



## Frequently Asked Questions Regarding Authorizations

### **What is an authorization?**

When a credit card is used to make a purchase, the merchant will enter the card number and purchase amount into the terminal to dial out for an approval or an authorization to charge the card. This authorization generally confirms that an account is open and the purchase amount is acceptable. The purchase amount sent for an authorization may vary by merchant type. Most merchants will request an authorization for the exact purchase amount and others may send an estimate that is more or less than the actual purchase amount. The amount that is preauthorized for the sale will have a hold on it until it is matched with a settlement request from the merchant. Once the purchase is authorized, the transaction must be captured or completed and included in the merchant's daily settlement, in order for the sale to be completed. The actual purchase amount will be deducted from cardholders account, usually within two to three business days. If the authorization is not matched with an actual purchase within 10 business days, the authorization will drop off and the funds will again be available to the cardholder.

### **Why is the authorization amount different from the actual purchase amount?**

An authorization may vary from the final purchase amount in situations where there is an estimated authorization amount or if a tip is involved.

### **How does this differ when using a debit card?**

When the cardholder enters a 4 digit PIN number, the amount authorized for the purchase is automatically removed from the cardholders account and forwarded to the Federal Reserve for a capture match. Once the merchant's terminal settles and submits that transaction, the authorization number will match up and the money will be sent to the requesting merchant. If for any reason the transaction does not settle and go through this process (example, transaction is voided from the terminal) the funds remain at the Federal Reserve.

If the cardholder wishes to cancel this purchase, the merchant MUST issue a credit. This will complete the transaction as follows: cardholder's account had an amount pre-authorized for purchase and it was automatically sent to a Federal Reserve awaiting capture match. The merchants' terminal settles out and captures the money from the Federal Reserve. The merchant issues a credit to the cardholder reversing the money that is removed from the cardholders account. The Transaction is in balance.

