

Not-for-Profit Industry

Merchant Account vs. Aggregator: What is Best for Your Nonprofit Organization?

If your organization has decided to start accepting donations through your website, you are now facing some decisions about how to set that up. A review of the donations landscape will reveal that you could go with a merchant account or an aggregator account to process the contributions. What is the difference, and how do you decide between them?

MERCHANT VS. AGGREGATOR

What is a merchant account? A merchant account is created on your organization's behalf by a merchant bank known formally as an acquirer. The bank acts as the financial institution for settling and depositing funds into your organization's bank account. Your organization will have its own unique merchant account.

Applying for a merchant account is like applying for credit. This is because the funds are deposited into your bank account before the bank receives them. Before signing a contract with your organization, the bank will also assess your organization's credit, because it wants to ensure you can cover fees and potential chargebacks by the cardholder.

What is an aggregator? An aggregator is a payments service provider that allows multiple entities—merchants, nonprofits, etc.—to accept credit card payments and bank transfers without having to set up a merchant account. Instead, the aggregator has an agreement with a merchant bank, and payments are processed through an existing shared account. This can mean a quicker set-up and the acceptance of higher-risk merchants. Aggregators and their acquirers must comply with rules designed to accommodate high-risk accounts, which are set out by the credit card companies: Visa, MasterCard, Discover, and American Express.



COMPARING THE TWO OPTIONS

Merchant Account	Aggregator
Setting Up Payments	
In this model, a merchant account is provided to a nonprofit individually. When setting up a merchant account, there is an application and approval process.	Setting up payments with an aggregator can be quicker, because you share a joint merchant account with other customers. Aggregators also need to do less due diligence on their customers, allowing them to take on higher-risk clients.

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Processing Payments	
Remember the due diligence the merchant account provided before setting up your account? It included gathering information such as anticipated processing volumes to understand what normal processing activity looks like on your account. This means the account is less likely to be interrupted. A merchant account provider will also notify the client of irregular activity, rather than immediately freezing the account.	Accounts can be put on hold, frozen, or suddenly terminated if a transaction appears irregular or suspicious to the aggregator. Aggregators must exercise increased caution because they accept higher-risk clients, which increases the chance of fraud.
Rates and Fees	
Merchant account providers can be more competitive with their rates.	Aggregators have a lack of flexibility on rates, and typically have fixed prices. This can become problematic as a nonprofit grows, as more donations translate into an increase in processing, which means an increase in fees.
Receiving Your Funds	
Merchants will typically receive funds within 1-2 business days.	Aggregators can choose to hold funds for anywhere from 48 hours to 30 days, or simply shut down the account. This is often related to the aggregator's risk involved in releasing the funds.
Fraud Prevention	
A merchant account provider offers customized fraud tools that are specific to nonprofit needs and block fraudsters from testing stolen credit card data on your website. Nonprofits are often targeted by fraudsters because their donation forms can be less secure. A merchant account provider will reach out to you if it sees suspicious activity on your account.	Aggregators are one size fits all, meaning their fraud tools are primarily for companies like restaurants and retail. Additionally, an aggregator may close down your account, rather than reach out, if it sees suspicious activity.

Cole, Newton & Duran's Not-for-Profit Practice

Our team has years of experience providing assurance, accounting, and tax services to a variety of not-for-profit organizations. Clients receive up-to-date information on the latest accounting developments and industry regulations.

Cole, Newton & Duran's team of professionals are involved in every stage of our client's engagement to ensure they are receiving high quality, responsive service. Clients enjoy working with experts who help achieve their objectives. Clients receive industry knowledge and solutions they need to not only reach, but to exceed their strategic goals.

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MAKING THE BEST CHOICE FOR YOUR NONPROFIT

Aggregators are best for:

- Nonprofits that process small amounts, or only process at a certain time of year
- New nonprofits that do not have the processing history to support a credit assessment

However, an aggregator is not well suited to:

- An organization running events with high-ticket auction items or donations
- Nonprofits processing higher volumes, because they would face higher fees and possible service interruptions

Merchant accounts are best for:

- Nonprofits that receive high-dollar-amount donations and a large volume of online contributions.
- Nonprofits anticipating growth. The set-up may take longer in the beginning, but you will be setting yourself up to scale and accept larger, more frequent donations while feeling confident that your funds will reach your bank account consistently and without interruption.
- Nonprofits that need to utilize their funds ASAP, for example, during natural disaster fundraising.

However, a merchant account may not be a good fit if:

- Your organization does not want to go through the application and approval process.

Payments are an essential part of your nonprofit's success, and the right payment model comes down to your mission and circumstances. Consider your organization's processing volumes, long-term goals, and frequency of donations to determine which kind of payment processor is best for your nonprofit.

The preceding is an article by Courtney Nielsen, relationship partner, at [iATS Payments](#), the leading provider of payment solutions to nonprofit organizations and technology partners around the world.

Contact Us

If you would like to discuss how Cole, Newton & Duran's not-for-profit team can help your organization with your accounting, tax, or consulting needs, please feel free to give me a call.

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