

Glossary

ACH: Automated Clearing House; an electronic payment network most commonly associated with payroll direct deposit, recurring payments, and is the network most commonly used to settle merchant card accounts. ACH is also the most common way NAB makes and collects payment to and from our Sales Partners. Those not participating in the ACH option will be paid by check and need to make alternate payment arrangements for funds due to NAB.

Acquirer: the company (typically a federally insured financial institution) responsible for connecting merchants to Visa and MasterCard authorization and settlement systems.

Acquirers are one of only two entities (the other being merchant banks) that are the actual signatories to merchant agreements. To sell bankcard services, you must have a signed agreement with an acquirer and acquirer-sponsored ISO (like NAB).

Assessments: fee paid to MasterCard and VISA for marketing and administrative costs. This is a percentage of the sales passed through interchange

AVS: Address Verification System (AVS) is an optional service that helps protect against fraud by verifying the identity of the person claiming to own the credit card. The system will check the billing address of the credit card provided by the user with the address on file at the credit card company.

Authorization: an electronic exchange between a card-issuing bank and the merchant-acquiring bank, initiated through a POS terminal, confirming a cardholder has sufficient credit (or funds in a DDA if it is a pin-based debit transaction) to cover a pending transaction.

Back End: the transaction information gathered by the front end is processed for settlement, chargebacks, retrievals and statements. Example: Global Payments has one back end. First Data has 2 back ends, Omaha and Stratus.

Backbilling: a pricing structure where the qualified discount rate for the current month is detailed on that month's statement and downgrades, transaction fees, and monthly fees are billed on the following month's statement. In order to accurately analyze a backbilled merchant's pricing, two consecutive statements are required.

Basis Point: one one-hundredth of a percent; one basis point is 0.01% or 0.0001; 10 basis points would be 0.10% or 0.0010; 25 basis points would be 0.25% or 0.0025; 100 basis points would be 1.0% or 0.0100.

Batch: the merchant electronically sends their captured transactions to their acquiring bank for settlement. Batches may be opened and/or closed automatically or manually. Most terminals can be programmed to batch out automatically at a certain time each day. However, some merchants, such as those taking tips (like salons or restaurants), need to manually reconcile their tips and then manually batch their terminal to ensure accurate batches and the most advantageous cost associated with those transactions.

BIN: bank identification number; a numerical code assigned to each federally insured financial institution for the routing of transactions and other purposes. ISOs and MLSs board merchants using the BINs of their respective acquiring or merchant banks.

Bundled Rate: a discount rate is offered to the merchant that includes both the qualified discount rate and the transaction fee. A separate transaction fee is not billed to the merchant. The mid- and non-qual bumps are added to the bundled qualified rate as normal.

Buy Rate Program: Sales Partner receives 100% of the profit over their buy rate, which is generally higher than NAB's cost. In a Buy Rate program, not all items are paid out at 100% over cost; refer to Schedule B for complete details.

Card Not Present: card transactions (for example, Internet or MOTO purchases) for which the customer's card is not presented to the merchant at the POS. Interchange is set higher on these transactions because there is an increased risk with these types of transactions.

Card Type: refers to the brand of card – Visa, MasterCard, Discover, Amex and what type of card – consumer credit, business, check card, rewards, etc.

Charge Type: refers to the individual kind of card within each card type. The charge type also provides a pattern for downgrades. Some card type/charge types are only available for certain MCC/SIC codes (certain merchant industry types).

Chargeback: occurs when a cardholder's bank (the card issuer) reverses all or part of a card transaction, leaving the merchant financially liable for the payment and subject to penalties – unless it can be proven the merchant was not at fault. Chargebacks can be initiated by disgruntled customers or by cardholders' banks (due to procedural errors, for example). Chargebacks exceeding one percent (1%) of a merchant's monthly sales are considered excessive.

Check Cards: a card tied to a cardholder's DDA bearing the logo of Visa, MasterCard, or Discover. A PIN is not entered at the point of sale and the transaction is assessed through the Visa, MasterCard or Discover Interchange. The transaction does require a cardholder signature, similar to a credit card transaction.

Check Imager: a counter-top device used to scan images of checks, according to legal specifications, for electronic clearing and settlement.

CVV: Card Verification Value; a value encoded on the magnetic stripe of the card. CVV is used as a security feature for transactions in person (swiped retail transactions).

CVV2: Card Verification Value 2; a three or four digit number physically imprinted on the back of the card. CVV2 is used as a security feature, and often is mandatory, for card-not-present (MOTO/Internet) transactions. CVV2 data is not embedded in the magnetic stripe.

Daily Discount: for a merchant who does not have previous processing, their qualified discount rate is deducted from their batch sales total before their batch deposit is made. At the end of the month, the transaction fees and monthly fees are deducted from the merchant's DDA.

DBA: doing business as; the name under which a business is operating. The DBA name may or may not be the same as the corporate name.

DDA: demand deposit account; also known as a checking account.

Debit Cards: issued by financial institutions and tied to cardholders' DDAs. Sometimes referred to as online debit cards, these cards carry the logo of one or more debit network and require the input of cardholder's PIN at the point of sale.

Dial-Up: a traditional connection type; the terminal/software/POS system is connected to a dial phone line. To ensure uninterrupted service, NAB recommends the POS equipment be connected to a dedicated analog phone line, not shared with any other items and without call waiting or other options that could interrupt the connection.

Downgrade: when a transaction does not meet the qualifications for a particular level and it is assessed with an additional fee. For example, if a transaction that would normally be swiped is keyed, that transaction will downgrade and will be assessed accordingly.

EBT: electronic benefits transfer; commonly referred to as food stamp benefits. Merchant must coordinate with their local government office to get set up for EBT acceptance and provide their EBT certificate to NAB in order to accept EBT transactions.

Four Tier Pricing: a pricing structure offering four distinct tiers - one qualified rate for credit cards, one qualified rate for check cards, a mid-qual bump, and a non-qual bump.

Front End: The front-end is responsible for collecting card information in various forms (terminal, gateway, software) and processing it to conform to a specification the back-end can use. The front-end is a kind of interface between the user and the back-end, which allows merchant to request authorization for transactions. Example: Global Payments utilizes front end (Global East, Global Central and Vital). First Data utilizes (Omaha, North, Nashville, Memphis/Stratus, Atlanta/Buypass).

Gateway: in payment processing, any network that connects merchant POS terminals with transaction processing and settlement networks, such as the MasterCard and Visa settlement networks. Gateways can also provide related services, including transaction management and reporting. Gateways more commonly refer to an Internet Gateway, such as Authorize.Net, which allow merchants to set up shopping carts or accept transactions when the card is not present.

Interchange: the fee paid to the card-issuing bank by the card-acquiring (merchant) bank. It is the basic fee upon which all other acquiring and processing fees are added to come up with the merchant discount fee.

Interchange Plus Pricing: a pricing structure in which the interchange and dues/assessments are passed directly through to the merchant. Basis points are added for profit and a charge per transaction for authorization is added to cover the cost and secure profit. This structure is sometimes also referred to as cost-plus pricing. This type of pricing is usually used for larger volume merchants.

IP: internet protocol; refers to the connection type of merchant's point of sale set-up. Examples of IP connections are high-speed Internet connections, T1 lines, cable modems, DSL, etc. In order to be considered an IP merchant, the merchant must only use an IP connection. If an IP merchant's terminal

needs to be reprogrammed, the download must be performed on a dedicated analog phone line, not an IP line.

ISO: an independent sales organization that is registered with Visa and MasterCard to sell and process bankcard transactions or an independent sales organization that works with and does business under the name of such a registered ISO. ISOs rarely sell only bankcard services.

Merchant Bank: a bank that sponsors an acquirer into the MasterCard and Visa card systems. NAB's sponsoring banks are HSBC Bank USA and Wells Fargo.

Mid Qualified Discount Surcharge: discount rate and sometimes transaction fee charged in addition to the qualified discount rate for transactions that are key-entered, batched out within 24 hours of the transaction time, have AVS (Address Verification Service), and Order Number and reply to the Mail/Telephone Order prompt with an "Exact match;" sometimes referred to as a mid-qual bump. The mid-qualified surcharge is not assessed on MOTO/Internet merchants (as mid-qualified is considered the MOTO/Internet qualified discount rate).

MO/TO: mail order/telephone order; 100% keyed merchant environments.

MSP: member service provider; an ISO or other company registered with a Visa or MasterCard member financial institution to sell bankcard services.

Monthly Discount: for merchants who can supply at least one month of previous processing statements from the last three months, their full batch sales total will be deposited into their DDA. All discount, transaction, and monthly fees will be deducted at the end of the month from the merchant's DDA.

Monthly Minimum: a way to ensure the merchants pay a minimum amount in fees each month to cover costs from the provider to maintain the account and to create minimal profits. If a merchant's qualified fees do not equal or exceed the monthly minimum they will be charged up to the monthly minimum to satisfy their minimum fee requirements. In a three or four tier pricing structure, the qualified discount rate is used in calculating the monthly minimum. With NAB, a monthly minimum of \$25.00 is required for free equipment and most bonuses. For example, if a merchant usually processes \$10,000 in Visa/MasterCard volume and their qualified discount rate is 1.69%, the merchant would have paid \$169.00 in qualified discount rates. Because this is more than \$25.00, the merchant would not be billed any portion of the monthly minimum. If however the merchant processes \$1,000 in Visa/MasterCard volume and their qualified discount rate is 1.69%, the merchant would have paid \$16.90 in qualified discount rates. This means that the merchant did not reach their \$25.00 in monthly minimum and so would be assessed with an additional charge of \$8.10 to get the merchant up to \$25.00 in qualified discount rates. In an interchange plus pricing scenario, the basis points charged to the merchant are what count towards the monthly minimum.

Non-Qualified Discount Surcharge: discount rate and sometimes transaction fee charged in addition to the qualified discount rate for transactions that do not meet the qualified or mid-qualified requirements. Additionally, Visa/MasterCard/Discover business card transactions and key-entered foreign card transactions will always be charged the non-qualified rate.

PCI DSS: Payment Card Industry Data Security Standard; established for securing payment card information. Failure to adhere to the standard (by any party that handles card information, including merchants and ISOs) can result in substantial fines; often shortened to PCI.

PIN: personal identification number; used to process PIN-based debit transactions.

POS: point of sale; the place where retail sales occur and payment transactions are initiated; commonly used to describe POS systems (such as cash register systems) and/or computer software programs used for electronic payment processing (such as PC Charge).

Processor: the company that moves transactions on behalf of acquirers between merchants, banks, and the card networks.

Qualified Discount Rate: the percentage of the merchant's volume that is charged to process their transactions. The qualified rate is the best rate a merchant can receive per their merchant agreement. For a retail merchant, this will be a swiped consumer credit or check card transaction. For a MOTO or Internet merchant, this will be a keyed consumer credit or check card transaction using AVS, including an invoice number. For both retail and MOTO/Internet merchants, the transaction must be batched out within 24 hours of the time of the transaction.

QSR: quick serve restaurant; no signature required for transactions under \$25.00 for certain MCC/SICs. Please refer to the agent info center for additional information.

Retrieval Request: when a chargeback is initiated, the merchant's processing bank sends to the issuing bank additional information about the transaction. There is a fee of \$15.00 per Retrieval Request. The Retrieval Request fee is billed to the merchant regardless of the outcome of the chargeback.

Revenue Sharing Program: a compensation schedule that passes through merchant services costs to the Sales Partner. The Sales Partner prices the merchant above cost and profit is shared between the Sales Partner and NAB per the Schedule A. The Revenue Sharing Program is by far the most popular compensation plan offered by NAB.

Rewards Surcharge: additional discount rate charged for swiped rewards transactions. The default pricing for swiped rewards cards is mid-qual.

Sales Partner: the independent contractor that submits merchant account business to NAB and is compensated per their Schedule A.

Schedule A: the compensation plan offered to the Sales Partner; details costs of the services.

Settlement: The process by which members exchange financial data and value resulting from sales transactions, cash disbursements, or merchandise credits, which are ultimately billed to the cardholder's account.

Small Ticket: pricing available on the interchange for certain MCC/SICs when the average ticket is less than \$15.00. Please refer to the interchange and/or interchange compliance document for additional information.

Sub-agent: an independent contractor who signs with a Sales Partner or another sub-agent to sell NAB merchant services under that Sales Partner or Sub-agent. The Sales Partner has control of offering a compensation plan to the sub-agent and is their primary point of contact. The Sub-agent must be approved by NAB.

Surcharge Table: a mid-qual and non-qual bump grouping that can be selected for auto-fill in a merchant application. There are over 50 surcharge tables available in ELAP for merchants being boarded on Global.

Touch Tone Capture: allows the manual keyed entry and subsequent authorization of a credit card over a cellular or land-line telephone. With this method, a merchant typically imprints their customers card with an imprinter to create a customer receipt and merchant copy, then process the transaction instantaneously over the phone.

Transaction: a payment card sale or refund between the cardholder and merchant.

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