

A close-up photograph of a person's hands holding a yellow credit card and a smartphone. The background is blurred, showing bokeh light effects. The credit card has embossed numbers and a signature strip. The smartphone is dark-colored with a yellow stripe.

# Merchant Accounts: What You Should Know

A Guide for Small Businesses and Merchants  
Updated March 2026

IntelliPay<sup>®</sup>



## What Is a Merchant Account?

A merchant account is a type of business bank account that allows a merchant to accept and process electronic payment card transactions. It acts as an intermediary holding account where funds from card transactions are temporarily deposited before being transferred to the merchant's regular business bank account.

At its core, it is a relationship between your business and an acquiring bank (also called an acquirer). The acquirer collects card payment funds on your behalf and routes them into your designated business checking account after settlement.

Acquirers must be members of a card association or payment network. The two largest networks are Visa and Mastercard, though Discover and American Express operate their own networks as well.

*A merchant account is not a business checking account. You must have a separate business checking account designated to receive deposits from your card sales*

## Advantages of a Merchant Account

For any small business today, accepting card payments isn't a competitive advantage — it's a necessity. Cash represented just 14% of payments in 2024, while cards and digital wallets account for most spending across nearly every industry.

Many businesses start with a Payment Facilitator like Stripe or Square for the quick setup but operate as sub-merchants under someone else's master account — meaning less control over funds, higher flat-rate fees, and greater exposure to sudden account holds or terminations.

A dedicated merchant account changes that equation. The question is no longer if you should accept electronic payments, but how — and that structure matters more than most businesses realize. A dedicated merchant account delivers on two fronts that directly affect your bottom line: payment reach and cash flow speed.



## Access to Every Payment Channel Your Customers Use

A merchant account enables you to accept Visa, Mastercard, American Express, and Discover cards as well as digital wallets (Apple Pay, Google Pay), ACH/eCheck, and mobile payments — through a single integrated platform. Merchants who accept only cash or check now face a measurable conversion gap: customers who encounter payment friction often simply leave.

### Faster Cash Flow

Card and digital payments settle electronically — typically within 1–2 business days. That’s a meaningful difference compared to waiting 3–5 days for a check to clear or making daily cash runs to the bank. Faster settlement means more predictable cash flow, which makes planning, payroll, and vendor payments a lot easier to manage.

### Reduced Risk of Theft and Cash Handling Errors

Every dollar that moves electronically is a dollar you’re not counting by hand, storing on-site, or transporting to the bank. Accepting digital payments eliminates the security exposure that comes with cash — employee theft, robbery, and deposit errors along with the time cost of drawer reconciliation and manual deposit runs. For higher-volume businesses, that alone can justify the switch.

### Richer Transaction Data and Reporting

Every card and digital payment creates a structured record: date, time, amount, card type, location. That data flows directly into your reporting and accounting systems, making reconciliation, tax prep, and financial planning significantly easier. Unlike cash, there’s nothing to reconstruct at month-end. The audit trail is already there.

### Customer Convenience Drives Higher Average Tickets

Customers consistently spend more when paying by card than cash. Without the friction of counting bills or the psychological weight of handing over physical money, people spend more freely — and tap-to-pay and digital wallets make it even easier. Larger average transaction sizes aren’t a side effect of card acceptance, they’re a reliable pattern. Contactless payment is no longer a nice-to-have; customers expect it.

### Cost Management Through Compliant Fee Programs

A merchant account gives you access to surcharging, dual pricing, and convenience fee programs that can shift some or all processing costs to the cardholder compliantly, within Visa and Mastercard guidelines. For many small businesses, this brings net processing costs close to zero without sacrificing card acceptance or customer experience.

### Credibility and Professional Presentation

Accepting cards signals that your business is established and operationally sound. For service businesses, government contractors, and professional firms especially, it removes a layer of friction before the sale even starts, and builds the kind of quiet trust that keeps customers coming back.

*Businesses that accept cards and digital payments are not just keeping up with customer preferences — they are removing the friction points that cause customers to abandon a transaction or choose a competitor. Every payment method a customer cannot use is a potential lost sale.*

## How Some Small Businesses Accept Card Payments Today: The PayFac Model

Historically, every business that wanted to accept card payments had to apply for a dedicated merchant account with an acquiring bank, a process that could potentially take weeks if the application is incomplete or all the requested documentation is not provided.

However, today many small businesses start with a Payment Facilitator (PayFac) — platforms like Stripe or Square — because they can sign up in minutes and start accepting payments the same day.

### How it works:

A PayFac holds a master merchant account with an acquiring bank and onboards small businesses as sub-merchants underneath it. Their streamlined setup works because they handle underwriting on behalf of the acquiring bank quickly and with minimal friction upfront.

What most business owners don't realize is what happens after that initial setup. PayFacs perform a more thorough review of sub-merchant accounts once transaction volume and patterns are established. If something in that review raises a flag — even something routine, like higher volume due to a sale — the PayFac can freeze or hold funds without warning and without much explanation. There are well-documented cases of businesses losing access to thousands of dollars in settled funds for days or weeks, with limited recourse and no direct banking relationship to escalate through.

It's not a rare case. It's simply how PayFacs manage risk, and unfortunately it's something most small business owners only discover after it happens to them.

A dedicated merchant account operates differently. You have a direct relationship with your acquiring bank, your own underwriting on the front end, and far greater protection against arbitrary holds. The setup takes longer, but what you're buying is stability and control over your own money.

### What This Means for Your Business

- You do not have a direct relationship with an acquiring bank — your account is managed through the PayFac
- Your transactions flow through the PayFac's master Merchant ID (MID)
- Onboarding is faster and requires far less documentation than a traditional merchant account, but future reviews could result in funds being frozen or withheld
- Pricing is typically a flat rate or simplified fee schedule, making costs more predictable; however, instant funding, customization, and certain ACH transactions cost more
- The PayFac manages PCI DSS compliance, fraud monitoring, and chargeback handling on your behalf

The PayFac model works for new or very small businesses for a short time, since it removes the regulatory and compliance burden that would otherwise fall directly on the merchant.



## Traditional Merchant Accounts vs. Sub-Merchant Accounts Under a PayFac

Understanding the difference helps you choose the right setup for your business and plan for the long term.

	Traditional Merchant Account	Sub-Merchant Account (PayFac)
<b>Your own Merchant Id (MDD?)</b>	Yes- dedicated MID	No — operates under the PayFac's master MID
<b>Underwriting</b>	Full bank underwriting, days to weeks	Streamlined PayFac review — often minutes to hours; later detailed review could result in freezes
<b>Pricing</b>	Interchange-plus or tiered; interchange-plus more transparent	Flat-rate or simplified; some options cost extra - no cost adjustment for lower fee cards
<b>Account Portability</b>	Your MID follows you if you switch processors	Account tied to the PayFac's platform; you start over, including your online store if you have one, no history
<b>Best For</b>	Any and all merchants wanting custom pricing, more flexibility, and stability	Only the smallest businesses and newest merchants

**Portability matters.** If you process payments through a PayFac and later leave that platform, you cannot transfer your merchant account — since you never had one — to a new provider. You will need to establish a new account. Understanding this upfront helps you plan accordingly.



## Types of Merchant Accounts

Whether you hold a dedicated merchant account or operate as a sub-merchant under a PayFac, the account type can affect how customers pay and what each transaction ends up costing your customers and your business.

### Retail (Card-Present) Accounts

In-person transactions occur when the customer and their card are physically present. Customers swipe, dip an EMV chip, or tap via NFC — and that physical presence matters for pricing. Card-present transactions carry the lowest fraud and chargeback risk, which translates directly to lower processing fees. Contactless payments using NFC-enabled cards, Apple Pay, and Google Pay all qualify for card-present rates.

This is also where the cost difference between a PayFac and a dedicated merchant account becomes tangible. PayFacs charge a flat rate on every transaction regardless of card type — so even when a customer pays with a low-interchange debit card, you pay the same rate as you would on a premium rewards card.

A dedicated merchant account operating under interchange-plus pricing works differently: you pay the actual interchange rate set by Visa or Mastercard for that specific card type, plus a small fixed markup to your processor. When your customers frequently use lower-cost card types, that difference adds up quickly.

### Internet / eCommerce Accounts

eCommerce accounts handle payments through an online storefront or digital interface. Because neither the card nor the cardholder can be physically verified, these are card-not-present (CNP) transactions — and they carry measurably more risk. U.S. CNP fraud losses reached \$10.16 billion in 2024, accounting for 74% of all card payment fraud. That elevated risk is priced in: acquirers and processors charge higher interchange rates and markups for online and keyed transactions than for card-present retail transactions.

For businesses building an online store, how you structure your payments from the start matters far more than most realize.

### The Walled Garden Problem

Many businesses launch with a PayFac like Stripe or Square because the setup is fast. But you're building inside their ecosystem — not your own.

- Product catalogs, item variations, page layout, and branding are all governed by the PayFac's platform
- Migrating to a dedicated merchant account later typically requires manual re-entry or complex data exports that rarely capture the full look and feel of your original store
- Your customer vault, transaction history, and store infrastructure stay behind — you're largely starting over

### The “Reset to Zero” Financial Setback

This is the most overlooked cost of the PayFac model — and it compounds over time.

- Your business runs as a sub-merchant under their master account ID
- For your own merchant account, banks usually want three to six months of processing statements.
- History belongs to the PayFac, you may be treated as a new merchant with no track record.
- Higher initial rates, rolling reserves, and stricter underwriting, years of clean history effectively reset to zero.



## Account Stability and Funding Risk

PayFacs rely heavily on automated risk algorithms — and those algorithms don't always distinguish between suspicious activity and legitimate business growth.

- A successful flash sale that triples your volume in 24 hours can look like suspicious activity to an automated system, triggering an immediate fund freeze pending manual review
- Stripe's policies allow reserves to be held for up to 180 days to cover potential chargeback windows
- For a growing eCommerce business dependent on cash flow, that kind of freeze isn't just an inconvenience — it can be operationally devastating

A dedicated merchant account gives you a direct relationship with your acquiring bank, processing history that belongs to your business, and underwritten terms that don't change because an algorithm flagged a good sales day.

## Mobile Merchant Accounts

Mobile accounts are built for businesses that go to their customers — food trucks, contractors, farmers market vendors, trade show sellers, and anyone else who doesn't operate from a fixed location. Payments are accepted through a card reader connected to a smartphone or tablet, keeping the full range of card-present payment options available in the field.

Many PayFac platforms include mobile acceptance within their standard flat-rate structure, which makes them a common starting point for mobile-first businesses. The same tradeoffs apply here as elsewhere in the PayFac model: flat-rate pricing regardless of card type, processing history that belongs to the master account, and exposure to algorithmic fund freezes.

For low-volume or seasonal operations just getting started, that tradeoff may be acceptable. For businesses with consistent mobile volume, a dedicated merchant account with interchange-plus pricing will almost always cost less over time and provide the stability that comes with a direct banking relationship

## MOTO Accounts (Mail Order / Telephone Order)

MOTO accounts allow merchants to accept payments when a customer provides card information by phone or mail. The card data is manually entered through a virtual terminal on the processor's network — no physical card, no chip, no tap. Because neither the card nor the cardholder is present, MOTO transactions are classified as card-not-present and carry higher interchange rates and fees than in-person transactions, for the same fraud-risk reasons that apply to eCommerce.

MOTO accounts are commonly used by service businesses, government agencies, and professional firms that take phone payments as part of their normal billing workflow. Some retail and eCommerce merchant accounts include MOTO capability as a standard feature; others offer it as an add-on. If your business regularly takes payments by phone, it's worth confirming that your merchant account supports virtual terminal access and that MOTO transactions are properly classified, since misclassified transaction types can create compliance issues and unexpected fees.

## Applying for a Merchant Account

### What You Need

Whether applying for a dedicated merchant account or onboarding as a sub-merchant under a PayFac, you will typically need to provide:

- Business legal name and DBA name (if applicable)
- Federal Tax ID / EIN
- Business formation date and state of incorporation
- Business license or permits (required for certain industries and jurisdictions)
- Ownership information — names, addresses, and ownership percentages for all owners holding 25% or more (required under FinCEN beneficial ownership rules)
- Government-issued ID for each qualifying owner
- Authorized signer information
- Business checking account and routing number
- Voided check or bank letter
- Processing volume — actual or estimated monthly total
- Average transaction (ticket) size
- Prior processing statements, if applicable — most acquiring banks request 3–6 months
- Website URL — required for any card-not-present account; underwriters review it for card brand compliance
- Signed merchant agreement

## Dedicated Account vs. PayFac Onboarding

PayFac applications are shorter, completed online, and designed to get you processing the same day. That speed is real — but as covered earlier in this guide, the underwriting doesn't disappear; it just happens after you're already live. A dedicated merchant account involves more documentation and a formal underwriting review upfront, which is exactly what provides the stability and protections that PayFac sub-merchants don't have.

Some processors, including IntelliPay, can approve and set up new dedicated merchant accounts in 72 hours or less depending on the completeness of your application. The upfront work is minimal compared to the long-term control and cost advantages a properly structured merchant account delivers.

## How Acquirers and PayFacs Evaluate Your Application

Acquiring banks evaluate a merchant account application much like a business line of credit, because if you close, go insolvent, or cannot cover refunds, they are ultimately liable for unpaid chargebacks, and that risk drives every underwriting decision. PayFacs run their own sub-merchant underwriting on behalf of a sponsoring bank, which holds final liability and regularly audits the PayFac's program, so approvals are still risk-based even if they feel faster.

Underwriters typically review your business and personal credit, business age and operating history, financials or bank statements, your Merchant Category Code and what you sell, the processing volume and average ticket you request, your chargeback history, and any personal guarantees from the owners

Key factors underwriters evaluate:

- Business and personal credit ratings
- Business age and operating history
- Financial statements or business bank statements
- Type of business and products/services sold (Merchant Category Code — MCC)
- Requested monthly processing volume and average ticket size
- Chargeback history (if applicable)
- Personal guarantees from business principals



## Chargeback Risk — What Every Merchant Needs to Know

A chargeback occurs when a cardholder disputes a transaction with their issuing bank. The bank reverses the charge and applies it back to the merchant's account. The merchant then has the opportunity to contest the dispute with supporting evidence.

### The Real Cost of Chargebacks

The average chargeback can easily cost a merchant around \$190 per dispute once you include the transaction amount, fees, labor, and overhead. In higher-risk categories, total costs can reach \$450 or more when all fees and operational impacts are factored in.

### Card Network Monitoring Thresholds

Visa and Mastercard operate formal dispute and chargeback monitoring programs. Crossing these thresholds can trigger network and acquirer compliance actions.

#### Visa — Acquirer Monitoring (VAMP)

Visa now monitors fraud and disputes through the Visa Acquirer Monitoring Program (VAMP), which consolidates several earlier dispute and fraud programs into a single framework. Under VAMP, Visa uses a combined fraud-and-dispute ratio (the "VAMP ratio") calculated on card-not-present transactions, with separate thresholds applied to acquirers and individual merchants by region.

For example, in the U.S., the Excessive merchant-level threshold has been moving from a VAMP ratio of about 2.2% toward approximately 1.5%, with minimum dispute counts that must also be met. Exact thresholds can change over time as the card networks refine their monitoring programs, so your acquirer will inform you which level applies if you are flagged.

Key takeaway: Visa's current monitoring is risk-based and increasingly strict on card-not-present fraud and disputes. Acquirers are required to implement corrective action plans, enhanced reporting, and, where necessary, additional controls when merchants exceed thresholds.

#### Mastercard — Excessive Chargeback Programs

Mastercard's chargeback monitoring is primarily governed by the Excessive Chargeback Program (ECP). While details and program tier names can vary, the core thresholds currently include:

- Standard monitoring (entry level): Chargeback ratio at or above about 1.0% in a given month, and at least 100 chargebacks
- Higher tiers (such as Excessive Chargeback Merchant or High Excessive Chargeback Merchant): Chargeback ratios typically in the range of 1.5%–3.0% with increasing monthly chargeback counts, along with escalating fees, assessments, and more intensive remediation requirements

Mastercard requires acquirers to register and manage merchants that meet or exceed these program thresholds and may impose network assessments and other sanctions if remediation is not successful.



## Potential Consequences Once Flagged

Once a merchant is identified under a card brand monitoring program, the following can occur (exact requirements and timelines are defined by the card networks and implemented by the acquirer):

- Mandatory compliance and remediation programs (e.g., dispute reduction plans, monthly reporting, operational changes)
- Network and acquirer-assessed fees and non-compliance assessments tied to program tier and duration in program
- Increased processing costs, including higher risk pricing, surcharges, and possible additional scheme fees
- Implementation or increase of reserves, rolling holdbacks, or other collateral measures
- Restrictions on processing privileges, including volume caps, suspension, or termination of the merchant account

## PayFac / Sub-Merchant Implications

### Under a Payment Facilitator (PayFac) model:

- Sub-merchant dispute and chargeback activity is aggregated into the PayFac's overall portfolio performance with its acquiring bank and the card networks, and the PayFac is contractually liable to the acquirer for resulting losses
- Elevated chargeback ratios at the sub-merchant level can contribute to the PayFac's portfolio breaching network monitoring thresholds, which may trigger portfolio-level remediation requirements, additional oversight, or network assessments imposed through the acquirer
- To manage portfolio risk and remain within network and sponsor-bank expectations, PayFacs typically apply their own internal chargeback and fraud thresholds, monitoring, and controls at the sub-merchant level (for example, MCC-specific limits, velocity rules, enhanced KYC/KYB, and dispute-rate caps)
- When a sub-merchant exceeds those internal thresholds, the PayFac may automatically impose additional controls — such as funding delays, rolling reserves, or volume limits — and can suspend or terminate the sub-merchant's processing privileges to protect the overall portfolio

## Reserves and Timeframes

- The PayFac (or its sponsor, via the PayFac) may implement or increase a reserve, often as a rolling reserve where a percentage of each transaction (commonly 5–20%, depending on risk) is held and released after a delay aligned with chargeback windows
- Typical rolling reserve release periods range from about 90 to 180 days from the transaction date, with higher-risk merchants sometimes facing longer holds until ratios improve

## MATCH and Future Processing Risk

- If a sub-merchant's account is terminated for qualifying reasons (such as excessive chargebacks, fraud, or monitoring-program violations), the acquiring bank may place the business on Mastercard's MATCH list (Member Alert to Control High-Risk Merchants)
- A MATCH listing makes it significantly harder for that business (and sometimes its principals) to obtain new merchant accounts, and any future processing arrangements are likely to involve higher fees, stricter reserves, and tighter contractual terms.

## Protecting Your Account

- Use clear, accurate product and service descriptions at checkout
- Deliver on stated timelines and communicate delays promptly
- Respond to customer service inquiries before disputes escalate to chargebacks
- Maintain documentation for all transactions — receipts, delivery confirmations, communications
- Contest fraudulent or unjust chargebacks with evidence in the time window provided

## Conditional Approvals and Reserve Accounts

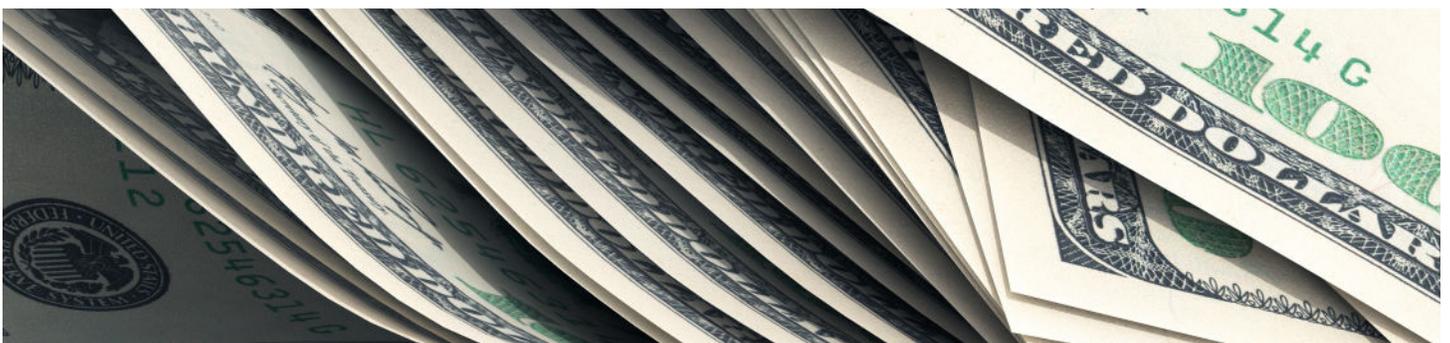
Acquirers and PayFacs sometimes approve merchant applications on a conditional basis, meaning they will process payments for you but apply risk-mitigation measures to protect against future losses. The most common condition is a reserve account, a portion of your funds that the processor holds as collateral to cover potential chargebacks, fraud, or other losses.

### Reserve accounts can take several forms:

- Up-front (cash) reserve: You provide a lump-sum deposit or allow early sales to fund a target balance that the processor holds in a separate account it controls, which can be used if chargebacks or refunds exceed your settlements
- Rolling reserve: The processor withholds a fixed percentage of each settlement — often in the 5–15% range for higher-risk or newer merchants — and holds those funds for a defined period, commonly 90–180 days, before releasing them on a rolling schedule
- Delayed funding (settlement hold): The processor delays paying out all or part of your daily card volume for a set aging period, then releases funds after reviewing your chargebacks and refunds over that window; this is functionally similar to a reserve but implemented as slower payouts rather than a separate balance

Reserve terms are often negotiable, especially once you demonstrate stable processing behavior. If the proposed reserve percentage or holding period would create cash-flow pressure, ask your processor whether alternative structures such as a lower percentage with a longer duration, a capped reserve, or a shift from rolling reserve to delayed funding are possible before you sign.

In many cases, reserves can be reduced or released after you establish a consistent, low-risk track record with predictable volume and low chargeback ratios, typically over 6–12 months of processing.



## Managing Your Merchant Account: A Business Lifeline

Your merchant account — or your sub-merchant relationship with a PayFac — is one of the most consequential financial relationships your business has. It enables revenue, cash flow, and the customer experience that card acceptance provides.

### Account Termination Has Serious Long-Term Consequences

If your acquirer terminates your merchant account for cause under the card network rules — for example, excessive chargebacks, excessive fraud, serious policy or standards violations, or processing prohibited or unapproved transaction types — it may be required to report your business and its principals to Mastercard’s MATCH (Mastercard Alert to Control High-Risk Merchants) database, a global file used by acquiring banks and payment processors to identify high-risk merchants.

Visa does not maintain a separate “MATCH list,” but its fraud and dispute monitoring framework (now consolidated into the Visa Acquirer Monitoring Program, or VAMP) sets thresholds for excessive fraud and chargebacks that can trigger enforcement actions and, in some cases, MATCH reporting by acquirers.

Being listed on Mastercard’s MATCH file can make it very difficult to obtain a new merchant account with mainstream acquirers for up to five years, because banks are required to check MATCH during underwriting and most will automatically decline listed merchants.

While some high-risk processors may still approve you, they typically impose higher processing fees, stricter contractual terms, mandatory reserves, and more intensive ongoing risk monitoring.

### Stay Proactive: Contact Your Processor When...

- Your monthly sales are approaching your approved volume limits
- Your average ticket size is moving outside the range you stated on your application
- You are adding new product lines or changing your service model
- A seasonal surge (holiday sales, annual events) could push you over volume limits
- You want to negotiate better rates or fee terms as your volume grows
- A customer disputes a charge you believe is unjust and you need help contesting it

Treat your payment processing relationship the way you would treat any important banking or credit relationship with communication, transparency, and consistent attention.

## Merchant Account Fee Structure

Fees vary by account type, business risk profile, and the type of provider you work with. Every payment processor is legally required to disclose all fees in your merchant agreement. Read it before you sign, and compare the full cost, not just the headline rate.

### How to Calculate Your Effective Rate

Your effective rate is your total monthly processing fees divided by your total monthly card sales. For many small, card-present businesses, a good range is roughly 1.8% to 2.3%, depending on card mix, average ticket, and industry. If you’re consistently above about 2.5%, it’s a clear sign you should review your pricing, fees, and merchant account setup for savings.

Formula:

Effective Rate = Total Monthly Processing Fees ÷ Total Monthly Card Processing Volume

## Common Merchant Account Fees

**Discount Rate (Processing Rate):** The percentage of each transaction's dollar amount collected as a processing fee, distributed among your acquiring bank, the cardholder's issuing bank, and the card networks through interchange. For card-not-present accounts, rates typically range from 1.5% to 3.5% depending on card type and risk profile.

**Transaction Fee:** A flat per-transaction fee assessed in addition to the percentage rate. Typically \$0.10 to \$0.35 per transaction for standard merchant accounts.

**Monthly Minimum Fee:** If your monthly processing fees do not reach a minimum threshold, some processors charge a flat fee to make up the difference. Typical range: \$15 to \$50 per month.

**Chargeback Fee:** A flat administrative fee per chargeback incident, regardless of outcome. Typically \$20 to \$100 per chargeback. Non-refundable even if you win the dispute.

**AVS Fee (Address Verification Service):** A flat fee charged per Address Verification request. AVS checks the billing address and ZIP code a customer provides against their issuing bank's records — a key fraud-detection tool for card-not-present transactions. Typical range: \$0.05 to \$0.15 per request.

**Non-Qualified Rate Surcharge:** An additional percentage charged when a transaction does not meet qualified criteria — for example, using premium rewards cards, corporate cards, or foreign cards; failing to settle within 24–48 hours; or not running AVS on eligible transactions. Surcharges typically add 0.5% to 1.5% to your effective rate.

**Batch Fee:** A small fee charged each time a batch of transactions is settled — typically \$0.10 to \$0.25 per batch. Most merchants settle once daily.

**Retrieval Request Fee:** A fee to research and document a specific transaction in response to a pre-chargeback inquiry. Typical range: \$10 to \$25 per incident.

**PCI Non-Compliance Fee:** A monthly penalty — typically \$20 to \$100 — charged when a merchant has not completed their required PCI DSS security self-assessment (SAQ). This fee is entirely avoidable by completing the questionnaire through your processor's compliance portal.

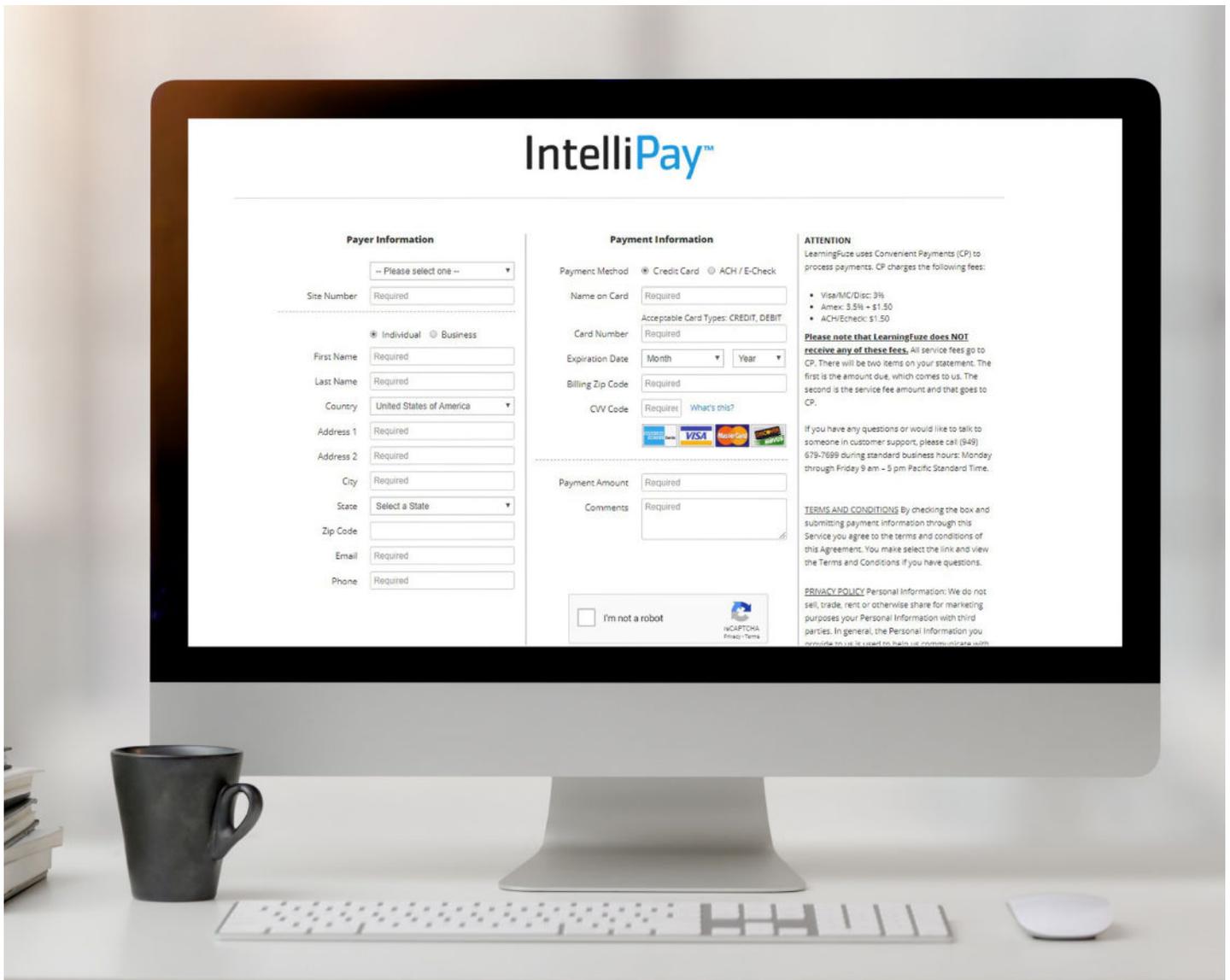
**Sign-Up / Application Fee:** A one-time fee to process your application, ranging from \$0 to \$300. Often refunded if your application is declined.

## An Alternative to High Processing Costs

For merchants who want to reduce or even eliminate credit card processing costs, IntelliPay provides zero-cost and reduced-cost processing models, including fully compliant surcharging, dual pricing, and service fee options that shift some or all card fees to the customer while preserving a no-fee way to pay.

When you set these programs up the right way, they comply with current Visa and Mastercard rules, as well as state regulations. Merchants in government, education, utilities, professional services, retail, and many other industries already rely on them to protect their margins and make their fee structures easier to understand.

To learn whether a no-cost processing solution is right for your business, contact an IntelliPay payment specialist. 855-872-6632 option 3 or sales@intellipay.com. We will walk through your options and structure a program that fits your transaction volume, customer base, and state requirements.



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## Glossary of Payment Processing Terms

Understanding these terms equips you to evaluate processors, read your merchant statement accurately, and manage your account with confidence.

### ACH / eCheck

Automated Clearing House — a network that processes electronic bank-to-bank transfers. ACH payments (also called eCheck) are typically lower cost than card transactions and are used for recurring billing, invoicing, and large-ticket transactions.

### Acquiring Bank (Acquirer)

The financial institution that holds a merchant's merchant account and processes card transactions on behalf of that merchant. The acquirer is a member of Visa, Mastercard, or other card networks and assumes liability for the merchant's transactions.

### Assessment Fee

A fee paid directly to the card networks (Visa, Mastercard, Discover, Amex). Assessment fees are non-negotiable and set by the networks. They are separate from interchange fees and typically represent 0.10%–0.15% of transaction volume.

### Authorization

The real-time approval process in which a card transaction is verified by the issuing bank. Authorization confirms that the card is valid, the account is open, and sufficient funds or credit are available. Authorization typically completes in 2–5 seconds.

### AVS (Address Verification Service)

A fraud detection tool that compares the billing address and ZIP code submitted with a transaction against the records held by the cardholder's issuing bank. Used primarily for card-not-present transactions. The result — a match, partial match, or no match — is returned to the merchant at authorization.

### Batch / Batch Settlement

The process of submitting a group of authorized transactions to the processor for settlement at end of day. Most merchants settle once daily. Settling within 24–48 hours is required to qualify for the lowest interchange rates on most transaction types.

### Card-Not-Present (CNP)

A transaction where the physical card is not presented at the point of sale — including eCommerce, telephone, and mail order payments. CNP transactions carry higher fraud risk and higher interchange rates than card-present transactions.

### Card-Present

A transaction where the customer physically presents their card at the point of sale — via swipe, dip (EMV chip), or tap (NFC/contactless). Card-present transactions have the lowest fraud risk and lowest interchange rates.

### Chargeback

A disputed transaction that is reversed by the cardholder's issuing bank. When a customer disputes a charge, the funds are pulled back from the merchant's account pending investigation. Merchants have the right to contest chargebacks with evidence. Chargeback fees typically range from \$20 to \$100 per incident.

## Chargeback Ratio

The percentage of a merchant's total transactions that result in chargebacks. Under current monitoring programs, Visa and Mastercard apply various thresholds depending on program tier and merchant risk profile. Excessive chargeback ratios can result in fines, reserve requirements, or account termination.

## Contactless / NFC

Near-Field Communication — a short-range wireless technology that enables tap-to-pay at point-of-sale terminals. Contactless payments include NFC-enabled bank cards and digital wallets (Apple Pay, Google Pay, Samsung Pay). Contactless transactions qualify for card-present rates.

## Convenience Fee

A fee charged to customers for using a specific, non-standard payment channel (such as paying online or by phone when the standard channel is in-person). Convenience fees must be flat amounts and are governed by card brand rules that differ from surcharge rules.

## Digital Wallet

A software application (Apple Pay, Google Pay, PayPal, Samsung Pay) that stores payment credentials and enables contactless or online payments without presenting a physical card. Digital wallet transactions qualify for card-present rates at NFC-enabled terminals.

## Discount Rate

The percentage-based fee collected by the processor from each transaction. The discount rate bundles interchange, assessment, and processor markup. It is the primary cost driver for most merchants.

## Dual Pricing

A compliant pricing model in which merchants display two prices for goods or services: a cash price and a card price. The difference represents the cost of card acceptance. Dual pricing is governed by card brand rules and applicable state law.

## Effective Rate

The true total cost of card acceptance, calculated as:  $\text{Total Monthly Processing Fees} \div \text{Total Monthly Processing Volume}$ . The effective rate is the most accurate way to compare processors. For many small, card-present retail businesses, a competitive effective rate often falls somewhere around 1.8%–2.3%, depending on card mix, average ticket size, and industry.

## EMV (Chip Card)

Europay-Mastercard-Visa — the global standard for payment cards with embedded microchips. EMV chip transactions are significantly more secure than magnetic stripe swipes and provide merchants with chargeback liability protection for counterfeit card fraud when processed through a chip-enabled terminal.

## Flat-Rate Pricing

A pricing model in which a single fee applies to all transactions regardless of card type (e.g., 2.9% + \$0.30 per transaction). Flat-rate pricing is simple and predictable but typically more expensive than interchange-plus for businesses processing over \$5,000 per month or a mix of credit and debit cards.

## Interchange Fee

A fee paid by the acquiring bank to the cardholder's issuing bank for each transaction. Interchange fees are set by Visa and Mastercard, are non-negotiable, and vary by card type, transaction type, and merchant category. They represent the majority of total card processing costs.

## Interchange-Plus Pricing

A transparent pricing model that passes the actual interchange cost to the merchant plus a fixed processor markup (e.g., interchange + 0.25% + \$0.10 per transaction). Interchange-Plus is the most cost-effective pricing model for most businesses processing over \$5,000 per month.

## Issuing Bank (Issuer)

The financial institution that issues a credit or debit card to the cardholder. The issuer receives the interchange fee on each transaction and is responsible for authorizing payments and managing cardholder accounts.

## IVR (Interactive Voice Response)

A phone-based payment system that allows customers to make payments using a touchtone keypad, without speaking to a live agent. IVR payments are card-not-present transactions and are commonly used by utilities, government agencies, and healthcare providers.

## KYC (Know Your Customer)

Identity and compliance verification protocols required by payment processors and financial institutions. KYC procedures verify the identity of business owners and principals as part of the merchant account application and underwriting process.

## MATCH List

Member Alert to Control High-Risk Merchants — a database maintained by Mastercard and used by all major acquirers. Merchants terminated for excessive chargebacks, fraud, or policy violations are added to the MATCH list. Placement on MATCH can make it very difficult to obtain a new merchant account for up to five years, and any future processing arrangements are likely to involve higher fees, reserves, and stricter terms.

## MCC (Merchant Category Code)

A four-digit code assigned by the card networks to classify a business by the type of goods or services it sells. MCCs affect interchange rates, chargeback thresholds, and account approval criteria. Processing transactions outside your approved MCC may violate your merchant agreement.

## Merchant Account

A special-purpose bank account that holds funds from card transactions after authorization and before they are deposited into the merchant's business checking account. A merchant account is the contractual relationship between the merchant, the acquiring bank, and the card networks. It is not a business checking account.

## Merchant ID (MID)

A unique identifier assigned to a merchant account by the acquiring bank and card networks. The MID is used to route and track all transactions processed under that account. Dedicated merchant accounts receive their own MID; sub-merchants under a PayFac share the PayFac's master MID.

## Payment Facilitator (PayFac)

A company that holds a master merchant account and onboards smaller businesses as sub-merchants underneath it. PayFacs (such as Stripe and Square) provide fast setup and simplified onboarding but limit account portability, processing history ownership, and direct banking relationships.

## Payment Gateway

Software that securely transmits transaction data between a merchant's point-of-sale system or website and the payment processor. Gateways encrypt sensitive card data, perform fraud checks, and route authorization requests to the card networks.

## PCI DSS (Payment Card Industry Data Security Standard)

A set of security requirements established by the card networks to protect cardholder data. All merchants that accept card payments must comply with PCI DSS. Compliance is verified through annual self-assessment questionnaires (SAQs) or audits, depending on transaction volume.

## Rolling Reserve

A percentage of each transaction settlement that is withheld by the processor and held for a defined period (commonly 90–180 days) to cover potential chargebacks, fraud, or other losses. Rolling reserves are most common for higher-risk merchants or those with limited processing history.

## Settlement

The process by which authorized card transactions are finalized and funds are transferred from the cardholder's issuing bank to the merchant's acquiring bank, then deposited into the merchant's business checking account. Settlement typically occurs 1–2 business days after the transaction is batched.

## Surcharge

A fee passed to customers who choose to pay by credit card, designed to offset the merchant's card processing costs. Surcharging is subject to specific card brand rules and state-level regulations. Debit cards and prepaid cards cannot be surcharged under current network rules.

## VAMP (Visa Acquirer Monitoring Program)

Visa's consolidated fraud and dispute monitoring framework that tracks card-not-present fraud and chargeback ratios at both the acquirer and merchant levels. VAMP sets risk thresholds that, when exceeded, can trigger remediation requirements, fees, and in some cases, MATCH reporting by acquirers.

## Virtual Terminal

A web-based interface that allows merchants to manually key in card information for mail order or telephone order (MOTO) transactions. Virtual terminals are used for card-not-present payments and are typically accessed through the payment processor's secure portal.

## Sources and Currency

This guide reflects card network and industry guidance available as of early 2026, including Visa's published materials on the Visa Acquirer Monitoring Program (VAMP), Mastercard's public documentation on the Excessive Chargeback Program and MATCH list, and current small-business processing fee studies from major banking and payment platforms. Specific fee caps, surcharging rules, and state-level requirements vary by jurisdiction, so always confirm how your state or locality treats surcharges, dual pricing, and convenience fees before implementing any fee-shifting program.

For current program thresholds, compliance requirements, and merchant-specific guidance, consult your payment processor or acquiring bank directly.

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