

ELECTRONIC VALUE TRANSFER CONTRACT (EVT)

CREDIT CARD BACKGROUND INFORMATION

What is a Credit Card?

A credit card is a plastic card issued to an individual or business which is accepted by participating merchants to pay for goods or services. The entity issuing the card to the cardholder reimburses merchants accepting their cards, and charges the cardholding customer's account for the amount of the transaction. For purposes of the EVT Guidelines, the term "credit card" includes Visa, MasterCard, American Express and Discover branded cards.

Card Issuing Entities

Visa and MasterCard cards are sometimes referred to as bank cards since they are issued by financial institutions ("issuing banks") which are members of the Visa and/or MasterCard associations. These associations, which are each made up of over 20,000 member banks, are responsible for:

- developing rules and regulations governing their cards,
- routing transactions between financial processors (e.g., KMS) and member issuing banks, and
- promoting and supporting their brands and developing new products.

Visa and MasterCard credit cards are issued to cardholders by the issuing banks which set fees, establish credit limits and bill cardholders for charges.

American Express and Discover are proprietary entities performing the functions of both a card association and an issuing bank.

To provide greater customer convenience and to promote card usage, agencies should accept the four nationally recognized credit cards available through the EVT Contracts (Visa, MasterCard, American Express and Discover).

Credit Card Processing

Using the EVT Contracts with KMS and American Express, agencies can accept Visa, MasterCard, American Express and Discover branded cards. Credit card processing involves authorization (verifying the cardholder's account and credit limit), settlement (movement of the funds to the agency) and reconciliation (verifying receipt of settlement funds).

Credit Card Authorization

Authorization requests for all four card types can be transmitted to KMS, with an approval, referral (i.e., agency directed to contact KMS for further instructions) or denial being returned back through KMS from the card issuer. Authorization requests are commonly performed in real time for each individual transaction, with an approval, referral or denial responses returned in a matter of seconds. Since most authorization requests are approved, the term "authorized" is frequently used to refer to transactions which have been approved through the authorization process. The Credit Card Authorization Guidelines in the Additional Information section of the OGS website contain more details regarding the authorization process.

Credit Card Settlement

Settlement is the process by which authorized transactions are settled financially between the agency, KMS, the customer and the card issuer. Settlement files containing authorized transactions for all four card types are created and typically submitted to KMS in batch mode at the end of each processing day. KMS then routes the settlement transactions to the appropriate issuing entities. KMS transfers funds for Visa, MasterCard and Discover transactions either directly to the agency's designated account or indirectly to their account via an interim working account if one is utilized. American Express transfers settlement funds directly to the agency's designated account. Depending upon processing cut off times, weekends and bank holidays, settlement can take one to four days. The Credit Card Settlement Guidelines in the Additional Information section of the OGS website contains more information regarding the settlement process.

After settlement, agencies should perform a reconciliation to verify that the agency's record of authorized transactions agrees with funds transferred by KMS (on behalf of Visa, MasterCard and Discover), and American Express to the agency's designated account. The Credit Card Reconciliation Guidelines in the Additional Information section of the OGS website contain more information regarding the reconciliation process.

Off-line Debit Cards

Off-line debit cards bear the Visa or MasterCard logo and are issued by Visa and MasterCard issuing banks. These cards, which are sometimes referred to as "check cards", are tied to a cardholder's checking account at the issuing bank. Off-line debit cards are processed much like credit cards, except that the issuing bank debits the cardholder's checking account to receive payment. Since off-line debit cards are essentially identical to credit cards to the merchants who accept them, the term credit card throughout the EVT Guidelines will be inclusive of off-line debit cards, unless otherwise noted.

Off-line debit cards should not be confused with on-line debit cards, which are processed through the ATM networks and are, from the merchant's perspective, substantially different than credit cards. The term debit card throughout the EVT Guidelines will refer to on-line debit cards.

Environments Used in Card Acceptance

Using the EVT Contracts, agencies can implement credit card programs accepting payments through a variety of transaction devices, including:

Payment Device	Definition	Attributes
Point-of-Sale (POS) Terminals	Stationary or wireless device supporting direct input of card data by "swiping" the magnetic strip. These devices may also be used to manually key data into the terminal for authorization. This process would result in higher transaction fees than "swiping".	Best suited for in-person transactions. Authorization is performed on-line (i.e., in real-time). Various communications modes can be utilized to connect POS terminals to KMS' system including dial-up and cellular. A variety of POS terminals are available through the EVT Contract with KMS.
PC-based Software	Software permitting agencies to enter card information (e.g., account number, expiration date) and transaction amount into a PC or a LAN server.	Can be utilized for both in-person (e.g., PC in a District Office), mail order or phone order transactions. Through a modem, PC-based software dials into

		<p>KMS' system for authorization requests and to transmit settlement files.</p> <p>Authorization can be performed on-line when transacting directly with a cardholder (e.g., phone order transactions) or in batch mode when not directly dealing with a cardholder (e.g., mail order transactions).</p> <p>PC-based software is available through the EVT Contract with KMS.</p>
Internet Applications	Web-based application permitting customers to enter card information to initiate payment.	<p>Card information is transmitted to KMS through an Internet payment gateway (see the Internet Payment Gateways section below for more information).</p> <p>Internet payment gateway services are not available under the EVT Contract. These services must be obtained by the Authorized User. Authorized Users may use any approved third party gateway or one provided by the vendor (KMS).</p> <p>Internet applications support on-line authorization.</p> <p>Development and maintenance of Internet applications is not provided for through EVT Contracts.</p>
Interactive Voice Response (IVR)	Using a touch-tone phone, customers enter card information into an agency's IVR application.	The IVR System transmits the transactions to KMS' system which passes the data along for authorization.
Applications		<p>This may not be suitable if numerous data elements, particularly alpha data, needs to be input by cardholder to complete transaction.</p> <p>IVR systems support on-line authorization.</p> <p>Development and maintenance of IVR application is not provided for through EVT Contracts.</p>
Mainframe Applications	Agency's mainframe processing systems receive batch files from third parties containing credit card transactions.	<p>A variety of communications modes may be utilized to transmit files to KMS.</p> <p>Authorization may be done in batch mode or on-line.</p>
KMS' Touch Tone Capture	KMS' IVR system is accessible by agencies to enter card data.	<p>Offers a "terminal-less" solution for card processing.</p> <p>Suitable for low volume programs.</p>
Others	The EVT Contract with KMS supports agencies' development of programs using other types of payment devices such as self-service terminals (kiosks). Additionally, the contract is adaptable to add new transaction devices as the industry evolves during the term of the contract.	

Internet Payment Gateways

Agencies accepting payments through an Internet application will need to use the services of an Internet payment gateway. Internet payment gateways sit between the customer's browser/agency's Internet application and KMS' system. Gateways receive encrypted data from Internet applications (e.g., an authorization request), decrypt the data and transmit it to KMS through a secure leased line. As data flows in the opposite direction (e.g., the authorization response), the gateway receives unencrypted data from KMS through the leased line, encrypts it and transmits it to the customer's browser/agency's Internet application via the Internet. Gateways also create settlement files on their systems and transmit them to KMS, relieving agencies from having to store credit card numbers on their system. The EVT Contract does **not** include payment gateway services. Agencies may, subject to KMS certification, utilize other third party payment gateways; develop the functionality of a gateway in-house or contract to use KMS' gateway services. Fees for these services are the responsibility of each Authorized User.

Communication Methods

Depending upon the payment device utilized, there are up to five different communication channels available for agencies to transmit transactions to KMS. The options available are:

- Dial-Up,
- Leased-Line,
- Host-to-Host (Dial-up batch),
- ISDN (Integrated Services Digital Network) and
- Wireless (Cellular).

In some cases the communication method will be determined by the agency's payment program. For example, an agency looking to have field agents accept cards through wireless point-of-sale terminals would require a wireless (cellular) method of connecting to KMS. In other cases, the agency may be selecting between alternative methods depending on their program's attributes. For example, an agency designing a program to accept cards using PC-based software might compare the costs and benefits of a dial-up connection to a leased line (with dial-up being less expensive and leased line being able to process high volumes of transactions). Agencies should work with KMS to determine which of these options is best suited for their needs.

Merchant Number

Merchant numbers will be assigned by KMS (for Visa, MasterCard and Discover transactions), and American Express and are used to identify payment programs. A single merchant number is typically assigned to Visa, MasterCard and Discover transactions.

The descriptions which will appear on cardholders' monthly statements are tied to the merchant numbers. This descriptor may be up to 23 characters in length and should describe the program in a way that cardholders can readily recognize. In addition to the descriptor, a customer service telephone number must also be provided on the cardholders' statements. Agencies may request more than one merchant number from KMS and American Express as necessary to more precisely define their payment program activities.

Where applicable, agencies should consider using multiple merchant numbers to support descriptors which will more accurately define the reason for payment (e.g., new permits vs. renewals) in a manner which will be recognizable to the cardholder.

Merchant numbers also support agencies in the reconciliation process and can identify the revenue sources and the devices through which transactions are transmitted to KMS. As an example, separate merchant numbers could be used to distinguish POS terminal transactions from Internet

transactions. This isn't a requirement as KMS assigns separate terminal ID numbers which can be used in the reconciliation process.

Agencies should consider using separate merchant numbers to support the reconciliation process by differentiating transactions by revenue type and/or payment device.

The following table provides an example of how an agency accepting Visa, MasterCard, American Express and Discover payments for three different types of professional licenses through both an Internet and PC-based application might utilize eighteen merchant numbers.

No.	Card Type	Payment Device	Payment Purpose
1	Visa/MasterCard	Internet	First professional license
2	Visa/MasterCard	Internet	Second professional license
3	Visa/MasterCard	Internet	Third professional license
4	Visa/MasterCard	PC software	First professional license
5	Visa/MasterCard	PC software	Second professional license
6	Visa/MasterCard	PC software	Third professional license
7	American Express	Internet	First professional license
8	American Express	Internet	Second professional license
9	American Express	Internet	Third professional license
10	American Express	PC software	First professional license
11	American Express	PC software	Second professional license
12	American Express	PC software	Third professional license
13	Discover	Internet	First professional license
14	Discover	Internet	Second professional license
15	Discover	Internet	Third professional license
16	Discover	PC software	First professional license
17	Discover	PC software	Second professional license
18	Discover	PC software	Third professional license

Note: Separate merchant numbers for each license type would only be necessary if the agency wanted to uniquely identify the type of license for which a payment was made on cardholders' statements.