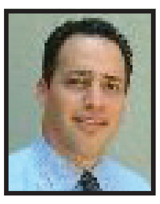
THE PERKS AND PITFALLS OF CREDIT CARD PROCESSING

PROTECTING YOUR BOTTOM LINE



By
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By accepting credit cards from customers, companies can lower receivables, reduce bad debt and improve cash flow. What a wonderful concept; the answer to our prayers. However, somewhere in the back of your head you are thinking caveat emptor, and in this case the buyer to beware of is your own company.

When working with a credit card company, how do you know if you are getting the best possible deal? Do you feel comfortable that you asked all of the right questions and received all of the right answers? Do you feel comfortable that what you are being told is what will occur as opposed to fearing the bait and switch? The processing industry can be very complicated, and too often merchants, through no fault of their own, don't understand the pitfalls that await them. Just like we need to maintain our health by exercising regularly, companies must exercise their financial acumen when analyzing whether they have the best "credit card program" for their particular organization.

Yes, the word "program" is critical as there are different programs and solutions depending upon the needs of your business. "What is your rate?" is the most common question asked by a YPO business owner or CFO, or the first question asked by someone shopping around and looking to accept credit cards for the first time. Yet the "base rate" is only part of the equation. The credit card industry has numerous hidden costs, which can, and will, inflate credit card fees. Unfortunately most businesses are unaware of the potential pitfalls and how the additional fees are adversely affecting their bottom line.

Visa and MasterCard maintain different rate structures for different types of cards and are based upon how a transaction is processed. Swiped transactions have significantly lower rates than manually key-entered transactions. It is therefore imperative to understand the way a transaction is conducted and the effect on your business. In today's market, many people now carry a rewards card (in order to accrue points for gifts, airline tickets, or hotel reservations) and these specific cards have different and higher rates than personal cards as well. Sound confusing? It is. Needless to say, if a business is unaware of how a particular transaction can be priced or is set up incorrectly, it will have an adverse effect on your bottom line.

Many credit card companies will offer a low introductory rate, which to a layperson will seem unbelievable. However, what will be unbelievable will be the "downgrades" or penalties that a business will be paying, without even realizing it. There are so many additional issues that have to be addressed besides a low "base rate," for instance transaction fees for third-party cards such as American Express, the percent of manually entered transactions, number of business cards accepted, monthly fees, batch fees, etc. As a result of the additional fees, in order to run your company in a financially astute manner, you must know your "effective rate" (takes into consideration all charges) vs. your "base rate," the most common rate expected.

The best way for your business to be set up to accept credit cards is a program called Interchange Plus Pricing. In this scenario, Visa and MasterCard mandate the industry costs and the processor passes along these costs plus basis points and transaction fees to cover risk, customer service and other related fees. The benefit of Interchange Plus is that if rates were to increase and/or decrease, your fees automatically would be adjusted. A new law called the Durbin Act lowered debit rates; merchants on Interchange Pricing automatically enjoy these reduced fees.

Two issues that are rarely raised are funding and collection of fees. Do you know how long it takes from the time you settle your batch until your money is deposited into your bank account? Is it 12, 48 or 72 hours? Why should you have to wait three days to get your money; doesn't 12 hours sound better? Guaranteed 12-hour funding is available even on American Express transactions, which used to take up to five days. Is your discount fee taken daily or monthly? Would it be easier to reconcile your bank statement if the funds deposited were gross? Think about the savings on interest, the float of your money, plus increased cash flow if your fees were removed at the end of the month. It certainly adds up, and these issues will help greatly with your cash management.

As stated at the beginning, accepting credit cards is a winning proposition for your business. Hopefully, now you have the information necessary to ask the right questions the next time someone wants to speak with you about your credit card processing; or you decide it is time to check up on your current processor to ensure they are taking care of you. Ultimately, it is important you are made to feel empowered that you are making an educated decision. After all, it is your business — and your bottom line.

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RESOURCES

Negotiating Debt in Turbulent Times

By
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We are living in some of the most challenging financial times since the Great Depression. I'm not a practicing attorney or CPA, and you should utilize these professionals for your specific situation. However, I am an entrepreneur, business owner, and consultant who has worked with many YPOers and others to resolve millions in debt and personal guaranty obligations. I also have witnessed those who have waited too long and lost precious rights and opportunities that most likely would have produced a much more favorable outcome if they were handled differently.

Over $1.4 trillion of commercial debt will be maturing over the next three years. The majority of this debt is secured by assets with a market value below the unpaid principal balance (UPB). At the same time, creditor lending standards have tightened and lenders are aggressively placing otherwise quality borrowers into technical default.

This article will serve to help you understand:

- The landscape when you are placed into the cross hairs of your lender or just unable to service debt at its current level.
- When to engage a debt resolution specialist.
- What to look for in a debt resolution specialist.
- An asset protection overview.

A Commercial Debt Resolution Specialist (CDRS) evaluates your assets, debt obligations, structure of ownership, note forensics and negotiates directly with the creditors and adjusts strategy based on any legal proceedings, or capital access strategy.

Many debtors reach first to a legal solution using their attorney. Although it may be part of the strategy, at the end of the day, the debt was essentially a contract with obligations on your part as well as the bank. After the bank funds the loan, most of, if not all, the obligations fall on the debtor side. In addition, when debtors utilize counsel, most lenders automatically turn the account over to their counsel and the time frame and cost for resolution increases dramatically. The second solution most turn to is their CPA or CFO. Again, they are part of the process, but often the bank views the items in play from a different vantage point.

One of the most common misconceptions out there is, "I'm collectable, there isn't much I can do." Being collectable often equates to having available resources to navigate the process as well as time tolerance, which can provide lenders with some favorable options — not to mention alternative capital capacity.

Here are a few things to look for in a CDRS. A CDRS complements the relationship among the client's legal and financial advisors. An experienced CDRS understands the legal, ownership, and strategic complexities of the client's situation — and provides experience-based knowledge of the creditor, capital and valuation support. I would steer clear of a CDRS that is owned by an investment fund or negotiates on behalf of creditors. Many of these firms are naturally conflicted and may not provide the best solution.

Avoid a CDRS that provides guarantees since every resolution is different and the process is very unpredictable. Ask if any of the resolution team has held a "special assets" or "servicer" position with a lender. Pick a firm with low up-front fees, but they can earn a nice performance fee once a resolution is reached. Fees range with the complexity of the asset and number of parties involved; however, engagement fees usually are between $4,000 and $24,000 with performance fees two to three times that. Most are happy to ink the performance fee check since the CDRS has saved their business and preserved their assets allowing them to get on the other side of these difficult times.

When should you engage a CDRS ?

One mantra in this industry is, "If you can see distress…you are in distress." If debt payments are unsustainable and the cash flow generated by the secured asset or the asset itself has fallen below the UPB of the note, you are in need of engagement. Other signs may be:

Excessive debt payments that are secured by a non-core liability, which could be sold or leased-back without affecting the operations of the client.

Client is at risk or has been placed into technical default by creditor, and new debt is critical for continued operations.

Client is diverting cash from personal assets, selling assets at "fire sale" prices or assuming more debt to fund underperforming property/operations.

Clients are being pressured by creditors for personal/spousal guarantees or providing incremental capital/security for existing loans.

Creditors are making unusual information requests from clients, especially approaching debt maturity dates.

Client believes their relationship with the bank and/or their negotiating process will keep them from default/foreclosure.

Although this is not an exhaustive list, the overall theme is that most debtors feel they are able to negotiate directly with their lenders and are surprised when the lenders don't react as anticipated. This is even more frustrating for debtors who have never missed a payment in 20 years and are shut down from the special assets division of their lender.

One last thing to share that is often overlooked is asset protection. Please note that once you are in distress, this option is often not available since there are specific time frames for this protection vehicle and laws governing their use vary by state and asset class. Please check with your legal counsel on your specific situation. Asset protection strategies are complicated, and effective strategies can be expensive. These strategies have inherent protective and restrictive aspects. Typically asset protection involves transfer to separate entities and not respecting the independence of those entities can be a hazard for the continued effectiveness of the strategy.

There is no universal asset protection strategy. Persistent creditors can drive costly litigation that may create havoc for even the most complicated asset protection strategy. Therefore, the financial trade-off needs to be understood between the value of the asset being protected, the cost of establishing and maintaining the strategy, and the associated tax consequences. Upfront asset protection strategies can quickly dissolve with inadequate support and execution during creditor negotiations.

When preparing any asset protection strategy, an advisor must ensure that the strategy does not give rise to actual or constructive fraud. Under the Uniform Fraudulent Transfers Act, a transfer includes every mode, direct or indirect, absolute or conditional, voluntary or involuntary of disposing of or parting with an asset or an interest in an asset, and includes payment of money, release, lease, and creation of a lien or other encumbrance. This is where your CPA or attorney should come into play. There is a "look back" period that varies by state, and even innocent transfers without consideration can be problematic. Lastly on asset protection, you may be well-advised to look into "tenancy by the entirety" for asset ownership.

In summary, what my experience and research has determined, the best overall debt resolution/restructure solution is one that assembles an evidentiary package supporting the value of assets involved, the timeline, the collectability probability of guaranties, and a plan to come out of the other side of distress. This package needs to be presented in a format with the terms and vernacular that the lender can easily navigate and align with the lenders capacity. I've heard from dozens of clients, "What the bank is doing makes no sense." This disconnect exists because the debtor is unfamiliar with the Tier 1 capital requirements, reserves, regulations and how the lender is booking the obligation. A complete evidentiary package as outlined above will create the best outcome for your situation.

If you have any further questions, please contact me at *b@bludlow.com*, or call 231.330.0515.

Re-Imagine Your Business, Expand its Relevance

By Gabor George Burt

Successful products and services inspire an Infatuation Interval™ during which consumers feel a strong emotional attachment to them. How can you create and sustain Infatuation Intervals™ for your offering? How can you elevate your business to be a provider of continuous lifestyle (or workstyle) enrichment, rather than simply being a provider of goods or services? And how can you expand the relevance of your offering to the widest audience?

These are pivotal questions for uncovering high-growth strategies in today's rapidly evolving, highly unpredictable market environment. Because the environment never stands still, you can't afford to either. In my experience, no matter how innovative a company is today, it still operates within certain self-imposed limitations. Overstepping these limitations leads to new market spaces of broad consumer enrichment and relevance.

But easier said than done. Or is it? In actuality any business has the potential to shape the future, rather than become its casualty. There is an exhilarating shortcut. It's based on new combinations of components that already surround you, so it's shaping the future by re-imagining the present. Put another way, meaningful innovation need not be about outright invention — but rather about re-combination.

Here are a few notable examples:

The Model T

Automobiles were in existence well before the Model T was introduced in 1908, but they were widely disliked. And it was Ransom E. Olds who first created the assembly line in 1901. But it took the pioneering vision of Henry Ford to create an offering of mass appeal by combining the two.

Starbucks

Café culture has thrived in many parts of the world since the 15th century, yet it wasn't an integral part of modern American society before Starbucks. The company combined this well-established social milieu (cafés) with an efficient and replicable quick-service platform. In the process, Starbucks gave coffee consumption a lifestyle-driving quality: Instead of people taking coffee to work, consumers take their work to a café. The innova-

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