

Credit Card Transaction Processing

The typical credit card transaction is processed as follows:

- A person uses a credit card to make a purchase from a merchant
- The card information is sent from the processing terminal to the merchant's payment processor (or acquirer).
- The processor sends the information to the payment brand (Visa, MasterCard, etc.) where it is then forwarded to the cardholder's bank.
- The cardholder's bank verifies that the card is legitimate, the amount available for the purchase, and that the card is not lost/stolen.
- If the purchase is authorized, the cardholder's bank sends an authorization to the card brand, which then forwards the authorization to the processor.
- The processor then sends the authorization to the merchant, who then completes the sale.
- Each authorized transaction completed by the merchant is stored in a batch on the merchant's equipment until the merchant submits the batch to the processor (usually at the end of the business day).
- The processor sends the entire batch to the card issuers for payment. The cardholders' banks then send the funds for all authorized transactions to the processor.
- Once the processor receives the funds from the various card issuers, it deposits those funds into the merchant's business bank account (which may or may not be with the processor).

A garnishment sent to a payment processor will attach the funds once the processor receives the funds from the card issuers (and before they are deposited into the merchant's business bank account).

Debit Card Transaction Processing

Debit card transactions have traditionally come in two forms: PIN-based and signature-based. Currently, most debit cards can be processed either way. Signature-based transactions, referred to as offline debits, are routed through the payment networks in the same way as credit card transactions. As a result, a garnishment will attach these funds once they are sent to the processor and before they are deposited into the merchant's business bank account.

PIN-based transactions, known as online debits, are processed differently. A transaction is routed through the appropriate EFT network and the cardholder's account is immediately debited for the amount of the purchase. In some cases, the transactions are settled (almost immediately) directly to the merchant's account and are not transferred with the daily batch. In other cases, the processor may simply include the PIN-based transactions with the other credit transactions and settle the merchant's account once on a daily basis.

The key garnishment issue in PIN-based debits will be the payment processor's control over the funds:

- If funds resulting from PIN-based transactions are held by the processor and then later deposited into the merchant's checking account, these funds are subject a garnishment sent to the processor.

- If the funds are never in the custody of the processor and are settled directly to the merchant's account, then they likely are not subject to a garnishment sent to the processor.