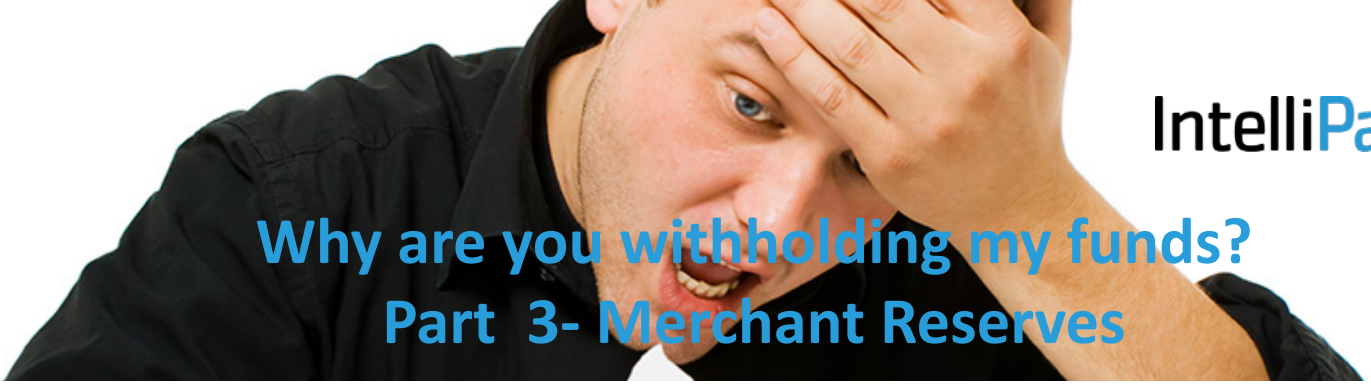

Why are you withholding my funds? Part 3- Merchant Reserves

We understand how business owners can be confused and frustrated when a certain amount of their proceeds is held back or reserved. We hope this article helps reduce that frustration. In a previous article, we looked at the three most common reasons merchant funds are held. This article looks at another way merchant funds can be held – a merchant account reserve.

Every transaction is a risk

Each transaction processed for your business represents a financial risk for your payment processor. So, a reserve is established as an escrow account to protect your payment processor from potential losses.

This reserve covers the cost of chargebacks, returns, and processing fees which fall to the payment processor for payment if your business cannot pay. The reserve can be an amount or a percentage of each month's credit card proceeds held in the reserve account until the account reaches a specific value.

However, the reserve account value and the time required to keep this amount in escrow can vary based on your company's risk assessment. The risk assessment is completed when you first apply for a merchant account and is one factor in determining the amount to be held in escrow. In addition, even after approval, a change in your business can result in the establishment of a reserve.

There are three types of reserve accounts

Upfront reserve

If your business is new and has no earnings history, you must pay a predetermined amount upfront to begin processing. Your payment processor will collect this when you sign your merchant account contract.

Here are three ways merchants can get the needed funds. Open a line of credit or take out a business loan. Transfer money from a different account or allow your processor to withhold all revenue (minus fees) until the reserve amount is met.

Accrual reserve

A predetermined amount of your sales transactions is held back to meet the reserve requirements set by the bank or payment processor that provided your merchant account. For example: if a $10,000 reserve is required, it will accrue at 10% of your credit card sales proceeds until the $10,000 is collected.

Rolling reserve

A rolling reserve is the most common type of reserve account. A rolling reserve holds a percentage of your

total credit card sales in a non-interest-bearing account. These funds are held for a predetermined time before the processor releases money to the merchant's bank account. For example, assume you have a 10% six-month rolling reserve.

That means ten percent of each month's sales proceeds are held in a reserve account for six months. Then, starting in the seventh month, your processor will release the amount from your first month's sales transactions. Then in the eighth month, the second month's reserve will be released, and so on. In this way, the processor will always have funds to draw from in any given month if your business lacks the cash flow to cover your processing fees.

Do all merchants need account reserves?
Only some merchants. Generally speaking, all high-risk merchants must maintain a reserve due to their risk factors. These risk factors include dependence on card-not-present transactions, risky product offerings, high sales volume, or high average ticket amount. High-risk merchants typically have a reserve account imposed. Let's look at some examples:

A business with a high processing volume but long lag times where a refund might be possible. Travel agencies are an excellent example since they collect the money for airline tickets, hotel reservations, car rentals, etc., before a scheduled trip. So, if a customer cancels a trip and is due a refund, the credit card processing company wants to know that your business will have the money to cover that expense.

A business with a monthly membership fee or annual subscription fee, their recurring billing generates high volume but often high return or chargeback numbers.
Any business with a bad business credit history.

Cannabis dispensaries are considered high risk due to their product offering.
It is always better to provide all the required information on your merchant account application and all supporting documentation for a complete and fair assessment of your business.

New and High-Risk Businesses
If you are a new or high-risk business considering accepting credit cards and opening a merchant account, we recommend you review your monthly sales and expenses to see if your business can survive without that cash flow. If not, you should only accept credit cards once your business is stable enough to qualify for a merchant account with no restrictions.

If you want to open a merchant account or have questions, the payment experts at IntelliPay stand ready to help you. You can reach us by clicking here or by calling 855-877-6632 or emailing sales@intellipay.com.

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