



The Green Sheet

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

October 14, 2002

Issue 02:10:01

Inside This Issue:

Features

Americans Are Writing Fewer Checks, But They're Still Writing Lots of Checks by Patti Murphy	14
ISO Governance.....	22

Company Profiles

Creditdiscovery	35
Netbilling.....	41
Resource Finance Co.	43

News

CEO Wimsett Resigns from NPC	8
What is Australian for 'Big-Time Clout?'	10
RDM Corp. Files Suit against Ingenico	12
Q2 Economic Growth Stronger than Expected	38
Do the Wash with the Web	45

New Products

A Snappy, Colorful Sell for ISOs	47
Credit Card Processing from a Desktop	47
It's All in the Wrist (Band)	48

Inspiration

Leading the Way	55
How to Conquer Commitment Phobia	56

Departments

Forum	5
FYISOs.....	51
Datebook.....	56
Resource Guide	58

Be a Civic Booster and Boost Your Business Profile

As ISOs, in the course of a normal business day, you deal with merchants, shopkeepers, bankers and various members of the business community. Most likely, they're also members of the chamber of commerce. Are you?

Chambers of commerce represent all business needs in communities. Speaking as one voice for diverse members, chambers offer a broader base and economic framework than individual businesses or politicians could. They often are the primary source for businesses and individuals seeking information on business climates.

Chambers provide bottom-line programs for businesses large and small. They fight for pro-business legislation and form public and private alliances. Chambers address economic issues and provide leadership in civil and social programming, health care concerns, education and crime prevention – anything that might have an impact on the overall business climate.

Store owners, businesspeople and professionals think it makes sense, so why

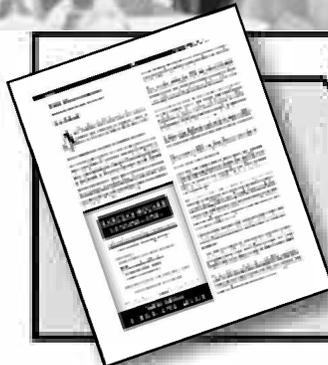
See CHAMBER on Page 6



Notable Quote:

It's a good bet that someone – most likely the sponsoring BIN banks or a third-party auditor – soon will be charged with scrutinizing ISO business practices and ensuring they meet whatever federal standards eventually come down from Washington.

See Story on Page 22



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The Green Sheet

Issue 02:10:01 • October 14, 2002

INDEX TO ADVERTISERS:

Advanced Payment Services	45	Horizon Group	64
AmericaOne Payment Systems	9	Hypercom	29
Barclay Square Leasing	22	Infinite Peripherals	30
Bridgeview Payment Solutions	21	Ingenico	2
BUDGET Terminals & Repair	44	IRN/Partner America	17
Certified Merchant Services	37	JR's P.O.S. Depot	36
CoCard Marketing Group	38	Merchant Services Inc.	59
Concord EFS, Inc.	34	Merchants' Choice Card Services	54
Cornerstone Payment Systems	49	MSI (NJ)	19
Creditdiscovery	10	Nationwide Check Services	15
CrossCheck	31	North American Bancard	7
Cynergy Data	13	NOVA Information Systems	20
Data Capture Systems	53	Online Data	61
Electronic Data Resources	39	Pinnacle Payment Solutions	42
Electronic Exchange Systems	18	POS Payment Systems	16
Electronic Payment Systems	27	POS Portal	6
E-Z Check	26	Retriever Payment Systems	25
Financial Technologies, Inc.	24	Secure Payment Systems	12
First American Payment Systems	23	Tasq Technology	63
First Data Merchant Services-MD	50	Tasq Technology II	46
Frontline Processing	55	Teertronics	48
General Credit Forms	57	TeleVerify	8
Global eTelecom	40	United Merchant Services	14
GO Software	28	VeriFone	32-33
		Vital Merchant Services	11

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Steven:

We have found that merchant attrition rates are the most closely guarded secret of our industry. We have not been able to quantify any data on this.

(Anyone who has any information or perspective on this subject can reach Steven at sthorin@orionps.com.)

*Good Selling!
The Green Sheet Staff*

The ISO Quandary

Could you send me a definition of an ISO? Is it different than a merchant acquirer? What are the roles and functions of each? Can you name any major players and provide examples of each?

Tony Seto

Tony:

There are no short answers to your questions; however, several of our previously published GSQs are specific reports on the ISO Channel and bankcard acquiring market. These reports are available in PDF format at no charge.

*Please visit our Web site and register to read GSQ Online:
<http://www.greensheet.com/gsq/index.html>*

Specifically, check out these issues:

-- 2002: Vol. 5, No. 1 & Vol. 5, No. 3

-- 2001: Vol. 4, No. 4

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Merchant: We Hardly Knew Ye

Where would I find statistics concerning how long the typical merchant stays with their processor? It seems nowadays that quite a few processors are making more money on early termination fees than on actually processing the transactions.

Thank you,
Steven Thorin

Risky Business ... Until You Use Search Engine

I am a subscriber to The Green Sheet and appreciate the informative articles. Are there past articles that address the details of risk assessment and management for ISOs?

Thanks in advance for your help.

Larry Clifton
e-check resources, LLC

Larry:

Our recently improved search engine at Green Sheet Online is just the tool you need.

<http://www.greensheet.com/search.cgi?query=>

A query using "risk management" returns 84 total matches in 3 seconds within 66 pages. Numerous company profiles published in the Green Sheet were identified.

The search provides hyperlinks directly to the stories in our archive. The articles are available in HTML text version (with the query terms highlighted) and PDF version in addition to the link to the original article.

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The Green Sheet Staff*



CHAMBER from Page 1

shouldn't independent salespeople consider becoming members of their chamber of commerce, too?

The most obvious reason for joining is the networking opportunities membership provides. At social events and weekly or monthly meetings, you have the chance to talk shop with the people you do business with and introduce yourself to those you'd like to be doing business with.

Joining the chamber of commerce also gives members the chance to make a difference in how business gets done. Along with benefits like training workshops, business referrals and savings and discounts on insurance and services, chambers lobby in local, state and national governments on behalf of their members' interests.

Chambers of commerce exist to promote area businesses and organizations at the local metropolitan and regional levels. There are 50 state chambers and one national chamber of commerce, promoting and advocating for their members in state and federal governments. In between all of these are various organizations formed to focus on businesses for specific groups, international chambers and even for e-businesses on the Web.

J.P. Moery is Vice President of Federation Relations for the U.S. Chamber of Commerce in Washington, D.C. He explained that his organization mainly serves a lobbying function at the federal level.

"The National Chamber was founded in 1912 and is the largest business federation in the world. We work in the national and international marketplaces. We are an advocacy organization, dealing with regulatory issues like lowering taxes, etc.," he said.

U.S. Chamber-sponsored programs cover topics to help members educate themselves and their employees and do business smarter. Resources include the National Chamber Litigation Center (the Chamber's own law firm), The Center for International Private Enterprise (to train future business leaders in emerging countries), The Center for Corporate Citizenship (develops policies and showcases positive corporate achievements) and the Institute for Organization Management.

The U.S. Chamber of Commerce has nine regional offices throughout the country to focus on political work in each area. There are 300 people working at the U.S. Chamber, including a field staff of reps who sell memberships to businesses, Moery said.

Moery said ISOs – or any business, for that matter – should consider joining their local chambers as well as participating in the state and national chambers. According to Moery, the U.S. Chamber of Commerce has 100,000 members and reaches more than 3 million businesses and associations.

"Our members range from the largest Fortune 500 companies to shops on Main Street, and include a number of salespeople," he said. "Local and state chambers can join, too. We serve as a lobbyist at the federal level for our entire membership roster."

"But at the local level, the networking opportunities are really great. You'll meet people and come into contact with organizations you'll do business with. That's why chambers are formed."

"The free-enterprise system is based on this grass-roots level of involvement."

The Santa Rosa Chamber of Commerce in Northern California, for example, has nearly 1,500 members (the city's population is 150,000), covering the spectrum of businesses and organizations in the area. At the regional level, publicity and marketing efforts are geared toward people in the same community – referrals to other member organizations are one of the best reasons for joining the Chamber.

Janet Rogers, Director of Special Events, Communications and Membership for the Santa Rosa Chamber, said that

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even though people usually associate networking opportunities with chamber membership, there also are additional perks to joining, including benefiting from their involvement in local government. The Santa Rosa Chamber, like the U.S. Chamber, serves as a legislative advocate, promoting the business interests of its members on the state, national and (especially) local levels.

"Many people aren't aware of the work we do to promote local business and of our involvement with the city council and county government," Rogers said.

There are 48 committees and task forces within the Santa Rosa Chamber that let members become active and be heard in improving and promoting business in the region. The Santa Rosa Chamber organizes 70 business and social events a year, such as breakfast meetings and after-hours receptions; conducts employee-training workshops on customer service, organizational skills, telephone skills and marketing; and offers discounts on business insurance, long-distance rates and health care.

For ISOs, joining a chamber of commerce at any level, whether local, state or national, makes sense. Promote yourself and the business services you can provide your fellow members. Get involved and make a difference in your community. ■

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CEO Wimsett Resigns from NPC

Thomas A. Wimsett has resigned as Chief Executive Officer and President of National Processing, Inc., which wholly owns the merchant credit card processor, National Processing Company (NPC).

The announcement was made by National Processing Inc.'s parent company, National City Corp.; there were no details given for the resignation.

Jon L. Gorney will step in to replace Wimsett as the company's CEO. At the same time, Gorney also will take over as Chairman, replacing Paul G. Clark, and will continue to head National Processing, Inc.'s overall technology and operations functions. National Processing will name a new president in the near future.

Gorney has been with National City since 1973, serving in positions of increasing responsibility in information systems. He was elected Executive Vice President of National City in 1993 and has been responsible for all banking operations and technology functions. He has served on National Processing's Board of Directors since 2000.

"Jon understands the needs of National Processing, having served on its Board of Directors for the past two years, and will be able to build on the company's excellent results," Robert G. Siefers, National City Vice Chairman, said in a company statement.

"Jon has been instrumental in driving important technology initiatives at National City, and we are confident that National Processing will continue to thrive and grow under his leadership. We expect this change of leadership to be a seamless, transparent management transition that should not affect employees, customers or stockholders."

National Processing, headquartered in Louisville, Ky., operates two business segments, merchant card services and payment services. NPC supports more than 645,000 merchant locations and processes one-fifth of all Visa and MasterCard transactions in the U.S.

National City Corp. is publicly held, has financial holdings worth \$99 billion and owns 85 percent of National Processing, Inc. ■

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What is Australian for 'Big-Time Clout?'

When the two largest credit card labels in the world don't like a rule in a country where they do business, they can really do something about it. MasterCard International, Ltd. followed Visa International's lead in taking legal action against The Reserve Bank of Australia. Both companies are concerned that the Bank's plans for major reforms in the Australian credit card industry will set a dangerous precedent in other countries.

As reported in The Green Sheet ("Not Going To Be a G'Day for Credit Cards Down Under," May 27, 2002, issue 02:05:02), the Reserve Bank of Australia has been preparing to make Visa and MasterCard both change their operating rules to be more consumer-friendly. The Bank believes the regulations established by the card companies, or "schemes" as they're called in Australia, as well as misleading pricing were detrimental to the public's best interests and needed revamping.

The changes to those operating rules, designed to reduce

fees and increase competition, were unveiled by the Reserve Bank of Australia in August. The new regulations constitute the biggest changes to the industry since credit cards first gained a foothold there 30 years ago.

The major reforms were developed over a three-year period. They include a 40 percent reduction in interchange fees for credit card transactions and increased competition within the payments system, and they would allow merchants to pass on the costs of transactions to consumers.

Ian Macfarlane, Governor of the Reserve Bank, said in a statement, "The reforms leave the basic structure of the credit card product intact and acknowledge the importance of maintaining the safety of credit card schemes in Australia.

The Payments System Board has endorsed a balanced set of reforms which will ensure that normal market mechanisms work in a more transparent and effective way in the Australian payments system, to the benefit of the Australian community as a whole."

The reforms, scheduled to become policy next year, will cost 1.5 to two percent of the collective profits of Australia's five largest banks, estimated to be A\$13 billion and A\$14 billion.

Visa International was the first to announce its legal challenge in the Australian Federal Court, criticizing the reforms as "poorly constructed and potentially damaging." The following day, MasterCard International Ltd. announced it also was seeking a review of the new regulations.

The credit card companies assert that the Reserve Bank has overstepped its authority and is not meeting its obligations through the Payment Systems (Regulation) Act. MasterCard also said the reforms do not meet the public-interest test required under the act.

Visa claims its legal action is supported by Australian merchants and bankers, including the country's largest banks. However, none of those banks or the Australian Bankers Association, which originally argued against the credit card reforms, will join future litigation.

This is one of only a few times Australia's central bank has been challenged in court. The Reserve Bank of Australia operates in the same way as the Federal Reserve Bank in the United States: It sets monetary policy, supervises and regulates banking institutions, protects the credit rights of consumers and maintains the stability of the financial system.

The Reserve Bank said it was "disappointed" that Visa and MasterCard had chosen to take action and that it "will vigorously defend the reforms." ■

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RDM Corp. Files Suit against Ingenico

RDM Corp., a Waterloo, Ontario, Canada-based provider of imaging and payment solutions, announced on Sept. 18, 2002 that it has filed a copyright-infringement lawsuit against Roswell, Ga.-based Ingenico Corp., manufacturer of payment terminals and technologies.

The lawsuit, filed in U.S. District Court in Minnesota, alleges that Ingenico is in violation of RDM's copyrights as well as an agreement between the two companies regarding RDM's intellectual properties. The lawsuit seeks to prohibit Ingenico from using copyrighted software related to RDM's check-scanning products, specifically with Ingenico's 2600

check reader/imager. In addition to the copyright charges, RDM also is seeking monetary damages.

Ingenico responded to the charges in a company press release by stating the allegations by RDM are false and that the Ingenico 2600 check reader/imager was developed to meet marketplace needs using engineering expertise earned from developing and installing more than 500,00 check readers during the past six years.

"The accusations look to be the result of acceptance by major check service companies of the Ingenico

2600 as a superior product with better price/performance than any competitive offering on the market," said Michael Hackney, Vice President and General Manager of Ingenico's Financial Systems organization. "RDM, in making these accusations, is playing the 'FUD' (fear, uncertainty and doubt) game."

Ingenico also denies owing any contractual or other obligations to RDM that would prevent Ingenico from making or selling the Ingenico 2600.

The Ingenico 2600 is a check reader and imaging product that captures images of checks and documents in gray scale to ensure no handwritten information is lost during the imaging process. 



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Americans Are Writing Fewer Checks, But They're Still Writing Lots of Checks

By Patti Murphy

Here's something I never expected to write, at least not this many years before my retirement: Check writing in America is on the wane. Now don't get me wrong. I'm not suggesting that banks should immediately divest themselves of check-processing equipment, or that ISOs and processors should eliminate check services from their menus of offerings. But long term (perhaps in another 20-30 years), it now seems safe to predict, there will be fewer checks used to pay for goods and services in America than cards or other types of electronic payment transactions.

Last year, the Federal Reserve announced results of the first significant counting of check payments in more than 20 years. The Fed's number crunchers had calculated that Americans wrote nearly 50 billion checks in 2000 – substantially fewer than the 60 billion, or so, checks that I and other observers had guesstimated based on hereto-

fore available data, yet more than the roughly 32 billion checks written in 1979, the last time the Fed counted.

In August, the Fed restated its research findings. Rather than 49.5 billion checks, the Fed says upon further study it now appears Americans wrote just 42.5 billion checks in 2000; the total was probably closer to 49.5 in 1995, the Fed says. While the 2000 number still tops the 1979 total, the difference is not quite as great as it seemed at first. And if the Fed's statisticians are correct, U.S. check usage probably peaked around 1995.

To be honest, when I first read the Fed's second take on its 2001 study, I was dubious. The new, revised data, contradicted much of the anecdotal evidence that has been bandied about the payment-processing and banking businesses in recent years. It also seemed to advance certain agendas – such as the Fed's Check Truncation Act (CTA) proposal.

Providing grist for my mill of cynicism, members of Congress in September – while balancing heavy workloads, such as the debate over waging war against Iraq and re-election campaigns – announced a hearing on the Fed-drafted CTA.

In check truncation, the physical movement of checks is stopped (at the bank of first deposit, a lockbox collection site, or the point-of-sale) and replaced with electronic exchanges; these can be handled bank-to-bank, via the Fed or through the ACH.

The Fed's CTA proposal, however, rather than taking paper out of the payments system, adds a new document to the processing stream – an "image replacement document" (IRD) that banks could use in lieu of truncated checks to run through sorting and processing equipment. Apparently, there are many banks that still want/need to process paper, and the CTA aims to accommodate this. (See "Fed's Research Reveals Opportunities for E-Payments, But Obstacles Lurk," Green Sheet, Jan. 28, 2002, issue 02:01:02.)

While committee hearings this late in the Congressional season aren't likely to result in quick action, proponents says the attention that has been given the CTA by lawmakers bodes well for action in the next Congress, which begins in January.

Taking Another Look at the Data

Now, to my change of mind: The more I look at the Fed's report and the more I talk with folks who spend a lot more time than I do poring over data like this, the more

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inclined I am to concur with the Fed's latest assertions that check usage probably peaked in the mid-1990s and that Americans probably wrote only 42-43 billion checks in 2000.

Jack Walton, a staffer in the division of reserve bank operations and payment systems at the Federal Reserve Board in Washington, explained to me in great detail how he and fellow staffers arrived at the revisions.

It seems the initial report, issued late last year, was just a "snapshot." It basically compared data collected from financial institutions in 2000 to what had been collected in 1979. What Walton and his colleagues did subsequently was to paint a detailed picture of check usage in America, plotting the data collected in 2000 against that from a survey of 600 banks conducted by the Fed in 1995 (on check fraud and related issues) and the 1979 data.

Comparing the data from these three surveys, Walton explains, shows clearly that there was a decline in checks between 1995 and 2000 - a decline that can't be explained by economic contraction, he insists, since both years were part of a long economic expansion.

But the decline was not uniform, across regions or across different types of financial institutions. For example, Walton's analysis indicates that checks are more prevalent in the Midwest than in the Northeast, while the value of checks paid per capita was 47% higher in the Northeast than in the West in 2000.

Another interesting finding: Despite the overall decline in the number of checks paid between 1995 and 2000 across all financial institutions, credit unions and savings institutions actually experienced increases in check volume. Together, these institutions accounted for 14% of all paid

checks in 1995 and 20% in 2000.

But in a written report on the data analysis (published in the August 2002 Federal Reserve Bulletin), Walton and Fed colleague Geoffrey Gerdes note that the 1.8 billion increase in the number of checks paid annually by credit unions and savings institutions was more than offset by an 8.7 billion drop in the number of checks paid annually by commercial banks.

Still, the fact that more checks are written on credit union (share draft) accounts than on bank checking accounts is noteworthy. Credit union membership has always had appeal to newcomers to the work force.

As a young professional, my first "bank" account out of college was with a credit union; many family members and friends took a similar path in establishing credit histories.

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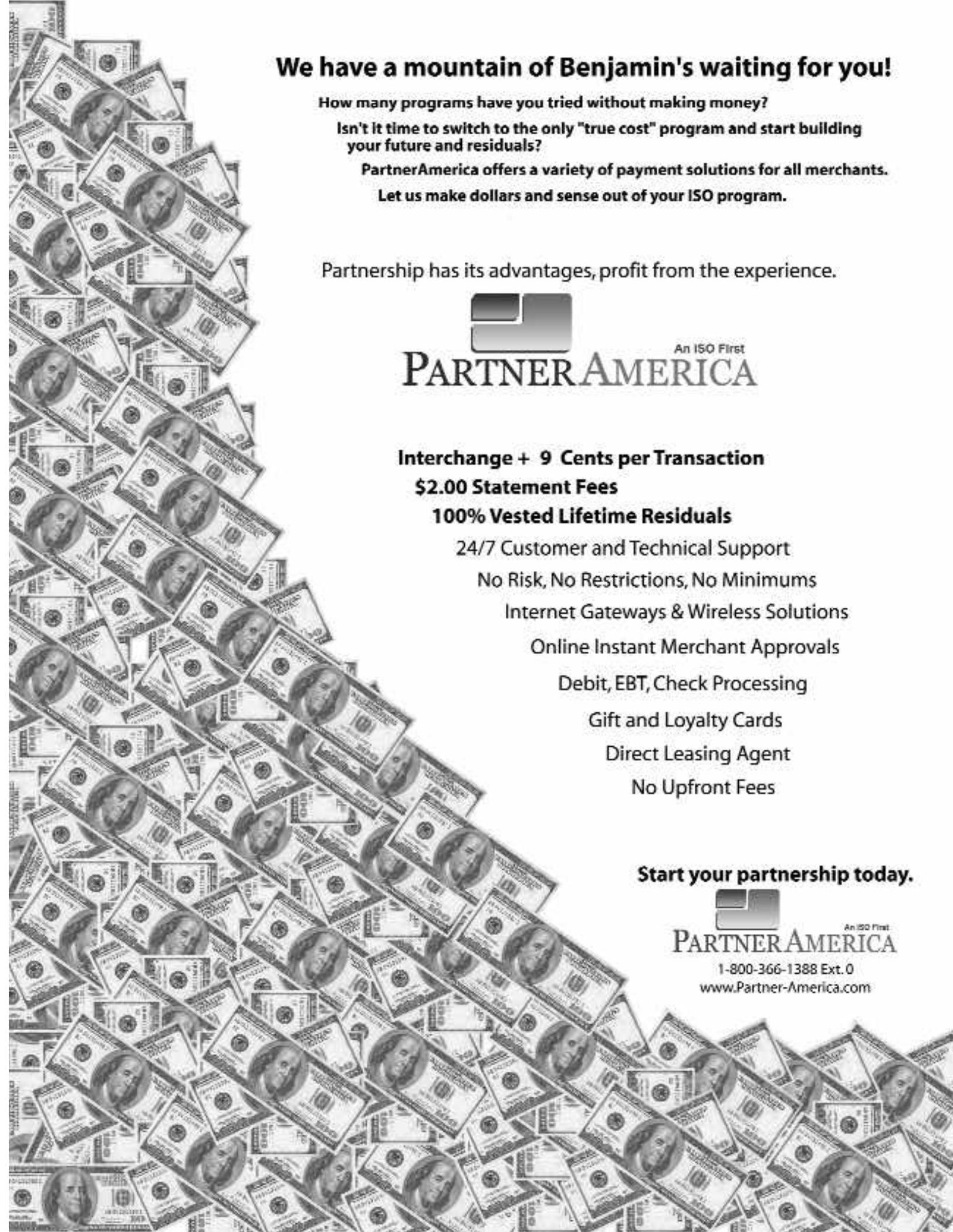
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I suspect that as consumers grow older, and more financially savvy, many move on to commercial banks, even investment banks with checking-like accounts (Merrill Lynch, for example). In other words, it's possible that the aging of the Baby Boomers is contributing to the decrease in check writing.

For many, debit cards came long after we entered the workforce, and many of us are not fast adopters. But as more banks promote so-called "check cards," the adoption curve is accelerating. Lending credence to this view, Visa announced recently that during the first six months of 2002, transactions initiated using Visa Check cards actually exceeded those initiated using Visa credit cards (3.04 billion versus 2.96 billion). This was a first, Visa said.

Understanding the Nuances

Another point: The Fed's data, as analyzed by Walton and Gerdes,

focuses exclusively on the number of checks paid by financial institutions.

For years, bankers and industry observers have counted the number of checks that pass through the sorting equipment of banks, the Fed, clearing houses and service bureaus to size up volume. These so-called "prime passes," however, are often double (even triple) counted.

For example: A check that I write on Bank A is deposited by you at Bank B, which runs the item through a prime-pass cycle and then perhaps sends it to its local Fed or correspondent bank for interbank clearing, where again the check is run through prime passes.

"You can easily get to 100 billion prime-pass items from a base of 42 billion checks," explains Steve Ledford, President of Global Concepts, Inc., an Atlanta-based research and consulting firm that

assisted in the Fed's data collection and analysis.

Using similar lines of logic also helps to explain why check-image archives are being populated so rapidly. Viewpointe Archive Services, for example, is adding images of about 1 billion items a month, according to John Lettko, Viewpointe's CEO.

Viewpointe stores images for some of the largest banks in the country, including Bank of America, JP Morgan Chase and First Tennessee Bank, notes Lettko. He estimates that Viewpointe sees 15-20% of all checks written in the U.S.

During a recent interview, Lettko said the Fed's revised check numbers perplex him. When he tries to map Viewpointe's business against the Fed's trend analysis, Lettko says he doesn't come close to 42 billion; 49 billion checks is a more realistic tally of the number of checks written



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each year, he insists.

But it's noteworthy that two of the three banks that are now "live" with Viewpointe (BofA and Chase) both are headquartered in states with large immigrant populations. It's quite conceivable that immigrants entering the workforce account for some of the check usage. First Tennessee, a Midwestern bank, also is apt to see more check volume because of its locale. (Remember, the Fed reports that check usage is higher in the Midwest and the Northeast.)

Also, the one billion items Viewpointe archives each month include some non-check documents, such as deposit receipts. Together, these factors could account for some of Viewpointe's workload.

Long Live America's Checks

Any way you look at the numbers, there are still a lot of checks written

in the U.S. Whether it was 42 billion or 49 billion, there still were more checks issued for payment in 2000 than in any other industrialized country.

In fact, in every industrialized country except the U.S., check volumes dropped dramatically during the 1990s.

Sweden, for example, almost eliminated check writing during the decade, with a 96.7% drop in check payments. In the Netherlands, check usage dropped by nearly 90% during the 1990s; in Switzerland, it dropped 72.2%, according to data from the Bank for International Settlements (BIS), which coordinates activities of central banks of the Group of Ten (G-10) countries.

To discourage check writing, banks in these Scandinavian countries increased fees for handling checks, vis-à-vis electronic payment alternatives.

In the U.S., banks are more likely to impose new fees (or increase existing fees) on electronic payments (such as debit cards) and to give away check services.

U.S. banks have been subsidizing check writers for years; some even advertise free checking. And while bounced-check fees are high, most consumers seem to ignore these charges or accept them as a form of a low-cost loan.

Banks, meanwhile, generate substantial income streams from bounced-check charges.

And as long as these mindsets prevail, Americans can be expected to continue writing billions and billions of checks every year. ■

Patti Murphy is Contributing Editor of The Green Sheet and President of Takoma Group. She can be reached at pmurphy@takomagroup.com.

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ISO Governance

Reprinted from *Transaction Trends*, July 2002 issue

By Jay MacDonald

Another caffeine-fueled day gets under way on the exhibition floor of the 2002 ETA Annual Meeting and Exposition in Orlando. Traffic is heavy and interest is high in all the latest technology.

But not everyone is shopping for payment solutions.

Seen strolling through the sea of marketing banners and ready handshakes is a woman relatively unfamiliar to and with the payment processing industry. Elizabeth Hone, attorney with the Division of Marketing Practices in the Bureau of Consumer Protection at the Federal Trade Commission is here to educate and learn. She is here to ask questions. She is here to understand the sometimes-intricate interrelationships between processors, merchant acquirers, sponsoring banks, card issuers – and not least, the role that Independent Sales Organizations (ISOs) play in the big scheme of things.

For the visiting attorney, the ETA show provides a singular opportunity to meet and greet members of an industry that the FTC needs to understand.

Two months earlier, the FTC had placed Certified Merchant Services of Plano, Texas, into receivership for alleged unfair and deceptive business practices in what was widely viewed as a shot across the bow of the entire industry. That trial is now scheduled for March.

Two months before that, the federal Office of Comptroller of the Currency (OCC) had issued new examination guidelines to banks working with Independent Sales Organizations (ISOs). The Federal Deposit Insurance Corporation (FDIC) also has been priming its examiners to take a closer look at the acquiring end of the business.

In light of the CMS action, and at the invitation of ETA, the FTC official agreed to come to the ETA annual meeting to address receiverships and ways to avoid this worst-case scenario.

Her message to ISOs was clear: Become more clear in your business practices or you may have to deal with us.

Fear of the Broad Brush

For ISOs like Barry Welsch, who owns and operates Welsch Financial Services in Butler, Pa., the FTC move against CMS elicits mixed feelings. The aggressive sales tactics of some of his competitors has long bothered Welsch, who came out of Mellon Bank to start his own ISO 10 years ago.

"To me, I know it's out there all the time and you kind of wonder in the back of your mind why somebody doesn't control them," Welsch says. "It really hurts us all; the whole industry gets a black eye. So I'm concerned about getting that black eye and I'm concerned about what fall-out I will get, what will affect me as a result of them, because any rules that come into play are going to put more responsibility on me."

Welsch recalls the early ISO wild-west days when free-wheeling sales practices ultimately forced the card associations to require members to register their ISO merchant acquirers.

"You had ISOs getting in the middle of funding to merchants, in the middle of keeping funds of the merchants, deceptive things that banks would never do. They [banks] didn't even have controls in place because that's not how a bank thinks," he recalls.

"As it ended up, we had to live with all this registration stuff, all this reporting and investigations into principals. That's all now part of being an ISO. I'm guessing that something like that will occur now from a government agency, probably the same kind of stuff."

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Fear of the broad brush, of having their business practices put under the microscope because of the aggressive sales practices of a few ISOs, leaves operators like Welsch frustrated and angry.

"I operate a business that is very reputable. I always knew that we just would not do deceptive things, it's absolutely fundamental. But if you're not as deep into this business and you haven't been around forever, you look at it as, hey, this is a free-for-all, just like every single business segment has that segment of people who will say anything and do anything to get the paper signed," he says.

"It seems to me there at least ought to be somebody watching over it. There has to be a place you can go to say these people look like they're doing something wrong. Because we see it all the time, there are others around. There's a whole group of

them that disrupt good, solid relationships of ISOs like ours."

The card associations charge their members with an oversight responsibility for the ISOs they sponsor. Welsch says the problem with that model is two-fold: aggressive ISOs can always find a bank willing to look the other way, and banks often don't share enough of a reality with their acquirers to know where to look for abusive practices.

"Banks traditionally are never viewed as overly aggressive," he says. "When was the last time you went to a bank and they tried to double-charge you for things just to see if they could get away with it?"

"It's absolutely not an issue that we need to clean up and get rid of that kind of thing, but it's a little bit of a concern as to how it affects the good guys."

BIN Banks in the Crosshairs

Increased scrutiny of ISO practices has heightened concern at BIN banks, those financial institutions that depend on ISOs to acquire merchants for them. Recent high-profile civil class action suits brought by merchants against large acquirers have some banks taking a closer look at their ISO relationships.

Previously, federal bank regulators were primarily concerned with the creditworthiness of an ISO to bear the risk of chargebacks; it had not considered the BIN bank's risk of exposure to class action litigation that might result from an ISO's business practices.

Banks are not legally required – yet – to oversee the business practices of their ISOs or to hold funds in reserve to cover damages that might result from them. Similarly, card association rules limit a member

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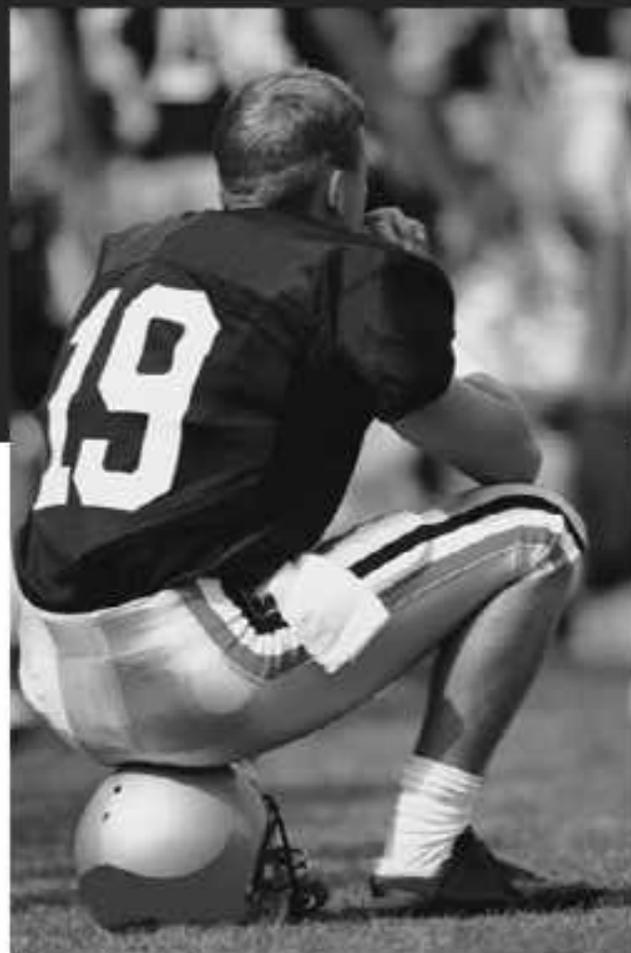
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There is growing concern, particularly among bankers, that the ISO industry's comparatively informal approach to merchant contracts may well be inviting unwanted attention from the feds; pages of contract add-ons after the fact led in part to the CMS action. ... Bankers in particular perceive some ISOs' failure to fully disclose as putting the entire industry at risk unnecessarily.

bank's responsibility to financial liability, ISO portfolio risk perimeters, and brand and customer management issues; no mention is made of any obligation to oversee or correct an ISO's business practices.

"Visa and MasterCard have to hate this; they have to hate the fact that a nonmember has been the subject of an enforcement action," says Marc Abbey, industry analyst at First Annapolis Consulting of Linthicum, Md. "You've got to wonder what's going on behind closed doors at Visa and MasterCard to mitigate this. If I were them, I would be thinking to impose greater oversight requirements on BIN banks and to make more explicit those kinds of commitments. Which could upset the apple cart in the ISO market a little bit."

There is growing concern, particularly among bankers, that the ISO industry's comparatively informal

approach to merchant contracts may well be inviting unwanted attention from the feds; pages of contract add-ons after the fact led in part to the CMS action. Contract language, particularly in such crucial areas as leasing and transaction fees, is sometimes vague and difficult to understand. Bankers in particular perceive some ISOs' failure to fully disclose as putting the entire industry at risk unnecessarily.

Whose Job Is It Anyway?

The question of ISO governance presents an interesting conundrum for the card associations. On one hand, Visa and MasterCard take great pains to point out that they have no direct relationship with (and therefore no direct control over) the ISOs with whom their members choose to associate.

In terms of overall card transaction volume, the ISO-driven, nonbank acquirer portion is relatively small

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(roughly 30 percent) and shrinking, hence the argument could be made that the card associations have an equally diminishing interest in the fate of ISOs in general.

On the other hand, Abbey points out that because the ISO market has been in decline since the mid-1990s, "the card associations have a lot less to lose by getting a little more aggressive than they once did."

Except for those ISO merchant numbers.

"Where it is big is in terms of the number of merchants (an ISO touches," says Gerritt Kerkstra, senior vice president for acquirer relations, North America acceptance for MasterCard. "It is ISOs, at least in the United States market, that have added to the breadth and depth of acceptance locations that do exist."

While the card companies would rather not invite the problem, if left

unchecked, renegade ISOs have the potential at least to undermine the stability of their bank sponsors, damage the card brands, and even expose the card companies themselves to class action damages.

At the ETA presentation on receivership in April, it was suggested that the card associations consider requiring greater oversight of ISOs by their member institutions and even initiate a third-party audit program to help stem abusive sales practices.

Kerkstra says MasterCard is already doing its part by publishing two new guides this summer, one directed at ISOs on how to better work with acquirers, the other directed at acquirers on how to make nice with their ISOs. MasterCard routinely hosts acquirer-day conferences to which it invites ISOs through its members; last year, it held its first ISO conference, to which it also invited members through their

ISOs, and plans to host another one in August.

"We want the member and the ISO to have an ongoing dialog," says Kerkstra. "What we're concerned with is that they're representing the rights and responsibility of merchants that are accepting MasterCard and that they're doing so correctly."

Beyond these educational efforts, Kerkstra says ETA, not the card associations, is the more appropriate organization to head up any industry-wide self-governance initiatives.

"In my opinion, the first organization that an ISO should look to is ETA. The Electronic Transactions Association has essentially grown up as an ISO association. Education is certainly something that is a primary focus of ETA and something that MasterCard has supported for many years," he says.

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Kerkstra views the specter of government regulation in a positive light.

"ISOs that are doing the job appropriately should not be worried about increased regulation. I think it would be a stamp of approval for ISOs that are performing their job well," he says. "If any ISOs are engaged in practices that are hindering business development with merchants, it would be good to bring those to light, as well. ISOs that are operating appropriately have nothing to fear."

Wild ISOs: An Endangered Species

Analyst Marc Abbey says the federal agencies are gearing up to bring ISO practices more in line with bank practices; it's no longer a question of if, but how and when.

"Both of the examination entities, the FDIC and the OCC, have gone

through a multi-year effort upgrading their ability to examine card business. In the last 12 to 18 months, there has been a lot of activity on the issuing business and some issuers have been seized. It's been very high profile. There hasn't been a whole lot of action on the acquiring side, but we know that the OCC has published new examination guidelines and we know that the FDIC has boned up its examination staff on the details of the acquiring business. It is clear that the banking regulators are more interested in the business than they used to be; what isn't clear is how much impact that will have on the market."

To some degree, the impact of government regulation will depend on just how widespread the problem is in the ISO industry.

"I'm not sure that CMS really did anything all that differently than most ISOs. The other thing I watch

very carefully is did CMS' BIN banks get dragged into the public arena and so far they haven't. The FTC acted against Certified Merchant Services, they didn't act against the banks that sponsor Certified Merchant Services. If you're that bank, you have to have been very concerned with that. You're ultimately responsible for this in the eyes of the card association. You just wonder, in the regulator action or in any lawsuits that result from this, whether the banks who are really the deep pockets here could be put under the spotlight, because if that were to happen, I think it would change the ISO market fairly dramatically."

Abbey expects the card associations to continue to closely monitor the various regulatory entities. He predicts that new announcements from Visa and MasterCard will likely be the first warning of what's in store for ISOs.



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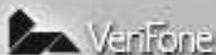
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"The disaster scenario here, if you're an ISO, is the regulatory agencies head in the direction of imposing capital allocation requirements in this business, meaning the banks would have to have capital on hand."

— Marc Abbey

"Watch the card associations. What are their lobbying efforts? What hearings, if any, do they attend at the FTC? What new rules do they promulgate? Because the card associations will have an interest in heading off formal federal regulation. If they can self-regulate, they would rather do that because federal regulation is so much more inflexible, it can get politicized, and you can have some really bad outcomes. Rather than watching the FTC itself, the early warning sign would be the activities of the card associations."

It's a good bet that someone – most likely the sponsoring BIN banks or a third-party auditor – will soon be charged with scrutinizing ISO business practices and ensuring they meet whatever federal standards eventually come down from Washington.

Of far greater concern long-term is that recent civil suits could rekindle interest in requiring banks to hold funds in reserve to pay the victims of their ISO.

"The disaster scenario here, if you're an ISO, is the regulatory agencies head in the direction of imposing capital allocation requirements in this business, meaning the banks would have to have capital on hand," Abbey says. "Right now, a bank, if it chooses to, can account for this as an off-balance-sheet activity and allocate really no capital; if it has \$1 or \$1 billion in cleared volume, it has no impact on its regulatory capital ratio. If that were to change, then all of a sudden these BIN banks would have to make a return-on-equity justification of the clearing arrangement they have

with ISOs. It's not clear how that would work out. That's been talked about for at least 10 years and I don't think we're any closer to having that sort of requirement now than ever. That is a very low probability but very dangerous banking regulatory action."

Such a move would have dire consequences for the ISO industry, he says.

"It would impose a cost that's not currently present on all non-bank acquirers. It depends on how it was implemented," Abbey says. "In extreme scenarios, it would trigger repricing of all these clearing arrangements, and most clearing arrangements do not envision that. You can guarantee that at some point it becomes the ISO's problem."

What chance, if any, does the industry have to stave off federal regulation by policing itself? Abbey admits that First Annapolis has wrestled at length with that question, and even looked at developing a "Good Housekeeping Seal of Approval" for the ISO industry itself before abandoning the idea.

"Is it something ETA could do? Maybe. ETAs are a little disadvantaged in the way that it's governed; it's not governed as an aggressive third party, it's governed as a captive tool of the industry, so it may have a problem implementing that sort of program. But it would be worthwhile." ■

Jay MacDonald is an international award-winning writer and consultant. He is based in Naples, Fla.

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COMPANY PROFILE ◀ ◀ ◀



Creditdiscovery, LLC

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Company address:

12881 Knott Street, Suite 237
 Garden Grove, CA 92841
 Phone: 877-789-4976
 Fax: 562-684-4119
 Web site: www.creditdiscovery.com

ISO benefits:

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Immediate Closure for Instant ISO Gratification

If the new millennium has any overriding themes so far, fraud would have to be right up there in the top 10. How will we remember the first few years of the 21st century? Probably that they were marked by all kinds of evil shenanigans, from corporate accounting schemes to credit card skimming and identity theft.

The Green Sheet reported on the burgeoning problem of false merchant applications in the May 13, 2002 issue ("Epidemic of False Apps Infects Industry," 02:05:01). Tried-and-true tools of the trade, such as credit and background checks, that previously have weeded out bad ISOs filing bad merchant applications with processors don't always work these days as fraudsters outwit standard procedures time and again. Businesses hungry for new accounts are getting stung more and more often.

A Garden Grove, Calif., company is fighting the battle against fraud one merchant account application at a time. Creditdiscovery introduced its ISOexpress system at ETA 2002 in April in Orlando. It's a solution that will virtually eliminate fraudulent merchant applications in the payment-processing industry, according to Creditdiscovery. For large ISOs/MSPs, acquirers and processors, ISOexpress reduces fraud by 99.9999%.

Shannon Rogan, Creditdiscovery Vice President, Sales and Marketing, said

the release of ISOexpress has attracted considerable interest because it is unique. What makes it unique, she said, is the way all the combined elements are put into use to accurately and rapidly process merchant accounts.

"The various components that go into the ISOexpress program are available through other companies' products," she said. "Until now, though, they have not been customizable for this specific industry. Ours is the only comprehensive program out there."

Creditdiscovery is a Web and credit technology-integration company, offering credit-decisioning and authentication services. Creditdiscovery products provide its customers with the tools to make credit decisions rapidly and accurately. ISOexpress is specifically designed to serve the needs of ISOs, MSPs and acquirers for processing merchant account applications.

Several other products are more generic versions, designed for uses such as employee background verifications, tenant reports or utilities enrollment. The principles behind these Creditdiscovery programs are the same as with ISOexpress – they all expedite the often tedious process of verifying and collecting personal or business information to evaluate risk levels.

ISOexpress is a fully automated online enrollment solution designed to expedite the entire merchant



application process from start to finish within seconds. This includes providing credit decisions, authentication and legally binding electronically signed documents. Risk associated with agent fraud goes down, sales and revenue go up.

ISOexpress works in three ways and is designed for:

- Merchants applying directly online through the merchant's bank or ISO Web site.
- Participation with internal staff processing manual or faxed applications.
- Field agents via the Web or a PDA. With basic information for qualification and risk, ISOexpress can make decisions for the agent quickly.

The system also utilizes artificial intelligence to analyze content of Web sites; when a merchant's URL is submitted, pages are scanned for material that determines risk factors involved in opening an account for this particular business.

The need to eliminate the risks from fraud aside, speed is of the essence in the current marketplace. "We're finding the world today navigating toward the instant-gratification type results," said Randall Sargent, Chief Technology Officer for *Creditdiscovery*. "We're able to do in literally

minutes what used to take up to three days. Businesses of all sorts and sizes are approved or disqualified very quickly. We are helping agents close business deals."

The online application process consists of following a series of easily navigable screens and filling in the required information. Curious ISOs can run through an online demo to see for themselves how the process works. The forms are displayed using DHTML. Sargent said the idea was to make the forms as "non-threatening to the consumer, not too heavy for merchants" as possible.

When ISOs enroll their merchant accounts with *Creditdiscovery*, these screens and fields can be configured and customized.

The most interesting part of the demo is the electronic signature page. By holding down the cursor and dragging the mouse around, a surprisingly readable version of the applicant's name shows up on the screen. It might look as if it were created on an Etch A Sketch, but the e-signature page is actually a legally binding document; the signature quality comes up to standards set by both the federal E-Sign Act and individual state UETA laws.

Sargent said that, out of 10 million transactions, there are an average of 7,600 occurrences of signature or ID fraud. "The digital signature cannot be altered or modified. We become the third-party observer. The quality of the e-signature is not an issue, it's the intent to sign that becomes important when combined with a commercially reasonable authentication method. Our program is 7,600 times more effective, with much less occurrence of fraud than with standard paper application processes," he said.

When combined with the other verification features in ISOexpress, the opportunity for submitting fraudulent applications is reduced to almost zero. Sargent explained that the information entered in the online applications is compared against five databases for verification. "This is regulated data, non-wallet information, like DMV records, Postal Service address and zip code, phone company records, social security records," he said.

Rogan stressed, though, that *Creditdiscovery*'s target market is typically acquiring banks and large ISOs who carry their own risk. She said the company is looking to work with acquirers and ISOs/MSPs who take their own risk or who process more than 200 applications a month.

Creditdiscovery offers its services for new account boarding; it doesn't do transaction processing. The banking is handled where the ISO, MSP or acquirer will be depositing the money or by whoever will be moving merchant transaction funds. It takes only 15 seconds for the application to be approved or declined; the processor issues a merchant ID after that. "If ISOs have their own risk, we can process right away, or we can refer to several banks," Sargent said.

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Credit*discovery's* pricing model works like a subscription, Rogan explained. "Clients are charged a 'set-up' fee to cover all Web site integrations, integration of the clients' underwriting criteria, documents, etc., into the system," she said. "With a minimum monthly fee, the clients are then charged a per-application fee based on usage."

ISOs don't need a special system on which to run the programs – ISOexpress is Web-based and with optional XML gateway hardware clients can integrate data into their back-end systems in real time. Credit*discovery* offers 24/7/365 help-desk services.

Credit*discovery*, founded four years ago and with a staff of 12, seems to be onto something in the effort to eliminate one element in the ongoing battle of good versus evil. Its line of products gives merchants and business owners of all shapes and forms the tools to keep fraud in

Q2 Economic Growth Stronger than Expected

According to revised figures released by the Commerce Department at the end of September 2002, the economy in the second quarter grew more than expected, although still at a slower pace than the first quarter.

Second-quarter gross domestic product grew at a revised 1.3% annual rate, changed from a previous estimate of 1.1% growth. The economy grew at a 5% pace in the first quarter. The revision was mainly the result of new data in services exports. New data showed more real exports of services than previously thought, nudging overall economic growth higher.

In other news, a consensus forecast released at the annual convention of the National Association of Business Economics (NABE) in Washington D.C., stated that 32 economists surveyed "overwhelmingly believe" the current economic recovery will continue into next year as business investment picks up.

Eighty percent of the economists polled said Congress and the Federal Reserve should stop attempts to stimulate economic growth, and they expect a "solid" growth rate of 3.2 percent in 2003. ■

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COMPANY PROFILE ◀ ◀ ◀



Netbilling

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Canyon Country, CA 91350
Phone:
U.S.: 888-357-8166
Outside U.S.: 661-252-2456
Fax: 661-252-5461
Web site: www.netbilling.com

ISO benefits:

- Comprehensive processing solution for credit card and check e-commerce transactions for all types of merchants, home businesses, non-profits, membership or subscription sites.
- Lucrative referring-partner program.
- Netbilling manages your customers' accounts for you, including billing and customer support.
- Merchants call Netbilling's 24-hour call center for live customer support, not ISOs.

Through the Gateway Smoothly

Know any merchants, businesspeople or organizations with a great idea that would translate well to the Web and Internet sales? Know any services you would recommend to them for accepting and transacting credit cards and checks and managing the entire e-commerce process?

Setting up merchant accounts, whether on or offline, is just so much easier when there's one resource to look to for everything from submitting the applications to setting up the shopping carts, managing member Web sites, risk management, fraud protection and round-the-clock help desk services.

Netbilling provides all of this and then some, with flexible programs to suit a variety of business needs, security and low rates. Automated recurring billing and password management for membership and subscription-based sites are also among the features setting Netbilling apart from other gateway services.

For ISOs, this means being able to offer options many of their customers might not have considered, which results in additional revenue. Netbilling also has a lucrative referring-partner program in place, which means even more revenue.

As merchants take their businesses to the Web, they often find that they need a combination of any or all of the options Netbilling has to offer. Mitch Farber, President of Netbilling, said since starting the

company in 1998, he has worked with people who started out doing \$1,000 worth of transactions with Netbilling a month; some of these businesses are now generating \$10,000 in transactions every day.

"We are a premium processing service for Web sites," Farber said. "There are lots of gateways around. We used a lot of merchant feedback in setting up our system." He credits his company's unique position with the variety and flexibility of the options built into their system, which allow merchants of all kinds to accept online payments.

Netbilling's complete processing solution includes real-time credit and debit card transactions, ACH processing, online check authorizations and fund transfers. Netbilling will help set up the merchants online, getting the applications approved quickly, opening the accounts, setting up a free Web-based application for shopping carts with links to a secure server and designing custom e-mail and payment forms.

Advanced fraud-scrubbing tools that merchants can configure to their specific needs also are an integral part of the secure environment. The risk-management option prevents user errors such as duplicate transactions, allowing only a certain number of transactions in the system. Netbilling also has a large proprietary negative credit card database, to which its subscribers have access.

Netbilling's system is completely compatible with other platforms,



including Unix and Windows NT.

Beyond the technical aspects and variety of services Netbilling offers, Farber said, "We're really proud of the customer service we're able to offer merchants. We go in and educate them when we set them up. We really pride ourselves on the fact that we handle merchants from start to finish, helping them online and selling their products and services."

Farber also said Netbilling's 24/7 call center "has been a huge hit. The call center is staffed round-the-clock for live calls or e-mails, meaning that Netbilling takes care of the customer-billing inquiries, telephone, product orders, Web site cancellations and e-mails. This allows the merchant to focus on marketing while Netbilling manages the call center and e-mail communications on their behalf."

While most of Netbilling's merchants are based in the United States, Farber said it has customers all over the world and is able to process for international accounts. Netbilling has offices in Santa Clarita, Calif., and Scottsdale, Ariz., staffed by 30 to 50 employees.

A one-source access to all the various components necessary for merchants to conduct e-commerce is definitely a bonus for busy ISOs. Netbilling has implemented a refer-

ring-partners program to take a lot of the headache out of account management.

Karen Campbell, Director of Sales for the company, explained, "There's a lot of frustration among ISOs with other gateway services. There have been several ways that businesses get referred to a gateway, where the ISO is reselling the service and provides customer support to the merchants."

Farber said, "Other gateways sell services to ISOs, which they can then in turn mark up, add fees to, etc., when they bill their merchants. Our system works better. And the ISOs are not involved in any billing – we'll do it for them."

Netbilling only processes transactions but will process any type, Campbell said, whether for products, services, memberships or subscriptions. The merchants who process with Netbilling, though, must have a domain name in place and a site hosted by a hosting company.

"We've developed a new way to partner with ISOs, with lots of flexibility built in," she said. "They are not resellers. They're not taking our service and marking it up. There's no ISO time spent on customer support – they're able to spend time selling."

Farber said, "The ISOs don't have to support merchants. There is no set-up fee – it's waived for our referring partners. With the flexible pricing we offer, ISOs can make money referring small- to medium-size merchants with monthly residuals."

Netbilling pays its referring partners 10 percent in residuals per month based on what they bill the merchant. "It gets people in the door cheap," Farber said.

Campbell said, "We have an in-house merchant account specialist who works with several banks to pre-qualify and process merchant applications. Or we can send the applications to several outside providers we've developed relationships with. Netbilling gets a good buy rate for both kinds of accounts – pre-qualified and those we send out – and we're able to pass those on to the merchants."

Campbell said the programs are flexible – 1.5 percent and 15 cents per transaction or, for merchants selling higher ticket items, a flat rate of 45 cents when the average transaction is more than \$20. The company will offer volume discount pricing as well.

Netbilling's secure processing and rebilling features help set it apart from other gateway providers. Credit card and ACH check processing for all online transactions, simple per-transaction fee schedule, fraud prevention, totally compatible shopping cart and membership site management and 24/7 service center for merchants are designed with reliability and security in mind. 

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COMPANY PROFILE ◀◀◀



Resource Finance Co.

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Chevy Chase, MD 20815-3134
Phone and fax: 866-211-0114
Web site: www.res-finance.com

ISO benefits:

- Provides working capital loans based on, secured by and repaid from residuals.
- No need to sell off all or a part of a portfolio.

Grow Your Business without Shrinking Your Portfolio

What if your business has a terrific opportunity – but you need working capital to make it happen? Let's say you have a chance to open a new sales office but need "up-front" money to set it up. Or you have a chance to buy out an investor or a partner. Or you want to open a telemarketing group that will generate significant business. Where do you find the money?

Traditionally, an ISO would sell off part or all of a portfolio of residuals to generate the necessary funds. An ISO owns a valuable asset – the continuing future cash flow of residuals. However, it has always been difficult to convert this value into cash that can be used to fuel growth. And selling off and shrinking the business in order to grow the business seems counter-productive. This has been an ongoing dilemma for ISOs.

It was this dilemma that provided the genesis for Resource Finance Co. "We figured if we could quantify the value of the future stream of residuals and find a way to collateralize it, then we could lend against that future revenue stream," says President David Putnam.

"We spent a lot of time working on the business model and testing it over a three-year pilot program, during which we made a bunch of smaller, risk-limited loans to ISOs. The ISO/borrowers loved our loans because they could get working capital without having either to sell off part of their portfolio or dilute their ownership by selling equity or taking in a partner.

"The acquirers/processors are positive because growing ISOs mean more 'clicks' – more transactions and therefore more revenue – for them. Also, the processors are able to use scarce corporate funds for their own growth. Furthermore, the processors avoid the conflict of being a vendor and a lender – sometimes referred to as "lender liability," under which theory a borrower can avoid repayment and even obtain damages if the lender has certain elements of 'control' over the borrower. (A White Paper on this subject is posted on Resource Finance's Web site.)

"Once the pilot was completed, based on the positive comments by ISOs and processors," Putnam says, "we knew we had a winner. Our loans help the ISO grow. They also help the processor by enabling growth, by freeing up corporate resources and by eliminating potential liability."

The source of the concept behind Resource Finance was industry veteran Chip Nichols. He was one of the original members at VeriFone and of Transaction Network Services, Inc., the largest network provider for POS transactions in the United States. He built, directed for 15 years and recently sold Resource Leasing Corp., a leasing company and supplier of POS equipment. He also has served on the board of a major ISO and therefore can identify with ISO issues.

Putnam has run Resource Finance since its inception. His background is in law, business and technology. "Now that we've tested our business model and located the necessary



financial sources, we look forward to rolling our products out to the nationwide community of ISOs. Our lending capability answers a clear need that has not previously been met," Putnam says.

Resource Finance has intentionally made the loan process simple and fast. "Typically, we can turn around a loan application in less than 30 days. Thirty days is much quicker than selling to an investor or selling off a portfolio," says Putnam. "Our debt financing is easier, faster, more convenient and, most important, demonstrably cheaper. If you compare the after-tax cost of debt financing versus equity or selling off part of your business, debt financing is clearly preferable."

Resource Finance's process is intentionally streamlined: Resource Finance e-mails an application to the ISO/borrower. Upon its return, Resource Finance telephones to discuss the loan, raise any questions, clarify any issues, complete the required credit and due-diligence checks, etc. Resource Finance then e-mails ready-to-sign, standard-form loan docs. Again, these are pretty straightforward. They require:

1. An assignment of the ISO/acquirer contract to Resource Finance for the duration of the loan.
2. Subordination or payoff of outstanding debt.

3. A minimum of 1 "point" (maximum 2 points).
4. Personal guaranties by the ISO/borrower's principals.
5. A simple form letter (provided by Resource Finance) to the processor authorizing the processor to send copies of the ISO's monthly residual reports to Resource Finance and to pay electronically to Resource Finance via ACH the amount of the monthly debt service from the ISO's monthly residuals. The rest of the ISO's monthly residuals go to the ISO in their usual fashion.

"That's it. We don't dictate that the ISO process with a certain processor or that he send his lease deals to a certain leasing company. With Resource Finance, the ISO retains his operational independence," Putnam says.

It's even easier to borrow additional funds. All the ISO has to do is update the loan documentation and sign a new note – the rest of the documentation is already in place from the original loan. Thanks to its automated processes, Resource Finance can lend as little as \$25,000 and as much as \$1 million.

The processor ACH's to Resource Finance the monthly payments until the loan is paid off. Once the loan is repaid, 100% of the residuals revert to the ISO, who has not had to diminish a portfolio or dilute ownership. There is continuing compounding from merchant referrals. At the end of the day, the ISO owns 100% of the growth that the loan has produced.

Resource Finance lends based on a multiple of the ISO's monthly residuals. Typically, the multiple is 6x (sometimes as high as 10x) the ISO's monthly residuals. So, if the borrower is receiving residuals of \$50,000/month, the maximum loan amount would be \$300,000 (or possibly as high as \$500,000). The term is usually 36 months, but this also can be extended under certain circumstances. So, for a monthly payment of roughly \$10,000, the borrower gets \$300,000 to build the business.

"Debt financing produces useful leverage. But it can cause problems if it is overused," Putnam says. "We try to make sure there is a positive differential between the financing costs and the ISO's ROI (return on investment). Part of our loan-modeling stress test is to make sure the borrower has sufficient resources to avoid being choked by the debt service. We always caution borrowers to borrow what they need, not what they can get.

"We have worked with most of the major acquirers/processors, and they like our product because it brings them more transactional 'clicks,' which equates to more revenue, and it is a 'value-added' service that they can offer their ISOs. We are not yet well known because we have been quietly testing and refining the business during our pilot phase. Now that we are nationwide, and the response has been so positive, we hope to become the proverbial 'household' name – at least in ISO households!" 

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Do the Wash with the Web

Cash-strapped, dorm-inhabiting college students will have something to smile about next year. As part of a new program called eSuds, IBM and USA Technologies will connect 9,000 washing machines and dryers to the Web at colleges and universities in Indiana, Kentucky, Michigan and Ohio.

For many students, this could mean no more digging for quarters while outfitted in their last pair of clean underwear. The new Internet-enabled machines will replace traditional coin-operated machines by allowing students to charge the cost of each cycle to a credit card, deduct the cost from an account by swiping their student ID card, or even use their wireless phone to punch in an account authorization code.

Laundromat owners will like it, too. Using the Web, owners can check machines for usage and maintenance, and they no longer have to worry about cash being



(Photo: AP/HO)

stolen out of machines or machines being vandalized.

The program recently was tested successfully at Boston College and Massachusetts Institute of Technology and received an "overwhelmingly positive response" from students, according to USA Technologies. 

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NEW PRODUCTS ◀ ◀ ◀

A Snappy, Colorful Sell for ISOs

Snap-on faceplates for Omni 3750

VERIFONE

In terms of branding products, VeriFone says it's time to move away from the gray. Apple Computer has done it with the iMAC and Nokia has done it with cellular phones. Even staplers are getting more colorful: A bright red Swingline stapler manufactured by ACCO Brands, Inc. and featured in the movie "Office Space," has revitalized the company's brand and is fast becoming a coveted item among office workers.

VeriFone introduces its own colorful approach to product branding with snap-on faceplates for the Omni 3750 payment terminal. The faceplates, available in a variety of colors, add a splash to this payment device and offer a unique selling point for ISOs. VeriFone also can customize faceplates to include a company logo, providing an opportunity for acquirers or retailers to display their name, logo and colors on a merchant's countertop.

VeriFone's Omni 3750 is an all-in-one terminal with an internal PIN pad, a magnetic stripe reader, and an integrated smart card reader and thermal printer. The terminal supports VeriFone's Verix multi-application architecture for processing secure payments and value-added applications. The Omni 3750 has received EMV Level 1 and Level 2 Type Approval for smart card acceptance.

VeriFone's faceplates fit over and around the terminal's keys, display and paper cover. They are made of sturdy acrylic, so they won't peel off like stick-on overlays, which have been used in the past.

Standard faceplate sets are available for \$10, and custom-designed faceplates with logos can be special-ordered through VeriFone; pricing for these depends on color and quantity ordered.

VeriFone, Inc.

2455 Augustine Drive
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www.verifone.com

Credit Card Processing from a Desktop

Virtual Terminal Payment Solution

COMSTAR INTERACTIVE CORP.

Comstar Interactive Corp. has introduced Virtual Terminal (VT) Payment Solution, a new service that allows businesses to securely process credit cards and manage their transactions on the Internet using their existing desktop computer (Windows or Macintosh), printer and Internet connection. Since the service is browser-based, no additional processing equipment, software or telephone line is required.

In addition to handling traditional credit card payments, users of VT Payment Solution can set up recurring payments, auto charges and batch processing for retail and e-commerce orders; the service also allows users to conduct pre-sale authorizations.

Credit card information can be captured in two different ways: by typing in the customer's card number and expiration date, then clicking Submit; or by swiping the credit card using an optional card-swipe device that can be attached to the computer's keyboard. After receiving approval from the credit card processor on the Internet, users can print a receipt for a customer using the computer's printer.

Transaction data is processed over the Internet using 128-bit Secure Socket Layer (SSL) technology, so data is protected and secure. Transaction data is also automatically stored in an encrypted archival system where it can be retrieved and reviewed.

VT Transaction Manager, a component of the VT Payment Solution service, provides users with a real-time view of their credit card sales. Users can query the database to create and print custom reports and import or export data to software such as Microsoft Excel to integrate with their legacy systems.

VT Payment Solution is targeted to businesses accepting payments on-site where personal computers with Internet access are used, such as doctors' offices, hospitals, vehicle sales or repair establishments, retail stores



and restaurants.

VT Payment Solution also can be used in conjunction with Comstar Interactive's wireless credit card processing solution, called CHARGE ANYwhere ("Wireless POS Mighty Mite" Green Sheet, March 25, 2002, issue 02:03:02).

Comstar Interactive Corp.

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 New York, NY 10001
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 www.comstarinteractive.com

It's All in the Wrist (Band)

Smart Band

PRECISION DYNAMICS CORP.

Precision Dynamics Corp. provides a new twist on a method for identification or payment. The system, called the Smart Band, combines Radio Frequency Identification (RFID) technology with a durable, non-transferable, tamper-resistant wrist-

band. Smart Bands can be used for both tracking and point-of-sale purchases.

Using the Smart Band system, one can record and transfer serial numbers, personal records and account information from a wristband to a computer system, or vice versa.

The Smart Band uses a microchip and antenna sealed inside a wristband, allowing information to be written to and received from the Smart Band via RFID scanners. When the wristband passes within the range of the scanner, information is transmitted. The Smart Band system is compatible with management information systems and wireless local area networks (LANS).

Smart Bands use a frequency of 13.56 megahertz, which allows readings and transmissions through clothing, the body and glass windows and provides a long shelf life – the Smart Band does not require a battery.

Magic Waters amusement park in Rockford, Ill., is using the Smart Band system for cashless and cardless point-of-sale purchases. The park calls the wristband system Splash Cash.

Here's how it is used: A customer purchases an account at the time of admission for a certain dollar amount and then "wears" the money on a wrist in the form of a Smart Band.

When it's time to buy food, drinks or souvenirs, the customer places his or her wristband near an RFID scanner, and the computer calculates the cost, reads how much is available in the account on the wristband, subtracts the dollar amount and then sends the new total back to the computer chip inside the wristband.

The wristband works like an electronic wallet. The main benefit for users of the Smart Band system at the point-of-sale is convenient spending; there is no need to carry cash. Some of the benefits for companies implementing the technology include printing promotional messages on the wristband and obtaining valued demographic information from their customers.

Smart Bands also are targeted to the health care, security and law enforcement industries. 

Precision Dynamics Corporation

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- ▶ Comprehensive merchant services that exceed your customers' expectations

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 NEWS

Positives of Debit Cards

Visa USA announced that in the first two quarters of 2002, more Visa customers used their debit cards than their charge cards. Visa processed 3.04 billion check card transactions compared to 2.96 billion Visa credit card transactions. Visa also released results from a recent study conducted on why consumers are choosing debit cards over credit cards. People surveyed cited reasons such as not wanting to carry a checkbook, getting through checkout lines more quickly, carrying less cash and having a better idea of where they spend their money.

Humboldt Deal with iPayment Delayed

Humboldt Bancorp says the sale of its proprietary merchant processing division to iPayment Holdings, Inc. has stalled. Humboldt expected the deal to close at the end of August 2002. Although iPayment Holdings declined to sign an amendment extending the Aug. 30 termination of the agreement, the companies are still negotiating.

Certegy Earnings Guidance Lowered

Certegy Inc. announced it expects to report third quarter 2002 diluted earnings per share of \$0.40, before restructuring charges and has revised previous revenue and earnings guidance for full year 2002 and 2003. Revenue in 2002 is expected to increase by 8 to 9 percent over 2001. Full year 2002 diluted earnings per share are expected to be between \$1.39 and \$1.40, before restructuring charges. Certegy lowered its revenue estimates for 2002 and 2003 by \$77.7 million.

The company cited several reasons for the change: a delay of the planned Q4 2002 rollout of a check-cashing program for a major discount retail customer, a decrease in the number of machines to be deployed by the end of 2002 in conjunction with the company's kiosk-based check-cashing program, the de-conversion of Brazil-based Banco Real's card portfolio in February 2003 and the weakening of that country's currency because of an unstable economy, and the loss of a large merchant processing customer.

 ANNOUNCEMENTS

Safeway's New Payment Method

Safeway Inc. has introduced a new way for customers to pay for groceries in its stores. The PIN-activated Safeway



Smart Check card combines into one card a customer's Safeway Club card and access to the customer's personal checking account. Customers using the Smart Check card also can benefit from in-store promotions such as Safeway Club card discounts and receiving cash back. Safeway is offering a 10% savings award for customers who sign up for the card by October 31, 2002.

Tranax Makes Film Debut

The Tranax Mini-Bank 2100, an ATM manufactured by Tranax Technologies, Inc., is featured in the recently released MGM movie, "Barber Shop," starring Ice Cube. In the opening scene of the movie, two amateur thieves steal the Mini-Bank 2100 from a convenience store. The strength of Tranax's ATM is depicted as one thief unsuccessfully tries to break into the machine. The thieves and the stolen ATM are highlighted in comical scenes throughout the movie.

e-Checks Gain Popularity

According to NACHA statistics, more than 200 million e-check payments were made during the first half of 2002, an increase of more than 300 percent from the same period in 2001. NACHA defines an e-check as "an electronic debit to a checking account that is initiated at the point-of-sale, on the Internet, over the telephone, or via a bill remittance sent through the mail, and is processed using the automated clearing house network (ACH).

Concord Buying Lipman Terminals

Concord EFS signed an agreement with Lipman USA to purchase 20,000 point-of-sale terminals. This contract will allow Concord to provide its customers with NURIT wired and wireless POS solutions, including the Class A-certified NURIT 3020 countertop payment terminal.

Skylight Financial Gets \$12M from GTCR

GTCR Golder Rauner, LLC, a Chicago-based private equity investment firm with investments in payments industry companies such as VeriFone, Transaction Network Services, Genpass, TransFirst and Risk Management Alternatives, has announced a \$12.8 million investment in Atlanta-based Skylight Financial, Inc.

Skylight Financial provides FDIC-insured checkless account-based ATM and debit services at the point-of-sale to employers and underserved members of the population. Skylight has customers in 46 states, and more than 60% of Fortune 100 companies have employees with a Skylight account.

Walnut Investment Partners, an existing investor in Skylight, also participated in the financing.



PayPal Lauded for Fraud-Busting

PayPal has been dealt its share of headaches this year: an inquiry from the New York State Attorney General into the use of PayPal's service for online gambling, and lawsuits filed by shareholders seeking to block the merger with eBay and by Bank One Corp. saying PayPal violates Bank One's patents on a "cardless payment system." (Bank One's eMoneyMail is a competitor to PayPal.)

So it's no wonder PayPal wanted to spread some good news. The company's anti-fraud team received several recognition awards from the U.S. Postal Service in appreciation of its aid in the investigation of a man accused of Internet auction fraud. Jay Nelson, 34, of Gilsom, N.H., recently pleaded guilty to charges of mail fraud, wire fraud and money laundering for failing to deliver thousands of items he offered for sale on Internet auction sites.

BNA Certified by Major Processors

BNA Smart Payment Systems announced that its payment application is certified to process credit and debit transactions through Paymentech and has received Class B Certification by Vital Processing Services to process retail transactions for credit, debit and EBT card payments.

The BNA application runs on a Banksys C-ZAM/SMASH terminal and has been developed in the standard Java programming language. The Banksys terminal reads both standard magnetic stripe and smart cards and features a configurable Ethernet communications card, an integrated pin pad, EMV level 1 and 2 compliance and standalone and multi-unit configurations. BNA is also the North American distributor of Banksys' terminals.

Alogent's CEO Ranks in Atlanta Top 50

Alogent Corp., a developer of transaction processing solutions for banks, announced CEO Brian Geisel has been named one of "Atlanta's Top 50 Entrepreneurs" by Catalyst Magazine. The top 50 entrepreneurs were chosen by Catalyst Magazine based on a number of criteria including annual revenues, contributions to the business community and philanthropic efforts.



Wireless and Prepaid Partnership

Radiant Telecom and Comstar Interactive Corp. have partnered to bring a new prepaid wireless solution to market. Radiant has integrated its Radiant Prepaid point-of-sale application with Comstar Interactive Corp.'s CHARGE ANYwhere wireless credit card processing solution ("Wireless POS Mighty Mite," Green Sheet, March 25, 2002, issue 02:03:02).

The joining of these two products offers merchants the ability to activate and recharge prepaid products from a wireless device. Merchants such as delivery drivers, flea market attendants and taxi cab operators will be able to provide customers with prepaid, rechargeable long distance, wireless, Internet, dial tone and bankcard products. The products have no value until they are swiped through the CHARGE ANYwhere device and assigned a dollar amount. Radiant plans to offer the integrated solution to the marketplace through its sales network.

VeriFone, TNS Making it Better

VeriFone, Inc. and Transaction Network Services have joined forces to improve terminal performance and network connectivity in various communications environments in order to benefit processors and merchant customers. Using TNS' data-communication services, VeriFone terminals can now interface with networks quickly, consistently and securely. TNS is a provider of data communications for transaction-oriented applications. TNS says its network transported approximately 6.7 billion point-of-sale and ATM transactions in 2001. VeriFone says it has shipped more than 10 million payment terminals worldwide, with more than five million installed in the U.S.

Time.com Selects New Payment Solution

Yaga, Inc. and iBill announced Time Inc. has selected their e-commerce payment technology. Time.com will use Yaga's and iBill's solution to charge its customers for archived Web content and offer readers a wider variety of payment and services options such as micro-payments, subscriptions, time-based passes and gift subscriptions.

NPC Renews with Target

National Processing Company (NPC), a provider of merchant credit card processing and a wholly owned subsidiary of National Processing, Inc., renewed a multiyear EBT, credit and debit card processing agreement with Target Corp. NPC has served as Target's merchant processor for more than 14 years. NPC also announced it has signed a new multiyear merchant-processor agreement with natural and organic foods retailer Wild Oats Markets, Inc. and with ShopKo Stores, Inc., a discount retailer with 365 ShopKo and Pamida store locations in 23 states.

SPS Makes Whale of a Deal

Secure Payment Systems, Inc. (SPS), provider of both electronic check conversion and gift card services, has partnered with Wyland Galleries to introduce and process a series of stored value gift cards. Wyland, a painter, sculptor and muralist, is the world's premier ocean artist and has completed 89 "Whaling Wall" murals throughout the United States, Canada, Japan, Australia, Mexico, France and New Zealand. The designs of the Wyland Galleries gift cards will be based on Wyland orig-

inals. In addition to gift cards, the Wyland Galleries also will implement SPS' point-of-purchase electronic check imaging systems.

ACQUISITION

MerchantWired Acquired

First National Merchant Solutions, a payment processor and wholly owned subsidiary of First National Bank of Omaha, announced it has acquired payment processing assets and business relationships of **MerchantWired Financial Services**, a subsidiary of the Simon Property Group.

APPOINTMENTS

NCR President to be COO, TOO

NCR Corp. has named **Mark Hurd** Chief Operating Officer of the company. Hurd most recently served as President of NCR and Chief Operating Officer of its Teradata division. Hurd, a 22-year veteran of NCR, will remain NCR's President and will continue to report to NCR Chairman and Chief Executive Officer Lars Nyberg. Hurd started his career at NCR in 1980. He was chosen to lead the Teradata division in October 1999 after advancing through a number of sales and marketing leadership positions. In July 2000, Hurd was appointed COO of the division, and the following year he was elected President of NCR.

Pegasus Adds First Data Corp Exec to Board

Pamela H. Patsley, Senior Executive Vice President of First Data Corp. and President of First Data International, has joined **Pegasus Solutions, Inc.**'s Board of Directors. Pegasus is a provider of transaction processing and electronic commerce solutions to the hotel industry. Patsley previously has served as President of First Data's merchant transaction-processing business unit.

EXS Appoints VP for Product Marketing

Electronic Exchange Systems (EXS), supplier of merchant transaction processing services, has appointed **Peter Scharnell** as Vice President, Product Marketing. Scharnell has more than 15 years' experience in the software development industry. Before joining EXS, Scharnell served as Senior Product Manager at Day Software, Inc.

eFunds Fills CEO Position

eFunds announced **Paul F. Walsh** has been appointed to the offices of Chairman of the Board and Chief Executive Officer, succeeding J.A. "Gus" Blanchard. Blanchard will serve as Transition Advisor until his retirement Dec. 31,

2002. Walsh served most recently as Chairman and CEO of Clareon Corp., an electronic payments provider.

From 1999 to 2000, Walsh was Chairman of iDeal Partners, a private equity firm. From 1995 to 1998, Walsh was President and CEO of Wright Express Corp. Walsh's experience also includes a CEO role for the Investor Services and Diversified Services divisions of BankOne (1990-95); head of Institutional Trust at Norwest Capital Management (1987-90); and multiple positions, including CEO of Diner's Club-Germany for Citigroup (1975-87).

Concord EFS Appoints Executive VP

Bond R. Isaacson has joined **Concord EFS** as Executive Vice President, reporting to Edward A. Labry III, President. Isaacson previously served as Payments Executive for Bank of America Corp. He also has held various positions at Visa USA, including Executive Vice President of the member and merchant sales organization and President of Visa's Internet division. Before VISA, Isaacson worked nearly two decades at IBM Corp, holding numerous positions in technology, finance, marketing and sales with a primary focus on consulting with the financial services industry. ■

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INSPIRATION ◀◀◀

Leading the Way

The payment processing industry is at its most dynamic, teeming with new opportunities for acquirers, processors and independent salespeople.

The success or failure of the sales professionals who service this industry depends not only on their recognizing those opportunities but taking full advantage of them.

Isn't it about time you broke out of your routine and began seeking new lead sources? Here are a few hints to help you bust through:

- **Check the fine print.** Read daily newspapers, both local and national. Flip through magazines every chance you get. Watch the news. Pay closer attention to retailers' advertising during your favorite television programs. Don't forget billboards. Merchants investing in marketing are prime candidates for specialized services.

- **Chat with clients.** Every sales professional has at least a couple of customers who are in tune with their retail space. When you meet with them next, discuss what's happening not only with their account but the business community in general. Their observations can point you in the right direction.

- **Be host to a party.** Every Rotary Club breakfast or Lions Club luncheon welcomes members or even guests willing to sponsor the get-together. Not only will you get exposure, you'll also be exposed to a captive audience who will happily drop their business card into the bowl on your sponsor table, especially if there's a prize drawing involved.

- **Hang out at the mall.** Tour your retail area on a weekend. Get in some shopping while jotting down new businesses that fit your profile but aren't part of your portfolio. Add them to your prospect list and start the contact process.

- **Let your fingers do the walking.** Get out that new phonebook and run your fingers through the pages. See who's new in town. See whose ad has gone from three lines to three columns.

- **Call personnel.** Studies show that positions change at the rate of 50% every six months in most companies. The person you spoke with last year might have moved on or moved up. The replacement might be more receptive to your product information.

- **Step outside the sphere.** Where is it written that you have to color within the lines all the time? Create a list of business in your area that you normally don't service, whether they be non-advertisers in your town or retailers who sell products you don't buy. Then go visit them.

- **Ask the question.** Be sure to end every pitch with, "Do you know any other merchant who needs our services?" It's all about networking.



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Payments Symposium 2002

Highlights: The Payments Symposium, sponsored by the Western Payments Alliance, is the West Coast resource for information exchange and discussion of electronic payments, payments convergence, fraud, risk management and other issues at the forefront of our industry. This innovative forum blends two events into one: a high-level summit that brings together key industry players for a lively exchange of views and ideas, and an educational conference where you can fine-tune your plans and exchange information on technology, direction and challenges in the payments industry. Symposium topics and courses include: View from the Fed: The Payments Landscape; Corporate Trends in Payments, Cash Management, Payables and Receivables; Spotlight on the Future of Payments Technologies. Senior executives from WesPay member organizations; payments, cash managers and industry executives from financial services; corporate and public sector cash managers; and technology and services providers to the payments industry should plan to attend. A cocktail reception and gala dinner also are planned.

When: Nov. 3-5, 2002

Where: Sheraton Palace Hotel, San Francisco

Registration Fees: \$695 for symposium; \$125 for additional reception/dinner guests.

How to Sign Up: Visit www.wespay.org. Phone 415-433-1230.

29th Annual Computer Security Conference and Exhibition

Highlights: If you have responsibility for or involvement with information security, this is the conference for you. The Computer Security Institute's 29th annual Computer Security Conference and Exhibition is the security event of the year. The conference is designed for everyone in security, from newcomers to seasoned professionals, and will educate you about the latest strategies and technologies and show you ways to protect their information systems. This event boasts the largest and most comprehensive conference program in the industry, featuring more than 130 sessions, case studies, panels and discussions and 120 leading security vendors exhibiting their products and services. More than 3,000 security professionals from over 70 countries will attend. Get the knowledge and develop the contacts to enrich your job and your career, and ensure that you return to your office a better practitioner. Two days of pre-conference seminars add to the learning opportunities.

When: Nov. 11-13, 2002

Where: Hilton Chicago Towers, Chicago

Registration Fees: Vary by membership status. Attend the exhibition free. Visit www.gocsi.com for complete details.

How to Sign Up: Online at www.gocsi.com.

How to Conquer Commitment Phobia

How many times have you heard this statement when calling a prospect to set up a presentation? "Your services sound interesting. I'll call you back." Do you accept that response, hang up the phone and sit waiting for it to ring later? If you do, you're waiting for something that will never happen.

That call won't come because you didn't get an agreement from the outset. You didn't get a commitment of a yes or a no. You got a maybe. Maybes are a major problem for the sales professional. While a "yes" is the desirable response, a "no" is an opportunity for discovery. It's an opportunity for you to ask what it would take for that prospect to commit to meet you. A "maybe" is just a polite way of saying "no."

In order to get that prospect to commit to a meeting, you'll have to make an offer the prospect can't refuse. You'll have to present a plan. An effective plan incorporates the following components:

- **A clear purpose of the meeting.** It's all about the prospect – his or her needs, wants and bottom line. The meeting is all for the prospect. Make that clear.
- **A convenient date and time for the prospect.** Making it easy for the prospect to take the meeting makes it harder for the prospect to refuse.
- **A reasonable expectation.** Prospects will be more open to a presentation if they know they won't have to make a decision to buy at that time if they don't want to. Rome wasn't built in a day. Your portfolio won't be advanced with just one pitch, either.
- **A clear format.** The prospect will feel more inclined to meet with you if you make it clear that you won't be doing all the talking. Let them know you will anticipate questions, and then welcome them.
- **A defined timeline.** Acknowledge the prospect's time is valuable. Assure the prospect your presentation will be brief but informative.
- **A mutual agreement.** The final issue to be stated before the meeting is to agree on an end result at the meeting. Let the prospect know you will accept a yes or no at that time ... but don't accept either response beforehand.

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Paul H. Green

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