

UNDERSTANDING HIGH-RISK MERCHANT ACCOUNT

The first thing to understand about high-risk businesses is that your processor will determine whether you fall into one of their high-risk categories when you apply for a merchant account. Either you're high-risk, or you're not there is no middle ground. Beyond that, it gets complicated as every processor has their own unique guidelines for determining whether you're in the high-risk category. While some business types, such as pornography or drug paraphernalia will almost always be placed in the high-risk group, others may or may not be, depending on your processor. Some merchant services providers have very strict guidelines for determining high-risk status, while others use more relaxed criteria. If you're considering a particular provider, check their website or contact them directly to see if they find your business to be high-risk. This can save you a lot of time and effort in wasted applications to providers who aren't going to approve you.

How a merchant services provider treats a high-risk business can also vary widely. Many providers, particularly those that try to offer merchant services at the lowest possible prices, simply do not accept any high-risk businesses at all. This helps to reduce their exposure to fraud and keeps costs low for their existing clients. Other providers will allow certain high-risk companies, but will charge you significantly higher rates and fees for your merchant account due to the elevated risk they're accepting by giving you a merchant account. There's also a third category of providers who specialize in placing high-risk businesses. While their rates and fees aren't a good deal for non-high-risk merchants, they can often provide a merchant account for high-risk businesses that have been turned down by other providers.

While the exact criteria for determining high-risk status vary from one provider to the next, the following factors are usually used to determine whether a business qualifies as high-risk:

- High chargeback or fraud rate: If your line of business has historically shown a high rate of either chargebacks or outright fraud, you'll probably be deemed high-risk, too. This determination is usually based on the behavior pattern of your customers, not you personally.
- Offshore businesses operating in the United States: If your business is headquartered overseas, but you primarily sell to US customers, you might be flagged as high-risk. While the potential for fraud is a strong factor here, lax banking regulations in your home country can also be a determining factor.
- Products or services of questionable legality: This factor is the one most people associate with high-risk businesses. Distributing pornography or selling drug paraphernalia are the most obvious examples, but there are many others as well.
- Questionable sales and marketing practices: Is your business the type that's often thought of as a scam? If so, the principle of guilt by association is alive and well, and most providers will label you as a high-risk business.
- Bad personal credit: While most criteria for determining high-risk status focus on your business, this one focuses on you, the business owner. If, for whatever reason, you have a low personal credit rating, you're more likely to be placed in the high-risk category by some processors.
- High average ticket sales: If your business routinely accepts unusually high-cost purchases via credit card, you could be considered high-risk. This factor primarily affects businesses such as furniture stores and companies who process a lot of B2B transactions.