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Processors Are Playing It Safe

By Curtis Kleinman

As an agent who offers a dozen payment processing solutions, I'm seeing radical changes among my banking partners. Bankers are putting "high-risk" marketers under heavier scrutiny when they apply for merchant accounts.

The standard paperwork required to apply for a merchant account includes copies of bank statements from the last three months, a copy of the owner's driver's license, a copy of the business license, a voided check, and an IRS SS-4 or W-9. Most merchants can apply for approximately twice their average monthly bank balance as their requested monthly processing volume.

If your corporate bank account has a minimal balance or was established in the last 90 days, you can expect to provide additional paperwork. Asking for excess processing volume can also trigger additional paperwork. Many merchants anticipate processing much more than they can actually sell, and that optimism causes them to apply for too high a processing volume.

If you have an existing, established company, you can use its paperwork to aid your cause, showing experience to establish credibility. Providing a cross-corporate guarantee will help your approval for payment processing.

Additional paperwork can include current financial statements or balance sheets, income or profit-and-loss statements, personal or corporate tax returns, and personal bank statements.

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Other supporting documents you may wish to have handy include marketing materials, telemarketing scripts, utility bills, trade references, testimonial disclosures, and release forms.

Many processors have turned their backs on risk-free trials and negative-option continuity offers.

Rotate the balance of the account you use to apply for a merchant account by paying for as many costs from it as possible. Payment processors would rather see a monthly average of $38,000 with proof of activity than $50,000 that just sits there, untouched.

The Safest of Sales

Whether or not they are in your business' wheelhouse, payment processors tend to favor low-risk transactions. These include straight sales, in which a marketer offers a one-time-only purchase and charges the customer accordingly. Knowing the consumer won't be charged again and again, and no additional items will be shipped or purchased, gives processors the confidence that they will have minimal trouble keeping chargebacks and returns down.

Easy payments are also low-risk. These are purchases in which the total retail price is broken down into multiple equal payments, often paid monthly, until the balance is paid off. Easy payment plans allow consumers to manage their money by making smaller, more affordable payments, and once they've made them all, they are done paying.

Straight-sale and easy-payment offers typically require only the standard paperwork from the merchant applying. They also carry the lowest card-not-present (CNP) rates, with a net effective rate of 3.5 percent to 4.25 percent. These offers are good for blenders, cleaning products, cookware, exercise equipment, and other products.

Riskier Business

Many processors have turned their backs on risk-free trials and negative-option continuity offers. Others will accept 30-day, risk-free trials, but won't touch a 14-day trial, which barely gives the consumer enough time to experience the benefits of the purchase before being rebilled. Payment processors that accept risk-free trials will want to see a successful track record of risk-free trials, too; having a big bank account and good credit may not be enough.

Several payment processors are pushing merchants to use subscription offers instead of continuity programs. The subscription model bills the consumer automatically for a set period of time, usually cutting off after 12 months, whereas a continuity program bills a customer's credit card on a regular basis until the consumer cancels the product or service.

Higher-risk transactions usually require additional paperwork depending on the marketer's experience and reputation. They can also carry higher rates;—rates on risk-free trials, for example, are well above 4.25 percent for the most basic credit cards due to high chargebacks, return rates, and other risks. Some marketers now pay a net effective rate of 7 percent to 10 percent just to ensure that they can continue to accept customer payments. Skin care products, ingestibles, and membership clubs are the most common items sold via risk-free trial.

It is now more important than ever to choose the right payment processor. Where you should apply and the paperwork you'll need depends primarily on a combination of your marketing background, funding, and the billing system you offer. Consider these factors carefully before you pick a payment processor that isn't comfortable with your business model.