



PAYMENT PROCESSING

Do you truly understand?

A Payment Processing Primer

For a business owner, payment processing is one of those aspects of the business that you shouldn't have to worry about. It's not your expertise and it's not one of the things you love about your business. However, since payment processing *discount rates* can range from 1% to 15% of revenues, it is very important to your bottom line that you choose a payment processor that fits your needs and reduces your overall processing costs as much as possible, and makes your money available to you as soon as possible.

Types of Payments

There are 5 major ways you can collect online payments. They are:

- Credit cards (Domestic and International)
- ACH or Direct Debit from a checking account
- Charge to Mobile Phone
- Cash (It surprises most people that your company can easily accept cash for online payments. More on this later)
- Other Alternatives (Charge to Home Phone or 900#)

Later, we'll explain each of these in a little more detail. First, let's look at how payment processing works.

How Payment Processing Works

Because of regulation, the process is actually extraordinarily complex. The good news is, you don't need to understand most of it. Here are the simple parts of payment processing you should understand.

Issuing Bank

Your customer has a credit card. It has been issued by a bank such as Chase, Wells Fargo, Citibank, etc. That *Issuing Bank* guarantees that wherever the credit card is used, that the merchant will get paid. The issuing bank then collects from the user.

MasterCard and Other Associations

A credit card might say MasterCard, Discover, VISA or another name on it. VISA, MasterCard and the others are just *associations* that banks belong to. The association ensures that its member banks, and the merchants accepting their card, are in compliance with their standards and that payment flows smoothly when charges are made on a credit card.

How Payment Processing Works (cont.)

Merchant Bank

The *Merchant Bank* is the bank that you the merchant deal with. Similar to the way the issuing bank ensures the customer's credit worthiness, the Merchant Bank ensures your credit worthiness. Obviously, the ability to charge people's credit cards is a very powerful position and they must guarantee that you are a legitimate business who will deliver the purchased goods. If you don't, they are on the hook to return the money. If the bank grants you the right to charge people's credit cards, they give you a *merchant account*.

Merchant Bank's Processing Arm

Sometimes the Merchant bank may also have a payment processing arm, where you can apply for a merchant account. However, these banks typically only deal directly with large, low-risk entities. High Risk businesses like dating sites don't generally fall into this category. If they will take a high risk business, the business still may find them too confusing and may find it is easier to deal directly with a *Payment Processor*.

Payment Processor

This is a company that is designed solely to help you get a merchant account from the *Merchant Bank* and then process your payments and give you your money, (after taking their fee off the top.) They will help you get a merchant account from the association like VISA and you will be known as the *Merchant of Record*.

Third Party Processor

Sometimes you are too high risk for any bank to make you the *Merchant of Record*. You may be too small, too new or in a very high risk business like any site with nudity. When this occurs you may have to go to a *Third Party Processor*. In this case, they are the merchant of record. The bad news here is that they are much more expensive than if you were the merchant of record. The good news is that they are full-service and handle everything including collections, *chargebacks*, refunds and payment customer service calls, so if you are a small operation, they take a lot of problems off your hands.

eWallet or eMoney Institutions

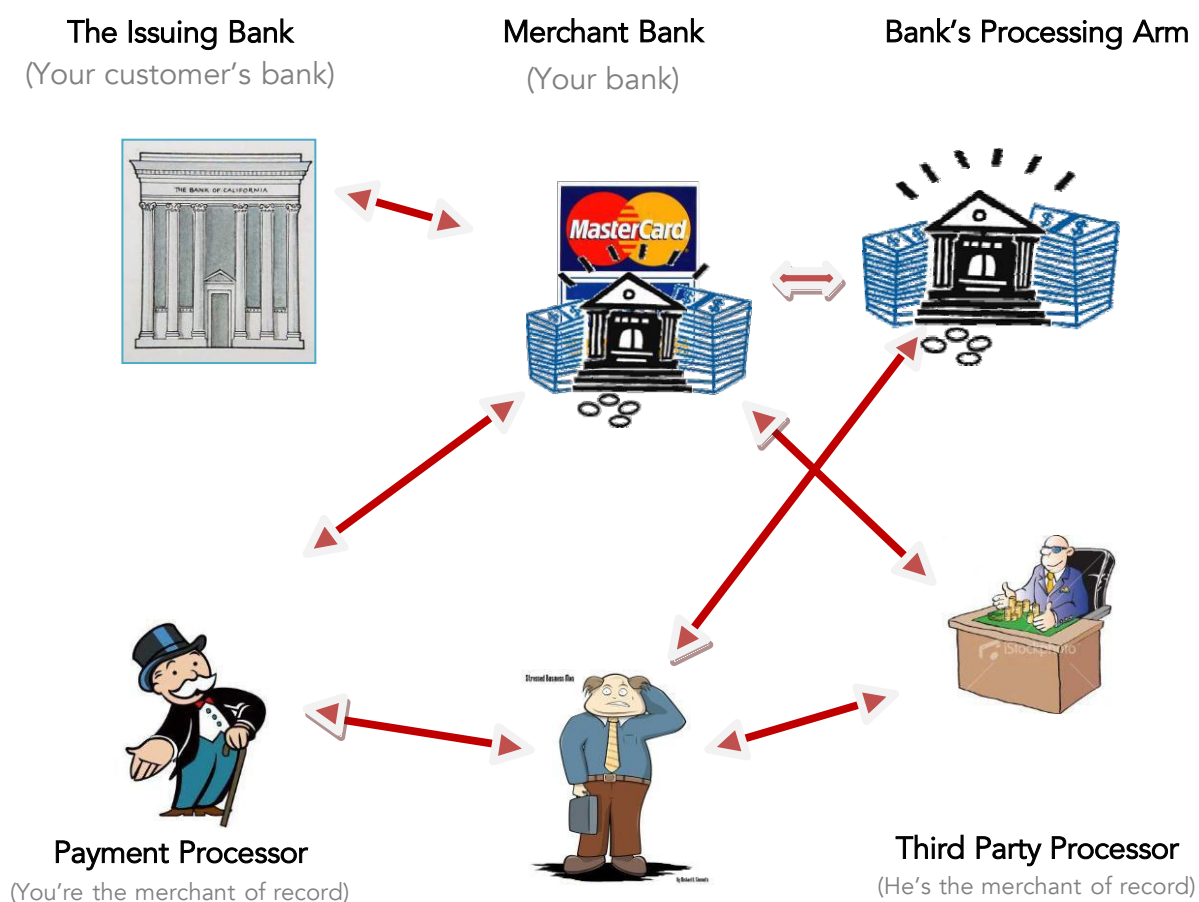
These are other ways to collect money that do not involve the traditional process. Examples are eMONEco, PayPal, and Click-to-Buy. These do not typically offer a full array of services, so they are usually a supplement to your current payment processor. However, many consumers demand them. Because of this, many payment processors now include PayPal as part of their package.

How Payment Processing Works (cont.)

Alternative Payment Providers

Examples include eMONEco, PaybyCash and UKash. These are institutions that allow consumers to go to a retail location and pay cash for a prepaid debit card which can then be used on your site. Since estimates indicate that 40% of the population doesn't have a credit card with room on it, this is a great supplement to your normal payment processing. There are also alternative payment processors that just offer mobile payments or charge to 900 numbers. Some traditional payment processors have incorporated these alternative services or you can get them on your own.

Payment Processing Diagram



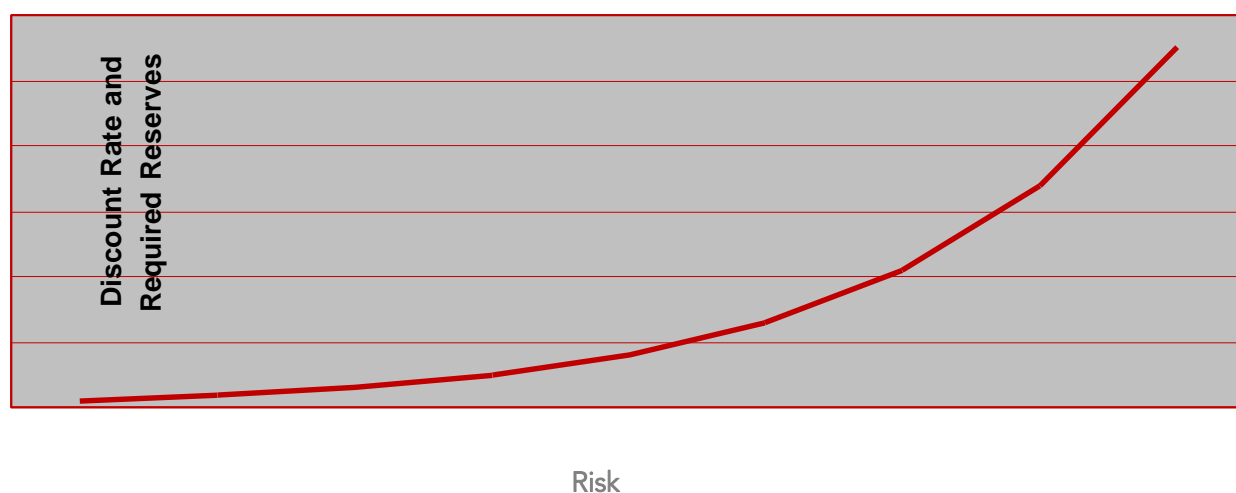
Understanding Risk

Risk is everything in payment processing. The higher your risk, the higher your *discount rate* and the greater the reserves you may have to allow the credit card processor to hold. Risk in this industry is simply the chances that the person who bought the product will call their issuing bank and ask for their money back. The issuing bank will demand this money from the merchant bank and the merchant bank will demand it from you, (if you are still in business.) This is called a *Chargeback*. If the merchant bank can't collect from you or if you can't show that it was a legitimate charge, they are on the hook and this is their risk.

Factors that affect risk are:

- **Card Not Present (CNP)** – All online transactions are CNP.
- **Dating Industry** – The dating industry is higher risk than some.
- **Adult Industry** – Considered one of the highest risk businesses.
- **Age of Business** – The older your business, the lower the risk.
- **Annual Revenues** – The greater your revenues, the lower your risk.
- **Size of Transactions** – The greater the transaction size, the higher your risk.
- **Chargeback History** – Once your merchant account has been granted, your chargeback history will be watched. If it is higher than they expected, they can increase you fees. If it is lower, you can negotiate to get your fees decreased.

The Cost of Risk



Choosing the Right Payment Processor

When looking for a payment processor you should be asking the following questions:

Do they accept dating, gaming and/or adult sites?

Many do not.

Will you qualify for a merchant account?

They should be able to give you some sense of this before you fill out the app.

Are They PCI Compliant?

This is VISA's standard. If they are not PCI Compliant, don't deal with them.

Does the Bank Pay You Directly?

If you are the merchant of record, you should be paid directly. The money should not go through the processor unless they are the merchant of record.

How many banks do they represent?

A processor which represents multiple banks may be able to offer you more choices and get you a better deal.

Who owns the data?

Typically, if you are the merchant of record, you own the customer data. If you use a third party processor, they own the data. This is important because if you decide to switch processors down the road you are going to want that data.

How much Customer Service assistance do you need?

Some companies offer full customer service to your consumers on billing issues. They charge for this. Some processors do not offer this additional service, but are less expensive. If you are a small operation, you are going to want a processor that will handle this for you.

What method of payments do they accept?

Almost everybody accepts the major credit cards. However, you are also likely going to want to accept direct debit from checking accounts as well as mobile phone charging and cash payments. If your processor doesn't accept these, there are *Alternative Providers* that offer these ala Carte.

What currencies do they accept and settle in?

Most settle in US and Canadian Dollars plus some others. If you are based in another country, make sure they offer your currency as well.

Choosing the Right Payment Processor (cont.)

What kind of risk management do they offer?

One of the best ways to prevent *Chargebacks* is not to accept payment from high risk individuals. A good payment processor should help you decide who not to accept payments from, thus lowering your risk. They can do this by assigning risk scores and keeping a database of “blackballed” customers. If they don’t offer risk management, go somewhere else.

Do they offer customized scrubbing?

This simply means that when they are assigning risk scores and deciding who not to accept payments from, you get input into this process.

Can you set your own refund policies?

The easier it is for a consumer to get a refund, the less likely they are to chargeback. Balancing how easily you give refunds with the number of chargebacks that occur, will maximize your revenue.

What is their discount rate?

This is simply what the payment processor gets for his services, expressed as a percentage. It is typically 3% to 15% of the charge depending on how much service the processor provides, who is the merchant of record, your risk score and your ability to negotiate.

What are their setup fees?

Some payment processors have setup fees. Some do not.

When do you get paid, also known as settlement?

Depending on your size you can get paid up to once per day or as little as once every 2 weeks or more.

What is it Going to Cost Me?

Total costs vary widely so it's good to talk to a number of processors. Understand that rates are negotiable both at the time of signing the contract as well as down the road once your track record has been established.

Discount rate: 2% to 15% of sale

Varies based on services provided, merchant of record and your risk score.

Transaction fee: \$0.10 to 0.50 per sale

This is on top of the discount rate.

Set up fees: \$0 - \$1500

What you pay when you sign up with the payment processor.

Reserves: 5-15% of monthly revenues

How much the payment processor is going to hold back from you just in case you get too many charge-backs. After 6 months to a year of history, reserves are up for re-evaluation.

High Risk Reg. Fee with Visa and MC (\$1500)

If you have nudity on your site, this is a standard fee.

Finally, remember this. **Everything is Negotiable**, particularly in this industry. Negotiate the best deal you can up front. Then keep in mind you can renegotiate again after you have 6 months to a year of history, which can be good or bad, know your business!

A Few Final Thoughts

Talk to three (3) to four (4) different processors and choose the one that is right for you. The least expensive may not be the best. You may need services that the low-cost provider doesn't offer, that if you don't have, may end up costing you more in the long run.

For further information, JBD Consulting, LLC can be of assistance.

Anatomy of Merchant Payment

Traditional Method

Payment Processing

Settlement and Funding

Merchant settlement and funding (how the merchant gets paid) is easily understood by the following transaction example workflow:

1. A merchant, Mr. Frank, deposits a "settlement batch" with his Acquiring Bank's "Front End". A customer, John Doe, has a \$5,000 purchase included in this batch file, which is gathered and sent to the bank at the end of every day.
2. The Acquiring Bank's "Front End" sifts through this information, and passes on the captured authorizations (successful payments to the merchant) to the Acquiring Bank's "Back End" for settlement.
3. The "Back-End" converts this settlement information into ACH (Automated Clearing House) files, and sends them to the Acquiring Bank.
4. The Acquiring Bank funds the Merchant Account (AKA, the bank pays Mr. Frank what he's owed).
5. The Acquiring Bank passes on the settlement information to Mr. Doe's Issuing Bank for reimbursement. This information is transmitted over the "Interchange Network."
6. The Issuing Bank reimburses the Acquiring Bank.
7. The Issuing Bank posts the transaction of \$5,000 to John Doe's account, and sends him a monthly statement.
8. John Doe either pays the Issuing Bank \$5,000 within the allotted time period, or pays interest on his debt.

That is a rough outline for how credit card processing works! **"Now where is the money?"** The answer to this question is understood when you review the anatomy of a typical credit card transaction. This information is VERY IMPORTANT, and in fact, what we are about to reveal is not commonly understood by most; yet, and business accepting credit cards, via a merchant account, should have this basic knowledge.

The 4 Key Cost Components of a Transaction:

- Interchange Range: .05%-3.25%
- Dues & Assessments Range: .10% -- .13%
- Discount Rate Range: .01% -- 4% or more!
- Surcharges or Hidden Fees: Range: .10% -- unknown



Interchange Range: .05%-3.25%

- Makes up the largest component
- Has the greatest impact on your overall cost
- Is set by the networks (Visa, MasterCard and Discover)
- Is non-negotiable
- Sets the rules on how a transaction clears
- Is charged to the merchant
- Is paid to the issuing bank (the bank that issued consumers credit card)
- The Issuing Banks' cut (Profit)
- While it is the largest cost factor, it is manageable!
- Visa Interchange Rate Sheet
- MasterCard Interchange Rate Sheet
- Discover Interchange Rate Sheet
- American Express does not use interchange

Merchants that process a lot of phone/mail orders can easily reduce their interchange fees by .40% or more. Merchants that process a lot of Corporate, Business and Purchasing cards can easily reduce their interchange fees by .70% -- .80% or more.

In order to maintain the lowest cost, you must manage the largest expense. If your merchant account provider (Bank/Processors/ISO) says they have an interchange management program. Ask for details in writing of how it works and for references of merchants that have used it.

Dues & Assessments Range: .10% -- .13%

- Makes up the second largest component
- Has the second greatest impact on your overall cost
- Is set by the networks (Visa, MasterCard and Discover)
- Is non-negotiable
- Has nothing to do with how a transaction clears
- Is charged to the merchant
- Is paid to the networks (this is the part of the fee that Visa, MasterCard and Discover makes)
- Visa, MasterCard and Discover's cut
- It is not manageable
- The networks also collect a few very insignificant fees such as Risk, Zero Limit, NAUBA, etc. which have next to zero impact on the average merchant

Discount Rate Range: .01% -- 4% or more!

- Should be the smallest component, however, it usually makes up the largest component
- Is set by the processor or ISO
- Is negotiable and has nothing to do with how a transaction clears

- Is charged to the merchant
- Is kept by the processor and or ISO
- Processor and or ISO's cut

Unlike Interchange and/or Dues & Assessments that have a set pricing, Discount is the part of the transaction that is anything goes. The less the merchant understands the more they will pay. There is no limit/cap on the fees the merchant account provider can charge. Nor does the processor have to disclose their discount rate which makes it easier for them to charge anything they want (the old saying goes, "what the market can take"). This is what the merchant can handle.

Surcharges or Hidden Fees Range: .10% -- unknown

Merchant Account Providers can use several deceptive billing tactics to charge .10% and up to an unknown amount. How do you get an unknown? When Merchant Account Providers leave out the transaction volume on the downgrades making it impossible to calculate the downgrade surcharge rate. This makes it an unknown fee, which we can only assume is the worst of them all.

The most common questions that come up when picking a payment processor concern fees:

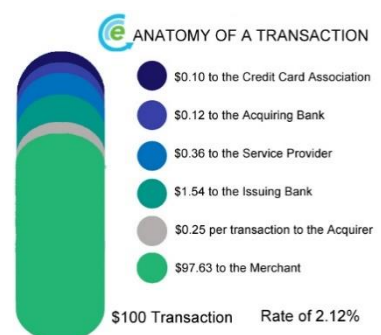
- How much of each transaction does the processor take?
- Where does that money go?
- What makes up the rate?

In the spirit of transparency, and because most financial institutions, let alone merchants or consumers, know where the card processing fees go, we created a simple visual breakdown of merchant processor fees based on a \$100 purchase value at a hypothetical rate of 2.12%. The 2.12% rate is made up of the sum of the rate of the Credit Card Association (.10%), the Acquirer (.12%), the Service Provider (.36%) and the Issuing Bank (1.54%). For the example analysis, we will add a \$0.25 per transaction fee, as if an acquirer who has "given POS equipment to the merchant at a discounted rate or free, or is gaining gateway profit in the fee schedule."

The diagram to the right illustrates how a rate of 2.12% plus a \$0.25 per transaction fee applies to a \$100 transaction.

At the time of a \$100 transaction:

- \$0.10 to the Credit Card Association
- \$0.12 to the Acquiring Bank
- \$0.36 to the Service Provider
- \$1.54 goes to the Issuing Bank
- \$0.25 to the Acquiring Bank for POS or Gateway
- \$97.63 to the Merchant for goods or services purchased by the consumer



Once the fees are extracted from the transaction the remaining amount of the transaction is deposited into the merchant's account. Of course there are still complex elements that play a role in every transaction, but this is the most simple way to explain credit card fees without the confusing industry jargon that leaves so many scratching their head.

Now, as we look at the credit model, it is important to note that the issuing bank, that provides the cardholder with their credit cards, takes on the brunt of the responsibility for approving the cardholder, billing and collecting the owed funds from the cardholder. As such, the issuing bank typically receives the largest amount.

Special Note: *Often this share of the transaction is referred to broadly as the interchange fee, but that is not really fair to the issuing bank because many others impact what most view simply as interchange.*

The card network or card association governs the policies pertaining to their bank cards, monitor processing activity, and oversee the clearing and settlement of transactions.

The acquirer or acquiring bank solicits and underwrites and owns the merchant accounts. They provide technology and hardware, which enables the merchant to process the transaction.

The service provider is partnered with the acquirer to maintain the merchant account, handle support, manage payment processing, and build added-value technology on behalf of acquirers.

Special Note: *In the prepaid market this party is often referred to as the Program Manager and in the prepaid model, or "good-funds" model, the Program Manager may take on certain responsibilities of an Acquirer, Service Provider, Processor, ISO, and Issuer and as such, the share of the fees may differ and are typically not based on the value of the transaction but on a predefined simple transaction fee charged to the consumer.*

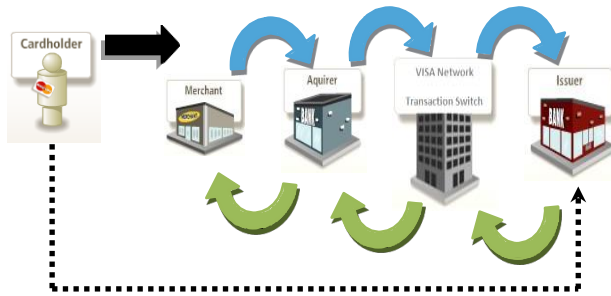
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JBD Consulting wants to educate merchants on the traditional method and then provide an honest traditional approach combined with a solid and secure non-traditional method via its relationship with eMONEco, Inc.

JBD Consulting's Unique Services

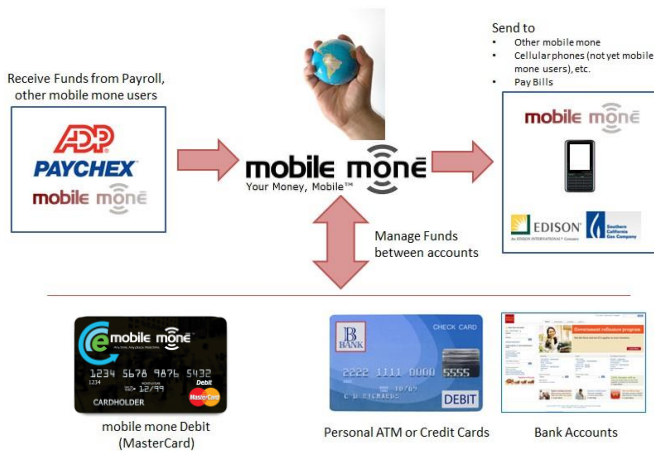
Traditional and Non-Traditional Payment Processing

Traditional Merchant Services



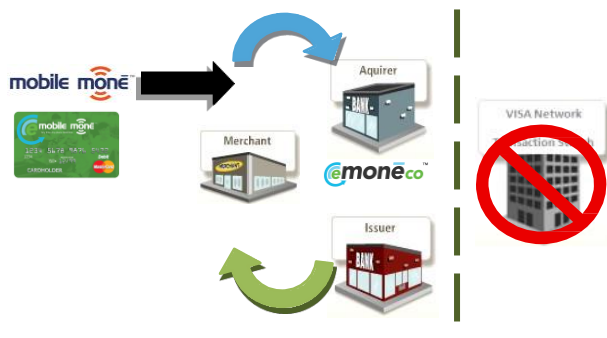
Merchant Account Rates	Industry Standards	eMONÉco
Interchange + Assessment	Interchange + Assessment	Interchange + Assessment
Merchant Account Rate	0.30% to 1.00%	0.10% to 0.75%
Retail Transaction Fee (Swiped)	\$0.20 to \$0.30	\$0.08 to \$0.18
Monthly Statement/Service Fee	\$8.00 to \$15.00	\$7.50 to \$9.50
Setup Fee	\$75.00 to \$175.00	Free
Programming Fee	\$50.00 to \$150.00	Free
Address Verification (AVS) Fee	\$0.05 to \$0.10	Free
Application Fee	\$75.00 to \$95.00	Free
Monthly Minimums	\$12.00 to \$25.00	Free
Settlement Period	2 to 5 Days	2 to 5 Days

mobile monē Card Services



- Save check writing fees
- Provide Direct Deposit for Employees
- Eliminate their need to frequent check cashing locations, remittance, etc.
- FDIC Insured Accounts to \$250,000
- Secure Transactions
- Immediate Remittance
- ACH Gateway and Processing (OPTIONAL)
 - No Software to Install
 - Pay less than traditional methods
 - Integrate with existing systems

mobile monē Merchant Services



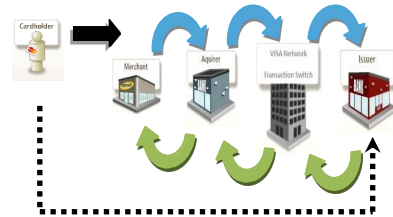
Merchant Account Rates	Industry Standards	eMONÉco
Interchange + Assessment	Interchange + Assessment	Interchange + Assessment
Merchant Account Rate	0.30% to 1.00%	0.00%
Retail Transaction Fee (eMONÉ)	\$0.20 to \$0.30	0.00%
Monthly Statement/Service Fee	\$8.00 to \$15.00	\$7.90
Setup Fee	\$75.00 to \$175.00	Free
Programming Fee	\$50.00 to \$150.00	Free
Address Verification (AVS) Fee	\$0.05 to \$0.10	Free
Application Fee	\$75.00 to \$95.00	Free
Monthly Minimums	\$12.00 to \$25.00	Free
Settlement Period	2 to 5 Days	Immediate

Settlement Time: Immediate

JBD Consulting's Unique Services Traditional versus Non-Traditional Payment Processing

ABC Office Products processes \$30,000 per month in traditional credit card processing, with an average transaction value of \$87.13. ABC Office Products received a 2.88% Discount Rate and a Gateway Transaction Fee of \$0.25 from its service provider, but was never given the behind the scenes details listed below:

- Card Association is receiving: .10%
- Acquiring Bank is receiving: .12%
- Processor is receiving: .36%
- Issuing Bank is receiving: 2.30%



TOTAL DISCOUNT RATE: 2.88% plus \$0.25 per Gateway Transaction

Based on this information, via the **“Traditional Merchant Services”** program, ABC Office Products is paying \$950.08 for accepting plastic payments. Additionally, the business is impacted by a three (3) days funds settlement delay, meaning items purchased on Monday, the company does not receive funds for Monday’s transactions until Friday morning.

ABC Office Products decided to switch to **eMONEco, Inc. as a service provider**, who will reduce its **“Traditional Merchant Services”** Discount Rate from 2.88%, \$0.25 Gateway Fee, and a three (3) days delayed settlement to a 2.51% Discount Rate, \$0.15 Gateway Fee, and a one (1) day funds settlement delay.

As such, ABC Office Products is now paying \$804.65 for accepting plastic payments. Additionally, the business reduces its funds settlement delay by two (2) days, meaning items purchased on Monday are deposited in the company’s account on Wednesday morning. The annual savings on just the card processing is \$1,745.16 and cash flow management has been improved by two (2) days.

Ideally, JBD Consulting has presented ABC Office Products with a **“Non-Traditional Merchant Services”** method that costs ABC Office Products a flat monthly rate of \$7.90 and delivers real-time funds settlement. As such, this method yields a monthly savings of \$942.18 and NO funds settlement delays.

This is an annual savings of \$11,306.16. Given the reality of its consumer base, ABC Office Products will benefit partially from both of the methods provided by JBD Consulting, LLC.

