not be an additional fee you are charged.

**Reprogramming Fee:** Some providers will charge you a fee to reprogram a terminal. These fees are pure profit for the provider and should be something that you shouldn't be charged or you should get waived.

**Next Day Funding Fee:** While rare, this fee will sometimes show up by a provider if you qualify for next day funding. However, there are no fees associated with receiving next day funding and you should not be charged for this service.

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**Customer Service Fee:** This fee is extremely rare and will hardly ever be seen. However, some companies charge this for access to their customer service. If you do see this fee - run.

**EBT Fee:** Merchants who accept EBT or Electronic Benefit Transfer are sometimes charged fees for access to the service. Any fees labeled as this are pure profit for a provider and should never be something you have to pay.



## What Are Markups?

Markups are where many merchant services providers make the majority of their money. They charge a percentage markup on top of interchange. This allows them to make variable profitability off of your business. Meaning, the more money you make, the more money they charge you, and the more money they make. Markups vary between providers and are often increased without merchants being notified. These markups can be decided by your transactional volume, industry type, and numerous other variables.

Some markups will result in fees for mid-qualified and nonqualified cards: Many unique cards such as smaller brands or reward cards will generate higher fees. It's important to note that any additional markups on top of interchange are avoidable. There are providers who simply pass the direct cost from the credit card associations - removing variable profitability off of your business out of the equation. You work hard for your money and you should be with a provider who lets you keep it.

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## Understanding Contracts

There are some merchant services providers out there who still require merchants to sign lengthy contracts. However, in today's customer service renaissance, contracts are rarer than they used to be and easily avoidable. If a provider requires you to sign a contract, it's probably because they assume you will want to leave them at some point. Think about it. If they are confident they are the right fit for your business and plan to treat you fairly, why would they need a contract to keep you around?

The answer is they wouldn't. Contracts typically outline hefty cancellation fees and monthly minimums fees. As we explained earlier, these fees are wholly unnecessary and are simply used as a way for the provider to make more money off of you and your business. If a provider requires you to sign a contract in order to process with them, you should keep looking.

## Parties Involved in Charging Fees

This is an industry of parties and middlemen. Now that you understand the fees, let's quickly run through the parties involved.

**Credit Card Associations:** The companies that create the credit cards, set the rules, and control the standards: Visa, MasterCard, and American Express. Any fees set by them are unavoidable.

**Credit Card Issuing Banks:** Financial institutions that issue the credit cards: i.e. Chase, Bank of America, Citi, and Wells Fargo.

**Credit Card Processors aka Acquiring Banks aka Acquirers:** These companies act as the messengers between merchants and credit card associations.

**Merchant Account Providers:** These are companies that manage the processing of credit card and offer merchant services. This is usually done through the help of an acquirer.

**Payment Gateways:** These are online technologies that protect and transfer transactions to an acquirer.

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## Understanding the Services and Products That Are Available to You...

It's important that you understand exactly what products and services a provider will be able to offer you before you make any decisions. A provider might seem perfect on paper just to find out that they don't offer the processing solution you need.

Look for a provider that offers user-friendly online interface, mobile processing capabilities, and personal support (so you can talk to a real live person!). You should also ask about online analytics, reporting tools, and access to previous report histories so that you can track all your transactions. Listed below are common processing solutions you should make sure are available to you.

**EMV / Smart Terminal:** A brand new terminal that's EMV compatible in order to accept the required chip card technology and supports contactless NFC payments, such as Apple Pay. This can run through a phone line or Ethernet.

**Virtual Terminal:** An online terminal where you can key in or swipe transactions, set up recurring billing, re-invoice the same customers and more without having to re-enter their card information.

**Mobile Reader:** A payment solution that plugs into the earjack of a smartphone or tablet, where a customer can sign right within the app and receipts can be emailed.

**Online Shopping Cart:** A solution that allows your customer to pay with credit / debit cards through your online store and is secured through a payment gateway.

**Integrations:** Depending on your equipment, merchant providers may be able to run a download on your current terminal, or integrate within your current POS system. Saving you thousands on processing without incurring new hardware costs.

## What You Should Require From Your Merchant Processor

**Transparency:** Merchant services providers often play a game of smoke and mirrors when it comes to dealing with merchants and their businesses. This allows them to sneak hidden fees into your statements and get by on shoddy service. By demanding your provider be transparent with what services they offer and what fees you will be charged, you can run your business as efficiently as possible and at a cost that is fair. Transparency also means that if you have any questions at all about your merchant bill, your provider should be happy to answer them with complete honesty.

**Simplicity:** Merchant service providers have historically made their services convoluted and difficult to understand on purpose. The reality is, merchant services is not nearly as complicated as merchants have been lead to believe. Merchant services providers should strive to make processing as simple as possible and educate you throughout the process so you are empowered to make processing decisions on your own.

**Amazing Customer Service:** Don't forget that you are the customer and the boss. When it comes to service, merchant services providers often come up short. The reason for this is providers have historically been offered minimal service, if any, leading merchants to not expect it and therefore not demand it. However, there are some merchant services providers out there that have upped their game when it comes to service and treat it as a pillar of their business. The days of relying on 1-800 numbers are gone so you should demand more.

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## A New Breed of Merchant Services

It might seem impossible to find a merchant services provider who is all of the things we've outlined above AND works for your business. That's because for the past 30 years merchant services has stayed exactly the same. Since merchant services began, the industry has been a black box that relies on markups, hidden fees, and contracts that handcuff merchants to it all.

After years of working in the merchant services industry, we realized something was seriously wrong. Merchant services providers were cheating business owners out of their hard earned profits by adding markups and hidden fees.

Our goal at Fattmerchant is to save businesses from greedy payment processors by eliminating these costly markups and hidden fees. We give businesses access to the true, direct cost of payment processing. Our flat-rate, month-to-month, no strings attached, completely transparent system is just the change this industry needs...

## About Fattmerchant

Fattmerchant is an integrated payment technology platform that revolutionizes the payment processing experience for business owners through real-time data analytics, transparent subscription pricing, and award-winning customer support. Fattmerchant members enjoy all of these benefits with no hidden fees, no contracts, and unlimited processing.

Call us any time at 1-855-550-3288 or [click here](#) to set up time with one of our expert payment consultants.

