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[title]

## 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.

[intro]

### 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 intro]**

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 steps intro]**

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

## **[Authorization step 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 step 2]**

The Processor forwards your request to the card payment brand, such as Visa® or MasterCard®.

## **[Authorization step 3]**

From there, the payment brand sends your request to the card issuer (the bank that issued the card to the customer).

## **[Authorization step 4]**

The issuer approves or declines the transaction and sends this response to the payment brand.

## **[Authorization step 5]**

The payment brand sends the response to the Processor.

## **[Authorization step 6]**

The Processor forwards the response to you (either via your point-of-sale device, e-commerce website, over the phone, etc.), so you can complete the transaction.

## **[Authorization step 7]**

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

#### **[Authorization Approval]**

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

#### **[Authorization Decline]**

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.

#### **[why popup text]**

It is not your responsibility to explain to your customer why his or her card was declined. For this reason, the decline information is not transmitted to you. If a customer requests more information about the denial, direct them to use the customer service contact information on the back of the credit card.

#### **[Authorization Referral]**

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:**

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.

#### **[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]**

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

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 how it works]**

This is how settlement works:

#### **[Settlement step 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).

#### **[Settlement step 2]**

The Processor forwards your settlement request to the appropriate credit card payment brand for confirmation with the cardholder's issuing bank.

#### **[Settlement step 3]**

The payment brand receives the settlement request and does two things:

**A.** Issues a credit to the Processor to reimburse you for the amount of the settled transaction.  
The issuer then pays the Processor for the transaction.

**B.** Issues a debit to the issuer to charge for the settled transaction.

#### **[Settlement step 4]**

The issuer then posts the transaction to the customer/cardholder's account. At the end of the billing period, the issuer sends the customer/cardholder his or her monthly statement.

#### **[Settlement step 5]**

The cardholder receives his or her credit card statement and pays the bill (to the card issuer).

#### **[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