

THE BASICS OF Payment Processing



As a merchant, you've probably wondered what happens from the time you accept your customer's credit card to the time you receive payment. Three main processes ensure successful sales.



THE BASICS OF PAYMENT PROCESSING



Authorization

Confirming whether your customer's credit card is valid and if it has sufficient credit to purchase goods or services.



Settlement

Managing electronic payment transactions so they can clear and be funded.



Funding

The Processor deposits money into your bank account to compensate you for transactions processed.



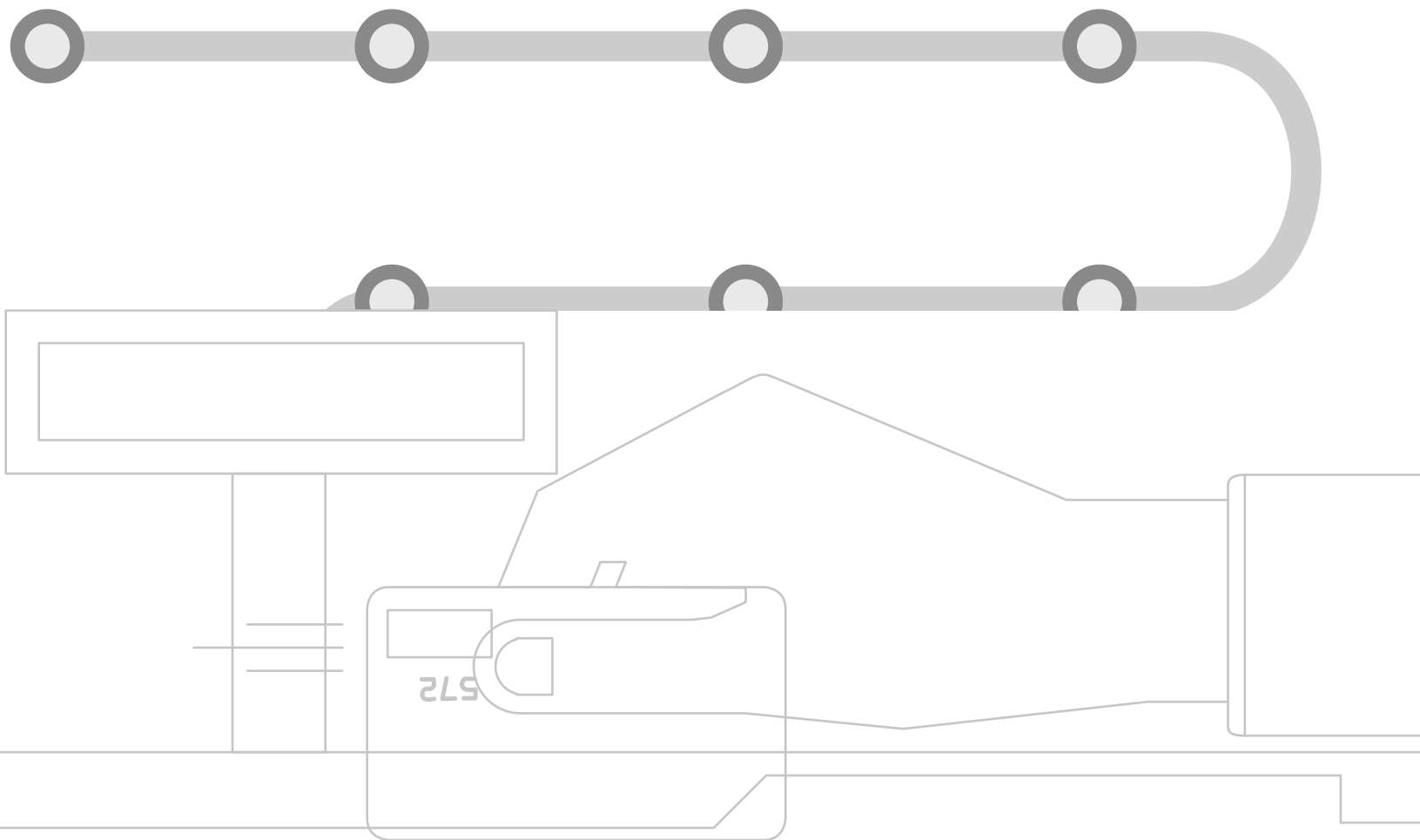
✓ Authorization

Without authorization you won't be able to accept your customer's credit card for payment—and that could mean lost sales. You can obtain authorizations through a [point-of-sale terminal](#), virtual terminal, smartphone swiper, [e-commerce website](#), or [over the phone](#).



✓ Authorization

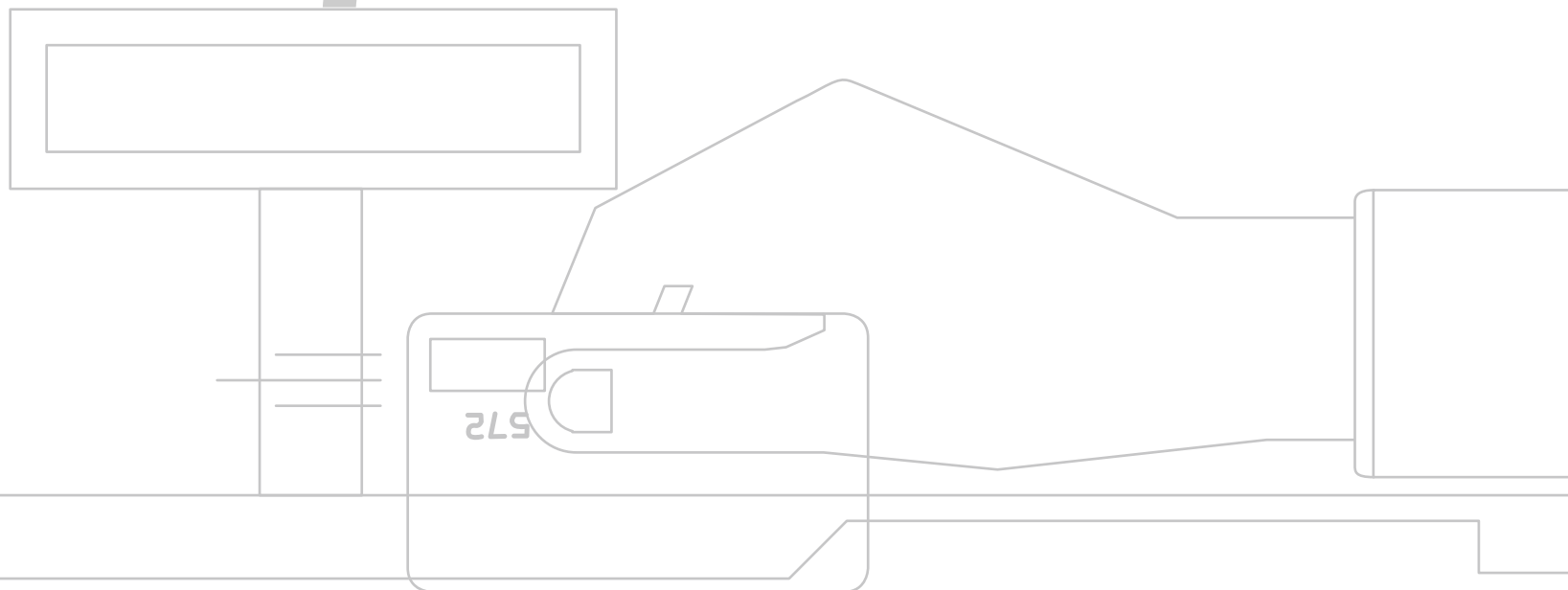
Authorization follows these steps. Generally, this entire process occurs **within a matter of seconds**:



✓ Authorization

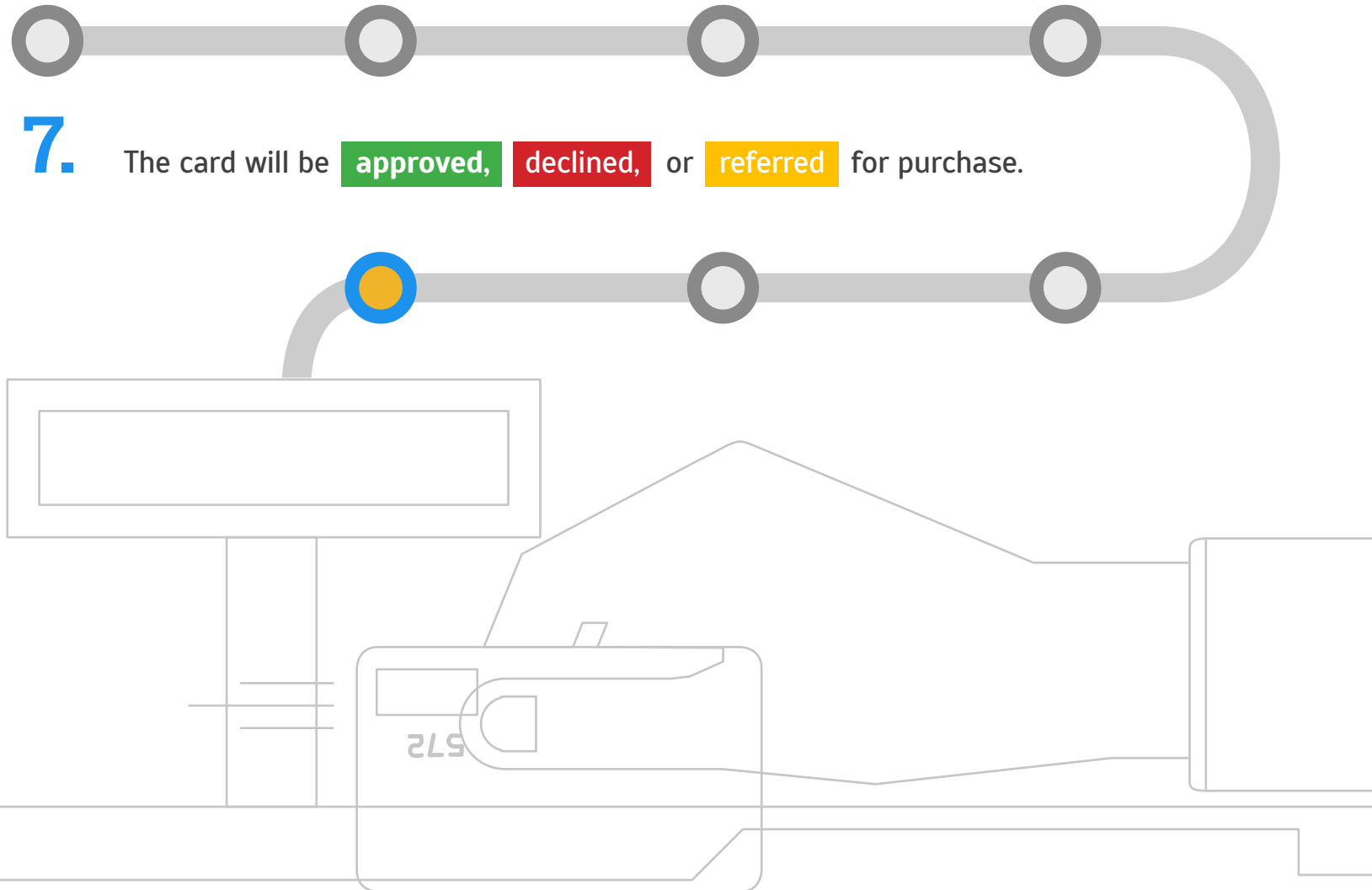


1. Depending on how you run the card, this information is transmitted to a Processor (for instance, in a card-present environment, you swipe the card and enter the dollar amount, then send this information to the Processor).



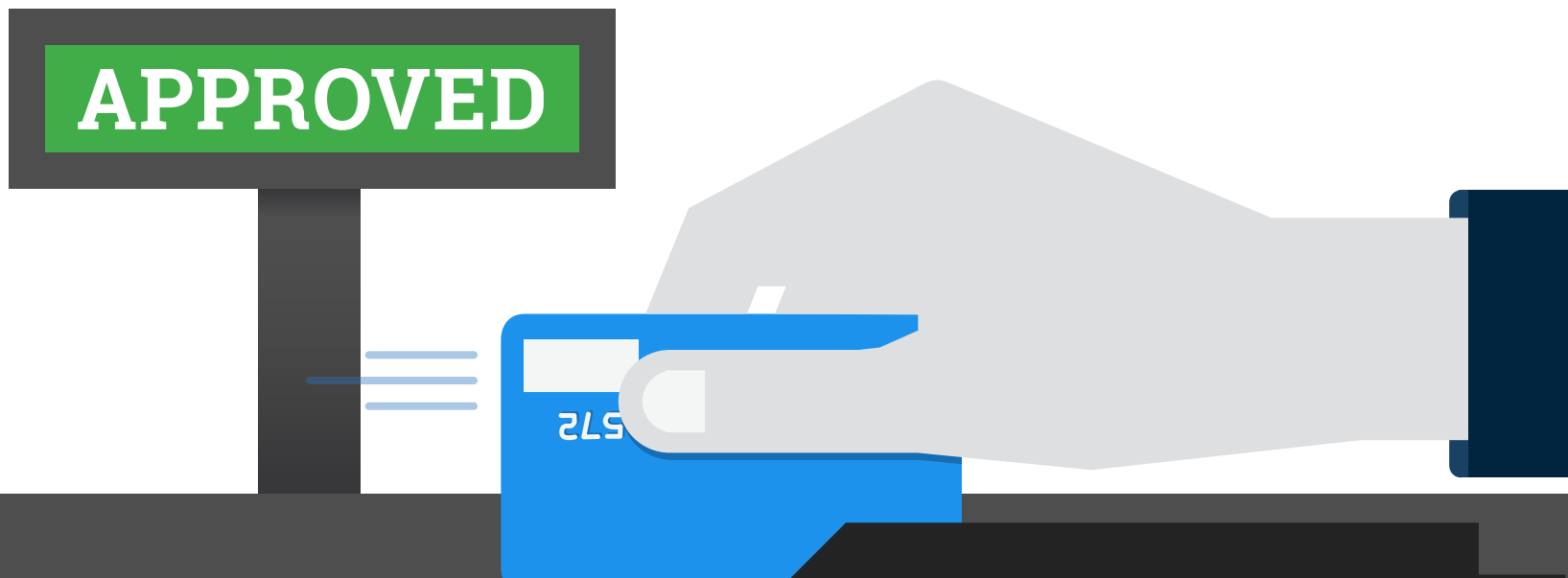
✓ Authorization

7. The card will be **approved,** **declined,** or **referred** for purchase.



✓ Authorization

An **approval** means that the dollar amount you specified will be reserved from the cardholder's available credit limit for future settlement.



✓ Authorization

A **decline** means that the customer's card cannot be used to complete the purchase.

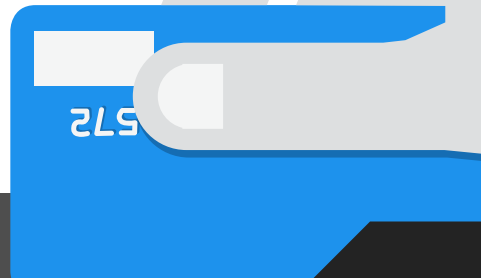
As a merchant, the most important part of payment processing is whether or not your customer is able to use his or her card. **Be aware that you may receive a declined response for a number of reasons:**



has spent more than his or her credit limit



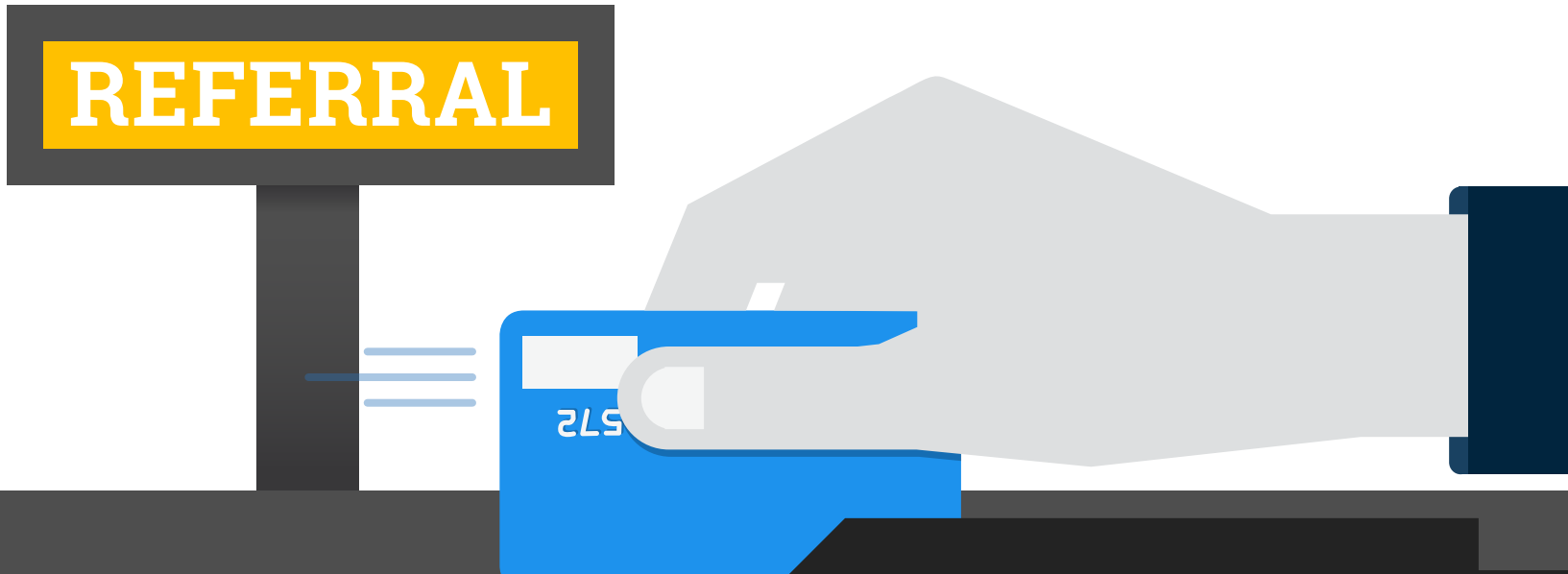
or...a card is lost or stolen.



✓ Authorization

A **referral** is a request for additional information (either from the merchant or the cardholder) before an authorization can be issued.

An issuer may send a referral response as a security measure. If a referral is received, the Processor will contact the issuer directly and request an authorization on your behalf. The issuer may request to speak with you or your customer/cardholder over the phone to confirm the legitimacy of the transaction before issuing the authorization. **A typical example of when this occurs is when the cardholder:**



✓ Authorization

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Is trying to make a purchase in a foreign country



Is using his or her card more than usual in a short period of time



or...has reached the credit limit.



REFERRAL

⋮ Settlement

The process of managing electronic payment transactions so they can clear and be funded.

You've made the sale! Depending on your business, your customer has either left your store, logged off your website, or hung up the phone, considering the sale complete. For you, however, the transaction is still in process, since it must now be settled. To make this happen, the approved card transactions must be presented to the Processor. The Processor then submits those approved transactions to the payment brands for clearing through **interchange**. You may hear these transactions referred to as "deposit" transactions.

Other costs to the acquirer include:



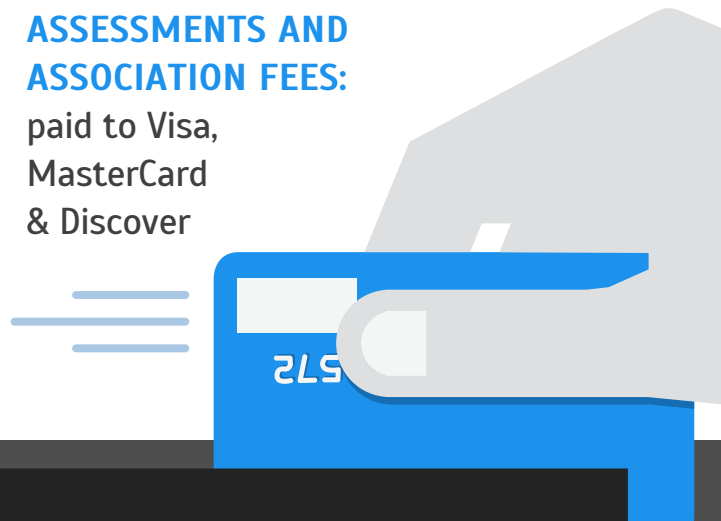
PROCESSING FEES:

paid to the processor for running the transactions and settling funds



ASSESSMENTS AND ASSOCIATION FEES:

paid to Visa, MasterCard & Discover



⋮ Settlement

Interchange fees are fees that a merchant acquirers or merchant services provider pays to card-issuing banks.

% % % % % % % % % %
% % % % % % % % % %
% % % % % % % % % %
**over
700
rates**

The rates for each interchange category are as complex as each credit card, and each transaction type has a specific cost that creates a grouping of over 700 rates.

The interchange category under which any single transaction falls will depend on various factors:



The processing environment of a business



The merchant's card acceptance method



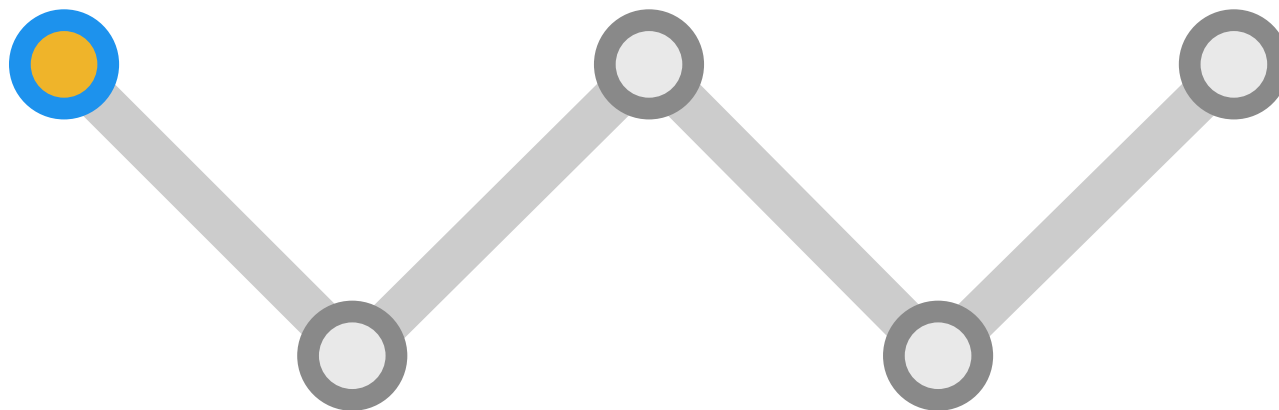
Security information sent along with transaction



The card brand and type accepted

⋯ Settlement

This is how settlement works:



1. Typically your terminal or point of sale device automatically triggers, or “batches” a settlement, unless further steps are required (e.g. tip adjustment in a restaurant).



Funding

The Processor deposits money into your bank account to compensate you for transactions processed.

The funding process is really an extension of settlement, and sometimes the terms “settlement,” “batching,” and “funding” are used interchangeably regarding this process. Funding happens when the payment brands, such as Visa® or MasterCard®, reimburse the Processor for your customer transaction, allowing us to send these funds to you. Generally, you receive your funds within one to two business days.

* Note that funding does not occur on weekends or on certain holidays, particularly federal banking holidays

