



The Green Sheet

The Financial Services Industry Source for Education, Inspiration and Actionable Advice

March 28, 2005
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Back (L to R): Danielle Thorpe, Karen Converse, Julie O'Ryan, Patti Murphy of The Green Sheet
Front: Nancy Drexler, Danette Smith of Cynergy Data

Everything to Be Proud of at 2005 ETA Annual Meeting and Expo

The Las Vegas ad campaign, "What Happens in Vegas Stays in Vegas," might ring true for many tourists leaving the city, but attendees of the 2005 Electronic Transactions Association (ETA) Annual Meeting and Expo have no reason to quell what happened at this year's event.

In the months leading up to the conference, ETA promised plenty of excitement and action for the industry's biggest show. Between exhibit hall exuberance, a lineup of vital presentation topics and select opening speakers, ETA, in its second year with Executive Director Carla Balakgie at the helm, delivered on its promise.

ETA held the event at the Mirage Hotel and Casino March 15 – 17, and offered a number of pre-conference activities on March 14.

See ETA Las Vegas on Page 63

Notable Quote

"We want to thank Ed for the tremendous amount of time and effort he dedicated to 'Street Smarts' ... His enthusiasm, dedication and talent have given 'Street Smarts' the high-energy sizzle for which he is so well known, and he infused this column with his drive and humor."

See Story on Page 74



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Staff

Publisher:

Paul H. Greenpaul@greensheet.com

President/Editor in Chief:

Julie O’Ryanjulie@greensheet.com

Assistant Vice President Production and Circulation:

Kate Gillespiekate@greensheet.com

Editor:

Karen Conversekaren@greensheet.com

Feature Editor:

Juliette Campeaujuliec@greensheet.com

Contributing Editor:

Patti Murphypatti@greensheet.com

Staff Writer:

Sue Lusesue@greensheet.com

Art Director:

Troy Veratroy@greensheet.com

Advertising Sales:

Danielle Thorpe, Advertising Sales Directordanielle@greensheet.com

Rita Francis, Account Executiverita@greensheet.com

Production Assistant:

Wolf Dean Stileswolf@greensheet.com

Print Production:

Hudson Printing Company

Correspondence:

The Green Sheet, Inc.
800-757-4441 • Fax: 707-586-4747
6145 State Farm Drive, Rohnert Park, CA 94928

Send Press Releases topress@greensheet.com

*NOTE – Please do not send PDF versions of press releases.

Send your Questions,

Comments and Feedback togreensheet@greensheet.com

Contributing Writers:

Adam Atlasatlas@adamatlas.com

Ed Freedmaned@totalmerchantservices.com

Michelle Graff.....michelle.graff@novainfo.com

Lazaros Kalemislkalemis@alphacard-us.com

Kimberley Marvinnancyd@cynergydata.com

Ken Musantekmusante@hbms.com

Joel Rydbeckjoel@nubrek.com

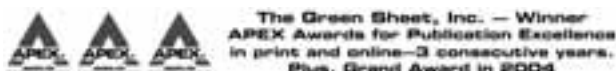
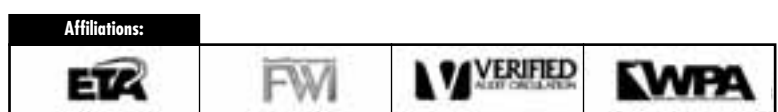
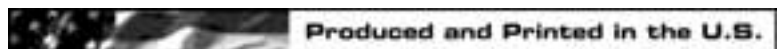
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Praise for Adam Atlas and "Legal Ease"

Having recently completed an ISO agreement, I wanted to write and thank you for publishing the legal column of Adam Atlas ["Legal Ease"]. Atlas' columns were the single most helpful information that I had.

When The Green Sheet comes, the first thing I do is look to see if he has a column. By far the trickiest waters I face as an ISO are in the legal area.

While I look at other trade publications, their legal columns never come close. Atlas' columns have helped me greatly [in] knowing how to negotiate and where to be careful when dealing with a member bank. They have also been useful in sorting our areas of "rule compliance."

Thanks again for all your help. The Green Sheet has been a HUGE help in the development of our business!

– Dave Thorson
President, RevTrak Inc.

Making Changes on Retailbusiness.com Sites

How can I make changes to [my] Web page on retailbusiness.com?

– kagtdthomas

To make changes to your retailbusiness.com site, send an e-mail to webmaster@greensheet.com to let him know which site you want to change. The Webmaster will then remove the old site and you can resubmit a new page in its place.

– Editor

In the March 2005 GSQ, "The Technology Puzzle" (Vol. 8, No. 1), Element Payment Services listed an incorrect phone number for Bryan Daughtry in its advertisement. Daughtry's correct phone number is 866-435-3636 ext. 777.




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NEWS

Many Consumers Still Count on Float

Nearly 25% of consumers write checks to pay bills before they deposit sufficient funds in their accounts, according to consumer research by **ESP Consulting**. Aware that there is typically a delay of several days for mailing and processing, these consumers take advantage of "float."

Contrary to popular assumptions, "check floaters" are not only young and low-income customers, the research indicated. In fact, some of the best banking customers use this practice, at least occasionally.

Community Banks Optimistic about 2005

The future looks bright for community banking, according to **Grant Thornton's** Twelfth Annual Survey of Community Bank Executives. Seven out of 10 community bankers said they have an optimistic or somewhat optimistic outlook for the business of community banking in 2005. More than two-thirds share that sentiment about the general economic outlook in 2005, according to the survey.

ATM Industry Fact Sheet Released

Tremont Capital Group released its "2005 ATM Industry Fact Sheet," which summarizes both the history and current state of the ATM industry. Among the findings, Tremont estimated that 394,500 ATMs are currently deployed within the United States and that non-bank ISOs operate approximately 49% of them.

Tremont predicted that rapid consolidation will likely continue in the near-term until consolidators acquire the

nation's remaining viable small to mid-sized ATM portfolios. Download the report from the Web site at www.tremontcapitalgroup.com.

ANNOUNCEMENTS

ACH Direct Certified With Vital Processing Services

ACH Direct finalized certification of its Payments Gateway platform with **Vital Processing Services**. Vital certified ACH Direct's Payments Gateway for processing retail, direct marketing, e-commerce, purchase card and recurring transaction types.

Certegy Serves Supermarkets

Certegy Inc. signed an agreement to provide its Pathways check authorization and collection services to **BI-LO** and **Bruno's** food retail chains. BI-LO and Bruno's operate more than 400 supermarkets in the southeastern United States. Using the Pathways solution, retailers use the up-front check authorization services but assume the risk for fraudulent checks.

CO-OP Network Launches Credit Union Marketing Program

CO-OP Network introduced an online service enabling member credit unions to customize and purchase marketing materials.

Available online on the CO-OP Network Extranet, the Credit Union Marketing Program is designed to educate cardholders to recognize the CO-OP Network logo, which promotes surcharge-free ATM access nationwide.



- **The Pantry Inc.** will acquire **D & D Oil Co. Inc.**, which operates 53 convenience stores under the Cowboys name, the National Association of Convenience Stores reported. Located in Alabama, Georgia and Mississippi, the stores offer BP- and Cowboys-branded gasoline.
- Clothing retailer **Urban Outfitters Inc.**, which reported a 72% increase in profit in Q4 2004, plans to open 32 new stores in 2006 under its three brands.
- Following **Kmart's** merger with **Sears, Roebuck and Co.**, Kmart said it plans to use the Sears brand on 400 of its current Kmart stores. The discount retailer will call the stores Sears Essential.

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JUSTCHEX Offers Real-time Check and ACH Verification

JUSTCHEX LLC now delivers real-time check and Automated Clearing House (ACH) verification to clients in the telecom and medical billing business sectors. Clients can verify checks before accepting them without leaving the POS applications that they use for processing various forms of payment. Clients can implement this service free of charge and pay on a per-use basis. This service is intended for any business that accepts check or ACH payments.

LaGarde Achieves CISP Validation

LaGarde's StoreFront e-commerce platform recently achieved validation with Visa's Cardholder Information Security Program (CISP) payment application best practices. StoreFront powers nearly 50,000 Web stores in 70 countries.

GASA Restructures Global ATM Crime Database

The Global ATM Security Alliance (GASA) recently

launched its newly structured and simplified global crime data management system, Cognito. The system includes more than 2,000 incidents that occurred in 2004 and divides them into nine global ATM crime categories. The system provides search criteria for standardized, anonymous and generic crime, and for specific global crime.

Lipman Receives \$7 Million in Orders

Lipman Electronic Engineering Ltd. received orders totaling \$7 million from banks and other customers in the Turkish market. The company expects to fill the orders for its NURIT 8320 landline and NURIT 8010 wireless terminals during Q1 2005.

Payment Data Systems Files Patent Documents

Payment Data Systems Inc. filed for patent protection for technology that enables the industry's first bill payment capability using a debit card. The technology allows cardholders to access electronic balances using Secure Cash Network stored value debit or ATM cards to pay bills. Because it doesn't need to be linked to a checking or savings account, the technology can be used in solutions for "unbanked" consumers. Payment Data Systems issued Secure Cash Network a perpetual license to use the technology as part of an initial roll-out. However, other providers of debit or stored value cards and networks can also license the technology.

POSDATA Certified by Hypercom

Hypercom Corp. certified POSDATA Inc. as an authorized repair service facility. The company has repair facilities in Los Angeles, Louisville, Ky. and Gig Harbor, Wash., where it provides repair, refurbishment, deployment and encryption services.

SVPCO Provides Check Clearing to Former UNYCHA Clients

SVPCO-Check Services, a business unit of The Clearing House Payments Co., now provides check collection and settlement services to financial institutions that were previously served by the Upstate New York Clearing House Association (UNYCHA). The Clearing House provided settlement services for UNYCHA institutions under a processing contract. With the additional volume from UNYCHA, SVPCO will now process more than 3.4 billion checks annually with a value of \$5 trillion.

SCM Reader Certified by MasterCard

MasterCard International certified SCM Microsystems Inc.'s e20 personal smart card reader for financial applications. The e20 reader tested successfully against the MasterCard OneSMART Chip Authentication Program's (CAP) 2004 specifications and was the first such device

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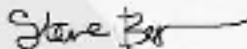
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TESTIMONIAL

Having worked in the bankcard world for a number of years both as an employee and for myself, I have come to know the difference between getting a paycheck and being in control of my future. I found GET late in my bankcard career and wish that I had found them sooner. My residual payments are always on time and are larger than they were at my previous processors. Who knows, had I found them earlier I might be the one with the Green Sheet ad.

Sincerely,
Tom H. Chicago IL



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to achieve this milestone. The approval makes it possible for card issuers to use SCM's mobile reader with the MasterCard authentication program.

PARTNERSHIPS

Cardservice Releases Semtek's Mobile Swipe Solution

Cardservice International now offers Semtek Innovative Solutions Corp.'s Mobile Swipe solution to retail merchants through its network of sales agents nationwide. Cardservice equips mobile businesses with Semtek's turnkey Mobile Swipe mobile commerce system to enable retail merchants to accept credit card payments wirelessly via their cellular phones from mobile or remote sales locations.

Chockstone, New Edge Networks Team to Provide Gift Card Programs

New Edge Networks reached an agreement with Chockstone Inc. allowing the national gift and loyalty card provider to extend broadband networking capability and electronic card-based programs to multi-unit restaurant chains. The agreement enables restaurateurs to introduce electronic gift and loyalty card programs that offer real-time promotions at the POS. Chockstone and New Edge Networks reached this agreement through their involvement in the Retail Broadband Alliance, a forum promoting migration to broadband among retailers, restaurateurs and other merchants.

Comerxia Chooses E4X

Global e-commerce solution provider Comerxia implemented E4X Inc.'s solutions to help merchants increase international sales by displaying prices in their global shoppers' currencies. Comerxia clients are now able to offer global consumers the ability to shop and pay in their local currencies, knowing exactly what the final charge will be. At the same time, E4X guarantees the amount merchants receive in their preferred currency, eliminating foreign exchange fluctuation risks.

Commerce Bank Selects RDM

Commerce Bank partnered with RDM Corp. to introduce an end-to-end check electrification platform that encompasses accounts receivable check (ARC) and Check 21 functionality. As Commerce Bank signs on customers to its check electrification solution, the transactions will be processed through RDM's Image & Transaction Management System (ITMS).

ITMS enables the capture, processing and routing of all check items through ACH, Check 21 and image exchange processing endpoints.

Datastrip Selects Shera Technology

Shera Technology Co. Ltd., an American-run electronic manufacturing service provider in China, announced an agreement to provide manufacturing services to Datastrip Group Inc. for its DSVII family of Biometric Smart Card Terminals. Datastrip is a provider of personal identification and verification technology, including software, hardware and biometric verification devices.

Ernex, Moneris and Siva Form Alliance

Ernex, a division of Moneris Solutions, and Moneris USA formed a strategic alliance with SIVA Corp., a provider of next generation restaurant applications. SIVA integrates Ernex's loyalty and gift card functionality and Moneris USA's credit and debit interface into a POS application and other external devices that SIVA has incorporated into a turnkey solution. Components include an Ingenico wireless terminal and a self-service guest kiosk. SIVA, Ernex and Moneris USA will co-market the solution specifically to the restaurant industry.

Givex and Casio Integrate Gift Card Services

Gift and loyalty card processor Givex integrated its gift card transaction processing services with Casio's TE-7000, TE-8500 and QT-2100 POS systems.

HCS Selects RBS Lynk

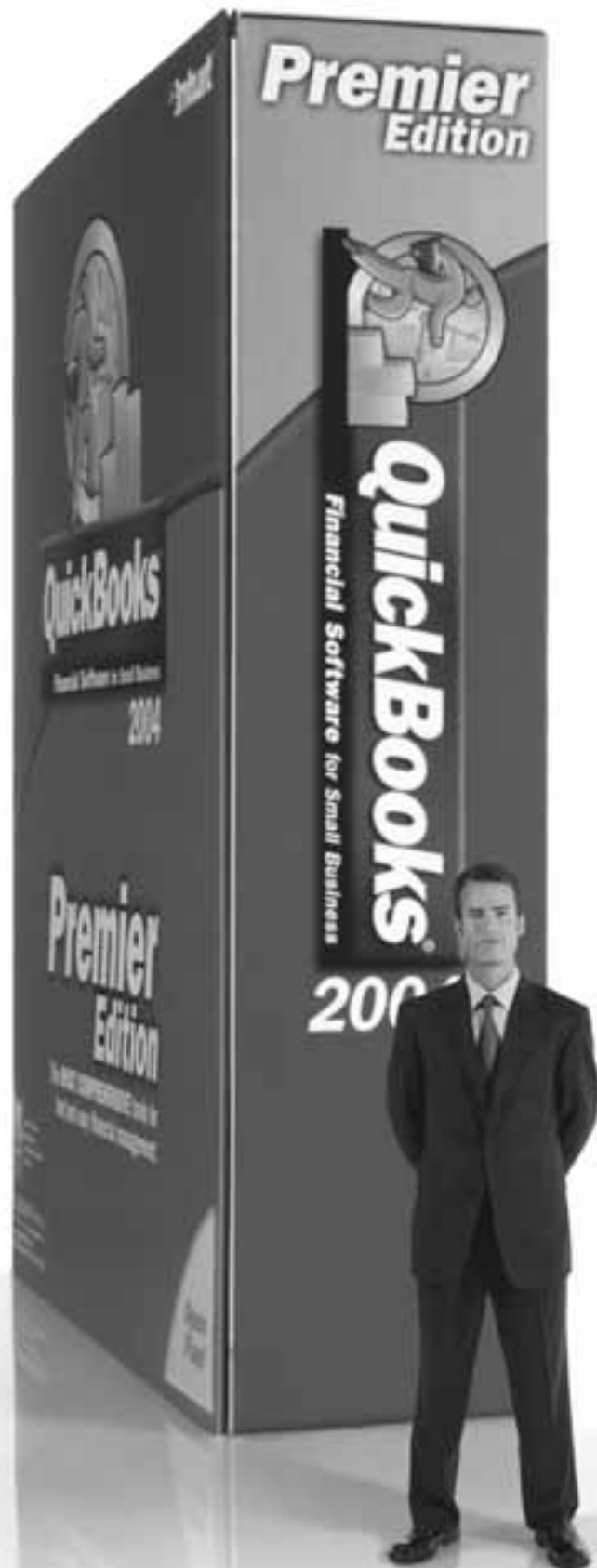
Payment processor RBS Lynk signed Hospitality Control Solutions (HCS) as the newest member of OneLynk Alliance, RBS Lynk's value-added reseller program. As part of the OneLynk Alliance, HCS will offer RBS Lynk's payment processing services to customers including The Heartbreak Hotel and Dollywood.

Ruesch Partners With CardSystems

Ruesch International Inc. entered into an agreement with CardSystems Solutions to offer credit card payment processing services to its clients. Ruesch clients will now be able to leverage a single-source provider for all credit card processing needs by using CardSystems' credit card processing solutions, including traditional terminals, e-payment systems and integrated applications.

Speedpass Renews With First Data

Speedpass Network, a venture of ExxonMobil Corp., renewed its relationship with First Data Corp. for customer processing services. First Data will continue to provide the behind-the-scenes database processing that gives Speedpass Network customers flexibility to manage their accounts. First Data will also provide Speedpass Network with Web hosting services.



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Touch-n-Buy to Deploy IPP Services

Touch-n-Buy allied with **IPP of America Inc.**, an alternative financial services company that provides consumer bill payment services. The alliance enables merchants to become a destination as a bill payment location, generating foot traffic for increased revenues from the sale of prepaid products and commissions from the payment.

TPI Software Integrates With QuickBooks

TPI Software LLC's new SmartPayments software plug-in now integrates data with **Intuit's** QuickBooks software products including QuickBooks Pro, Premier editions and QuickBooks Enterprise Solutions.

Harland Makes Equity Investment in Mitek Systems

Mitek Systems Inc. recently entered into agreements for **John H. Harland Co.** to purchase up to 2,142,856 shares of Mitek's stock. Harland previously announced a partnership with Mitek to develop self-authenticating checks for preventing check fraud involving the forgery of the maker's signature. This solution incorporates Mitek's image processing, data encoding, encryption and validation software, and allows Harland to validate the authenticity of the maker's signature and the physical check document.

PDS Delivers Products to Telecommunications Industry

Payment Data Systems (PDS) signed a multi-year agreement with **NII Communications Ltd.**, a provider of integrated telecommunications products and services for small businesses. This is the first entry for PDS into the telecommunications industry. The anticipated initial transactional value of the agreement is approximately \$12 million per year.

TNB Wins Three More Credit Unions

TNB Card Services won the credit card processing business of three West Coast credit unions. The new processing clients are United Health Services Credit Union of Spokane, Wash.; GaPac Employees Federal Credit Union of Bellingham, Wash., and Horizon Credit Union of Fresno, Calif.

VECTORsgi Solutions to Automate Check Image Exchange

Thirteen major U.S. financial institutions selected **VECTORsgi's** VECTOR Image Exchange Solution to help them implement check image exchange. They include ABN-AMRO; Bank of America; Fifth Third Bank; First Citizens Bank; First Horizon National Corp.; Frost National Bank; Harris Bank; National City

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Corp.; Navy Federal Credit Union; Popular Inc.; U.S. Bank; UMB Bank; and Union Bank of California.

ACQUISITIONS

Comdata Closes Tranvia Acquisition

Electronic payment transactions provider **Comdata Corp.** closed its acquisition of **Tranvia Inc.**, a merchant processor for credit, debit, pre-paid and e-commerce activities. Tranvia is now a wholly owned subsidiary of Comdata.

Tranvia serves merchants nationwide and is a direct provider of processing services to financial institutions, ISOs and companies offering stored value payment products for educational institutions.

US Bank to Acquire Aviation Service

US Bank agreed to purchase the aviation business of **Multi Service**, provider of credit card services for the aviation and trucking industries. Approximately 100 Multi Service employees will become employees of the bank as part of the acquisition.

Together with US Bank Voyager Fleet Systems' capabilities, the bank now has the capacity to service fleets of any size, including automobiles, trucks and non-commercial aircraft.

TransAKT Corp. Purchases TrilliumPC Network Solutions

TransAKT Corp. entered into an agreement to purchase **TrilliumPC Network Solutions Inc.** Trillium specializes in providing computer and network services to small and medium-size businesses.

The company plans to open a Trillium location in Calgary, Alberta, which will also serve as TransAKT's global head office.

APPOINTMENTS

Acies Appoints Beauchamp

Acies Corp., an electronic payment, transaction processing, and electronic banking services provider to small- and medium-size businesses, appointed **Marc Beauchamp** its Director of Business Development. Beauchamp has more than 17 years' experience in sales, training and marketing; he is also an author, columnist and consultant to the merchant services and transaction processing industry.

In the last three years, Beauchamp has provided con-

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Industry Update

sulting and training for more than 2,000 bankcard sales representatives. He is also the founder of Performance Training Systems.

Blue Bamboo Expands Global Efforts, Names Director

POS terminal provider **Blue Bamboo** recently opened an office in London to focus on markets in Europe, the Middle East and Africa (EMEA) and appointed **Ken Hansen** Managing Director of the EMEA region.

Hansen, a veteran of the POS terminal industry, will oversee the regional distribution channel operation, and establish strategic alliances for the company.

He brings more than 30 years of experience serving in executive positions at Silvergum, GemWare, VeriFone Inc. and Ericsson. The EMEA office will serve as the hub for regional distributors.

Heatherington Named RewardsNOW Chairman

Loyalty program provider **RewardsNOW** named **Gary Heatherington** Chairman of the Board. Heatherington spent seven years as an executive with MasterCard and


18 years with major banks and trust companies. He most recently served as Chief Executive Officer at Cyota Inc.

Prior to that, he was President and CEO of Bank One Canada, and held executive positions at National Trust Co. and Bank of Montreal. The company plans to broaden its focus from debit and credit card programs to multi-service solutions.

Focus Display Solutions Appoints Hawk, Weber

Focus Display Solutions Inc. named **Bryan Hawk** Chief Operating Officer and **Harold Weber** Director of Technical Support. Hawk brings 12 years of experience as Director of Engineering. Weber has 21 years' experience in military contracts and procurement.

Stone Joins COCARD

Merchant acquirer **COCARD** hired **Harvey Stone** to spearhead its national recruiting and growth objectives. Stone will recruit members and organizations to participate in COCARD's first-of-its-kind, owner-operated MLP/ISO. Stone has 14 years' experience in the payments industry. 



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Cardtronics Keeps Growing

Cardtronics is the largest independent owner and operator of ATMs in the United States, and appears to have no intention of slowing down its growth. On March 7, 2005, the company announced it received \$75 million in investment money from private equity and buyout firm, TA Associates.

Founded in 1989, Cardtronics has a nationwide network of approximately 25,000 ATMs. Its clients include some of the country's largest chain retailers and other businesses. It dispensed more than \$6.5 billion in 2004 and processed more than 111 million transactions. Cardtronics' revenues grew from \$45 million in 2001 to \$195 million in 2004.

"This investment positions Cardtronics to achieve its future growth initiatives and we are thrilled to have TA Associates join as a private equity investor in our business," said President and Chief Executive Officer Jack Antonini.

TA manages \$6 billion in capital and invests in rapidly growing businesses across a number of industries, including financial services and financial technology. This

investment was a good fit with its own strategy, according to Michael Wilson, a Managing Director at TA.

"[Cardtronics] is a profitable, rapidly growing leader in its market with a strong management team," he said. "We see a tremendous opportunity to continue their organic growth strategy of adding ATMs at leading retailers across the country as well as an aggressive acquisition strategy both domestically and internationally."

Under the terms of the agreement, TA will be a "significant non-control investor in Cardtronics," Wilson said. Two seats on the Cardtronics' Board of Directors will go to Wilson and Roger Kafker, also a TA Managing Director.

Wilson indicated, however, that the "day-to-day operations will remain under the able control of Antonini and his team."

The TA investment follows several recent strategic expansions for Cardtronics. Beginning in May 2001, the company acquired eight ATM portfolios, including that of E*TRADE Access Inc. in June 2004. It also had announced an IPO in March 2004 to raise \$115 million in capital. ■

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Online Debit Interchange: More Increases Coming?

By Ken Musante

Humboldt Merchant Services LP

The card Associations and debit networks announced changes to their interchange rate programs, effective April 2005. In my previous article, I addressed changes to offline, or signature-based, debit ("A Note on Visa Interchange Rates," The Green Sheet, Feb. 28, 2005, issue 05:02:02). This article will focus on issues concerning online, or PIN-based, debit interchange.

Interchange rates for credit cards came about primarily as a mechanism to reimburse issuers for the credit risk they assumed and to cover the cost of funds on "transactors." Transactors pay off their balances in full every month but still have use of the money without an interest charge from the time of the transaction until the time of the payment.

The acquirer pays interchange to the issuer, and passes none of the amount to the card Associations or networks for enhancements or system costs. Theoretically, acquirers pay issuers for issuing cards and benefit from increased sales at their merchant locations.

There is little credit risk in online debit because funds are not loaned to cardholders; rather, funds are debited directly from cardholders' accounts. For the same reason, there is no cost of funds.

Certainly there are costs in maintaining the system, but again, interchange does not cover that. Instead both acquirers and issuers pay separate network and switch fees. These fees vary by network; combined, they range from \$0.025 and \$0.0475 for acquirers. (Issuers have a separate schedule of network and switch fees.)

Be wary of businesses indicating that they offer interchange pricing as cost; there is more here than simply interchange.

Since little to no credit risk is associated with online debit and zero cost of funds, why does interchange vary so much between networks, and why is it increasing so rapidly?

The answer: Because the market will bear it. Online interchange is still less than credit and offline debit (for now). Additionally, the larger debit networks such as STAR and Interlink have monopolistic powers because their coverage is so much greater than the smaller networks'.

Neither Humboldt Merchant Services LP (HMS) nor any other acquirer can afford not to accept STAR or Interlink. Is it any wonder that these networks charge among the highest interchange rates in the industry?

Because the acquirer pays interchange entirely to the card issuer, networks such as STAR and Interlink attract issuers to issue cards with their logos by increasing the interchange rates. Cardholders don't care which network routes the transaction as long as it happens efficiently.

Consequently, in an effort to attract more issuers, Interlink announced what

amounts to an 18.4% increase on a \$40 transaction. This increase goes into effect April 2005.


Additionally, the basis points or percentage is now so high that pricing to merchants should reflect both the percentage plus the transactional fee.

No longer are debit networks thought of as sleepy co-ops. Instead they are money-making machines owned by First Data Corp. (STAR), Metavante Corp. (NYCE) and Discover Financial Services (PULSE).

Though STAR has not announced a 2005 increase, it will not allow its customer base to be skimmed by a higher paying interchange network. How much longer before PULSE and NYCE follow?

Merchant statements have become so convoluted that merchants often believe they are only being charged \$0.15 per transaction. Upon closer examination, that \$0.15 is the cost of the debit authorization, and interchange is billed separately.

At HMS, we combine our debit and credit statements; we have also designed our system so that when merchants "batch out" credit, online debit batches out as well. This eases the daily reconciliation and decreases phone calls to us.

The card Associations and networks also increase the number of interchange tiers as they create separate categories for larger merchants, supermarkets, and quasi-cash. As these increases take effect, the business case decreases for merchants to accept online debit. Become educated about these changes and the reasons behind them to better inform and assist merchants with their online debit needs. 

Ken Musante is President of Humboldt Merchant Services. E-mail him at kmusante@hbms.com.



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United Bank Card, Inc. (UBC) is a payment and transaction processor serving businesses nationwide. UBC currently handles the merchant accounts for over 18,000 locations and processes in excess of 2 billion dollars annually. United Bank Card assists over 650 contracted ISOs around the country in building profitable merchant portfolios. UBC operates out of two main offices located in New Jersey and Arizona offering an entirely in-house processing solution from underwriting and risk management to customer service and technical support. United Bank Card earned 3 honors in the Green Sheet's "Best of the Best" Reader Surveys including "Best Customer Service" by an ISO and "Top 5" nominations for "Best Processor" and "Best ISO Organization". UBC was also ranked as the 48th largest processor by volume in 2004 by the Nilson Report. United Bank Card is continually making advances in the payment processing industry and providing free credit card equipment is just another example of our commitment to innovation.

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2005 Event	Date
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13th ACA International National Internet & Check Services Conference & Expo	April 20 - 22
Midwest Petroleum and Convenience Tradeshow	April 26 - 28
Association for Financial Professionals (AFP) Retail Industry Forum	May 1 - 3
The Food Marketing Institute (FMI) Show	May 1 - 3
MasterCard's Global Risk Management Symposium	May 9 - 12
Financial DNA Emerging Payments 2005	May 12
WesPay Workshop: Audit and Compliance	May 10, 11, 12, 17, 18
National Association of Convenience Stores NACStech	May 16 - 18
National Restaurant Association Restaurant Hotel-Motel Show	May 21 - 24
Retail Systems Conference and Expo	May 24 - 26
NACHA Payments Institute West	June 5 - 9
WesPay Workshop: Federal Govt. Payments (Green Book)	June 7, 8, 9, 14, 15, 16
Northeast Acquirers' Association 20th Year Summer Event	June 7 - 9
ETA Expo Network	June 23 - 24
WesPay Workshop: ACH Risk Management	July 12, 13, 14
Association of Credit and Collection Professionals International's 66th Annual Convention and Expo	July 20 - 23
NACHA Payments Institute East	July 24 - 28
Field Guide for ISOs	July 27
Midwest Acquirers' Association Conference	July 27 - 29
WesPay Workshop: TBA	Aug. 16, 17, 18, 23, 24
Shop.org Annual Summit	Sept 12 - 14
WesPay Workshop: Basics of ACH Receiving	Sept. 13, 14, 20, 21
ATMIA Conference West	Sept. 14 - 16
Electronic Retailing Association 15th Annual Convention & Expo	Sept. 19 - 21
Financial Women International Annual Meeting	Sept. 25 - 27
ETA Strategic Leadership and Networking Forum	Sept. 27 - 29
Field Guide for ISOs	TBA
WesPay Workshop: AAP Review Course	Oct. 4, 5, 6
The Association for Financial Professionals (AFP) Annual Conference	Oct. 9 - 12
WesPay: AAP Examination	Oct. 18
NACHA Accredited ACH Professional (AAP) Exam	Oct. 18
WesPay Payments Symposium	Oct. 18 - 20
Smart Card Alliance Fall Annual Conference	Oct. 18 - 21
Southeast Acquirers' Association Conference	Oct. 19 - 21
Mid-America Payments Conference	Oct. 24 - 26
NACS Show	Oct. 29 - Nov. 1
Field Guide for ISOs	TBA
Western States Acquirers' Association Conference	TBA
CSI 32nd Annual Computer Security Conference and Exhibition	Nov. 14 - 16
CARTES	Nov. 15 - 17
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At an Impasse Over Interchange

By Ann All, Senior Editor

ATMmarketplace.com

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According to Visa U.S.A., its decision to create two categories of ATM interchange is a response to a changing marketplace that is designed to better balance the economic relationship between issuers and acquirers.

Visa made the change after determining that there were "significant differences in ATM portfolios, in terms of cost, security and cardholder value," said Stacey Pinkerd, Senior Vice President of Visa's Consumer Debit Products.

During a presentation at the recent ATM Industry Association (ATMIA) East conference, Pinkerd said the intent of the tiered interchange policy is to encourage operators to deploy "higher function, more secure ATMs that provide a better value for cardholders" rather than the low-end cash dispensers that have proliferated since 1996, the year Visa and MasterCard International lifted their bans on ATM surcharging.

Unfair Advantage?

Many independent ATM operators, however, see Visa's move as a way of unfairly tipping the balance in favor of the largest banks, which are some of Visa's most powerful members.

"It's an entitlement," said Frank Lunn, President of Kahuna Business Group, an Illinois-based independent ATM operator with some 5,500 machines under contract. "[Visa is] giving this to the banks because the banks can't compete fairly with the ISOs."

"The issue isn't that Visa has amended a policy, it's that they've amended it selectively to suit the needs of a particular audience," said Ron Gerstley, President of ATM Enterprises, a Maryland-based independent operator with 125 machines under contract.

While Pinkerd characterized the change as a way of improving the cardholder experience with more services at ATMs, Gerstley said one possible effect may be the removal of machines from low-income areas not traditionally served by banks.

"ISOs are providing a service in a lot of underprivileged areas that the banks don't want to touch. With the lower interchange, some of those machines just won't remain

viable," said Gerstley, who estimated that about 20% of his machines are in "borderline" locations. "That's going to end up hurting the people who can least afford it. It's just wrong."

Some ISOs may respond to the loss of interchange by increasing ATM surcharges, Gerstley said. "It's hard to see [increased user fees] as customer friendly."

Russell Pandina, Director of Operations for Montana-based Bancard Systems, suggested that banks will be able to improve their bottom lines in a way less obvious to cardholders. "They'll keep a dime of the interchange, but how many of them will pass along those savings to their cardholders by lowering their foreign fees?" he said.

Making the Cut

Under the new policy, which will be implemented in October, at least 50% of an operator's network must meet four of five infrastructure criteria established by Visa to qualify for Tier 1 status and receive the current interchange rate of \$0.50 for cash withdrawals. Those with networks that do not qualify will receive the new Tier 2



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Feature

interchange rate of \$0.40 for withdrawals. The Tier 2 rate for balance inquiries also will fall, from \$0.25 to \$0.20.

Visa's infrastructure criteria are: dedicated camera surveillance, a shared lock, an Underwriters Laboratories 291 Level 1 safe, a non-dial telecommunications network and armored car cash replenishment for off-premise ATMs.

Operators with networks that meet three out of five of the criteria may still qualify for Tier 1 interchange if their ATMs meet three out of four of Visa's cardholder value criteria: 50% of machines offer deposits; 75% of ATMs have 24-hour access; 50% of ATMs offer multiple account selection; 50% of ATMs offer more than one language.

Visa began distributing registration packets last week, to its principal members and to members who sponsor ATM operators into the PLUS network. Operators who believe their networks will be classified as Tier 2 don't need to do anything, Pinkerd said.

Those who wish to apply for Tier 1 status must do so by June 15. Operators will have an annual opportunity to apply for Tier 1 status.

Industry experts agree that few ISOs, especially those

with small- to mid-size ATM portfolios, will qualify for Tier 1 status. Most financial institutions will likely qualify because they offer services mentioned in Visa's cardholder criteria at most branch machines.

Yet qualification may be far from automatic for some banks. Ron Tiberio, Vice President of Electronic Banking for First American Bank, an institution with 30 branches in the Chicago area, said few of his non-branch ATMs would meet cardholder criteria.

He will likely meet the infrastructure criteria, but only because he is migrating most of his machines to TCP/IP. Only 60 of First American's 300 ATMs are located at branches.

Tiberio said First American "has been getting squeezed by the ISOs for years." However, he added, "I don't want Visa to make rules to tip the scales in my favor. I just want to compete on an even playing field."

Most ISOs could qualify for Tier 1 status at sites where high transaction volumes warrant using an armored car company for cash replenishment, TCP/IP communications or other measures mentioned in the Visa criteria, said Jason Kuhn, Director of Operations for WRG



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Services, an Ohio-based independent ATM operator. He suggested ISOs should receive Tier 1 interchange at those machines.

It would be "too difficult to manage distribution of interchange at the device level," Pinkerd said.

Marilyn Kilcrease, President of Creative Card Solutions, a consulting firm that works with financial institutions that sponsor independent ATM operators into networks like PLUS, does not believe Visa's new interchange policy will improve security at ATMs.

While Visa's Interlink and other networks have long maintained tiered interchange pricing for credit and debit transactions, she said those rates are tied to issuer and cardholder risk. For instance, acquirers pay more for transactions in which cards are not present.

"These standards for ATMs don't have anything to do with issuer or cardholder risk," Kilcrease said. "If an acquirer wants to use an ATM with a business-hours safe (rather than a Level 1 safe), that's not going to affect the cardholder experience at all. The only one experiencing any risk there is the acquirer."

Incentive or Penalty?

While Pinkerd told a crowd at the ATMIA conference that the new policy was "not a penalty," Kilcrease said it was hard not to view it as such.

"If they didn't want to penalize anyone, they could have left the Tier 2 rate where it was and raised the Tier 1 rate," she said.

ATMIA endorses that approach in a position letter posted on its Web site. "If you want to reward those ATM providers that have a portfolio of ATMs that are primarily full function, with higher security elements, higher cost equipment and greater functionality, then we would suggest increasing the interchange by 25% for those ATMs, while leaving the current interchange as is for all others," the letter reads.

"I don't think it should be up to Visa to slow down the ISO market," said Mike Lee, ATMIA's Chief Executive. "What is wrong with lower-function ATMs if that's what consumers want?"

Basic cash dispensers "provide a lot of value," Pinkerd said. "But do they deserve the same level of reimbursement? We believe it's appropriate to recognize the differences in ATM portfolios and establish a reimbursement structure that reflects them."

It remains to be seen whether MasterCard or regional EFT

networks like STAR or PULSE will follow Visa's example. A spokesperson for STAR parent First Data Corp. said STAR's current interchange rates of \$0.54 for withdrawals at off-premise ATMs and \$0.46 at branch ATMs will remain in effect for 2005.

Leslie Evans, Product Development Director for Credit Union 24, said the network "just went in the opposite direction," raising interchange for withdrawals at off-premise ATMs from \$0.55 to \$0.57.

Visa's PLUS, which many ISOs use as a "last resort" in routing transactions, will likely become even less popular among independent deployers. While several ATMIA attendees suggested that ISOs should consider dropping PLUS entirely from their machines, others did not see it as a realistic option.

"Ten percent of my transactions go through PLUS," said Neil Johnson, President of Texas-based International Merchant Services. "I'd be an idiot to cut 10% of my gross revenue and 10% of my customers' dispensed funds."



Link to original: www.atmmarketplace.com/research.htm?article_id=22352&pavilion=3&step=story



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Add Sizzle to Your Bottom Line This Summer: Offer a Suite of Seasonal Solutions

By **Michelle Graff**

NOVA Information Systems

Spring is already here. The ice is melting, birds are chirping and buds are blooming. These signs serve as gentle reminders that summer is just around the corner, which will bring new opportunities to you as merchant level salespeople (MLSs).

Summer is the season for graduations and weddings; tourists flock to vacation destinations, and families take road trips and enjoy recreational activities.

Following are three value-added services that deliver a strong value proposition specifically designed to improve the bottom line for businesses that thrive in the summer: dynamic currency conversion, electronic gift cards and Electronic Check Service.

Dynamic Currency Conversion (DCC)

People from all over the world flock to the United States to visit our cities, tour our national parks, attend our universities and obtain advanced health care services. Turn their euros, yen and pounds into dollars for you and your merchant customers.

In 2002, nearly 42 million international visitors came to the United States. In 2003, international travelers generated \$80.2 billion in travel expenditures in this country. DCC now provides the opportunity to offer a revenue-generating solution to merchants that serve international customers.

DCC allows international cardholders in the United States to have the amount of their purchases instantly converted at checkout into their local currency. The application calculates conversion at a competitive exchange rate, and the POS terminal prints the U.S. dollar amount, conversion rate and home currency amount on the receipt.

The processor for the DCC operation assesses a conversion fee; it's similar to what card issuers would charge. The transaction is settled in the cardholder's local currency, which eliminates further conversion charges from the foreign card issuer.

The amount on the receipt will precisely match the amount on the cardholder's credit card statement.

Best of all, unlike the issuer back-end conversion model,

you share with merchants the revenues from conversion fees in the form of a rebate on their monthly processing statements. This offering provides you with a new residual revenue stream.

DCC will appeal to merchants of all types in tourist areas such as Orlando, Fla., Las Vegas or New York City; it will also appeal to tourist-oriented businesses such as museums, city/park tour operators, restaurants, gift shops and airport vendors. Golf resorts attract a lot of foreign travelers, and we all know that a round of golf can be pricey.

A good processing partner analyzes merchants' transaction histories to identify foreign-card accepting merchants, which provides you with necessary knowledge to craft a sales message based on facts.

Some processors actually surcharge for foreign card transactions; imagine the easy sale in cases in which you not only eliminate an unnecessary fee, but actually talk to the merchant about a rebate!



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Electronic Gift Cards

According to the 19th annual consumer survey of holiday retail spending trends, commissioned by Deloitte & Touche, gift cards have replaced apparel as the holiday purchase of choice.

Estimates on 2004 holiday gift card purchases are reported to be as high as 20% of all retail sales; about 64% of consumers indicated they intended to buy gift cards. The value proposition is strong, and turnkey card programs allow even the smallest of merchants to get in the game by offering personalized gift cards.

But don't think of gift cards as a solution solely for the winter holidays. Opportunities also abound in the spring and summer. Following are eight great reasons to sell gift cards now (and all year long): Mother's Day, Father's Day, weddings, bridal showers, baby showers, graduations, birthdays and anniversaries.

Gift cards are proving to be one of the best hooks for merchant retention. Helping merchants understand the value proposition will help stem portfolio attrition. Talk to merchants about using gift cards to attract new business.

For example, a restaurant could profit from giving \$5 or \$10 gift cards to summer tourist property management companies to distribute to vacation rental customers; the plastic cards are much more attractive than paper coupons. Cards also work well as prepaid cards for entertainment venues such as movie theaters or miniature golf courses. If you achieve success selling gift cards this summer, you'll be in an excellent position to reap the revenue from card reorders as retailers prepare for the winter holiday season.

Electronic Check Service (ECS)

As families hit the road for vacations this summer, they often become carriers of the much maligned, rarely accepted out-of-state check. Additionally, in the summer consumers often mail checks for deposits on vacation rentals or use them to pay membership dues to golf clubs, marinas and other recurring payment services. Electronic check conversion solutions, including NOVA Information Systems' ECS offering, help improve cash flow and reduce risk for businesses accepting checks.

These solutions are ideal for auto repair shops such as the Tire and Auto Center in Salisbury, N.C. Owner Randy Hall now confidently accepts checks from stranded travelers ("The Merchant Experience: Electronic Check Conversion," *The Green Sheet*, Feb. 28, 2005, issue 05:02:02).

Located right off Interstate 85 in North Carolina, the Tire and Auto Center averages five to 10 out-of-town customers a week. "We can get folks in who've had a flat tire or occasionally a much larger auto emergency," Hall said. "With ECS, we'll take checks we wouldn't have felt comfortable accepting before."

Businesses that accept checks through the mail, such as vacation property management companies or private golf courses, can now take advantage of electronic check conversion.

Accounts receivable conversion, or ARC, is used in environments where the check is present, but the consumer is not. This is typical of receivable payments, recurring dues/payments, mail order purchases and drop-box environments. These businesses want the efficiency of electronic processing to reduce costs and improve the timeliness of deposits.

Now that spring is here, dust off those tourist guidebooks to search for hidden opportunities in your territory before summer starts. Learn new ways to add sizzle to your bottom line. ■

Michelle Graff is Vice President of Marketing for NOVA Information Systems. E-mail her at michelle.graff@novainfo.com.

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Company Profile



Mitek Systems Inc.

ISO/MLS contact:

Murali Narayanan,

Vice President of Product Management and
Business Development

Company address:

14145 Danielson St.

Poway, CA 92064

Phone: 858-513-4600

Fax: 858-513-2149

E-mail: sales@miteksystems.com

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Disarming Unarmed Bank Robbers

In the movie "Bandits," Bruce Willis and Billy Bob Thornton play two real-life bank robbers who, on their way to Mexico after breaking out of prison, devise some farfetched capers to separate several banks from their customers' cash. One involved coming up behind a bank security guard and sticking a Magic Marker in his neck to make him think it was a gun.

That's entertainment. The true and fictional tales of crooks who make their getaways amid squealing tires and gunfire, who don ski masks and pass notes over the counter to the teller or who make fingers in their coat pockets look like weapons are good stories and create legends out of thieves.

But bank robbery is bank robbery, and it's no laughing matter. These days crooks get away with far more stolen money using ball point pens, high quality check stock and laser printers than they do holding up tellers at gunpoint.

Check fraud is one of the fastest growing crimes in the country, but the exact amounts lost by banks and financial institutions are difficult to estimate. There are the actual cash losses to tally, as well as the less obvious costs involved in processing each of the roughly 40 billion checks written each year, including expenses for fraud prevention procedures and labor.

Some estimates put totals from fraud loss for financial institutions at \$800 million in 2002.

As larger banks rally resources to combat check fraud, criminals have aimed their sights on small community banks, which saw losses triple between 1997 and 2001, and mid-size banks, where losses doubled in that period.

Enter Mitek Systems Inc., a company in Poway, Calif. that develops forgery detection solutions including image-based automatic fraud protection and recognition technologies.

According to Mitek, forged signatures were the single largest category of check fraud losses for commercial banks in 2002, comprising more than 16.9% of total cases. As criminals acquire sophisticated tools and methods, losses from other types of fraud, including counterfeit checks, are also on the upswing.

Fake checks and forged signatures account for more than one-third of all check fraud losses.

Mitek has several products on the market that provide solutions to verify signatures and authenticity of documents, including recognition engines and forgery detection, imaging and forms processing solutions.

Working with an established global network of affiliates, Mitek's goal is to provide customers with tools to reduce losses from fraud and speed the accurate evaluation of checks.

The company's technologies help banks of all sizes improve the way they process checks; although the sys-



CompanyProfile

tens work on different levels, they are very complementary to a bank's fraud protection program.

Murali Narayanan, the company's Vice President of Product Management and Business Development, said that Mitek focuses on developing image-based diagnostic tools to prevent signature forgery and counterfeit checks, growing areas of concern especially for small and mid-sized banks.

He cited an American Bankers Association report on check fraud from November 2004 that showed that even as check volume goes down, check fraud goes up.

"Check fraud is so easy, with all new technology," Narayanan said. "Law enforcement are so busy with other things. And the penalty is relatively light; if you rob a bank at gunpoint and take \$100 from the teller, you can be arrested and put in jail. But you can write a check and withdraw thousands and go unpunished."

Less than 5% of community banks today are deploying any kind of technology to combat check fraud, and criminals have found this loophole.

Existing fraud prevention technologies are expensive and

difficult to use; they've all been designed for the big banks. As a result, smaller community banks have to manually examine checks. Because these banks process 20,000 checks a day on average, they can only really look at 300 – 400 checks of higher values, Narayanan said.

Using old-school techniques like holding checks up to the light, looking for alterations or verifying them against a signature card on file is very slow and labor intensive. "It's very limited, because you don't catch a lot of fraud like that," he said.

Three community banks that have installed Mitek's FraudProtect System are now able to analyze all the checks they process daily and are catching fraud they never caught before, including more bad signatures and bad checks of lower dollar amounts.

Designed primarily for community banks with asset sizes of \$10 billion and below, FraudProtect is scalable, and banks of all sizes can use it.

"Our value proposition to the community banks is that this is the same technology used by Bank of America," Narayanan said. "We say we're going to give this technology to them in a format that's easy to use and maintain,

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and is very affordable."

In a 15-week pilot completed by fall of 2004, Bank of America Corp. (BofA) used Mitek technology to process 41 million checks. BofA was able to identify fraudulent checks with average amounts of \$500 – \$600, totaling \$2.4 million in Southern California alone.

Banks do not have to invest in any additional equipment to implement FraudProtect. A PC on the bank's network communicates with existing imaging systems to process up to 8,000 checks an hour. FraudProtect looks at signatures on checks that were processed recently, rather than comparing to old signature cards on file, for better accuracy.

With Check 21 now offering banks the option of truncating checks, another aspect of accuracy in checks is important, too: high quality images. If a bank chooses to truncate

checks, the paper documents are destroyed and the bank instead uses an image of the check through the process. As a result, fraud detection is now based on those images; established tools such as water marks are now irrelevant in the Check 21 environment. Other tools, including signature verification, become essential.

Mitek's ImageScore system uses neural networking algorithms to test each image against potential problems. These include partial images, excessive skews and piggybacked images. Based on the results, ImageScore issues a quality score, which determines the usability of the image.

Without a clear, legible check image, an electronic transaction can't be completed, archived or, in instances of disputes, proven or authenticated. The bank's liability, and likeli-

hood for fraud, increases.

FraudProtect and ImageScore satisfy two separate but related issues in check imaging, Narayanan said.

In a bank's workflow chart, ImageScore would be a component of item processing and archiving and FraudProtect would fit into the fraud and risk management area.

Mitek's core competency is creating the technology for the highest quality image production and then backing that up with the highest level of analytical tools.

"We believe we are in the best position to set the gold standard for forgery and counterfeit check detection," Narayanan said.

"Our strategy has been to go directly to a few banks to learn, but grow the business through partners. Our partner relationships are



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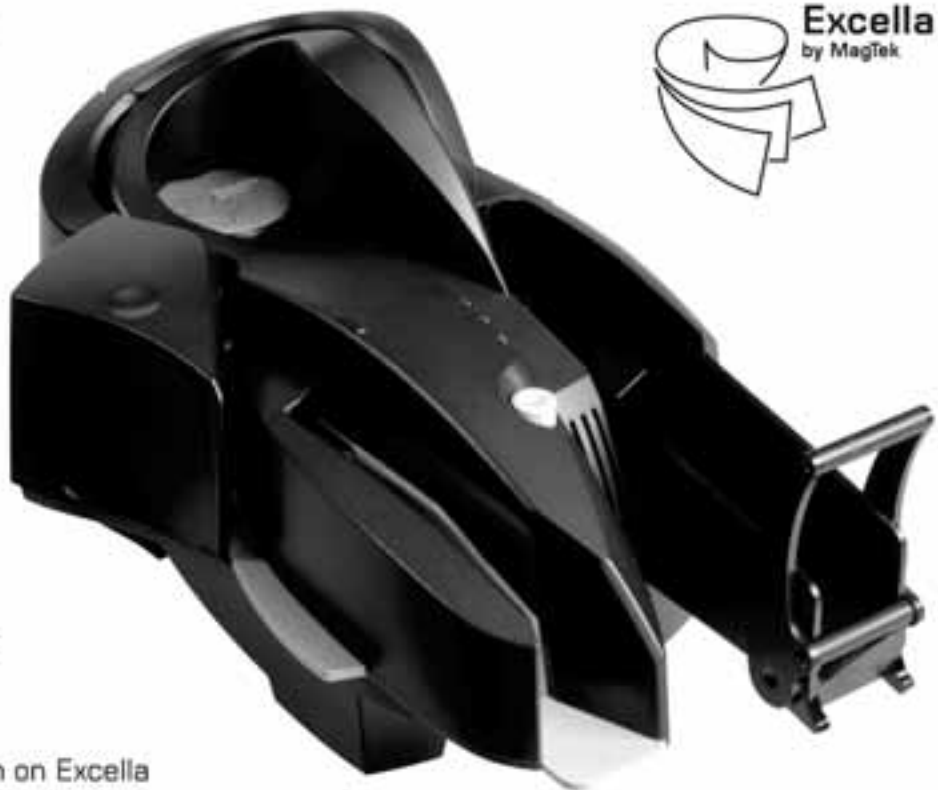
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extremely important.

"We are primarily a very unique technology company; we provide cutting edge technology that solves real problems for financial institutions. We worry about innovation, customer needs, and follow through after the sale. That's where our strengths are."

That's also why the company's relationships with its reseller channel partners are so critical to its growth.

A company the size of Mitek (of its 30 – 40 employees, eight hold doctorates) lacks the channel depth and breadth to cover the huge space that financial services encompasses, Narayanan said.

But through a global network of original equipment manufacturer (OEM) and channel partners, Mitek's recognition-based solutions process more than eight billion checks and other documents per year for a variety of customers in a growing market. At least 35% of all checks processed in the United States incorporate some form of Mitek's technology.

Mitek's Channel Partner Program provides marketing collaboration and sales expertise in imaging and data capture for agents looking for ways to expand their suite of offerings and fulfill their customers' needs. Channel partners receive leads, free technical support, sales and product training, demo software and a designated Mitek representative, among other benefits.

On the drawing board are new solutions to stop fraud at any point of presentment, when and where the fraud occurs. Many times this is at a retail store, where the merchant has no way of determining whether the check is legitimate or not.

For example, in a strategic partnership with Harland Financial Solutions Inc., a wholly owned subsidiary of check producer John H. Harland Co., Mitek will complete a pilot of technology for rollout by mid-2005 that will give merchants such a detection tool. The system analyzes the signatures on a customer's checks over time and through a secure encrypted code, prints a bar code when Harland prints new checks.

Merchants scan the check, read the bar code, capture and analyze the signature comparing it to the information on the bar code, and receive a warning if the check is fraudulent.

Mitek recently announced that Harland will make a \$1.5 million equity investment in the company, expanding the relationship and Mitek's growth potential.

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Our flexibility in system startup and management allows you to customize products, services and pricing for each merchant based on the evolving marketplace.

Empowerment

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Company Profile

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MLS contact:

Henry Harp,
 Executive Vice President and Co-owner
 Phone: 706-562-1974
 Fax: 706-562-1968
 e-mail: hharp@centralbancard.com

Company address:

5405 Utica Ridge Road
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 Davenport, Iowa 52807
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Two Partners, One Result

Central Bancard LLC is an Iowa-based payment processing company founded on solid experience and good business values; it's also the result of a friendship between two veterans of the industry.

Bill Brockway, Central Bancard's President and Co-owner, founded the company in 2003. Brockway had previously served as Executive Vice President and Chief Operating Officer of Quad City Bancard Inc. from 1994 to 2002. He is also one of the founders of Nobel Electronic Transfer LLC.

Henry Harp, Central Bancard's Executive Vice President and Co-owner, was Executive Vice President of Vital Processing Services; Harp had been with Vital since its inception. He also served as Vice President for TSYS prior to the formation of Vital.

Combined, Brockway and Harp have more than 48 years' experience in the merchant acquiring and credit card processing industries. Throughout their careers, they had many of the same customers in common.

They finally met more than 10 years ago at an industry convention, and together built a very successful company in a short period of time.

"We have the experience of a large, established organization, but we offer the service of a small company to make every agent and ISO know that their needs are important and their opinions are valued," Harp said.

"Our main focus is to develop a comprehensive suite of products and services geared toward the agent's success in the industry. We pride ourselves on the warm, friendly service that we offer and are always willing to help an agent develop a plan to suit that agent's needs."

"They have a nice program and run an honest, good business," said Harry Hasselmann, Executive Vice President and General Counsel of Vital Processing Services. "Both [Harp and Brockway] have so much experience; they've been in the business a long time. I've known Harp for more than 10 years, and he's always looking for ways to help his customers."

Through the ISO and merchant level salesperson (MLS) sales channel, Central Bancard offers merchants credit and debit card processing; check and e-check services; electronic benefits transfer (EBT); gift card programs; Internet and wireless solutions; pay by phone services; and POS equipment and support.

The company's target customers include retail merchants in the card-present, mail order/telephone order and online environments.

"TrustCommerce has enjoyed a long-standing business relationship with Central Bancard," said Rob

Company Profile

Caulfield, Chief Executive Officer of TrustCommerce, a provider of solutions for a variety of commerce enterprises based on Open Source programming. "Our mutual customers have benefited tremendously from this association and we are proud to recommend their services to merchants."

Advantages of Back-end Processing

Central Bancard has its own back-end clearing and settlement platform, which allows it to offer customized reporting and billing solutions to merchants and ISOs/MLSs.

"We use Vital Processing Services as our front-end authorization provider, but we also have our own in-house back-end processing platform," Harp said. "This allows us to customize our offerings, to be more nimble as far as making changes and reacting quickly to the market."

"Not all processing centers in the country have that capability," Brockway said.

Growing Quickly

In 2004, Central Bancard achieved significant growth. Its processing volume for the year increased 935% over 2003, with more than \$112 million in December 2004 processing

volume alone. Harp said the company is on track to process more than \$2 billion in 2005, just 18 months after signing its first agent. He attributes Central Bancard's growth to the way in which the two partners run the business. "I firmly believe it's who we are; both Bill and I have been in this industry a long time," he said. "And we have built good reputations in this business. We always try to do the right thing. We're not doing anything to make a quick buck or to skim some from somebody else. We want everyone to win."

To further drive growth in processing volume in 2005, Central Bancard introduced three new programs: a merchant funding program, a quick service restaurant (QSR)/small ticket program and a check card rate program.

Funding Merchants

With Central Bancard's merchant funding, or financing, program, the company helps merchants generate cash, whether for remodeling, advertising or investing in capital such as new equipment, by purchasing a portion of their future credit card sales at a discount.

Central Bancard bases the amount of financing on merchants' historical credit card volume. Usually, the amount

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is up to 70% of their average monthly Visa and MasterCard transactions. The company withholds a percentage of the merchant's daily deposit total, typically about 15%, for repayment of the pre-funded credit cards sales.

"Merchant funding is something our agents were talking about, so we went out in search of a program to provide to them," Harp said. "It really came about because of merchant requests."

Winning QSRs and Small-ticket Merchants

The QSR/small ticket program enables Central Bancard's ISOs and agents to woo merchants with low-ticket volumes such as fast food restaurants, video and DVD rental stores, movie theaters, parking lots and garages. "They all fall under the same QSR program," Brockway said.

"There's still not a lot of competition in the QSR arena," Harp said. "Other than the big chains like McDonald's and Burger King, if you go to a more regional or local QSR, you seldom see card usage at these types of locations."

Visa transactions must be less than \$15 and MasterCard's must be less than \$25; the transaction must occur in a face-to-face environment and the card is present and swiped at the point of sale. Central Bancard uses its back-end clearing and settlement platform to qualify the transactions at the special rates and categories.

"We have the technology and capabilities to support all of those interchange rates and programs, and our pricing structure is one that we felt like we could create an offering that would be very well received in the QSR market," Harp said.

Separating Check From Credit

Through its new check card discount pricing program, the company enables its ISOs/MLSs to offer separate qualified discount pricing for check cards. "Most merchants are still paying one qualified discount rate for credit and check transactions," Harp said.

With Central Bancard's program, ISOs/MLSs offer one qualified discount rate for check card transactions and a different qualified discount rate for credit card transactions, saving merchants up to 50 basis points on their check volume for retail merchants.

Again, using its proprietary back-end clearing and settlement system, the company can calculate the lower interchange rates and will pass these on to its ISO/MLS partners, with no mark up and no increases on mid- and non-qualified transactions.

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Central Bancard serves the small- to mid-sized merchant market. And an affiliate company, also owned by Brockway and Harp, TriSource Solutions LLC, provides full processing services to other ISOs without their own BIN relationships.

TriSource can provide Vital Processing front-end authorization products; an in-house back-end clearing and settlement solution; BIN access; customer service; risk monitoring; underwriting and marketing services to ISOs that are looking for a partner that will allow them to grow the value in their own business (not in their processing partner's) through merchant ownership.

Paying Its Partners

Central Bancard has developed a customized compensation program to serve its ISO/MLS partners. The company offers buy rates, true interchange pass through, one day turnaround on merchant applications with no fees and contractually guaranteed lifetime residuals.

It also offers detailed reporting for agents to analyze their merchant accounts. "We pay our agents the same way each month, just as agreed, with nothing hidden and no fine print," Harp said. "Just simple and straightforward."

In an industry where so many companies offer the same products and services and at competitive rates, it's hard to differentiate one from the others. "Everybody says they have great prices, lifetime residuals and turn merchant applications around in one day; of course you can get that almost anywhere," Harp said.

"We focus more on our culture, the way we do things here, which is what I think separates us, and the fact that we have our own back-end platform and all the value that that brings, too. We will maintain the reputations that we have established within this industry because we have built and operate Central Bancard and TriSource on hard work, honesty, mutual respect for our clients and a commitment to do the right thing, just the way Bill and I have always conducted ourselves in this industry," Harp said.

Brockway and Harp work together and share a similar approach to doing business, but actually work out of different offices. "I'm responsible for more of the day-to-day operations, while Henry brings in new business," Brockway said.

"I find it; he takes care of it," Harp joked.

"We're on the phone about 20 times a day to each other," Brockway said. "I think we need one of those video phones." ■



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Truncation Applicable to Merchant Receipts?

Do security initiatives, their deadlines and fine print, floating in the air across financial services like springtime pollen, confuse you? Take truncation of credit card account numbers on printed receipts: Card Associations, as well as federal and state governments, have policies in place to abbreviate the amount of information that appears on customers' receipts.

These policies have different schedules for compliance and requirements for truncating information. Visa specifies that customer receipts display only the last four digits and no expiration dates; under a federal law signed by President Bush in December 2003, known as the Fair and Accurate Credit Transactions Act of 2003, five digits, but no expiration date, can appear.

Recently, a reader of The Green Sheet e-mailed us wondering whether merchants' copies can show only truncated account numbers, and if so, what happens when validations are necessary in retrievals and chargebacks?

The answer is that account truncation policies currently apply only to customer receipts. A spokesperson for Visa

U.S.A. said that the idea is to limit opportunities for "dumpster diving" for receipts containing credit card information. Merchants should have their own internal security policies in place to protect cardholder data, including limiting access to the information to "need-to-know" bases, Visa said.

The issue of truncation goes back 10 years, when customers began leaving receipts behind at the new self-service terminals just being deployed at locations such as gas stations.

In March 2003, Visa became the first in the industry to announce a truncation policy. The first stage of its implementation was effective July 1, 2003 and required all electronic terminals manufactured from that point forward to comply with its policy.

The second stage, effective July 1, 2006, will broaden coverage to all terminals. That means any existing terminals in use will have to be upgraded with hardware fixes or software downloads, or be replaced altogether. For total compliance, merchants should also be familiar with their states' specific policies and deadlines. ■



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When Good Reps Go Bad

By Lazaros Kalemis

Alpha Card Services Inc.

Most merchant level salespeople (MLSs) begin their payments industry careers with good intentions. They hit the ground running and show excitement every single day. They hustle, eat, breathe and sleep their businesses. When faced with increasing pressures and challenges, they work through them and eventually become very successful.

However, some MLSs try to take the easy way out. When pressure starts getting to them, they fall into a slump and dig deeper and deeper holes. Soon they become desperate, and that's when they snap.

For example, an underwriter might ask an MLS for additional information on a merchant account. The MLS types up a letter and forges the signature. The underwriter approves the account and sets it up. And the MLS thinks "that wasn't so bad."

A few weeks later the underwriter needs a bank letter or pre-printed check because the MLS handed in a tempo-

rary check. So the MLS gets on his computer and quickly creates a check and another account. He thinks how easy it was to do that.

In another scenario, an MLS goes out on a sales call, but the owner isn't there to sign the contract. An employee offers to sign the application instead. The MLS says, "If I turn my back and turn around and the application and lease are signed then that is ok." And the dark side beckons.

These MLSs try to justify this behavior by thinking that underwriters are too strict and that following the rules isn't really necessary. Although they might get the deals approved, what happens once the deals go bad?

No matter how good salespeople are or how well they think that they know their customers, unless they play by the rules, something will happen; when processors go after their losses, these MLSs will lose.

Some MLSs might think "I know the processor makes money hand over fist, so what does 'x' amount of loss really matter?" It matters. If you're one of these reps, think about it the next time you call your processor and you're on hold too long. Every loss eats at the processor's bottom line, and in order to maximize the bottom line, they'll

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have to take action. They'll cut your residuals, cut management's pay or fail to hire quality support personnel. Don't become a bad rep. Instead, show integrity by doing the following to help fight fraud, in turn, you'll make more money:

Treat Prospective Deals Like You're on the Hook

Know underwriting rules inside and out. If clients need a certain high or average ticket, which requires bank statements, ask for the statements upfront.

If you don't, the processor might hold merchants' money or delete merchants' transactions because their bank accounts don't support them.

ISOs have underwriters for a reason; no matter how frustrated you get with underwriters or risk analysts, they're only doing their jobs. If ISOs go out of business, what happens to your accounts?

Fully Disclose All Fees

It's a salesperson's job to make customers understand what they are signing. Go over all the terms of the contract and make sure that merchants fully understand

them. This might cost you a deal or two, but in the long run you'll have a better attrition rate and a solid portfolio.

One Account Isn't Worth Your Reputation

This industry is small, and our reputations follow us everywhere. Reps who burn leasing companies or ISOs and think that it doesn't matter are wrong. Most ISOs and leasing companies know each other; when they get burned by an MLS, news travels fast.

By following the above principles you'll write better business, earn more profit and have less attrition. ISOs will value your judgments on tough calls because your reputation warrants it.

No one deal is worth a career full of mistrust. Be honest in dealing with merchants and ISOs, and you will benefit in the long run. 📧

Lazaros Kalemis founded Alpha Card Services with Dimitrios Tsikoudis to serve as an agent and merchant-friendly ISO. Alpha Card Services takes pride in teaching agents and groups to be more productive and become more educated. To learn about partnering with Alpha Card Services, e-mail Lazaros at Lkalemis@alphacard-us.com or call him at 866-253-2227, ext 13.

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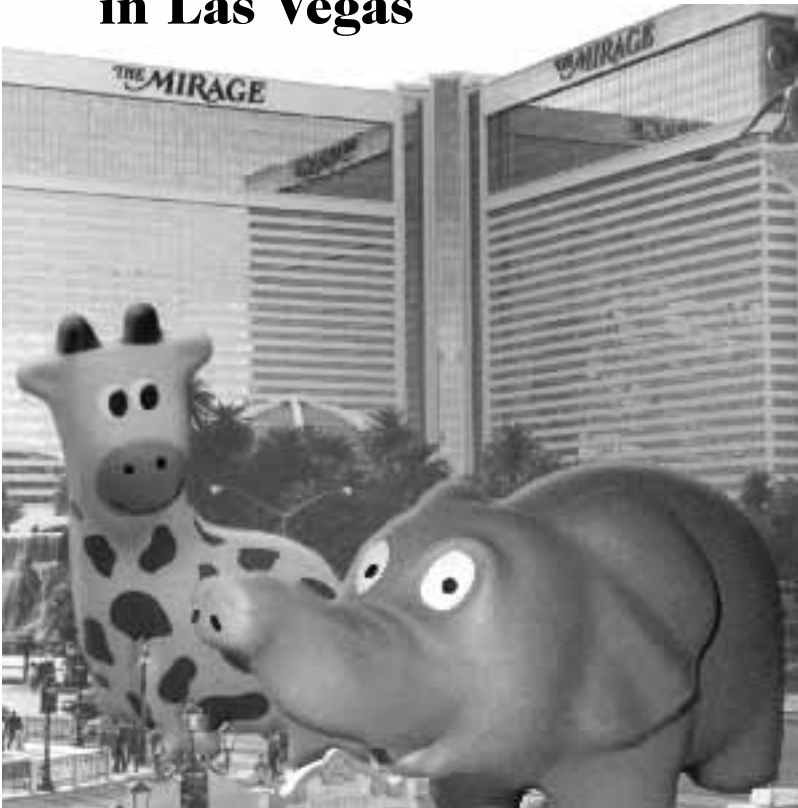
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It's a Win for Edwin in Las Vegas



George the Giraffe and Edwin the Elephant at The Mirage Hotel in Las Vegas

In a landslide victory announced March 16, 2005, ETA attendees in Las Vegas voted Edwin the Elephant the most popular of The Green Sheet booth menagerie. Many commentators called the race "tick-tight," but trade show guests from around the country chose Edwin over five squishy contenders.

Campaign Manager Julie O'Ryan said representatives from both Asian and African species hailed Edwin's victory as a "win for elephants everywhere." Opponents' responses were mixed.

Known for his philosophical stance on many issues, Zachary the Zebra was congratulatory, citing Edwin's jovial, good-natured trumpeting and ability to balance on one foot as worthy competition in the talent portion of the contest.

George the Giraffe praised Edwin for his trustworthy steadfastness in difficult situations. "I'd stick my neck out for him any time," George said.


Taylor the Turtle could not be reached for comment. He was last seen ambling off Interstate 10 for a date smoothie near Indio, Calif., apparently lost on the way home

from Las Vegas. O'Ryan said his slow pace had become "somewhat of an issue" during the race, slowing down scheduled events. She surmised that the desert climate might have been more appropriate for a tortoise than for a Hawaiian sea turtle.

Also affected by the desert air was Darcy the Dolphin, who carried a water tank and spritzer bottle making campaign stops around the Expo Floor. "It's not the heat, it's the aridity," Darcy wheezed and whistled.

In several exit polls, ETA attendees said they had voted Lonnie the Lion "Mr. Uncongeniality" due to his voracious propensity for ripping the flesh off the competition. Lonnie said his actions were "misinterpreted and blown out of proportion by the liberal media" and plans to start the recount process within the week.

Las Vegas' best known animal rights activists, Siegfried and Roy, did not attend ETA but submitted votes by absentee ballot.

Edwin plans to take time to relax and "review his options," O'Ryan said. Possibilities include a recurring role on the CBS series "CSI," filmed on location in Las Vegas, and pit boss at the Bellagio. 

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What happens when your ISO partner is not meeting - and exceeding your expectations at every point? I'm guessing that at least half of your valuable day is spent fixing problems with existing merchants. And, even worse, I'm guessing you may be afraid to call your customers for referrals in fear of spending even more of your valuable time dealing with these same types of issues.

Instead of doing business with an ISO that is somehow *like* Total Merchant Services, choose the real deal. Join the most trusted leader in the bankcard business. Make Total Merchant Services your primary merchant account acquirer. **I WON'T LET YOU DOWN!**



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ETA Las Vegas From Page 1

Although a final tally on overall attendance was not available at press time, the association's estimates are impressive: At least 2,900 people attended the conference. ETA did provide actual numbers for ETA University (ETAU) participants and companies in the exhibit hall, however: 467 ETAU attendees and 178 exhibiting companies (up from 146 last year). And nearly 300 people attended the President's Dinner.

"This meeting continues to develop as the premier event for the payments industry," Balakgie said. "Even as we grow, we are strongly focused on delivering the highest quality business, education and social interaction possible."

Plenty of Education and Action

Pre-conference events on Monday and Tuesday included ETAU courses, the annual President's Dinner sponsored by Hypercom Corp., the ETA Golf Tournament sponsored by Ambiron, a new member/first time attendee reception, and a women's networking fair, a new ETA event.

On Wednesday morning, David W. Nelms, Chairman and Chief Executive Officer of Discover Financial Services, opened the day with a talk on Discover and his perspective on the future of the payments industry.

Educational and breakout sessions on Wednesday and Thursday covered hot topics such as legal and security compliance, emerging technologies, mobile commerce, risk management, fraud, and updates on e-checks and Check 21.

Since most attendees probably did not make it to every presentation on the agenda, ETA provided slides in hard copy in bins in the main hallway of the Mirage's convention center, which was a thoughtful and well-received gesture.

Following dinner on Wednesday night, ETA hosted a "Moroccan Magic" party in the grand ballroom, complete with a live camel and live snakes, henna tattoos, fortune tellers, belly dancing, exotic drinks, appetizers and music. Hundreds of people attended and stayed until closing (around midnight).

On Thursday, Harvey Mackay, author of many inspirational books including "Swim With the Sharks Without

Being Eaten Alive," opened the day with some insight on business and life.

"If you catch an employee looking out the window, or even catch yourself looking out the window, congratulate them and yourself," he said. "Thinking is the hardest, most valuable task any person can perform."

Exhibit Hall Excitement and Stimulation

In ETA's exhibit hall, it's all about networking, product demos and competing for the attention of attendees, whether through gimmicks or giveaways. And because this year's expanded exhibit hall housed 178 vendors, many took a new and clever approach to attracting interest.

The hall opened Tuesday evening, and ETA provided plenty of opportunities, through beverage breaks and lunches, to return throughout the conference. Following are some highlights:



The Green Sheet's Julie O'Ryan and "Marilyn Monroe"

Anyone walking around the hall couldn't have missed North American Bancard's brightly dressed Las Vegas show girls wearing huge feathered headpieces.

Retriever Payment Systems opened the "Retriever Lounge," complete with comfortable leather couches, coffee tables, a piano player, and guest appearances by Marilyn Monroe, Frank Sinatra and Dean Martin look-alikes.

Hypercom created a miniature strip mall in which nine merchants were represented, including a shoe shiner, dry cleaner, dental office, bookstore/café, corner grocer, beauty salon, convenience store, quick service restaurant and local bar/restaurant. Each provided services to attendees while demonstrating a different Hypercom terminal payment solution.

During the opening reception, EVO Merchant Services served cosmopolitans and lemon drop, green apple and tropical passion martinis from a bar carved entirely out of ice.

Cynergy Data offered free 10 minute massages at its booth throughout the conference. As attendees settled into massage chairs for a few stolen minutes of relaxation, masseuses queued silent Cynergy PowerPoint presentations on strategically placed laptops.

Representatives from Bankcard Services, an electronic transaction processor that specializes in serving Asian merchants in the United States, dressed in traditional

CoverStory

costumes and make up and gave out wooden fans and delicately knotted bookmarks.

Exadigm Inc. treated people to fresh fruit and sponge cake for dipping in a chocolate waterfall, and at least two exhibitors enticed attendees to enter to win time in their money booths for some good old fashioned cash snatching.

First Data Corp. lured exhibit hall roamers with very practical giveaway items: portable USB drives that stored ETA Annual Meeting and Expo session handouts. Other popular giveaways included Money Tree Merchant Services' multi-colored light-up pens.

At The Green Sheet's first-ever ETA booth, squishy "stress" balls in six different animal shapes were a big hit (see "It's a Win for Edwin in Las Vegas" on page 59) along with our "Greentastic Voyage" giveaway: an all-expense paid trip for two to either South Africa or Maui, Hawaii (see "It's Decided: 'Greentastic Voyage' Winner Chooses South Africa" on page 66).

The technology itself also grabbed the attention of conference attendees. Many new product offerings in Internet protocol-based and wireless technologies captivated pay-

ment professionals. And this year, contactless technology ruled the show, with all the major players, including Visa U.S.A. and MasterCard International showcasing their latest solutions.

A Lively Closing Session

Balakgie closed the conference on Thursday afternoon by thanking the event's sponsors, attendees and volunteers. "We have a vibrant, active and clearly growing community," she said. "Our sponsors are an integral part of putting on an event like this."

Following Balakgie's statements, the lights dimmed and the harmonizing "Six Real Brothers" came on stage to liven the crowd with popular Beach Boys songs. After their performance, the much anticipated Bill O'Reilly of Fox News took the stage and closed the 2005 Annual Meeting and Expo with his views of the current business and political climate and advice for the electronic transactions industry.

Mark Your Calendars

The 2006 ETA Annual Meeting and Expo is set for April 18 - 20 at the glimmering Mandalay Bay Resort and Casino in Las Vegas. 

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It's Decided: "Greentastic Voyage" Winner Chooses South Africa

In Las Vegas, good luck occasionally results in a big win. That was definitely true for Garlond Pratt at 5:45 p.m. on March 16; without rolling the dice, playing a winning hand of cards or making the right spin of the roulette wheel, he managed to hit the jackpot.

Attending the Electronic Transactions Association's (ETA) 2005 Annual Meeting and Expo, and traveling all the way from Woodbridge, Va. to be there, Pratt went home with a two week trip to South Africa for two, courtesy of The Green Sheet.

The energy level at the largest trade show in the industry is always high as thousands of people come together for several days from all over the country and the world, representing organizations from every corner of electronic payment processing to meet, greet and learn how to expand their businesses.

Adding to the buzz this year was the chance to win the trip of a lifetime. Entries had to be made at The Green Sheet's booth; Pratt's was one of 420 entries dropped into the drum.

For more than 20 years, The Green Sheet has brought readers the inside scoop on the world of payments. Now, we're sending Pratt to the other side of the earth on a journey we bet he'll never forget.

He won the "Greentastic Voyage," which we've been talking about in conjunction with our first-ever booth at ETA. To set the mood, we decorated the booth with tropical flowers, pith helmets, and scenes from the two exotic locations the winner would choose between: South Africa and Maui, Hawaii.

Enormous bins filled with our colorful spongy elephants, turtles, dolphins, giraffes, lions and zebras beckoned curious attendees to stop at the booth and spend a few minutes visiting with staff members to learn more about our publications and the incredible ETA giveaway.

Part of the fun of a big win in Vegas, even for onlookers, is that the excitement is palpable and contagious. Sure enough, as the time approached to draw the lucky winner at The Green Sheet booth, a crowd gathered, anticipating the announcement.



Julie O'Ryan and the drawing drum before the big announcement.

The winner had to be present to win, and with the interest that the drawing generated during ETA, many hopefuls stood around the booth. People cheered and clapped as Julie O'Ryan, President and Editor in Chief of The Green Sheet, turned the handle to spin the drum and then drew out a single green entry form.

Pratt was in a state of shock when his name was called. "I'm still shaking," he said. "I couldn't believe when I heard the announcement, and I ran up to the booth."

Pratt is a Senior Sales Consultant with SageNet LLC, a systems integrator of Internet protocol-based payment solutions. As a "feet on the street" salesperson in the payment processing industry, he's relied on advice and information he finds in The Green Sheet to help in his day-to-day job tasks: making 30 – 40 phone calls daily and setting four to five appointments weekly.

He's been reading The Green Sheet for more than 10 years, and it's paid off for him in many ways, including a big South African one. "This magazine has everything," he said. "The Green Sheet is a very respectable publication."

The timing is perfect for Pratt and his fiancée, too: They plan to get married next year and hope to use the South African adventure as their honeymoon. He called her on his cell phone at the booth and they had no trouble deciding their destination then and there.

"I've always wanted to go to a hot country like South Africa," Pratt said. "The farthest I've ever been is London."

Congratulations, Garlond, and bon voyage!



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Education

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Ed Freedman Bids Farewell to "Street Smarts"

It is with sadness but much appreciation that I write my final "Street Smarts" column. For the past two years, I've had the privilege of hosting an ongoing dialog that honestly and aggressively deals with the challenges faced each day by merchant level salespeople (MLSs).

I covered a lot of ground in this column. Taking my cue from the many calls and conversations I had with MLSs across the country, we discussed it all: contracts, compensation, closing techniques, strategic ISO alliances, vendor selection, lead generation, leasing, value-added products and services, the Internet, card Associations, regional associations, interchange and business philosophies.

For readers who missed any of the articles, The Green Sheet has them archived (and also all of its issues dating back to 1995) on GS Online at www.greensheet.com.

I think what made "Street Smarts" so effective was my interaction with MLSs through GS Online's MLS Forum. No matter what the topic, MLSs clearly and emphatically voiced their opinions, and I proudly included many of those comments in each and every column. Our discussions, albeit sometimes rather heated, reflected both sides of the spectrum.

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For my final submission, I asked readers to let me know how they felt about my work these past two years. I requested that they hold nothing back, and they didn't. Here's what the feet on the street had to say:

"I think it was genius. From a marketing, helpfulness and effort perspective ... GENIUS. You got to call the topics, which would be valuable to the MLS. You got the Forum membership to virtually write your articles for you. It got you a lot a free press. But most importantly, it did give some who would never have the chance a voice and a platform ...

"Overall a win, win, win. Great idea; hat's off to you and The Green Sheet for being cutting edge and, most importantly, stirring the debate to advance our profession." – toby

"Your column changed my business for the better." – tazman

"I just wanted to let you know that I think you did a great job with the 'Street Smarts' column. I cannot think of another place where the MLS community can get such great advice that applies directly to it. You always stayed current with the issues that we wanted to hear about.

"I thought to myself many times 'How does he put two columns out each month?' It must not have been an easy task. Yeah, there was a little self-promotion, but should we expect otherwise? We are all in sales.

"Anyway, again, great job, Ed. I know we will be seeing or hearing from you somewhere else." – swinnerton

"Great column. I read it every month and have a ton of respect for what you say and what you have done in the past. I also started out as a young buck in the industry (still am), and I understand a lot of the hurdles that you have faced. Your advice has been great not only for the 'feet on the street' but for everyone in the industry. Thanks again." – SwipeNGo

"[This is] one of the best columns I've read in a free or paid publication. Maybe you can do something once a

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StreetSmarts

**I'm glad so many
MLSs found value in
"Street Smarts."
I found a renewed
sense of purpose. I
took my role seriously
and with each column,
I pledged to inform,
inspire and support.**

**I want to take
this opportunity to
let everyone know
that I will continue to
act on that pledge.
As the newest
member of the
Electronic
Transactions
Association's
(ETA) Board of
Directors, I intend
to work diligently
on behalf of MLSs.**

quarter. I'm going to go back and read some of your old columns that I hadn't had time up to now to read. Good luck to you and [with] all of your endeavors ... " – Utrue

"Yours is always the first column I turn to when my GS arrives. You've done a great job and will be missed!" – hedda

It's apparent from these posts that I have succeeded in what I intended for "Street Smarts." At the onset, I committed to providing a platform where the hardest working sector of the bankcard business, MLSs, could be heard, and they were heard.

I'm glad so many MLSs found value in "Street Smarts." I found a renewed sense of purpose. I took my role seriously and with each column, I pledged to inform, inspire and support.

I want to take this opportunity to let everyone know that I will continue to act on that pledge. As the newest member of the Electronic Transactions Association's (ETA) Board of Directors, I intend to work diligently on behalf of MLSs.

Although I won't have a column in The Green Sheet twice a month, I will represent MLS interests and opinions at each ETA strategic planning session and board meeting that I attend.

As I've mentioned many times during the past two years, it's critical that all levels of the industry participate in the enhancement of policies and procedures.

I've stressed the importance of active MLS involvement in regional and national associations, and I'm putting my money where my mouth is; I hope that others do the same.

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StreetSmarts

The Green Sheet is pleased to announce that beginning in April 2005, the National Association of Payment Professionals' (NAOPP) Board of Directors will be the new hosts of our "Street Smarts" column, and the individual members of the NAOPP Board will rotate authorship of "Street Smarts."

The formula we developed will

remain the same. The current author will identify a topic and post the topic/question on GS Online's MLS Forum. The author will then use the ensuing online dialog to augment the column for each issue of The Green Sheet.

Kathy Harper, NAOPP Secretary (her MLS Forum user name is hedda), will write NAOPP's inau-

gural "Street Smarts" column. The topic: "The sale is never finished! Never assume that you have a 'sure thing' on your hands."

Please share your stories of something you thought was a "sure thing." We will publish this column in the April 11, 2005 issue of The Green Sheet (issue 05:04:01).

In the next few years, our industry will witness dramatic change, and knowledge is the key to successfully weathering the storm brought about by change. New mergers and acquisitions will take place. Some organizations will grow stronger; others will disappear. New products and services will arrive on the scene, while others will become obsolete.

How will salespeople stay ahead of the game? My suggestions: Get involved; join ETA; attend regional acquirers' association events and industry seminars; subscribe to industry publications; and stay informed. I'll be out

there fighting for MLSs. We won't win the battle unless we work together for a better business world.

I would be remiss if I didn't also take this opportunity to express my deepest thanks to Paul Green and the entire staff of The Green Sheet for their confidence and support. They took a chance on a guy who had never written anything before. All he had was passion and street smarts! This has been a great experience. I've learned a lot and hopefully have taught a lot as well.

"Street Smarts" will continue with new hosts. I wish them all the best and hope that they enjoy it as much as I did. They are about to embark on an extraordinary journey that will bring them many rewards. It certainly did for me.

Despite all the challenges and curves that our industry throws at us, I still believe that this is the best business in the world. I look forward to working with everyone, whether over the phone, in an office, at a conference or, my favorite place, where the rubber meets the road. Thank you. ■

"The ancient Greek definition of happiness was the full use of your powers along lines of excellence."

- John F. Kennedy

Ed Freedman is founder and President/Chief Executive Officer of Total Merchant Services, one of the fastest-growing credit card merchant account acquirers in the nation. Freedman is the driving force behind all business development activity as well as the execution of Total Merchant Services' marketing plan, including recruiting and training independent sales offices and establishing strategic alliance partnerships with leading vendors, so that Total Merchant Services can provide its customers with the highest quality and most reliable services available.

To learn more about Total Merchant Services, visit the Web site at www.totalmerchantservices.com. To learn more about partnering with Total Merchant Services, visit www.upfrontandresiduals.com or e-mail Freedman at ed@totalmerchantservices.com.

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Many Thanks for Two Great Years of "Street Smarts"

By Julie O’Ryan

President/Editor in Chief, The Green Sheet Inc.

The pages of The Green Sheet have included several column series over the past 20-plus years. However, the most recognizable series to date has been "Street Smarts," hosted by Ed Freedman of Total Merchant Services.

During the Electronic Transactions Association's (ETA) 2003 Annual Meeting and Expo, Paul Green, Publisher of The Green Sheet, and I asked Ed to begin writing our newest column series titled "Street Smarts."

We envisioned that this new column would provide an ongoing dialog with merchant level salespeople (MLSs) about their day-to-day challenges and opportunities. We saw it as an opportunity to bridge the gap between our online and print readership by posting a specific conversation topic on GS Online's MLS Forum and then using the responses to build a column for the print magazine.

Ed has done a superlative job with this column during the past two years. He addressed an array of topics encompassing the breadth of this industry. And along the way, "Street Smarts" became the focal point of the Education section of The Green Sheet, an area of the publication where numerous industry experts contribute thousands of words.

We want to thank Ed for the tremendous amount of time and effort he dedicated to "Street Smarts." When he first agreed to write the column for every issue, we stressed that this would be an enormous undertaking.

Ed even called a few months after he began the column to say that he had greatly underestimated the amount of time and hard work required to write 1,600 words or more every two weeks. However, he agreed to stick with it, and we're very glad that he did.

As readers, your response to "Street Smarts" has been fabulous. Participants of the MLS Forum have shared their experiences and advice, humor and frustrations, and Ed has shaped these into 45 engaging and educational articles.

Since the inception of The Green Sheet, we have taken stands on issues confronting our industry, and Paul encouraged Ed to state his opinion on the issues that he discussed. In his columns, Ed gave advice based on personal experiences from selling on the street and managing a very successful ISO.

The Green Sheet thanks Ed for being willing to stick his neck out and state his opinions. His enthusiasm, dedication and talent have given "Street Smarts" the high-energy sizzle for which he is so well known, and he infused this column with his drive and humor.

Ed has done a terrific job and has created a solid foundation upon which the next hosts will build.

During his term hosting "Street Smarts," we think Ed accomplished all that we

The Green Sheet thanks Ed for being willing to stick his neck out and state his opinions.

His enthusiasm, dedication and talent have given "Street Smarts" the high-energy sizzle for which he is so well known, and he infused this column with his drive and humor.


During his term hosting "Street Smarts," we think Ed accomplished all that we asked of him and more.

asked of him and more. However, it's time to pass this specific soap box on to another host.

Beginning in the April 11, 2005 issue of The Green Sheet, members of the National Association of Payment Professionals' (NAOPP) Board of Directors will sponsor the "Street Smarts" series.

The formula for "Street Smarts" will remain the same. Each NAOPP author will have a byline and will identify a specific topic of interest for MLSs. The topics will be posted to the MLS Forum for comment.

As always, we are interested in your opinion of The Green Sheet. We want to know what we can do better to make our publications more powerful, more useful to your business and more relevant to your career.

What topics would you like covered in "Street Smarts"? Send your comments, suggestions and questions to julie@greensheet.com . 



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Education (continued)

Legal Ease

Avoiding a Buyout Blowup

By Adam Atlas

Attorney at Law

Let's face it; most ISOs dream of a day when a bank or processor will buy out their portfolio for 32 times their monthly residuals and write them a single check for a few million dollars, after which they will ride off into the sunset in a golf cart.

However, the reality of a buyout is very different. Many ISOs reach a mature point in the growth of their portfolio and start negotiating a buyout only to realize that the processor or bank has offered a deal radically different from the deal they expected during the years leading up to the transaction.

As an ISO, don't let this happen to you. In this column I'll provide a few suggestions to help you avoid taking much less for your portfolio than deserved and hopefully place you closer to the golf cart scenario.

When negotiating the ISO buyout clause, consider the following:

Always Have an Exit

Like all business relationships, the ISO agreement should provide a fair exit strategy from the beginning, through the initial term and to the end.

Remember, there's more bargaining power before signing the deal than after.

It's hard to get FedEx to deliver life rafts to a sinking ship in high seas. Never sign an ISO deal unless you clearly know how to exit the ISO relationship at any point in time.

If your portfolio is worth \$1 million, and the processor pays only \$100,000 on closing, something is fishy.

The buyer probably lacks the intention to pay you the whole purchase price.

Set Objective Pricing

The million dollar question that every ISO contemplates at least once a week: How much will I get if I sell today? If the deal includes an option for either party to trigger a buyout of the ISO, then I recommend at least some wording to ensure an objective calculation of the price range.

For example, set minimum multiple pricing. Or, work with the processor to determine a comprehensive formula that would yield a price as a function of the number of merchants, dollar volume, revenue, attrition, type of merchants and liability.

Consider, however, that comprehensive formulas can backfire. You might build a pricing model based on where the ISO business is today, but six months from now the business might take a new direction that could make that formula harmful to the buyout pricing.

Determine Who Holds the Trigger

Sometimes only the processor has the right to propose a buyout; sometimes either party has this right. Sometimes the ISO can refuse; sometimes the ISO has to sell. Negotiate these business points to reflect each party's intentions at the time they draft the ISO agreement.

To the extent that you've crafted a good pricing formula, it's more acceptable



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to have a forced sale because you'll get fair pricing. To the extent that you do not know the pricing in advance, do not let the processor bind you to sell out on its request.

Avoid the "Last Month Grab"

At least one very prominent processor in the market today has a policy of paying the buyout price a month after the buyout and holding back residuals during the month before payment of the purchase price.

While I take no issue with this business decision, it appears that not all of this processor's ISOs are aware of the policy. I like to call this the "last month grab."

Let's say you agree to sell your portfolio on May 5, 2005. With this policy, you will receive residuals in respect of transactions up to and

including April 2005, and the processor will pay you the purchase price (of some multiple of revenues) on June 5, 2005.

Let's say you agreed to 16 times the monthly residuals price. You think you will receive 16 times the revenue after a month with no revenue. However, the processor is effectively paying only 15 times the revenue because it holds back one month of residuals before paying the purchase price.

While this is a perfectly acceptable business deal to make, some ISOs would be very surprised to learn that they lose a month of residuals while waiting for their purchase price.

Make sure you know when the processor will pay the purchase price to avoid conflict during buyout negotiations.

Obtain a Release

When a processor or bank buys your portfolio, you let go of the upside of your portfolio, and you should be sure to get rid of the downside as well.

Upon closing of the buyout, have the processor provide a release from any liability on the portfolio. This is especially important in portfolios in which you carried the risk.

Set a Pay-out Schedule

If your portfolio is worth \$1 million, and the processor pays only \$100,000 on closing, something is fishy. The buyer probably lacks the intention to pay you the whole purchase price.

A buyout should mean that you are exiting the business relationship with the processor. I always recommend that processors pay ISOs at



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least half of the purchase price on closing with the other half to follow as soon as possible afterward.

Of course, attrition and volume might vary the balance of the purchase price, but you don't want the processor to pay out your purchase price over many years when businesses in this industry vanish in much shorter periods of time.

Watch Out for Post-closing Merchant Support

Before signing an ISO deal, know what the processor expects of you in terms of merchant support following the buyout.

Some ISOs expect to spend their time on the golf course while the processors expect them to support merchants until they pay the full purchase price.

If processors have post-closing mer-

chant support expectations, then you are not completely out of the relationship. Some processors will ask for ongoing merchant support after the buyout.

I think requests like that are unreasonable. However, if they pop up in the deal, make sure that the processor compensates you for the services you provide.

Get the Right to "Top Up"

If your buyout includes a price that is paid out over time and is a function of attrition, why not write in a right to "top up" the portfolio to avoid attrition that would drive down your purchase price? Most reasonable processors will agree to this right; it's one that could save you a lot of money.

Be Aware of Buyout Varieties

Don't forget that different types of buyouts exist. The simplest and most common is the right of ISOs or

agents to have their residual rights bought out. However, some buyouts also involve processors and their sponsoring banks assigning their rights in merchant agreements to third-party banks. Take some time to reflect on the different options when negotiating a buyout clause.

I hope all readers will experience their happy-ending portfolio buyout scenario. Remember to negotiate carefully and think before signing in order to make your dream a little bit more secure.

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Education (continued)

Things You Need to Know

Part 2: The Risks of Risk

By Kimberley Marvin

Cynergy Data

Editor's note: This is the second article in a series on training and educating merchants.

Risk is one of the most important and least understood issues in the payments arena. Very few sales agents understand the start-to-finish process of underwriting and risk management.

Why? Because as sales agents, you don't need to know how risk works; the processor takes care of that. However, if you want to keep merchants and take care of your money, you'll need to understand the importance of managing risk in all transactions.

By paying attention to the little signs that indicate fraud is about to occur, merchants can protect their money before the acquirer's risk team gets involved.

Let's look at the most important things that merchants should know when it comes to fraud and chargebacks.

This is often tough material to explain to merchants, but if you understand it and help them understand it, you'll receive fewer questions and hear fewer complaints in the future. Most importantly, merchants will understand how to protect their money, and they'll thank you by continuing to process with you.

Protect Merchants: Fraud Warnings

Once you've signed merchants, in order to keep them processing profitably and retain them as customers, train them. If merchants lose major amounts of money because of fraud while processing with you, they'll likely blame your company for it and take their business elsewhere.

To keep merchants, teach them to be on the lookout for credit card fraud in every electronic transaction.

For instance, imagine the case of a furniture store owner. A well-dressed man comes in and wants to buy several items that are actually showcase items.

He reaches for his wallet and remembers that his wife has the credit card he wants to use. He says he will come back to pay for the furniture and pick it up, and he leaves \$100 cash as good faith that he will return.

He comes back, right before closing time, and actually helps the merchant lift the furniture into his truck. He gives the credit card to the merchant, but the credit card's mag stripe is worn and the POS terminal won't read it.

The merchant keys in the credit card number, processes the sale and gives the customer back his \$100. The customer leaves with the furniture.

Two weeks later, the furniture store gets hit with a chargeback claiming a fraudulent sale. Guess what? The merchant was scammed. The customer got away with free

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furniture, and the merchant is stuck with the chargeback and the loss of the merchandise.

If only the merchant would have taken the time to get a manual imprint of the credit card. That imprint, along with the authorization and signature, secures the keyed-in sale. The customer could never have charged the sale back attributing it to the "F" word: fraud.

Now consider the same situation, but assume the card is swiped and the customer leaves with the merchandise. Does the merchant have something actually signed by the customer that shows he left with the furniture?

If not, I've seen customers win chargeback cases where they claim the sale was for the down payment for the furniture at a future delivery time. If the merchant cannot prove otherwise, this might be another situation in which the customer gets free stuff.

By paying attention to the little signs that indicate fraud is about to occur, merchants can protect their money before the acquirer's risk team gets involved.

Remember: Merchants' money is your money too, and funds that are held on a chargeback present a financial burden for you as well as merchants.

Three Simple Ways to Win Chargebacks

Let's face the facts: In today's business world, systems are set up to protect consumers, not merchants. Most chargeback rules, and there are hundreds of them, favor the customers initiating chargebacks over merchants who are at risk of losing their money.

Another unfortunate fact: Customers have 180 days (six months) to decide if they want to dispute a sale. It can happen with no warning. It can happen when a merchant's bank account is empty. It can happen on a \$10 sale or a \$10,000 sale.

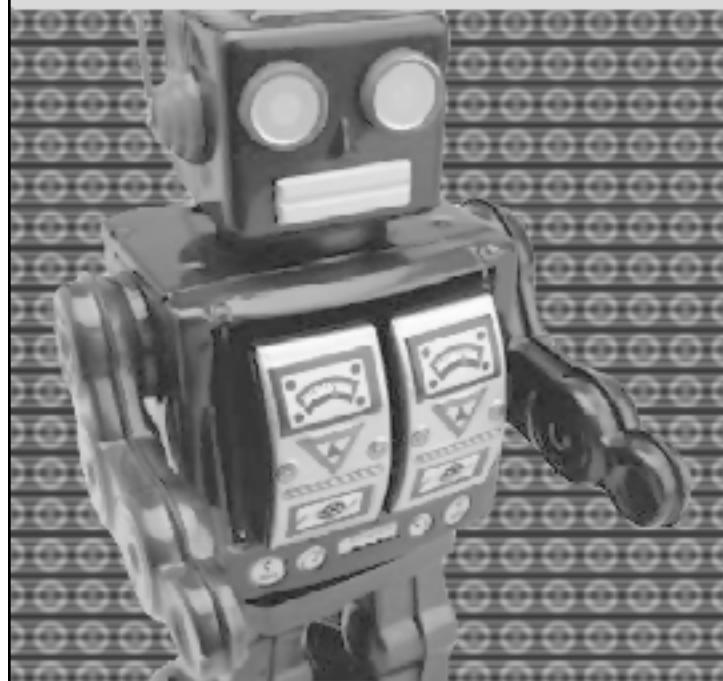
If merchants lose a chargeback, they not only have to refund the customer's money, they're charged a fee on top of it. Merchants need to prepare and protect themselves, so I'll explain a few tried-and-true ways for them to win chargebacks.

Fill Out Retrieval Requests Immediately

Let's say a customer gets his credit card statement in the mail and doesn't recognize a charge. The acquirer sends a retrieval request to the merchant and now the merchant must send a copy of the receipt to the customer before the deadline on the request.

If the merchant is on the ball and sends the receipt in on time, all is well. If he misses the deadline, he auto-

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Education

Fraud Protection Tips for Merchants

- Merchants should always use the Address Verification Service (AVS) to verify that the address provided is the same address on file with the credit card issuer.
- Merchants should ask for other forms of identification if the cardholder did not sign the back of the card.
- If merchants feel uncomfortable, they should call their authoriza-

tion center with a Code 10; they will be routed to security personnel at the issuing bank, who will help them by either validating the purchase or instructing them with steps to take for security.

- Merchants should never process their own credit card; this is considered a cash advance.
- Merchants should not let other businesses process sales through their account. This is called factoring and is considered fraud.

matically loses the chargeback and has to give the customer's money back along with a chargeback fee.

This is a non-reversible chargeback. So, for example, if the merchant is on vacation, or is busy and doesn't open his mail on time, guess what? He will lose the dispute on a retrieval request.

Keep Receipts Organized

When a merchant receives a retrieval request, the request will contain the transaction date, cardholder number and amount of the transaction.

No customer name is listed on the request, and there's


no indication of what they purchased. Merchants need to keep their receipts filed and organized according to date or cardholder number in order to find the appropriate receipt.

Make Sure Customers Don't Take the Store's Receipt

I once worked with a merchant who sold and installed hardwood floors. On a transaction of several thousand dollars, the sales rep swiped the card but was called away to take a phone call.

The customer was annoyed and walked out of the store with her copy of the receipt and the merchant's copy. She initiated a chargeback, the merchant couldn't find the receipt (because she'd taken it) and the business lost thousands of dollars.

Educating merchants about these three simple strategies will help them win dozens of chargeback disputes that they otherwise might have lost automatically.

Next month, in the third segment of our merchant training series, we'll discuss how to read, and profit from, a merchant statement. 

Kimberley Marvin is the Risk Manager for Cynergy Data, a merchant acquirer that provides a wide array of electronic payment processing services while continually striving to develop new solutions that meet the needs of its agents and merchants. In addition to offering credit, debit, EBT and gift card processing, along with check conversion and guarantee programs, the company offers its ISOs the ability to borrow money against its residuals, to have Web sites designed and developed, to provide merchants with free terminals and to benefit from state-of-the-art marketing, technology and business support.

Founded in 1995 by Marcelo Paladini and John Martillo, Cynergy Data strives to be a new kind of acquirer with a unique mission: to constantly explore, understand and develop the products that ISOs and merchants need to be successful and to back it up with honest, reliable and supportive service.

For more information on Cynergy Data e-mail Nancy Drexler, Marketing Director, at nancyd@cynergydata.com.



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Education (continued)

Using the Web to Market Your Company

By Joel Rydbeck

Nubrek Inc.

Since 1995, the Web has revolutionized the way people do business. In the payment processing industry, the Internet provides ISOs and merchant level salespeople (MLSs) with another avenue for attracting new merchant customers.

The Internet is here to stay, and as an ISO/MLS, if you haven't done so already, take a few of the following simple steps to build and manage your image on the Internet. (If you already have a Web site, that's great. Feel free to skip the first two steps and go straight to step three to learn about tools to use to increase your Web site's traffic.)

Step One: Realizing the Importance of a Web Site

Why use a Web site? Sometimes the decision to build a

site is based purely on the need to give the business credibility. Many companies have their own Web presence; creating one of your own will provide potential partners (e.g. banks and merchants) with a sense of security.

Also, a Web site makes it easier for clients or potential customers to find the company's contact information.

Not everyone needs a Web site, but having one definitely helps boost the company image and add legitimacy; it also helps attract more business.

Step Two: Setting Up a Web Site

You want a Web site, but where do you start? First, decide what you want the site to communicate. Let's say you focus on merchant services in the retail industry. The Web site should communicate an understanding of the retail industry and also offer an excellent payment processing solution designed specifically for retail merchants. Remember, it's important to build a sense of credibility and security.

Once you've decided how to position the business, it's easier to choose a domain name. A domain name is the unique name that identifies your Web site (e.g. nubrek.com). Choose one that defines what you do or incorporates your company name.

If you don't have a Web domain name reserved, the process is fairly straightforward. The hosting provider will register the domain for you. I used 1&1 Hosting (www.1and1.com) and had a good experience. This company handles domain name registration as well as Web site hosting.

Once you have a domain name, start adding content (both graphics and text). If you're artistic, this step might come naturally. For a very basic tutorial on designing a Web site, visit <http://build-website.com>.

What are the characteristics of a good Web site? The site should make a great first impression. Build a homepage that is classy yet memorable.

Make sure each page includes:

- White space
- Simple but catchy graphics
- Color
- Good writing (consider hiring a writer for this)
- Easy navigation

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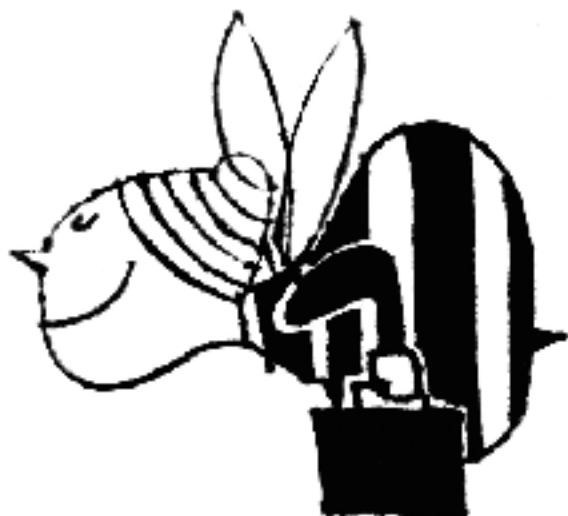
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I recommend the following books for learning about Web site design:

- "Homepage Usability: 50 Web Sites Deconstructed," by Jakob Nielsen and Marie Tahir
- "Designing Web Usability: The Practice of Simplicity," by Jakob Nielsen

Short on time and creativity? Hire a graphic artist. Expect to pay \$1,500 – \$3,000 for their services, depending on the size of the site; a colleague of mine recently spent about \$2,000 to have a five-page site built.

After the site is created, publish it on the Web. To do this, find a provider who will host it. The company 1&1 Hosting offers some excellent plans for less than \$30 per month.

Shop around, but don't jump on the cheapest price. A lot of providers will oversell their capacity resulting in service outages. The best idea is to go with a provider that colleagues recommend. The company might also offer e-mail hosting, so make sure it's a right fit all around.

Step Three: Generating Traffic

Your site is up and running and looking great. Congratulations. Now it's time to direct people to it. In this industry, I've found that many of the typical Web site advertising tools such as banner ads and pop-ups are not only ineffective, they also annoy people.

As ISOs/MLs, most of you target a select group of merchants or clients, so selectively advertise your site. Begin by looking for online forums and Web sites that the target market frequents.

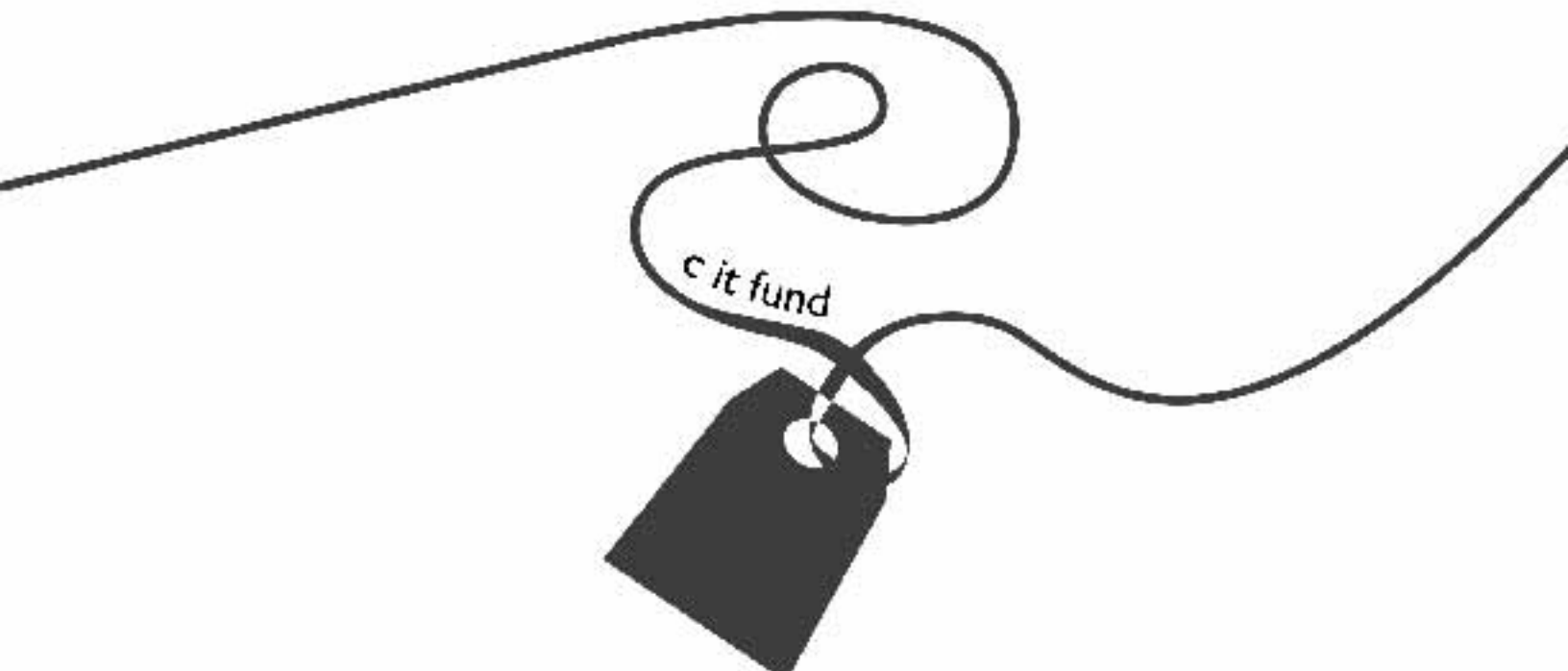
The Green Sheet offers an excellent vehicle to bring merchants to your Web site: www.retailbusiness.com; however, also find sites that target your select audience. Many of these forums allow you to post links for free.

Many search engines now rank sites based on how many sites link to them. The more links published on your Web site, the higher it will rank in someone's search results.

Google has become a very popular search engine thanks to its rapid search capabilities and clean interface. What most people don't know about Google is that it provides a lot more than a great search engine. The site is loaded with excellent (and free) marketing tools.

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Google AdWords

This form of advertising is catching on. AdWords displays short text ads on pages that Google thinks will be relevant. For example, if you use Google to search for "coffee" and "Brazil," Google will return a list of nearly 3 million sites.

The right-hand side of the search-results page displays several AdWords that companies have purchased to promote their product.

Rather than seeing an ad for an online casino, you might see one for a direct Brazilian coffee importer, something that would most likely interest you. Companies purchase AdWords based on search terms and how many times they're displayed.

Google will help estimate how many hits your site will get each month by using a built-in calculator. Visit www.google.com/ads/ for more information.

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Insider's Report on Payments

Popularity Is a Two-edged Sword for Prepaid Cards

By Patti Murphy

The Takoma Group

Editor's Note: This article is a follow up to "Prepaid Cards: Not Just for Gifts Anymore" (The Green Sheet, March 14, 2005, issue 05:03:01).

The business case for prepaid (aka stored value) cards, already deemed a difficult sell, soon might become even tougher as state and federal governments seek to tighten the regulatory grip on this emerging market. State legislatures introduced at least 100 bills during the first half of 2004 that addressed prepaid cards, research firm TowerGroup estimated. And in a research note released in December 2004, the firm predicted this whirlwind of activity would surely intensify.

So far statutes in more than a dozen states have been amended to address at least some types of prepaid cards. Attorneys general in at least a half-dozen states are suing prepaid card issuers over various fees and practices.

On the federal front, Sen. Charles Schumer (D-NY) introduced legislation in the last Congress to restrict servicing fees on bank-issued gift cards. No one has introduced anything similar in the current Congress yet, but don't rule out the possibility.

Meanwhile, across town at the Federal Reserve Board, policy makers ponder changes in the legal interpretations of federal EFT law to explicitly cover one specific type of prepaid product: payroll cards. And the Federal Deposit Insurance Corp. (FDIC) is also considering a rule change that would treat many prepaid products as deposits subject to the protections of federal deposit insurance.

If either or both of these proposed regulatory steps are taken, the business case for banks in the prepaid card market will certainly take a hit, experts warn. "Even a small alteration to the regulatory structure could unintentionally have outsized results on one or more [prepaid card] products," TowerGroup analysts wrote.

Sizing a Nascent Market

Prepaid cards come in a variety of shapes and sizes. Among them: merchant/mall-branded gift cards, Visa- and MasterCard-branded debit cards and bank-issued payroll cards. While many prepaid cards are issued, not all cards are used with regularity. Gift cards, for example, usually are used only a few times and then discarded.

Prepaid cards that are branded and either sold or issued bearing the name of a bank (e.g. prepaid debit and payroll cards), are used with the most regularity, and they are indistinguishable from any other Visa or MasterCard presented at the point of purchase.

Counting only prepaid cards that are used regularly, research firm Financial Insights (FI) estimates consumers had 800 million in their wallets in 2003. By 2008, the firm expects consumers to have 2 billion prepaid cards in their wallets. FI estimates that prepaid cards were used to ring up \$93.9 billion in sales in 2003. By 2008, total spend on prepaid cards will top \$300 billion, FI analyst Aaron McPherson predicted in a report last summer. Payroll cards hold

the greatest potential for banks interested in the prepaid market, McPherson suggested, estimating that the average payroll card is loaded with \$900 a month. He figures 1.5 million payroll cards were in circulation in 2003; taken together, those cards were used to ring up \$16.2 billion in sales. He also predicted payroll cards would be a \$93.2 billion market in 2008, and that the universe of payroll cards in circulation will grow by nearly 40% to total 8 million cards in 2008.

To Be or Not to Be Reg E

The Fed's proposal, circulated for comment last fall, would stipulate that prepaid cards used to access wages and other forms of routine employee compensation (and the accounts tied to these cards) are subject to the dictates of Regulation E (Reg E), which implements consumer EFT law.

This would be the case regardless of whether employers, banks or some other third party establishes the accounts, the Fed proposed. Reg E, among other things, requires specified consumer disclosures and periodic account statements, and limits cardholder liability for unauthorized transactions (\$50 max).

On its face, the Fed's proposal seems logical: Reg E covers payroll direct deposit transactions; payroll cards are a variation on the theme. But Reg E compliance carries a hefty price tag, which bankers fear could wipe out what little profitability exists in this still budding market.

In a letter to the Fed that echoed the sentiments of many, Visa asked the Fed to consider a "Reg E Lite" approach to payroll cards. Wells Fargo & Co. warned of "unintended consequences" should the plan be adopted. Wells' executives also took issue with suggestions that payroll

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card accounts are the same as checking accounts.

"Payroll card accounts are not offered as a substitute for checking accounts to employees; payroll cards are offered in lieu of payroll checks. That distinction is significant," the bank wrote in a comment letter to the Fed. "Financial institutions market payroll cards to employers primarily so that employers may efficiently issue payroll."


Even credit unions, those non-profit "peoples' banks," have balked at the Fed's proposal. The Credit Union National Association (CUNA), a leading credit union trade group, insisted in a letter to the Fed that Reg E applies only to natural persons. The Fed should scrap its current Reg E proposal, CUNA wrote, "because these accounts can be operated or managed by someone other than the consumer."

Clearly, the Fed understands these concerns, and the implications of industry efficiencies. But it also has an obligation to watch out for consumers and to watch out for the economy. A person's earnings are core to his or her ability to spend. A consortium of consumer organizations drove home this point in a comment letter to the Fed. The letter urged the Fed to expand Reg E coverage to other types of prepaid cards, "which hold funds important to consumers and families, including prepaid debit cards

marketed or used as account substitutes, child support cards, unemployment cards and tax refund related cards."

The FDIC's proposal, meanwhile, stems from a long-standing banking law that requires deposits insured by the FDIC be backed by reserves maintained on deposit at the bank's local Federal Reserve Bank office. Payroll cards are tied to deposit accounts at financial institutions, typically in pooled accounts, but in deposit accounts nonetheless. Banks aren't keen on the idea. No surprise there: Reserves are non-interest earning assets.

So now it's up to the Fed and the FDIC to strike a balance between the need to protect consumers from financial loss and the desire to encourage market innovation and economic growth. Expect the Fed to provide a final interpretation this spring, with implementation delayed by perhaps as much as a year. While the Fed is sure to listen to industry concerns, it's not about to scrap the proposal.

Prepaid cards will be subject to some increased regulation. It's testimony to the immense popularity of these new instruments of payment. 

Patti Murphy is Contributing Editor to The Green Sheet and President of The Takoma Group. E-mail her at patti@greensheet.com.

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Report Sheds Positive Light on Gift Card Swapping

Financial services industry research and advisory firm TowerGroup released a report in February 2005 on the recent but increasingly popular practice of gift card swapping and the Web sites that facilitate the trading and selling of the cards.

The research note titled "Trading Places: Parsing the Benefits and Risks of Online Merchant Gift Card Auctions," written by Senior Analyst Edward Kountz, looks at the rise of online gift card trading sites and covers their still small but growing role in the prepaid and stored value industry.

Covered in the report are such topics as recommendations that Kountz makes to merchants, vendors and trading posts; benefits that card swapping brings to merchants; and problematic issues the trading posts bring up, including fraud. Overall, the report sheds a positive light on gift card swapping.

Gift cards are touted as the ideal gift, but considering that consumers do not redeem 12% – 14% of all merchant cards it seems that sometimes one size does not fit all. Because most retailers don't count the revenue from gift card sales until customers redeem them, that's a considerable amount of lost income.

Online swapping sites work in a variety of ways, but they all let consumers buy or bid on merchant cards that suit their needs. TowerGroup estimated that the value of cards now available on the sites to be \$279,000, or less than 0.001%

of all gift cards sold in 2004. As with other online auction or e-commerce sites, Kountz urges caution.

Buyers beware because there is always the danger that what they think they're buying isn't really what they get.

Strong, standard anti-fraud provisions to protect consumers and steps to prevent money laundering are also necessary if card swapping continues to show strong growth.

The TowerGroup report recommends cooperation between merchants, gift card providers and the online trading posts to ensure that over the long term, the positive impacts this new market has on the industry will keep outweighing the negatives. ■



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*A 2004 study by the Federal Reserve found that 36.7 billion checks were paid in 2003, worth \$39.3 trillion. Returned checks had a value over \$142.5 billion. For more information on this payments study, call us for a copy of our Check Facts sheet.

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Diebold's Turn in the Antitrust Hot Seat

In another case rounding out the roster of lawsuits alleging antitrust violations, the Financial & Security Products Association (FSPA) announced on Feb. 28, 2005 that it intends to pursue further legal action against Diebold Inc.

FSPA will move forward in its action against Diebold to end its "predatory practices." Following weeks of talks between the two organizations to settle issues alleged in FSPA's antitrust complaint against the ATM manufacturer, filed in U.S District Court in October 2004, FSPA filed a motion for an injunction.

The motion could speed up a decision over whether Diebold has prevented third-party ATM maintenance companies from purchasing parts and software from the company to service Diebold ATMs.

The timeliness of the matter is critical, FSPA said, because the deadline for compliance with Triple DES (3DES) mandates are upon ATM owners and operators: April 1, 2005, for upgrades or for requesting extensions through Dec. 31, 2005.

FSPA asserts that Diebold has made it impossible for independent companies to procure the necessary parts and software in order to service Diebold ATMs owned or operated by their clients.

It's a frustrating situation for independents, FSPA said, because banks, financial institutions and ATM owners must comply with the mandatory 3DES upgrades. FSPA said that Diebold has used this opportunity to employ password-protected diagnostics that make it impossible for independent maintenance providers to service the machines.

Until recently, Diebold permitted independent companies to service its ATMs for customers and allowed them access to the manufacturer's parts and documentation through "hold harmless" agreements.

The problem started when retrofits for the installed base of hardware began, according to John Vrabc, FSPA's Executive Director. In January 2004, customers with Diebold machines began to inquire about purchasing the necessary parts for the upgrades.

Since the implementation of the 3DES mandate, however, Diebold allows only company personnel to supply and install the upgrade kits, Vrabc said. The company

began password-protecting the software and using other methods to prevent rogue maintenance.

FSPA asserts Diebold's business practices "lock out" the independent third party maintenance companies and prevent them from competing for ATM service contracts.

In a prepared statement regarding FSPA allegations, Diebold "reaffirms its long-standing policy of accommodating customer choices for ATM services."

The company acknowledged there is confusion in the marketplace, but said that it does work to offer its customers choices in alternate service providers and access to licensed diagnostic software and other parts.

FSPA is a non-profit association with 305 members representing independent technicians and companies

that supply related services products for ATMs, POS, security and cash dispensing equipment, and vehicle fleet management.

FSPA members are also large companies that supply dealers and contractors; its membership includes companies in the United States and seven other countries.

"The issue is free enterprise," Vrabec said. "It's also multiple choices and sources for our dealers to find products and services they can resell to their customers."

The real concern for FSPA and its membership, he said, are the far-reaching implications of these types of business practices. "The critical nature of this intellectual property issue goes beyond ATMs.

"Our members service video, vault and drive-up equipment and every-

thing is becoming software-based; mechanical products are becoming PC-controlled.

"If this isn't rectified favorably, it could affect all the products our members service five or six years down the [line]."

"Over the past few years, there does seem to be more blatant disregard for antitrust laws, particularly in our industry," said Kevin McLaughlin, Chief Executive Officer of Advent Inc. and FSPA member.

"Until now, it's been overlooked and has reached such a critical point it's affecting peoples' abilities to earn a living.

"Diebold has used this opportunity to employ password-protected diagnostics and there's no provision there for independent maintenance providers," he said. ■

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Lenny Briscoe's Identity Theft Solution

Product: PrivacyProBot

Company: Identity Cops Inc.

In the wake of several huge security breaches recently, and thanks to the increasing publicity that issues surrounding identity theft receive, there has never been more interest in protecting personal and corporate financial information.

As we've heard, any business, organization or institution, whether in the public or private sector, that collects and stores private information could be, and probably is, vulnerable to system breaches, and as a result, so is its customers.

Television ads and shows, as well as wide coverage in print and broadcast media, are now bringing these crimes to the attention of private citizens; people outside the boundaries of financial services are talking about identity theft. As people begin to understand just how vulnerable their private information is, they'll expect solutions.

Identity Cops Inc., a technology developer, offers a patent-pending solution called PrivacyProBot for comprehensive identity theft and privacy protection. The technology goes beyond credit card and credit report monitoring.

The company said it is the only system available that can stop identity theft before it happens. Designed to enable the search of hundreds of electronic databases that would be impossible to do otherwise, PrivacyProBot finds information that customers might not even know exists. When the system locator finds something that could be used to perpetrate identity theft or other fraud, Identity Cops notifies customers and provides options to fix the problem to prevent further damage.


PrivacyProBot is available to the general public through a subscription service provided by the company. However, Identity Cops partners with corporate clients and adapts the technology for co-branding and licensing, creating opportunities for ISOs/MLSs to package a fraud protection solution for their customers.

Identity Cops said it was co-founded by Jerry Orbach, who played Detective Lenny Briscoe on "Law and Order"; the late actor was the first well-known victim of identity theft. He became involved in fraud prevention causes, including serving as a spokesman on identity theft for the U.S. Postal Service.

The technology was originally developed for celebrity clientele but celebrities are far from the only ones at risk from identity theft.


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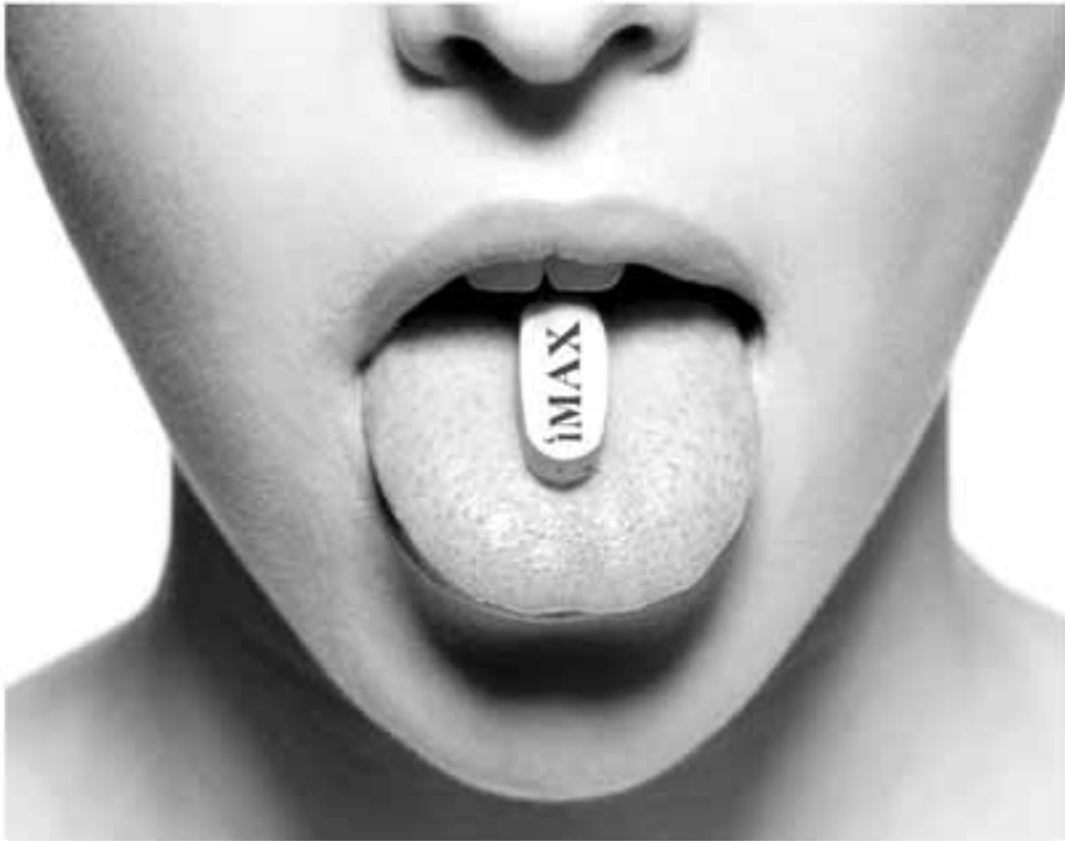
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Adding Agility to P2P Market

Product: TransferNow 2.0

Company: CashEdge

Person-to-person and account-to-account transfers, or P2P transactions, are a growing market for smaller financial institutions including credit unions and community banks. These organizations are finding that offering their customers and clients the same types of services often available only at larger institutions helps their bottom line. They're beginning to understand that processing enough small transfer transactions can add up.

CashEdge, a provider of online financial applications, recognized the potential in P2P funds transfers and launched an expanded and updated version of its inter-institution funds transfer product.

TransferNow 2.0 includes additional functionality to enable online funds transfers to accounts owned by other people, as well as future-dated and recurring transfers. The system offers automatic account ownership verification and third-party, scheduled and recurring transfers.

For example, with TransferNow 2.0, parents will find it easier to transfer a set amount to a college-age child's account; wage earners will find it simpler to schedule automatic deposits into an investment account. CashEdge technology offers enhanced risk management capabilities, making P2P transfers more secure. TransferNow was originally designed for inter-institution funds transfers, but the upgrades add broader functionality and safety features.

The company said its TransferNow solution is used by more than 200 financial institutions across the country, enabling their customers to transfer money between accounts held at any of more than 23,000 banks, credit unions and brokerages. TransferNow automates the authentication of the user and the accounts, manages risk and moves funds without exposing the financial institution to any transaction risks. CashEdge currently provides the P2P platform, manages the risk and processes the transfers for approximately 200 P2P providers.

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Product: IngeCare help desk service

Company: Ingenico.....

When technical questions about equipment come up, ISOs and merchant level salespeople (MLSs) might find themselves at a loss for answers.

But their job is to provide the right solutions for their customers, and part of the process has to include being able to resolve customer service issues once the sale is complete.

Ingenico recently launched a first and second level help desk service that is accessible at no charge to acquirers, MLSs and merchants alike. Dubbed IngeCare, the service provides support for a number of issues and covers a range of Ingenico terminals. Initially supported through IngeCare are the company's Elite 510, Elite 710, i5300 and i7770 short-range wireless terminal.

The idea behind IngeCare is to simplify sales and support

of Ingenico's class B certified applications for the company's network of acquirers and resellers. Leaving the support to the trained, dedicated help desk staff lets resellers concentrate on selling transaction solutions.

Knowing that all your bases are covered creates a sense of security, and that confidence comes through in your sales presentations. Finalizing the sale of the solutions is easier when MLSs can assure merchants that help is available 24 hours a day, every day, and that it's free.

Services provided as part of IngeCare include terminal and application support for merchants and MLSs; application download and parameter downloads and updates. IngeCare uses a state-of-the-art estate management system to track and store terminal information, software versions, parameters and other information to ensure timeliness and accuracy.

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Product: eSoftPay Desktop and Countertop software solutions

Company: Electronic Recovery Inc.

With the astounding growth rates in electronic check processing, merchants stand to benefit from a solution that allows them to easily create environments to accept and process these types of transactions.


Electronic Recovery Inc. released its second generation eSoftPay Desktop software. Running on the Windows platform, the solution is a simple way for users to configure all types of electronic transactions.

The Countertop version allows businesses to conduct point-of-purchase (POP) e-check transactions. Electronic Recovery has partnered with VeriFone Inc. and MagTek to provide a complete system that includes the software, an Omni 3750 terminal and either a VeriFone CR1000i or a MagTek reader.

Merchants are now able to process automated clearing house (ACH) transactions and create electronic accounts receivable (as well as POP transactions) pre-arranged consumer debits and business-to-business transactions.

With eSoftPay's multi-functional flexibility, merchants can verify both paper and electronic checks prior to acceptance; convert and process e-checks (ECC); conduct lockbox conversions (ARC); collect electronically returned checks (RCK); accept telephone transactions (TEL); process one-time or recurring payments; and pay employees through direct deposit rather than with paper checks.

eSoftPay is integrated with Electronic Recovery's check verification service. Transaction reporting is available through a Web-based system, which can be configured to meet specific merchant definitions.

Electronic Recovery's software products are designed to let small or large retailers convert paper checks into electronic checks and to let merchant services providers broaden their offerings by furnishing an outsourced solution to their customers. 

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- Queen Victoria

Coping With Business Travel



ful and polite you have a better chance of getting better service.

Another reason to keep cool is your reputation. Getting angry in a public place or making a scene is never a good idea. It's especially risky during business travel. Almost every flight goes through a major hub, so there's always a chance that a client or co-worker will see you. Do you want them to see you acting unprofessionally?

Your Safety Could Be at Stake

A long security line or a flight cancellation caused by poor weather might annoy you, but would you rather the plane fly in dangerous conditions? Instead of getting

Many professionals in our industry spend a large amount of time traveling, either by plane, car or even train. When they do, this post-Sept. 11, 2001 world, with heightened security measures and increased screening requirements, can often create plenty of opportunities to feel inconvenienced, hassled and just plain fed up.

While the knee-jerk reaction to a traffic jam or delayed flight might be annoyance or anger, it's not the best way to respond. Why? Simply put, it's not worth it. Your safety could be at stake, and things could always be worse.

It's Not Worth It

If the airline cancels your flight or you have to spend 15 minutes or more going through an airport security checkpoint, you might get angry. However, it's better to remain calm, cool and collected, and ride it out. Getting angry won't change the situation; it might make it worse.

Even if you think there's reason to voice your anger, be polite and respectful instead; you'll get better results. If you need to work with airport personnel to get through security or reschedule a flight, they have no desire to assist someone who is nasty or rude. If you are respect-

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When: May 9 – 12, 2005

Where: Renaissance Washington, D.C. Hotel

Registration: Phone 800-807-4693; visit www.mastercard.com; or e-mail GlobalRiskSymposium@mastercard.com.

upset, consider the cause of the problems and the alternatives.

If the airline cancelled the flight because of fog or snow, would you rather the pilot attempt to fly in risky conditions? If the aircraft has a mechanical problem, would you prefer to fly on sub par equipment?

Realizing that your life literally could be at stake puts a delay of any length of time into the proper perspective.

It Could Be Worse

No matter how many inconveniences or hassles you face when traveling, remember things could always be worse.

Sometimes it helps to look at the brighter side. If you have car trouble and you think the mechanic is taking too long to repair the problem, be happy that you aren't on a dark road with a flat and no spare tire.

If your flight is delayed and you have to wait a few hours for the next one, be grateful that it wasn't the last flight of the day and you don't have to spend the night in the airport.

If a traffic jam delays you for hours, be thankful that you weren't in the accident that caused the backup. No matter how badly your day has gone, it could always be worse.

Being successful in our industry often requires a lot of travel. Unfortunately, it's inevitable that at some point something will alter, delay or cancel your travel plans. When faced with these unexpected delays, try to keep them in perspective and maintain composure.

A missed meeting might seem monumental at the time, but if it's really important it will be rescheduled. No matter how important a scheduled event is, no one wants you to risk your safety trying to get there on time.

If your being delayed leaves clients hanging, they'll understand because they've probably faced a similar situation. When traveling, it's best to accept the situation and focus on the factors you can control: your attitude and behavior.

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