



**Michael Mino** is president and CEO of PropertyBoss Solutions, a provider of property management software solutions that empower your business. He became a landlord in 1977 when he purchased his first rental units. A serial entrepreneur, he has started a number of software technology firms. For more information about Michael or PropertyBoss Solutions, visit [propertyboss.com](http://propertyboss.com) or call Michael at 864.297.7661 x26.

## Collecting Payments

The payment portal provides added functionality to the prospect, resident, and owner portals which were discussed in previous articles in this web portal series.

### WHAT IS A PAYMENT PORTAL?

A payment portal allows prospective renters, residents, and owners to initiate electronic payments (credit cards and bank drafts) for application fees, rent, and property expenses. The payment information is digitally encrypted and sent through a network of authorization and processing steps. The settlement process follows a few days later when the funds from the payee's account are transferred to your bank account.

### WHY IMPLEMENT A PAYMENT PORTAL?

A payment portal changes the collection of receivables from a manual process to an automated one, reducing cash collection times and accelerating cash flow. Many clients believe that accepting electronic payments has increased their business credibility and differentiates them from their competitors. Other benefits attributed to the use of this technology:

- Customer satisfaction and retention.
- Automatic update of your accounting system.
- Reduction of payment processing costs by 80 percent or more.
- Simplified banking—no bank runs to make, no deposit slips to fill out, no lost or stolen checks.
- NSF check notification in several days as opposed to weeks (redeposit immediately).

One of the most lauded benefits is the ability to place a rent payment on automatic debit. Each month, with no effort from you or your resident, the rental amount is deposited in your bank account.

### ANATOMY OF A PAYMENT PORTAL

The technology behind a payment portal is more extensive than any of the other portals we have reviewed because of the numerous interfaces and security considerations. There are many components

provided by multiple parties, each connected by an interface. Let's follow a credit card transaction as an example:

- **Payment Portal Web Server:** Payee authorizes payment through an encrypted web form hosted on a secure server.
- **The payment credits the tenant/owner/prospect account** in your property management software.
- **ISO Gateway:** The payment processor who handles your merchant account authenticates the request and forwards it to their bank.
- **Acquiring Bank (ISO Bank):** The request is forwarded to the cardholder issuing bank through the credit card network.
- **Processor:** Sends request to issuing bank determined by the credit card number (First Data, Global Payments, Vital).
- **Issuing Bank (Cardholder bank):** Authorizes (or declines) transaction returning a response code.
- **Depository Bank (your bank):** Receives payment from the Acquiring Bank who receives the funds from the Issuing Bank.

The processing of bank drafts is similarly complex. The decades-old Automated Clearing House (ACH) payment network is used for these transactions. You probably use this system to pay your employees through direct deposit. NACHA (National ACH Association) oversees the operating rules and business practices for the ACH network defining a specific file format for transmitting transactions to your bank.

With all of these moving parts, it is important to select a provider that will take responsibility for the proper functioning of all of these pieces. When there is a problem, you do not want to be the one troubleshooting through each of these steps.

### SELECTING A PAYMENT PROVIDER

You must obtain a merchant account from a processor or one of their Independent Sales Organizations (ISO). The application is similar to applying for credit with a bank including the same requests for

documentation and getting approval from an underwriter. Often you will be asked to provide company and personal income and balance sheets. You will be requesting a money-order/telephone-order (MOTO) merchant account which allows you to accept credit cards without physically swiping them through a card reader. Unfortunately, this privilege costs more (typically an extra half percent) and is referred to as the “card not present” rate.

Some considerations in selecting a provider:

- Network Reliability
- Customer Service Support
- Rates and Fees

Some of these fees are:

- Application Fee: Cover set-up costs including credit check.
- Interchange Fee/Assessments: The “discount rate” is the percentage of the sale amount charged on each transaction. Rates are lower the higher your monthly sales volume.
- Per Transaction Fee: Charge to process each transaction.
- Authorization Fee: For all card non-present transactions (mail, phone, Internet), an address verification charge may be added to the Per Transaction Fee.
- Chargebacks and Retrieval Fees: Charge for issuing customer credit for returned items, fraud, etc.
- Monthly Statement Fee: Charge for issuing monthly credit card transaction statements and servicing the account.
- Monthly Minimum Fee: Charge if the amount paid in discount rate fees does not meet a monthly threshold.

Review these fees carefully in the context of your transactions. Low discount rates are often coupled with high transaction fees, and vice versa. The discount rate is multi-tiered—rates as high as 50 percent more than the base rate can be charged for special cards (corporate and commercial) or missing/invalid cardholder information. For example, most Issuing Banks support Address Verification Service (AVS) that checks to match the street number and zip code of the cardholder's address. If the AVS fails, you are charged a higher rate.

The bank draft fees are much lower. While credit cards fees are two to three percent of the transaction amount, the ACH network charges a small fixed fee in the \$0.25 to \$2.00 range that is not dependent on the amount transferred.

#### **TO CHARGE, OR NOT TO CHARGE, IS THE QUESTION**

One of the most difficult and contentious topics

is whether you should pass the additional cost of electronic payment to the payee. Most owners are unwilling to absorb the additional cost and argue that the property manager should absorb it since they derive the benefits. The property manager is often unwilling to reduce their gross margin by 50 percent or more (if the management fee is six percent and the credit card fees are three percent, the management fee is effectively reduced to three percent). If you elect to pass the fee along to the payee (typically referred to as a “convenience fee”), two challenges you may face are the reluctance of the payee to accept a surcharge and ensuring your compliance with the merchant agreement. Our clients find Visa the most restrictive while finding Discover and American Express much less restrictive. Your exact merchant agreement may vary, but below are typical constraints you need to be aware of when charging a convenience fee:

- You must provide a true “convenience” through an alternative payment channel outside of your customary face-to-face payment channels; the fee must be disclosed to the cardholder as a charge for the convenience of this alternative payment channel.
- The convenience fee must be disclosed prior to the completion of the transaction and must be included in the total amount of the transaction.
- A convenience fee cannot be assessed for recurring payments.
- The convenience fee must be assessed for all payments (credit cards and bank drafts) within a particular payment channel (mail, phone, Internet).
- Visa is most restrictive requiring a flat convenience fee for all cards (all convenience fees must be assessed equally).

You should contact your merchant processor for details on your agreement as well as for recommendations for best implementation strategies.

#### **CLOSING COMMENTS**

The vocabulary in this area is extensive. We have compiled a glossary of terms to help you understand the acronyms and terminology at <http://www.glossary.propertyboss.com>.

The greatest payback from the use of a payment portal is obtained when it is integrated with your other portals (prospect, resident, and owner) and your property management software. Both the payee and the property manager benefit—pre-populating the fields for the payee saves them time and simplifies the process while the property manager avoids dual entry improving accuracy, reducing processing and response time, and lowering costs. 🏠

**A glossary of terms to help you understand the acronyms and terminology at <http://www.glossary.propertyboss.com>.**