

5.0 Underwriting Criteria

The purpose of underwriting is to:

- form a reasonable belief as to the true identity of both the business and business owner(s),
- ensure business is bona fide,
- ensure the business is located within the sponsored jurisdiction (U.S.)
- determine the merchant's financial condition is basically sound,
- determine the merchant and its principals have satisfactory credit and/or bankcard processing histories as applicable, and
- determine whether there is anything in the merchant's background or method of doing business that would preclude the business from being a customer

It is recognized that there are varying degrees of risks associated with different types of merchants and different processing limits. Consequently, it is appropriate to apply varying levels of scrutiny to this process. This may range from basic due diligence for an established low-risk profile, to a thorough and detailed review for those deemed to present greater risks due to the product itself or the delay in the delivery of that product.

Below is a list of required documentation and conditions for approval of different processing levels. Processing levels are determined by the dollar amount that a merchant will process within a stated period. All merchants will be subject to at least the Level 1 AFS review. At all times, underwriters will use their best judgment as it relates to the specific merchant and business type. The underwriter may request additional documentation and information or impose restrictions, if necessary, for reasons including, but not limited to, an applicant's creditworthiness, financial condition, business model, or other combination of factors. No processing may begin until a Merchant Agreement has been properly executed.

5.1 Level 1 Criteria (Low Risk) Established Business with Good Credit

- *Card Present: Up to \$200,000 per month processing and up to \$1,000 average ticket, 75% or more CP/Swiped*
 - *Card Not Present: Up to \$100,000 per month processing and up to \$1,000 average ticket, 25% or more CNP/Keyed. MOTO Questionnaire is required.*
1. Signed application/agreement with all required information (digital

signature or click to agree is acceptable with summary page)

Information at a minimum will include, but not be limited to:

- a. Legal and Doing Business As (OBA) names of merchant
 - b. Type of business (Corporation, LLC, Municipality, Non-Profit, etc.)
 - c. Business address, both physical and mailing and Business phone number
 - d. Title, Personal address, email address and phone number of Authorized Representative or Primary Contact (Personal Information)
 - e. Tax Identification Number (TIN/EIN) (will also be used for 1099 reporting) Combination must match with the IRS System
 - f. American Bankers Association (ABA) Demand Deposit Account (ODA) for deposit of processing dollars (Must be a Business Account)
 - g. Merchant Category Code (MCC)
2. For partnership, LLC or privately held corporation, the following will be provided for all individual owners with interest = or > 25% and for at least one person who has substantial control over the organization. For charities and registered non-profits, the following will be provided for one person who has substantial control over the organization:
- a. Name
 - b. % Ownership
 - c. Residential home address and Personal Phone number
 - d. Date of Birth (DOB)
 - e. Social security number (SSN)
 - f. Driver's License Number, State, Issued Date, and Expiration Date
3. If non-US citizen, must provide proof of eligibility to work in the U.S.
- a. Green Card and/or ITIN documents Issued by the IRS.
 - b. Appropriate Work Visa
4. For publicly traded entities and government entities, including public schools, the following will be provided for at least one principal who has substantial control over the organization:
- a. Name
 - b. Home Address and Phone number
 - c. Date of Birth
 - d. Social Security number (credit will not be pulled)

- e. Driver's License Number, State, Issue Date and Expiration Date
- 5. Screen identity of merchant and owner(s)/principal(s)
 - a. OFAC (Office of Foreign Asset Control) list must not match
 - b. MC MATCH must not match
- 6. Google Search and/or Google Earth - Street view of location
 - a. Must show merchant location
 - b. If unable to determine, will review further
 - i. Neighborhood calls
 - ii. Third-party onsite review
- 7. Conduct website or app review as defined in Exhibit B if payment is accepted via website or app.
- 8. Research and Review Secretary of State the Legal Entity to verify the legitimacy of the business, and that it is in good standing with the state. Examples of tools are listed below:
 - a. Review rating and number (Yelp, City Search, Google Search, etc.)
 - b. Facebook, Instagram, and Twitter
 - c. Trip Advisor
 - d. LinkedIn
 - e. Better Business Bureau (BBB)/Rip Off Report (ROR)
 - f. Consumer blogs

5.2 Level 2 Criteria (Moderate Risk) New Startup, Poor Credit, NO Online Presence and HomeBased Business

- *Card Present: Up to \$200,000 per month processing and up to \$1,000 average ticket, 75% or more CP/Swiped*
- *Card Not Present: Up to \$100,000 per month processing and up to \$1,000 average ticket, 25% or more CNP/Keyed. MOTO Questionnaire is required.*
- *Additional documentation Required - Most Recent 3 months prior processing statements. if merchant is currently processing, OR, if not currently processing, most recent bank statement for settlement account*
- 1. All items in Level 1 must be completed if not previously completed
- 2. If not current AFS customer and currently processing, obtain three current months processing history/statements) with satisfactory results (if processing history is available/applicable)
- 3. Credit Check (if sole proprietor, if not "Verify Entity" via #4 below)
 - a. Name, address, DOB and SSN must match.
 - b. If they do not match:
 - Obtain Government Issued ID, and
 - Review LinkedIn or other appropriate social media
 - Review for relationships reasonable for the business
 - Review for relationships reasonable for the person

- Ask knowledge-based questions and validate the answers
- c. Bankruptcy - No open BK's accepted
- d. Review Fraud Alerts.
- e. Understand payment history of business owner or individual to reflect satisfactory trends
- f. Verify Entity (choose one of the below or similar):
- g. Commercial Credit Report (D&B, Experian, Accurint or similar)
- h. Business License
- i. Articles of Inc/Org/Formation

If chargebacks are above 0.50% (#CB/#sales) or credits are not appropriate for the merchant type, obtain the information required for Level 3 Criteria.

5.3 Level 3 Criteria (High Risk) See Section 3.2

- *Up to \$200,000 per month processing – CNP*
- *Up to \$500,000 per month processing – CP*

1. In addition to documentation required for Level A & B the following additional documentation is required:
Most Recent YE Financial Statements or Corporate Tax Returns (Personal tax returns for Sole Prop)
2. Last (3) months business bank statements or publicly available financial information, consistent with the business
3. Business registration documents (Articles of Inc/Org/Formation); Business License, etc., or equivalent, if not previously obtained
4. Review of advertising or marketing materials (brochures, websites, etc.)

If chargebacks are above 0.50% (#CB/#sales) or credits are not appropriate for the merchant type, obtain the information required for Level 4 criteria.

5.4 Level 4 Criteria (Restricted Merchant Type) See Section 3.1

- *Up to \$200,000 per month processing – CNP*
- *Up to \$500,000 per month processing – CP*

1. All items in Level 3 must be completed if not completed within the last six (6) months.
2. Physical Site Survey (during installation)
3. Commercial Credit Report
4. Primary Supplier Reference (if applicable)
5. Last two (2) years business tax returns or publicly available financial information, consistent with the business

6. Most recent business financial reports (P&L and Balance Sheet) Most recent year-end and current YTD or publicly available financial information
7. Last two (2) years personal tax returns for guarantor, when a guarantor is used
8. Current balance sheet for guarantor when a guarantor is used

5.5 Merchant Requiring Enhanced Underwriting

All Restricted merchants will require additional due diligence (in addition to the requirements based on the merchant's processing level) to ensure the processing risk is minimized, if AFS should desire a relationship with a merchant from the Restricted list. Enhanced underwriting activities will be documented as listed in Exhibit E along with the reasons for acceptance and appropriate approval of any policy exceptions required.

Approval of Enhanced Due Diligence (EDD) merchants will require Processing Level 4 approval.

Factors that may qualify a merchant for enhanced underwriting or that AFS will consider when reviewing such merchants are detailed in this section and may include:

5.5.1 Enhanced KYC

1. Know the owner(s)/principal(s)
2. Additional due diligence will identify and verify the owner/principal's relation to the business and uncover beneficial (or "red herring") owners that may be used to camouflage the true ownership of a company when such owners may be listed on MATCH or under payment network or regulatory scrutiny
 - a. Background checks
 - b. Legal review and public records searches
 - i. Lawsuits filed by or against the merchant business and owner(s)/principal(s)
11. Federal or State government or law enforcement activity, including:
 - Federal Trade Commission (FTC) and/or Consumer Financial Protection Bureau (CFPB) cases and Proceedings
 - States Attorneys' General actions
 - BBB and other consumer advocacy complaint repositories

c. Online reputation review

Online information posted will be reviewed and as necessary discussed with the merchant in order to understand the circumstances outlined. Positive reviews will be taken into account and negative reviews will be vetted to ensure they are quantified and reputable - not appearing to be an attempt by a competitor to discredit the merchant.

The following types of activity will be reviewed:

- i. Social media activity
 - ii. Complaint blogs
3. Know the Business
- a. Reverse search all phone numbers and business addresses using online sources
 - b. Physical Site Surveys will be required as determined necessary
 - c. In lieu of physical site surveys, online verification of the business will be well-documented
 - d. Site Surveys or other business verification may be required for vendors used for critical operations processes, including but not limited to:
 1. Fulfillment Houses
 - ii. Sales Call Centers
 11. Cardholder Service Call Centers

4. Enhanced Reputation Review

A merchant's reputation can be an indication of cardholder satisfaction and an easy tool to supplement the due diligence of a merchant. Online resources will be researched to gain a quick understanding of potential issues that require further investigation or discussion with the merchant.

5.5.2 Potentially Deceptive/Higher Risk Marketing Practices

Use of Potentially Deceptive or Higher Risk Marketing Practices are prohibited. Those merchants using marketing practices that are prone to violation of consumer deception regulations, or that typically have high chargeback and refund rates will be reviewed carefully. Deceptive marketing practices may be used in combination, therefore, all methods of review for applicable requirements will be used. The merchant file will be properly noted to ensure review for and exclusion of marketing practices

that may involve deceptive practices. Such practices that must be reviewed include but are not limited to the review described below:

1. General Review Requirements as seen in Exhibit B
2. Marketing statements and product claims will be reviewed for language that could be considered deceptive, exaggerated, or unsupported
3. Merchants may be required to provide legal counsel opinions or documented claim substantiation by a third-party
4. Celebrity endorsements will be validated
5. Merchant cited blog postings/news articles will be confirmed to be created by an unrelated third-party
6. Testimonials must have samples confirmed
7. Health claims must have substantiation, such as clinical trials by a third-party vendor

5.5.3 Enhanced Website Due Diligence

Requirements apply for mobile websites as for traditional e-commerce websites.

1. General Website Review
 - a. Products and services must be consistent with what is described on the merchant application.
 - b. Business information disclosed on the website, Contact Us, and Terms of Services pages must match the information provided on the application
 - c. Currency must be in U.S. dollars
 - d. The merchant's country of record must be listed
 - e. Card network logos must be properly displayed
2. Billing Terms
 - a. Ensure that billing terms are accurately displayed in a clear and conspicuous manner for consumers.
 - b. Review Terms of Services for any hidden costs or agreement to additional products by the consumer.
 - c. There should be no pre-checked boxes for selection of products and services, nor for acceptance of terms and conditions of the purchase
 - d. Review for potentially deceptive marketing practices as defined in Section 5.6.2 and follow the requirements for all applicable marketing practices identified
3. Ensure that the checkout page is secured properly

4. Review delivery terms for adherence to policy
 - a. Timeframes disclosed should be reasonable based on the product type and expectations of inventory management.
 - b. Merchants are required to notify AFS of material changes to approved delivery timeframes
 - c. Larger merchants will be subject to Secret Shopping to confirm that delivery timeframes are met
5. Cancellation, Return and Refund Policies
 - a. All policies must be clearly explained.
 - b. Contact information provided for these processes on the website must match the application information
6. Cardholder Service and Contact Information
 - a. Contact information must be clearly disclosed to consumers, including at minimum:
 - i. a phone number, and
 - ii. email address or online submission form
 - b. The underwriter will test contact phone numbers to be sure they are in service and answered appropriately
 - i. Call answer wait times must be reasonable
 - ii. The business identified should match the application information
7. Review website registration information
 - a. Merchants website must be registered within the US not another Country
 - b. Merchants should disclose website registration information publicly
8. Review the website for hidden web page content
 - a. Review all linked web pages for compliance with underwriting guidelines
 - b. Examine empty space for hidden links or content.
 - c. Review meta tags
 - d. Merchants' website can not re-direct to another site
9. Additional Requirements outlined in Exhibit B must be in place when applicable

5.5.4 Online Reputation Review

Online information posted will be reviewed and as necessary discussed with the merchant in order to understand the circumstances outlined. Positive reviews will be taken into account and negative reviews will be vetted to ensure they are quantified and reputable - not appearing to be an attempt by a competitor to discredit the merchant. The following types of activity will be reviewed:

5. Social media activity

6. Complaint blogs

7. Google or Yelp Reviews

5.5.5 Enhanced Reputation Review

A merchant's reputation can be an indication of customer satisfaction and an easy tool to supplement the due diligence of merchant. Online resources will be researched to gain a quick understanding of potential issues that require further investigation or discussion with the merchant.

5.5.6 Enhanced Prior Process Review

Prior processing will be thoroughly reviewed and may require additional months' statements to understand the full nature of the merchant's business. When prior processing is reviewed, all anomalies must be understood. Documentation of such review will include:

1. Reason for processor change
2. Prior processing statistics and anomalies

5.5.7 Enhanced Financial Review

Review of the financial condition of the merchant will be evaluated using Exhibit C and must be commensurate with the exposure presented by the merchant type and processing level.

5.5.8 Enhanced Financial Review

1. Product Pricing must be in line with the reasonable value of the product as determined by review of brand and/or competitor pricing.
2. Consumer Dissatisfaction Risks

- a. Marketing must "make sense" for the intended cardholder
 - b. The product type will be reviewed for inherent higher risk of consumer dissatisfaction and mitigation efforts in place at the merchant
 - c. Product names and/or type searches may be performed to identify brand negative publicity or potential scams
3. Potential for Deceptive Practices
- Merchants will be reviewed holistically for the potential risk of unfair, deceptive, or abusive acts and practices defined by the FTC and UDAAP (Unfair, Deceptive, Abusive Acts or Practices) laws

5.5.8 Enhanced Product Review

1. Product Pricing must be in line with the reasonable value of the product as determined by review of brand and/or competitor pricing.
 2. Consumer Dissatisfaction Risks
 - a. Marketing must "make sense" for the intended cardholder
 - b. The product type will be reviewed for inherent higher risk of consumer dissatisfaction and mitigation efforts in place at the merchant
 - c. Product names and/or type searches may be performed to identify brand negative publicity or potential scams
 3. Potential for Deceptive Practices
- Merchants will be reviewed holistically for the potential risk of unfair, deceptive, or abusive acts and practices defined by the FTC and UDAAP (Unfair, Deceptive, Abusive Acts or Practices) laws

5.5.9 Enhanced Product Review

Non-Profit merchants will require:

8. Certificate of Incorporation/Non-Profit status required (501C3 or equivalent).

5.5.10 Additional online reputation review as appropriate.

Additional Criteria for Specific Restricted Merchant Types

Industry trends will be monitored to update this section periodically with business types that result in higher risk merchant activity.

5.5.11 Video on Demand/Streaming Services

1. Licenses/contracts to distribute copyrighted content must be verified.
2. The streaming process must be satisfactorily demonstrated through means such as:
 - a. The merchant can provide a test/demo log-in to allow the reviewer to engage in the cardholder experience
 - b. The merchant can lead a live web demonstration to show the process to the reviewer
3. Additional internet research must be performed on the product name, paying special attention to review findings that include:
 - a. Indications that the product may be prone to high chargeback and/or refund rates based on cardholder service or product function issues and complaints
 - b. Other products found with slight variations in the name that also have:
 - i. Similar address, cardholder service or ownership information to the applicant
 - II. Regulatory issues
 - III. Online complaints
 - IV. Other findings that could indicate an attempt to re-brand a product with prior issues
 - c. Any third parties identified to be providing technical or marketing services must be similarly researched to verify that they are legitimate providers of the services engaged by the merchant and have no history of violation of processing regulations

5.5.12 Downloadable Software/Mobile Apps/Games or Device Performance Enhancement Software

1. Licenses to distribute copyrighted content must be verified or the merchant must be able to demonstrate proprietary ownership of the product (trademarks, patents, etc.).
2. A copy of the software or mobile app must be provided in order to review the product.
3. The download process must be satisfactorily

demonstrated through means such as:

- a. The merchant can provide a test/demo log-in to allow the reviewer to engage in the cardholder experience.
 - b. The merchant can lead a live web demonstration to show the process to the reviewer.
4. Additional internet research must be performed on the product name or function, paying special attention to review findings that include:
- a. Indications that the product may be associated with viruses, "spyware" or other malware.
This is not necessarily an indication that the merchant is providing the malware - the merchant could be targeted as a method of distribution.
 - b. Review similar products functionality along with pricing and sales terms for comparison - significant variations from industry standard will be reviewed in more depth.
 - c. Review positive reviews closely to ensure they are independent third-party reviews and not created by or paid for by the merchant to boost sales.
 - d. Indications that the product may be prone to high chargeback and/or refund rates based on cardholder service or product function issues and complaints.
 - e. Other products found with slight variations in the name that also have:
 - i. Similar address, cardholder service or ownership information to the applicant.
 - ii. Regulatory issues.
 - iii. Online complaints.
 - iv. Other findings that could indicate an attempt to re-brand a product with prior issues.
 - f. Any third parties identified to be providing technical or marketing services should be similarly researched to verify that they are legitimate providers of the services engaged by the Merchant and have no history of violation of processing regulations.
5. In-game currency and product offerings including "loot boxes" to be researched. Identify and mitigate the following:

- a. In-game currency conversion to real world cash
- b. Governmental or other regulatory action
- c. Players allowed to amass large in-game values
- d. Use of in-game items as a form of gambling
- e. Large value items transferable within game
- f. Resale of in-game products on secondary markets (E-bay, etc.)
- g. Lack of data sharing process with law enforcement

5.5.13 Additional Location Requirements

If an applicant has multiple locations with the same owner and the same line of business, the following, additional steps will be taken:

1. Complete an additional location form.
2. Confirm that the property at the existing and new locations are owned by the same legal entity and are operating in the same line of business.
3. Combine processing volumes for the existing and new locations and underwrite based upon the combined total exposure of the processing volumes for all locations.

5.5.14 Merchant Use of Third-Party Service Providers

AFS will ensure that all Third-Party Service Providers are disclosed during the underwriting process. If an applicant is using third party service providers to process, store or transmit cardholder data, the service providers must be identified and confirmed to be PCI DSS compliant and registered with the payment networks as required by type.

1. The merchant must identify all third-party entities that have access to cardholder data, provide services that process, store, or transmit cardholder data or as otherwise defined by the payment networks to qualify as a third-party service provider.
2. Third party service providers identified must be verified:
 - a. Compliant with the PCI DSS
 - b. Registered with the payment networks

5.5.15 Approval Conditions

Approval conditions, including implementation of merchant reserves, will be used as appropriate to mitigate potential risk related to acceptable merchant exposure or financial conditions that do not support the merchant application.