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[Education center](#) > [Credit cards](#) > [Credit card basics](#)

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How does the credit card transaction process work?

 4 minute read



The credit card transaction process is much more involved than simply swiping a card to complete a transaction. It's actually a complex process that requires numerous parties and steps. Familiarizing yourself with this process can help you make sense of the many built-in complexities. In this article we'll go over how credit card processing works, including the three processing stages:

- Authorization
- Authentication
- Settlement

Who's involved in credit card processing?

Behind the scenes of every credit card swipe or tap are several important entities who ensure that the money transfers to the right place — correctly and securely. These parties include:

- Merchant
- Cardmember
- Merchant's bank

- Payment processor
- Issuing Bank
- Card associations

Merchant

The merchant is any store or vendor that sells goods or services and accepts credit card payments.

Cardmember

The cardholder or cardmember is anyone using a credit or debit card from an issuing bank to pay for goods or services.

Merchant's bank

The merchant's bank allows merchants to accept money from debit or credit payments. It receives authorization requests from the merchant, sends them to the issuing bank and then sends the issuing bank's response back to the merchant.

Payment processor

A payment processor is a company that processes debit and credit transactions and provides the hardware that allows merchants to accept credit card payments. It can be the merchant bank or a third party.

Issuing bank

The bank, credit union or another provider that issued the debit or credit card to the cardmember.

Card associations

Major credit card brands such as Visa, MasterCard, American Express and others, set payment processing policies and serve as the middle man between the issuing and merchant banks.

Steps of the credit card transaction process

Let's break down the steps of the credit card transaction process.

Authorization

In the credit card authorization stage, the merchant needs to get approved by the credit card issuer:

1. The cardmember presents their card to the merchant at the time of sale, whether it be in-person, online, through an app or over the phone.
2. The merchant sends a payment authorization request to a payment processor, such as [Chase Payment Solutions](#).
3. The payment processor will send the details of the transaction to the card association, such as Visa or MasterCard, who will approve or decline it.
4. If the card association clears the payment, they'll send an authorization request to the issuing bank, which approves or declines the request.
5. The issuing bank sends its decision back to the card association, where it then goes down the line, finally reaching the merchant.

Authentication

In the authentication stage, the issuing bank will check to make sure the transaction is valid.

1. The card association makes a request for payment authorization from the issuing bank.
2. The issuing bank validates the cardmember account and funds available.
3. The issuing bank approves or declines the transaction and sends the decision to the card association and merchant bank.
4. The issuing bank will place a hold for the amount of purchase on the cardmember's account.
5. The merchant's point of sale terminal will collect the approved authorizations for processing.

Settlement

In the settlement stage, the merchant will finally receive funds from the transactions.

1. The merchant sends their batched approved authorizations to the payment processor.
2. The payment processor sends the authorizations to the card association.
3. The card association forwards them to the issuing bank.
4. The issuing bank transfers the funds to the merchant bank and charges an "interchange fee". This typically happens within 24 to 48 hours of the transaction.
5. The merchant bank delivers funds to the merchant account.

Declined transactions

A cardmember can be [declined](#) for many reasons, such as insufficient funds or credit, payments that are past due or a closed account.

In conclusion

You might be surprised to learn how many steps and intermediators there are behind the scenes that make your credit card transactions happen. Understanding who is involved and what steps are taken may help you feel more informed when making any purchase with your credit card - big or small.

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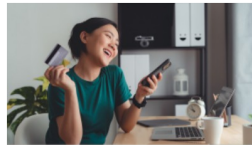
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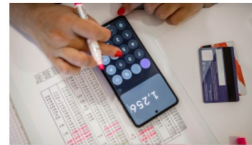
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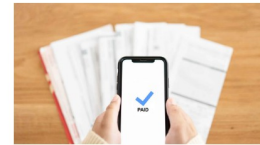
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