



Beware of Credit Card Processing Service Solicitations

From the Office of Minnesota Attorney General Keith Ellison

Small businesses are often inundated with solicitations from credit card processing companies. The credit card processing sellers, sometimes in person and sometimes over the phone, offer to save the business money on credit card processing fees. Some of these sellers, however, lock their customers into expensive, long-term contracts and do not provide the promised rates or service.

What is Credit Card Processing?

Credit card processors are intermediaries between credit and debit card companies and businesses that accept credit and debit card payments from their customers. Businesses that accept credit or debit cards as payment for goods or services must use a processor to process and deposit the payments into the business's bank account.

Businesses pay for credit card processing through fees charged by the processor and credit card companies, which usually include a "discount rate" that is a percentage of each sale and a "transaction fee" that is a fixed amount charged every time a customer swipes his or her card. Most small businesses sign up for credit card processing through service sellers who service the processing account.

Some Credit Card Processing Sellers Lock Businesses into Expensive Long-Term Equipment Leases

Some credit card processing sellers attempt to sign businesses up with third-party companies that lease credit card swiping equipment, also called terminals. Equipment lease agreements are typically several years long and contain hefty early-cancellation fees. Some businesses have been duped into long-term equipment leases when they could have purchased the same equipment for far less money.

Chip Card Payment Acceptance Doesn't Necessarily Mean You Need New Equipment

Because the credit card industry is moving away from magnetic strip technology to cards with chips, some small businesses may need new terminals that can accept chip cards. Some credit card processing sellers use this technology change to pressure small businesses into signing new processing contracts. Before agreeing to enter into another processing contract, check with your current processor to determine if you need new equipment. If you do need new equipment, you should shop around and not feel pressured to sign up with the first solicitor that calls you.

Before you Sign a Credit Card Processing Contract

If you are considering an offer for credit card processing services, you should consider all of the following before signing a credit card processing or equipment leasing contract:

- 1. Read the fine print.** Many credit card processing contracts contain dozens of pages of fine print terms and conditions that affect your credit card processing costs. Make sure to review all pages in a contract before signing it.
- 2. Beware of pushy sales tactics.** Credit card processing sellers may try to get you to sign a processing agreement before you have had a chance to read all of the fine print. Don't be rushed into signing a contract before you have had time to review it. Ask to keep the contract for a few days so you can review all the terms and conditions before you sign it. A company that uses high-pressure sales tactics, like telling you that a quoted price is only available that day, may not be one you want to do business with.

3. **Review the company's reputation online.** Before signing up with a credit card processing seller, review what other businesses have to say about the seller on the Internet. The Better Business Bureau provides ratings for credit card processing sellers and can indicate which processing sellers other businesses have had trouble with.
4. **Negotiate processing fees and penalty provisions.** Although interchange fees are set by credit card companies, the markup added on by credit card processing sellers may be negotiable. Penalty provisions like early-cancellation fees are often also negotiable. There are many credit card processing sellers—use the competition to negotiate the lowest fees for your business.
5. **Get oral promises in writing.** Make sure that all terms offered by a credit card processing seller are stated in the contract. If the seller promises service features not contained in the contract, ask that the feature be put in writing on the contract. Some processing contracts do not disclose how long a business's funds will be held. If the settlement time is important to you, have it written in the contract.
6. **Consider ramifications of personal guaranties.** Some credit card processing sellers request that business owners sign a personal guaranty, which provides that if the business owes more to the credit card processor than can be paid by the business or the business closes, the owner will be personally liable to cover the debt. Some credit card processors do not require personal guaranties, so consider whether you want to sign one when signing up for credit card processing.
7. **Be aware of any early-cancellation fee.** Some credit card processing contracts lock businesses into multi-year agreements with large early-cancellation fees. Many credit card processing sellers do not charge early-cancellation fees, so it pays to shop around.
8. **When cancelling, do so before the contract auto-renews.** Many long-term credit card processing contracts contain narrow 60-day windows in which to cancel—requiring no more than 90 days' but not less than 30 days' notice to cancel. Cancelling the contract too early or too late can result in an automatic 1-year contract renewal.
9. **Review your monthly account statements.** After signing up for credit card processing services, be sure to review your processing statement every month to ensure you are receiving the rates you negotiated.

To report problems with a credit card processing company, you may contact the Minnesota Attorney General's Office or the Federal Trade Commission as follows:

Office of Minnesota Attorney General

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445 Minnesota Street, Suite 1400

St. Paul, MN 55101

(651) 296-3353 (Twin Cities Calling Area)

(800) 657-3787 (Outside the Twin Cities)

www.ag.state.mn.us

Federal Trade Commission

Consumer Response Center

600 Pennsylvania Avenue NW

Washington, DC 20580

Toll-free helpline: (877) 382-4357

www.ftccomplaintassistant.gov