

THE COMPLETE GUIDE FOR SMALL BUSINESS OWNERS

How To Not Get Taken By Payment Processors

Everything you need to know about credit card processing — in plain English. How transactions work, where fees come from, what pricing models to avoid, and how to protect your business.

✓ No jargon

✓ Real numbers

✓ Instant quote at inspivo.com

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The Ultimate Guide to Payments

Owning a small business comes with highs and lows. One of the costliest parts of the journey — and the least understood — is dealing with payment processing. This guide gives you the plain-English education that processors hope you never get.

The most important thing you can do

Be an educated consumer. Understanding how processing works is the single best way to protect your business from overpaying — and from unscrupulous sales tactics. That's what this guide is for.

Your processor should have three qualities above all else:

Honesty

All terms are upfront. No bait-and-switch. No fees buried in fine print.

Transparency

Interchange-plus pricing — you can see exactly what they're making from you.

No Lock-In

No cancellation fees. If the service isn't working for you, you should be free to leave.

What is Credit Card Processing?

Credit card processing — also called merchant services — is the managing of electronic payments through credit and debit cards for businesses.

Being able to offer your customers an electronic way to pay for their goods or services is critical in today's marketplace. People pay with cards and digital wallets — not checks. If your business can't accept cards, you're losing sales.

Why this matters more than ever

Card and digital payments now account for the vast majority of consumer transactions. For most small businesses, the ability to accept credit and debit cards is not optional — and the cost of doing so directly impacts your bottom line.

The good news: once you understand how the system works, you can make smarter decisions and stop leaving money on the table. Most small business owners overpay on processing simply because they don't know what they're paying for.

Understanding the Players

When you swipe a card, money flows through an entire ecosystem before it reaches your bank account. Here's who's involved — and who takes a cut.

Card Associations / Brands

Visa, Mastercard, Discover, American Express. These networks set the rules and the interchange rates. Their fees are non-negotiable.

Issuing Banks

The banks that issue credit and debit cards to consumers — Chase, Wells Fargo, Bank of America, etc. They receive the interchange fees that are passed on to business owners.

Processors

There are only a handful of actual processors in the US — First Data, Vantiv, Global Payments, Chase, TSYS, and Elavon. Everyone else buys from them.

ISOs (Independent Sales Organizations)

These companies buy processing at wholesale from the actual processors and mark up the fees to earn a profit. Many reps work for ISOs without telling you that.

Banks (as resellers)

Some banks (like Chase) provide processing directly. Others (like Bank of America) have joint ventures where they resell another processor's services.

Agents / Sales Reps

Both processors and ISOs use W2 reps or independent agents to sell their services. Their commission often comes from markups on your rates.

What to ask every sales rep

"Are you a processor or an ISO?" It's easier to resolve issues if you're dealing directly with a processor. ISOs act as middlemen — and the more middlemen, the more markup.

How a Transaction Works

Every card swipe triggers a chain of events that happens in seconds. Here's what actually occurs between the moment your customer taps their card and the money hits your account.

Step 1: Authorization (happens in seconds)

1 Customer pays

Jessica finishes her meal and presents her credit card at the register. Sam (the merchant) rings her up and takes the card.

2 Terminal sends request

The moment the card is swiped or tapped, the terminal submits the transaction request to the acquiring bank (the processor's bank).

3 Issuing bank checks the account

The acquiring bank relays the request to Jessica's bank (the issuing bank), which checks whether she has sufficient funds or credit available.

4 Approval or decline comes back

The issuing bank approves or declines the transaction and sends an authorization code back through the chain to Sam's terminal. All of this happens in 1-2 seconds.

Step 2: Batch & Funding (happens at end of day)

1 Batch close

At end of day, Sam closes his batch. All transactions stored in the terminal are sent together to the card associations.

2 Funds requested from issuing banks

The card associations request funds from each issuing bank involved in the day's transactions.

3 Interchange deducted

Issuing banks calculate and deduct interchange fees, then send the remaining funds to the acquiring bank (Sam's processor).

4 Processor deducts its fees

The acquiring bank deducts the processor's discount rate and sends the remaining funds to Sam's business bank account.

Card Present vs. Card Not Present

LOWER RATE

Card Present

When the physical card is swiped, tapped, or dipped at the terminal. Lower risk = lower interchange rate. Always aim to process cards in-person when possible.

HIGHER RATE

Card Not Present

Phone orders, online payments, or when the card's magnetic stripe or chip isn't working. Higher risk of fraud = higher interchange rate. This is unavoidable for e-commerce.

Understanding the Cost to Your Business

Your total processing cost is made up of four distinct components. Understanding each one is the key to knowing whether you're getting a fair deal.

NON-NEGOTIABLE

01 — Interchange Fees

Paid to the issuing bank through Visa/Mastercard. This is typically the largest portion of your bill — anywhere from 60-70% of your total cost. Rates vary by card type (credit vs. debit vs. rewards), transaction type, and risk level. You cannot negotiate these.

NON-NEGOTIABLE

02 — Dues & Assessments

Paid to the card brands (Visa, Mastercard, Discover). Think of it as a brand licensing and network operating fee charged on every transaction. Also non-negotiable.

NEGOTIABLE

03 — Processing Fees (Markup)

This is the processor's profit — the only part of your bill that is negotiable. Formula: **Total Fees – Interchange – Dues & Assessments = Processor's Gross Profit**. This is what you're actually negotiating when you shop processors.

SOMETIMES NEGOTIABLE

04 — Miscellaneous Fees

All other fees charged outside of the above three categories. Some are legitimate and negotiable; many are junk fees you should push back on or avoid entirely. See the full list in Section 07.

What the numbers look like on a \$100 transaction

📄 Visa Credit Card — \$100 transaction

A premium rewards credit card costs significantly more to process than a basic debit card. Here's the breakdown.

FEE COMPONENT	RATE	COST	% OF TOTAL
Interchange	1.51% + \$0.10	\$1.61	66%
Dues & Assessments to Visa	0.13% + \$0.0195	\$0.15	6.2%
Processor Rate (Markup)	0.5% + \$0.15	\$0.65	27.8%
Total Cost		\$2.41	100%
Net to Merchant		\$97.60	

📄 Regulated Debit Card — \$100 transaction

PIN debit cards from larger banks are regulated by the Durbin Amendment, making them significantly cheaper to process.

FEE COMPONENT	RATE	COST	% OF TOTAL
Interchange	0.05% + \$0.22	\$0.27	25%
Dues & Assessments to Visa	0.13% + \$0.0195	\$0.15	14%
Processor Rate (Markup)	0.5% + \$0.15	\$0.65	61%
Total Cost		\$1.07	100%
Net to Merchant		\$98.93	

Industry Averages by Business Size

Here's what processors typically earn above interchange and assessments — this is the markup you're negotiating:

MERCHANT SIZE	ANNUAL CARD VOLUME	TYPICAL PROCESSOR MARKUP
Small	Up to \$5 million/year	0.45%–0.50% (45–50 basis points)
Medium	\$5M–\$100M/year	0.38%–0.40% (38–40 basis points)
Large	Above \$100M/year	0.08%–0.09% (8–9 basis points)

🔑 Key insight

Only the processor's markup is negotiable. Knowing what the average markup is for your business size gives you real leverage when negotiating. Source: McKinsey U.S. Payments Map.

Pricing Systems Explained

There are three common pricing models. Most business owners end up in the two most expensive ones simply because they don't know the difference.

HIGH COST — AVOID

Flat Rate

One rate for all card types. Seems simple, but the processor's margin is very hard to calculate. Often used to lure in businesses with a low teaser rate — many transactions get processed at much higher rates. You have no visibility into what you're actually paying.

HIGH COST — CONFUSING

Tiered Pricing

Transactions are placed into "buckets" (qualified, mid-qualified, non-qualified). The problem: the processor decides which tier each transaction falls into — you have no control. Most transactions end up in the expensive non-qualified bucket.

2-TIER

2-Tier

A teaser rate for a few card types, but much higher rates for the rest. A variant of tiered pricing with the same lack of transparency.

RECOMMENDED

Interchange-Plus (Cost Plus)

The most transparent pricing model available. You see exactly what the card networks charge (interchange + assessments) plus the processor's markup — as a separate, disclosed line item. You can actually compare offers and understand your bill.

Side-by-Side Comparison

PRICING TYPE	DESCRIPTION	COST	TRANSPARENT?
Flat Rate	One rate for all cards	High	No
2-Tier	Teaser rate + higher rates for most cards	High	No
3-Tier / Bucket	Cards sorted into tiers, processor decides which	High	No
Interchange-Plus	Actual cost + disclosed markup	Low	Yes ✓

✓ Always insist on interchange-plus pricing

In the past, interchange-plus was only available to large businesses. Today, any business can request it. It's the only way to know exactly what you're paying — and to make a true apples-to-apples comparison between processors.

Fees to Watch Out For

Many processors advertise a low processing rate, then make it up with a long list of monthly, annual, and incidental fees. Here's everything you should know about before you sign anything.

🔔 The oldest trick in the book

A rep shows you a rate of 2% and it sounds great. What they don't mention: \$25/month statement fee, \$15/month PCI fee, \$7.95/month service fee, \$10/month data breach protection fee, and a \$0.10 per-transaction fee. Those add up to hundreds per year on top of your processing costs.

FEE NAME	TYPE	WHAT IT IS	SHOULD YOU PAY IT?
Statement Fee	Monthly	For sending a paper statement	Negotiable — often waivable
Customer Service Fee	Monthly	Cost to provide customer service	Negotiable
Data Breach Protection	Monthly	Data breach insurance	Avoid — often unnecessary
Debit Access Fee	Monthly	Cost to accept PIN-debit cards	Avoid if possible
Online Reporting Fee	Monthly	Cost to access online reporting	Avoid — should be free
Gateway Fee	Monthly	For e-commerce payment gateway	Legitimate if you process online
Monthly Discount Fee	Monthly	Extra charge for net vs. gross deposits	Avoid
Processor Choice Fee	Monthly	POS companies charge this if you don't use their processor	Strongly avoid
Annual PCI Fee	Annual	PCI compliance scanning	Often avoidable — question it
Non-Compliance Fee	Monthly	For not being PCI compliant	Not negotiable — stay compliant
Chargeback Fee	Per incident	For processing a dispute	Sometimes negotiable
Termination Fee	One-time	Fee to cancel your processing agreement	NEVER agree to this
Terminal Lease Fee	Monthly	Monthly fee for leasing equipment	NEVER lease — always purchase

🚫 Never lease a credit card terminal

Equipment typically costs \$200–\$500 to purchase outright. Leases can cost \$40–\$100/month over 48 months — paying \$2,000–\$5,000 for equipment worth a few hundred dollars. Most leases are non-cancellable, meaning you'll keep paying even if you close your business.

Chargebacks & Fraud Prevention

A chargeback occurs when a credit card company reverses a charge and returns funds to the customer. Excessive chargebacks can cost you money and put your merchant account at risk.

Why Chargebacks Happen

Fraud

The #1 cause. When a cardholder notices unauthorized charges, they contact their card company immediately. These are reversed quickly. Focus on deterring fraud before it happens.

Misrepresentation

If a customer feels your product or service wasn't what you advertised, they can dispute the charge. Honest, accurate advertising and clear descriptions prevent this.

Defective Merchandise

Customers can dispute charges for defective products. Most will contact you first — respond promptly with a refund or replacement to avoid the chargeback.

Delayed or Non-Delivery

Products that never arrive or arrive extremely late often lead to disputes. Ship promptly and provide tracking numbers to prevent this type of chargeback.

Preventing Fraud in Your Business

In-Store Prevention

Watch for suspicious behavior and unusual-looking cards. Always require a chip or tap payment rather than swipe when possible. For large transactions, request ID to verify the cardholder.

Online Prevention

Ship only to billing addresses on file. Use AVS (Address Verification System). Consider IP address matching for high-risk transactions. Require CVV/CVV2 for all online orders.

What is PCI Compliance?

PCI DSS (Payment Card Industry Data Security Standard) rules are designed to protect cardholders and merchants from data breaches. Non-compliance can result in significant fines.

🔒 The basics of PCI compliance

If you accept, process, store, or transmit cardholder data, you are required to be PCI compliant. Most small businesses complete an annual Self-Assessment Questionnaire (SAQ) and may be required to run quarterly vulnerability scans. Visit [pcicomplianceguide.org](https://www.pcicomplianceguide.org) for full details.

⚠️ The non-compliance fee trap

Many processors charge a monthly "non-compliance fee" of \$15-\$35 if you haven't submitted your SAQ. This is real — and it's avoidable. Complete your annual questionnaire and don't let this fee hit your statement.

How to Choose a Payment Processor

Now that you understand the system, here's a practical checklist for evaluating any processor before you sign anything.

1 Get a complete quote in writing — use the Processor Evaluation Form

Require the sales rep to fully complete and sign a processor evaluation form before you make any decision. The form (included in the next section) covers every fee they could possibly charge. If they refuse to sign it, walk away.

2 Never agree to a cancellation or early termination fee

These fees can range from a few hundred to several thousand dollars. There is no legitimate reason to agree to one. If a processor is confident in their service, they don't need to lock you in.

3 Watch for rate increases after you sign

A low introductory rate that gets bumped up in month 3 is worthless. Always ask: "Are my rates guaranteed, and for how long?" If they're not guaranteed for life, that's a red flag for a bait-and-switch program.

4 Never lease equipment — always purchase

Terminal leases are one of the most predatory practices in the payments industry. A terminal that costs \$300 to buy can cost \$3,000+ under a 48-month non-cancellable lease. Always insist on purchasing outright.

5 Insist on interchange-plus (cost-plus) pricing

Any processor worth doing business with will offer this. It's the only pricing model that gives you full visibility into what you're paying and why. If a rep pushes back on this, they're trying to hide their margin.

6 Check their BBB rating and years in business

A longer track record gives you more data points. Note: larger companies naturally have more complaints. Look at how complaints are resolved, not just the volume.

Processor Evaluation Form

Use this form when comparing quotes from multiple processors. Require any sales rep to complete and sign this before you make a decision. If they won't sign it, that tells you everything you need to know.

📖 How to use this form

Print one copy for each processor you're evaluating. Have the sales rep fill it out completely and sign at the bottom. Their signature confirms they've disclosed all fees and that the rates are accurate. Compare the completed forms side by side.

Company Information

FIELD	WHAT TO LOOK FOR
Company Name	Full legal name of the processor or ISO
Processor or ISO	Direct processor is better — fewer middlemen, easier issue resolution
Years in Business	Longer track record = more stability. Look for 5+ years minimum
BBB Rating	One data point — don't make your entire decision here, but note how complaints are resolved
Sales Rep Name & Contact	Longevity with the company matters — a rep who moves around can't help you if issues arise

Interchange Markup (Interchange-Plus Only)

FEE	INSPIVO	COMPETITOR A	COMPETITOR B
Visa/MC/Discover basis points			
Visa/MC/Discover transaction fee			
Amex basis points			
Amex transaction fee			
PIN debit basis points			
PIN debit transaction fee			

Setup Fees — All Should Be \$0

FEE	SHOULD BE	QUOTED AMOUNT
Application Fee	\$0	
Reprogramming Fee	\$0	
Setup Fee	\$0	
Other Setup Fees	\$0	

Monthly Fees

FEE	INSPIVO	COMPETITOR
Monthly Statement Fee		
Monthly PCI Fee		
Monthly Service Charge		
Other Monthly Fees		

Agreement Terms — Critical Questions

QUESTION	WHAT YOU WANT TO HEAR	THEIR ANSWER
Early Termination Fee	\$0 — never agree to this	
Contract Term	Month-to-month preferred	
Are rates guaranteed?	Yes — for life	
How long are rates guaranteed?	Indefinitely / for life of account	

My signature below confirms I have disclosed all fees and guarantee the accuracy of the competitive proposal submitted. I am authorized to sign and complete this form on behalf of my organization.

Printed Name

Title

Signature

Date

Glossary of Payment Terms

Every term you'll encounter on a processing statement or contract — explained in plain English.

ACH Reject

When a processor tries to collect fees from your bank account and your account has insufficient funds.

Amex (on statement)

Per-item fees for American Express transactions, plus any discount fee on Amex volume.

Annual Fee

A once-a-year charge that may include admin, regulatory, and PCI charges lumped together.

Annual PCI Fee

Annual fee covering PCI compliance. Some companies charge this monthly instead.

Application Fee

One-time fee to process your merchant account application. Should be \$0.

Assessments

Fixed percentage fees applied to gross sales volume by each card association (Visa, MC, etc.).

AVS (Address Verification)

Security system that compares the billing address a customer enters online to the address on file with their card issuer.

Batch Fee

Fee charged each time you close your daily batch of transactions, usually at end of business day.

Chargeback

Fee incurred when a customer disputes a charge and the card company reverses the transaction, pulling funds from your account.

Discount Collected

Processor fees that can be collected either daily (from each day's deposits) or monthly.

Downgrades

In tiered pricing, transactions placed in mid-qualified or non-qualified tiers instead of the lowest-cost qualified tier.

Effective Rate

Your total processing cost as a percentage of your total card volume. The best single number for comparing offers.

Interchange

Fee paid between banks for accepting card-based transactions. Includes Visa, MC, Discover, Amex, and international charges. The largest component of your processing cost.

Monthly Fee

Fee to maintain and service your account, covering statement preparation and customer support.

Monthly Gateway

Monthly service fee to access internet or wireless payment gateways (for e-commerce or online processing).

Monthly Minimum

The minimum processing fee you must pay each month, even if your actual fees don't reach that amount.

Monthly PCI Fee

Monthly fee covering the cost of PCI compliance. Some processors charge annually instead.

Non-Compliance Fee

Monthly fee assessed if you haven't completed your annual PCI compliance questionnaire. Avoid this by staying compliant.

PCI Compliance

The set of security standards all businesses accepting cards must follow to protect cardholder data.

PIN Debit

Debit card transactions where the customer enters their PIN. These are typically less expensive to process than signature debit.

Processing Fee

The discount and per-item fee charged by the processor to maintain your merchant account. This is the negotiable part.

Regulatory Fee

Fee to cover the processor's cost of reporting your merchant income to the IRS.

Reprogramming Fee

Fee to reprogram your existing terminal from another provider. Should be \$0.

Retrieval / Retrievals

When an issuing bank requests information about a transaction. Can be a precursor to a chargeback.

Setup Fee

One-time fee to set up your merchant account. Should be \$0.

Signature Debit

Debit card transactions where the customer signs rather than entering a PIN. Also known as online debit or check card.

Termination Fee

Fee charged if you cancel your processing agreement. Never agree to this — a processor confident in their service doesn't need to lock you in.

Terminal Lease Fee

Monthly fee for leasing a credit card terminal. Always purchase equipment outright instead — leases are one of the most predatory practices in payments.

Variance

Small rounding discrepancies on your statement used to balance your total fees.

Vendor Markup

The rate charged by the processor on your transactions, separate from interchange and association fees. This is the negotiable part.

Voice Authorization Fee

Fee charged when you call in to verbally verify a transaction.

Inspivo

business made easier

Ready to get a fair deal on processing?

Answer three questions and get an instant estimate of what you'd pay with Inspivo — no statement required, no sales call, no pressure.

✓ Interchange-plus pricing

✓ No cancellation fees

✓ Instant quote online

[Get Your Free Instant Quote → inspivo.com](https://inspivo.com)

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