



# The Green Sheet

DEDICATED TO THE EDUCATION AND SUCCESS OF THE ISO AND MLS

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## Life in the MLS trenches: The newbie's new landscape



It's been a turbulent decade in the payments industry, and ISOs and merchant level salespeople (MLSs) have been on the front line as each challenge has emerged.

As the dollar value of credit and debit card payments has skyrocketed, it is now rare to find an established merchant who doesn't have credit card processing of some sort. Rapid technological changes have made it nearly a full-time job to stay abreast of the myriad alternatives in our ever-changing market.

And one of the latest industry developments – free equipment – has changed the financial landscape for

MLSs. There's more opportunity, perhaps, but it's more elusive.

To remain successful, established agents have embraced change with agility. But what have these changes meant to those entering the field, those who are without a steady base of residuals to cushion the industry's inevitable bumps and sharp turns? And what has it meant to ISOs trying to recruit and retain quality agents?

### The necessary nest egg

According to Sam Chanin, Chief Executive Officer of Business Payment Systems, many new agents without cash reserves to cover living expenses while they build their client base simply don't make it. "Of the

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## The agent bank relationship - Part II

**By Michael Nardy**

*Electronic Payments Inc.*

**P**art I of this series gave an overview of agent bank relationships and how to approach them from the ISO and merchant level salesperson (MLS) perspective. This article delves into the underwriting, pricing and customer service aspects of agent bank programs.

As an ISO or MLS, you may prefer a hands-off approach that leaves many account approval and processing deci-

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sions to others; or you may want to be intimately involved with bank operations, making your business a one-stop shop for the bank's financial processing needs.

Whatever your approach, it will affect your decisions regarding how merchants will be screened, what their costs will be and how they will be served.

### Underwriting: Approvals and declines

A key element of the agent bank relationship is resolving how merchants with low credit scores or in high-risk businesses will be handled. If you deny a bank's merchant customers processing services, this could damage their pre-existing relationships. You don't want to be in this position.

This doesn't mean I endorse the idea of accepting all merchants to the detriment of your bottom line or increasing your risk thresholds just to approve an account. But any mutually beneficial agent bank relationship must take different perspectives into consideration during the merchant approval process.

While no processor's agent bank program should approve all merchants referred by the bank, an approval rate close to 100% is not uncommon.

Ask yourself whether you want your processor to approve most of the accounts that come from the agent bank and how much weight the processor should give a continuing source

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**I see relationships in the agent bank world hurt more by low approval rates than by poor customer service by the processor. If a customer coming from a bank or credit union is going to be declined for a merchant account, careful consideration should be taken as to why they are being declined.**

of bankcard leads versus the potential for loss on some merchant accounts.

I see relationships in the agent bank world hurt more by low approval rates than by poor customer service by the processor. If a customer coming from a bank or credit union is going to be declined for a merchant account, careful consideration should be taken as to why they are being declined.

Is it a positive MATCH hit, a merchant with a very poor credit history or a type of business the processor doesn't accept?

Tell the bank upfront what types of businesses are on your

processor's restricted list. A bank's knowing in advance which merchant categories qualify for a merchant account can prevent much of the static than can develop between bankers and underwriting departments.

Certain underwriting parameters can mitigate merchant risk. These include choosing between 24-, 48-, 72- and 120-hour funding options, merchant reserves, holdbacks and putting a merchant on a daily versus monthly discount.

Processors that hold 100% of the risk on a portfolio may also be able to assign a bank complete, partial or zero risk in their accounts and allow merchants who would be declined under normal underwriting conditions to be



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approved through the agent bank channel, with the bank assuming risk on those merchants.

**Merchant pricing: The highs and lows**

Whether pricing is done at the local bank branch, where the customer is based, or at the corporate level is a crucial detail in the agent bank relationship.

One could offer greater flexibility and the other a predetermined set of rate options. As an ISO or MLS, you must strike a balance between customer savings and bank profits.

An agent bank relationship should produce value for the bank whether it takes the form of lease or equipment sale commissions, ongoing residuals, or one-time account signing bonuses, etc.

It's important to recognize that you can use your experience to set pricing that will be both fair to merchant customers and highly profitable for the bank.

Also, consider how to make your pricing competitive with other local MLSs soliciting merchant services; other processors that bid for the bank's agent program; and direct mail businesses and warehouse providers, such as

Cardservice International, Costco and Sam's Club, that offer bankcard processing services.

I recommend a visible, guaranteed "meet or beat" rate policy for your bank and its customers. This means when a competitor solicits a bank's merchant, the bank knows its established relationship with you will always ensure the lowest processing rates for its customer.

I like to see most banks setting their own pricing when they have an internal sales department, using our predefined suggested pricing when they don't and then using a combination of both, depending on the merchant situation.

Lowering a merchant's rates and fees will lower a bank's income potential from that merchant. Nonetheless, it's essential that pricing changes be made expediently with no pre-approvals necessary. If a statement fee needs to be eliminated, for example, it should happen immediately and with little fuss from the processor.

**Customer service: First do no harm**

EPI's mission for agent banks is quite simple, and I think it's a good guideline for other ISOs or MLSs: A bank's cus-

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tomers should never find reason to discontinue the bank's services as a result of inferior technology or service on the part of the merchant processor.

Will the efforts of a merchant processor make customers' banking relationships stronger, or will they provoke customers to leave the agent bank entirely?

This is a large concern for any bank. As a potential bank partner, it's your job to ensure the bank's highest level of comfort and trust.

I have seen many a merchant leave an agent bank and its selected merchant processor because of a problem with the ISO or merchant service provider.

For example, one processor couldn't find time to get a merchant a new piece of equipment. The merchant, who processed an average \$75,000 per month, went an entire week without processing credit cards as a result of this inept service.

The week happened to include Labor Day. As a result, the merchant severed ties completely with the processing company and cut off the bank's revenue from the account.

Of course, attrition is a natural part of the payments industry; however, don't let a dependable source for leads evaporate by failing in your commitment to customer service.

The final article in this series will explore how to handle multiple branches versus just one location, residual data and payment, sharing of nonpublic personal information and some final thoughts on making an agent bank relationship work.

I will bring these topics to GS Online's MLS Forum and integrate opinions expressed there into the article.

*Michael Nardy is Chief Executive Officer of Electronic Payments Inc. (EPI), a founding sponsor of the National Association of Payment Professionals and one of The Green Sheet magazine's Industry Leaders.*

*EPI is one of the nation's fastest growing privately held payment processing companies offering ISO and MLS partnership programs and cutting-edge tools to help their portfolios grow. To learn more about EPI, visit [epiprogram.com](http://epiprogram.com) or e-mail Nardy at [mike@elecpayments.com](mailto:mike@elecpayments.com).*

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