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NEWSLETTER

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Switch to chip credit cards coming by October

In recent months, you may have noticed that new credit cards you receive have a chip on them in addition to the ubiquitous magnetic strip. They're also a little heavier.

When using your card, you may also have noticed a change in the card reader. Many of them now have a slot in which the card is inserted, rather than swiped.

Welcome to the brave new world of EMV. EMV stands for Europay, MasterCard and Visa – the companies that initially created the card technology. American Express, Discover, JCB and UnionPay have since joined.

The recent changes are the result of the EMV Mandate – not required by the government, but by the major credit card companies. By October 2015, most merchants in the United States must shift to EMV acceptance. (Gas stations have until October 2017.)

The reason? EMV provides a higher degree of security. While magnetic strips on cards contain static customer information that thieves can access and duplicate, microchip transactions are encrypted differently each time. The chip cards also prevent card skimming and cloning. EMV cards may use PINs, which would add another layer of security. Until the changeover is complete, credit cards will have both a magnetic strip and a microchip.

With the move to EMV, the industry shifts the risk of fraudulent transactions to the merchant from the card processor. Merchants not using EMV technology will be held responsible for that liability. The negative impact on a retailer who is the victim of fraud or a data breach cannot be minimized. On the other hand, merchants may receive some PCI compliance fee relief from the credit card companies.

Merchants are generally regarded as EMV-compliant if at least 75 percent of all transactions are processed on hardware capable of EMV, even if the card is swiped. In the near future, expect to see cards and equipment without stripe capability.

The cost of EMV terminals run up to $500 each. Because one is required for each checkout, the investment can be expensive for merchants. But some companies are able to rent the terminals from their credit card processor, though it's not known if those rents will increase when businesses upgrade, or if merchants will be required to buy them in the future. Of course, the big "cost" is the liability shift to merchants if they don't use the EMV.

By using EMV cards, stolen credit card numbers cannot be used by thieves to make new counterfeit cards because the card data cannot be skimmed at the time of card use.

Unfortunately, when fraud prevention measures are taken in one area, the fraud moves to another, more vulnerable target. Card-not-present (CNP) transactions – online, mail order and telephone purchases – appear to be the new weak link.

Given the rampant amount of credit card fraud and the high incidence of data breaches in recent months, the move to EMV is a step in the right direction. It will create difficulties during the changeover, but it brings the United States in line with global credit card processing and will reduce the incidence of credit card fraud.

Developed in Europe, EMV has reduced fraud in every country that has implemented it. The United States is the last of the G-20 countries to implement the use of EMV cards, which is believed to be the reason that more than half of the world's credit card fraud happens in the United States.

England began using them in 2004 and saw a one-third drop in overall card fraud. Counterfeit card fraud fell 91 percent in France in 2005, and fraud from credit card theft fell 98 percent. Canada saw a 73 percent drop in debit card fraud when EMV cards were implemented in

See **Microchip credit cards** *inside*

Is your business tuned in to changes in U.S. population?

The makeup of the population of the United States is changing – and it's changing quickly.

Businesses large and small need to be aware of those changes to help them stay a step ahead of the curve in the future as far as inventory, design, potential expansion, advertising appeals and other commercial strategies.

For the first time, the children of Baby Boomers outnumber their parents, according to the newest population figures released by the U.S. Census Bureau on June 25, 2015. The population estimates show changes between April 1, 2010, and July 1, 2014. The current population of the United States is more than 321 million, making it the third most populous country in the world, following China and India.

Millennials – those young Americans born roughly between 1982 and 2000 – now have overtaken Baby Boomers by 83 million to 75 million and account for more than one-quarter of the U.S. population.

The Millennial generation is also much more ethnically diverse than the generation of their parents. While the oldest members of the Baby Boom generation, those 65 and older, are nearly 80 percent white non-Hispanic, 44.2 percent of Millennials are part of a minority race or ethnic group.

The number of minorities grows even larger at younger ages, the Census Bureau found. In children under 5 years of age in the United States, 50.2 percent are members of a minority race or ethnic group.

Majority/Minority

- Five states/districts have a majority of minority residents: Hawaii (77 percent); District of Columbia (64.2 percent); California (61.5 percent); New Mexico (61.1 percent); and Texas (56.6 percent). Eleven percent of all counties in the nation are minority majority.
- The nation's Hispanic population now totals 55.4 million. California has the highest Hispanic population (15 million); New Mexico has the highest percentage of Hispanics (47.7 percent); and Texas had the highest increase in Hispanics since July 1, 2013 (228,000). Starr County in Texas on the Mexican border has the largest percentage of Hispanic population (95.8 percent).
- The African-American population now totals 45.7 million. New York has the largest African-American population (3.8 million); the District of Columbia has the highest percentage of African Americans (50.6 percent), followed by Mississippi (38.2 percent); and Texas had the largest increase in the last year (88,000). The county of Holmes, Miss., has the highest percentage of African-American citizens (82.5 percent).
- The Asian population in the United States totals 20.3 million. California has the largest Asian population (6.3 million) and the largest increase in the last year measured (162,000). Hawaii has the largest percentage of Asians (56.2 percent). Hawaii also has the largest percentage of Pacific Islanders at 26 percent. Honolulu and Kauai are the nation's only majority-Asian counties.
- Native Americans total 6.5 million, with California having the largest Native American population (1.1 million) as well as the largest increase in one year (13,000). Alaska has the highest percentage (19.4 percent). Shannon County, S.D., has the most Native Americans of any county (93 percent).
- The population of non-Hispanic, single-race whites totals nearly 198 million. California has the largest population (14.9 million), and Maine has the highest percentage of single-race white population (93.8 percent). Texas had the largest increase in one year (79,000). Leslie County in Kentucky has the highest percentage of white population (98.1 percent).
- The single-race, non-Hispanic white group was the only one with a death rate higher than the birth rate from 2013 to 2014 (61,841 more deaths than births).

Older/Younger

- Florida has the highest percentage of population age 65-plus (19.1 percent). Sumter County, Fla., home of The Villages, is the nation's only county with a majority of 65-plus population (52.9 percent).
- San Juan County, Colo., which includes the town of Silverton, had the highest rate of population growth in the 65-plus age group between 2010 and 2014 (70 percent), and two other Colorado counties were in the top five, San Miguel (Telluride) and Douglas counties.
- Five states saw a decline in median age between 2013 and 2014 – North Dakota, Hawaii, Montana, Wyoming and Iowa. McKenzie, N.D., had the largest decline (32.9 to 31.6 years).

Men/Women

- Only 10 states are made up of a majority of males. Alaska has the highest percentage (52.6 percent males), followed by North Dakota (51.3 percent males).
- The District of Columbia has the highest percentage of females (52.6 percent), followed by Delaware (51.6 percent). ■

Microchip credit cards *continued from front*

2012, according to Gemalto digital security company.

Implementation has not taken place earlier in the United States because it initially didn't face the level of fraud found in Europe because American retailers do immediate online verification of credit card purchases, whereas Europeans often did not verify them until the end of the day, according to *Forbes* magazine.

In addition, some American retailers balked at the cost of implementing the system, and converting to the microchip in the United States was more complex than in many countries because of the size and fragmentation of the U.S. banking market.

But as the fraud problem grew in the United States, and U.S. travelers abroad couldn't use credit cards that did not have a microchip, U.S. credit card companies began to look more seriously at implementing EMV technology. ■

Difficulty finding capital still hampers growth

In 2015, small business credit is again a key factor hampering growth and expansion.

Businesses at all stages cite lack of credit availability as a top concern, according to the 2014 Joint Business Credit Survey administered by the Federal Reserve.

While startups perennially have difficulty because of not having a track record, the reporting of capital woes among mature companies – those over five years old – is troubling.

To get a true picture of the situation, the Federal Reserve weighted the 2014 responses to match small business population demographics in the 10 states participating, including sector, size and the stage of business. Despite the perceived need for capital in 2014, only 22 percent actually applied for credit.

Results were mixed. Loans sought were small, with more than two-thirds of small businesses looking for under $250,000. Just over half of the loans were approved, but many businesses didn't receive the full amount requested.

Mid-size ($1 million – $10 million in sales) and large (over $10 million) businesses were twice as likely to report success, but only 70 percent of large businesses received the full request. The most sought after product was a line of credit, followed by term loans and credit cards. Applicants cited low credit scores (45 percent) and lack of collateral (30 percent) as the top reasons for denial. Effects of not receiving loans included expansion delay (47 percent). Businesses with low credit scores are actively seeking to improve those through paying down debt (41 percent) or consulting with business advisers (32 percent).

While some companies may not be creditworthy right now due to profitability or debt load, the survey administrators regard the results as evidence of a struggling small business sector. A reliable and reasonable pipeline of available credit is necessary for firms to start, grow and create jobs.

The U.S. Small Business Administration verified this problem in a 2013 lending report compiling national data. The SBA cites tighter regulations, consolidation of banks, and depressed collateral values as primary reasons for the sharp decrease in lending since the recession, which still hovered at 2002 levels in 2013. Regarding collateral, at the same time real estate values sank, the coverage requirement rose, a recipe for loan denial for otherwise viable businesses.

In response, the SBA is making changes to flagship programs. The SBA doesn't directly provide loans. Instead the agency guarantees loans made by banks. This allows lenders to stretch their requirements in cases of startups, low collateral, inadequate debt coverage and other issues. Recent changes to the 7(a) program, which guarantees loans up to $5 million, include reduced or no fees (loans under $150,000), 1.1 debt service coverage ratio, and elimination of the personal resource test.

The personal resource test kicked some borrowers with high personal assets out of the program. Most banks require 1.2 or 1.25 coverage ratios, so the lower ratio is an example of SBA's attempt to help more businesses qualify.

Another SBA program with expanded eligibility is the 504 plan, which provides up to 40 percent of a project's capital needs through third-party lenders. The 504 plan already reduces borrower's required equity from 20 percent to 10 percent. New rules expand the window for eligible expenses and allow the third-party lender to use non-project collateral if needed.

Another change in the small business credit marketplace is the rise in online lending. The Joint Business Credit Survey reported that close to 20 percent of applicants applied to an online source.

Although approval rates weren't especially high – less than half were approved – online lenders tend to offer smaller amounts and more flexible terms.

Other appealing attributes are quick decision times and better customer service. Applications can take under half an hour to complete, while the average for bank loans is 25 hours.

Right now online lending's share of the total market is tiny, but according to The State of Small Business Lending paper from Harvard Business School, the sector grew 100 percent year-over-year from 2012 to 2013. The responsiveness and ease of online lending continues to feed growth as more players enter the field.

For example, retail giant Sam's Club will soon be offering small business loans. Sam's Club is building an online lending center offering SBA-backed loans of $5,000 to $350,000 with partner SmartBiz. Interest rates are projected to be 6-8 percent and repayment is flexible. Members will receive discounts on fees.

Other encouraging news regarding small business lending comes from Biz2Credit, an online lending portal. They reported in the May 2015 Small Business Lending Index that approval rates at big banks are rising, with a 21.9 percent loan approval rate, a 12 percent increase over the previous year. Small banks and credit union approval rates continue to hover at around 49 percent and 43 percent respectively. While far from ideal, the credit situation does appear to be improving.

In addition, looser SBA requirements and flexible lending programs will go a long way toward easing the credit crunch for small businesses. ■

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Affordable Care Act: Most insureds enroll at work

Nearly 17 million more Americans have healthcare coverage as a result of the Affordable Care Act, with more than half of those enrolling through their employer health plans.

A newly released study by the nonprofit, nonpartisan RAND Corporation found that, contrary to initial expectations, the largest share of new insureds have enrolled through employer health plans – 9.6 million.

The next largest group – 6.5 million – enrolled in Medicaid, and 4.1 million enrolled through Affordable Care Act Marketplace Plans.

The rest enrolled through the military, Medicare, state plans and other non-marketplace individual plans.

The study of enrollments from September 2013 through February 2015 found that 22.8 million Americans became newly insured, while 5.9 million lost coverage, for a net increase of 16.9 million.

The 80 percent of the nonelderly population who had insurance in September 2013 – 125.2 Americans – experienced no change in the source of their insurance, the May 2015 report said.

"The Affordable Care Act has greatly expanded health insurance coverage, but it has caused little change in the way most previously-covered Americans are getting health insurance coverage," said RAND economist Katherine Carman, lead author of the study. The RAND study is believed to be the first to examine the Affordable Care Act enrollments since the end of the second enrollment period.

Small employers are not subject to Affordable Care Act rules, but employers with 50 or more full-time employees in 2014 are applicable large employers. Transition relief is available to employers with 50 to 99 full-time equivalent (FTE) employees – those who work 30 or more hours per week. They aren't subject to penalties for noncompliance in 2015 if they meet certain conditions.

Applicable large employers are required to offer health insurance to 95 percent of their full-time employees and their dependents up to age 26. The employer must report this information to the IRS on Form 1094-C and Form 1095-C, beginning in 2016.

The penalty to a large employer for not offering health care to employees is $2,000 per employee, minus the first 80 employees in 2015, and minus the first 30 employees in 2016. If affordable coverage isn't offered the employee, the company may be subject to a $3,000 fine per employee who purchases insurance through a marketplace exchange.

While employers with fewer than 50 full-time employees are exempt, they may offer coverage through the Small Business Health Options Program. By offering coverage, the employer may be eligible for the Small Business Health Care Tax Credit. ■