

GLOSSARY OF CREDIT CARD TERMINOLOGY

Acquiring Financial Institution:

An acquiring financial institution (or "acquirer") contracts with the bank and merchants to enable credit card transactions. The acquirer deposits the daily credit card totals and debits the end-of-month processing fees from the merchants' accounts.

Address Verification Service (AVS):

The process of validating a cardholder's given address against the issuer's records, to determine accuracy and deter fraud. This service is provided as part of a credit card authorization for mail order/telephone order transactions. A code is returned with the authorization result that indicates the level of accuracy of the address match and helps secure the most favorable interchange rates.

Adjustment:

The acquirer to correct a processing error initiates an adjustment. The error could be a duplication of a transaction or the result of a cardholder dispute. The acquirer debits or credits the merchant DDA account for the dollar amount of the adjustment.

Audio Response Unit (ARU):

This is an electronic authorization and capture product where the merchant uses a touch-tone telephone to process transactions.

Authorization:

An approval response in the form of a code sent to a merchant's POS equipment (usually a terminal) from a card issuing financial institution that verifies availability of credit or funds in the cardholder account to make the purchase. Also see Point-Of-Sale.

Authorization Response:

An issuing financial institution's electronic message reply to an authorization request, which may include:

Approval -- transaction was approved

Decline -- transaction was not approved

Referral -- response pending more information, merchant must call the toll-free authorization phone number. .

Authorization Code:

A code that a credit card issuing bank returns in an electronic message to the merchant's POS equipment that indicates approval of the transaction. The code serves as proof of authorization.

Auto Close:

A terminal feature that allows an end-of-day batch closing to occur automatically at a specified time, without having to be initiated by the merchant.

Automated Clearing House (ACH) File:

A file with instructions for the exchange and settlement of electronic payments passed between financial institutions. It represents debits and credits to be deducted from an account automatically as they occur.

Average Ticket (Average Sale):

The average dollar amount of a merchant's typical sale. The average ticket amount is calculated by dividing the

total sales volume by the total number of sales for the specified time period.

Bankcard:

A credit card issued by a Visa or MasterCard-sponsored financial institution. (American Express, Discover, Diners Club, JCB, etc., are issued directly from their respective operations, rather than through banks.)

Batch:

The accumulation of captured credit card transactions in the merchant's terminal or POS awaiting settlement.

Capture:

The submission of an electronic credit card transaction for financial settlement. Authorized credit card sales must be captured and settled in order for a merchant to receive funds for those sales. Also see Settlement.

Cardholder:

Any person who holds a payment card account (bankcard or otherwise).

Card Not Present:

A transaction where the card is not present at the time of the transaction (such as mail order or telephone order). Credit card data is manually entered into the terminal, as opposed to swiping a card's magnetic stripe through the terminal.

Chargeback:

A credit card transaction that is billed back to the merchant after the sale has been settled. Chargebacks are initiated by the card issuer on behalf of the cardholder. Typical cardholder disputes involve product delivery failure or product/service dissatisfaction. Cardholders are urged to try to obtain satisfaction from the merchant before disputing the bill with the credit card issuer.

Close Batch:

The process of sending the batch for settlement.

Code 10 Authorization:

If you suspect a card is fraudulent at the time of the transaction, the merchant can call their voice authorization phone number and ask for a code 10. The voice operator will instruct the merchant on how to proceed.

Commercial Cards:

Credit or charge cards issued to businesses to cover expenses such as travel and entertainment and procurement. Includes the multiple payment card brands of purchasing cards, business cards, corporate cards and multi-utility fleet cards.

Corporate Card:

Charge card designed for business-related expenses, such as travel and entertainment.

Credit (Reversal):

Nullification of an authorized transaction (sale) that has not been settled. If supported by the card issuer, a reversal will immediately "undo" an authorization and return it to the open-to-buy balance on a cardholder's account. Some card issuers do not support reversals.

Debit Card:

Payment card whose funds are withdrawn directly from the cardholder's checking account at the time of sale (online debit) or after batch settlement (off-line debit).

Deposit Correction Notice (DCN):

Adjustments (debits or credits) made for an out-of-balance condition due to various problems in the transmittal. The correction is made by the merchant's acquirer at the time of capture prior to being sent out for interchange.

Discount Rate:

The percentage of sales amounts that the bankcard acquirer or T&E card issuer charges the merchant for the settlement of the transactions.

Edit Rejects:

The rejection of a sales draft by Visa or MasterCard before a transaction processes through interchange, but after it has been paid by the acquirer.

Electronic Cash Register (ECR):

A device used for cash sales. Can also be integrated to accept credit cards.

Electronic Data Capture (EDC):

Process of electronically authorizing, capturing and settling a credit card transaction.

Fleet cards:

Private label credit cards designed mainly for repairs, maintenance and fueling of business vehicles.

Footer:

Text printed at the bottom of a sales draft. A merchant can customize the footer (i.e., Have a Nice Day, No Refunds, Thank You for Shopping With Us, etc.).

Independent Sales Organization (ISO):

Company that independently solicits prospective merchants for Paymentech. ISOs may either assume partial or shared financial liability for merchant activity.

Interchange:

The standardized electronic exchange of financial and non-financial data associated with sale and credit data between merchant acquirers and card issuers on various types of MasterCard and Visa transactions.

Interchange Fee:

A fee paid by an acquirer to an issuer for transactions entered into interchange. The interchange fee is a percentage applied, according to Visa/MasterCard regulations, to the dollar value of each transaction. There are multiple categories of interchange, and Visa and MasterCard each have their own criteria for their own categories. A transaction must meet the specified criteria for a category in order for that category's rate to be applied. Each transaction is evaluated individually, so various interchange rates may apply within one batch of merchant transactions.

Issuing Financial Institution:

The financial institution that extends credit to a cardholder through bankcard accounts. The financial institution issues a credit card and bills the cardholder for purchases against the bankcard account. Also referred to as the cardholder's financial institution.

Manual Close:

A batch close that must be initiated by the merchant on a daily basis, as opposed to an auto close at a pre-set time.

Merchant Identification Number (MID):

This number is generated by a third-party processor and is specific to each individual merchant location. This number is used to identify the merchant during processing of daily transactions, rejects, adjustments, chargebacks, end-of-month processing fees, etc.

Magnetic Stripe:

A strip of magnetic tape affixed to the back of credit cards containing identifying data, such as account number and cardholder name.

Mail Order/Telephone Order (MOTO):

Credit card transactions initiated via mail, email or telephone. Also known as card-not-present transactions.

Non-Qualified Transaction Fees (NON-Qual):

Bankcard sales transactions that do not meet set Visa/MasterCard criteria for that particular merchant and are processed at a higher interchange rate. An example of this is a merchant that is retail (card present) that processes a card-not-present transaction (or manually enters card data rather than swiping the magnetic stripe through the terminal). The merchant will pay the difference between what they should have paid on retail and what they actually qualified for (card not present). This difference is called non-qualified interchange fees.

PC Software:

A software program that is designed to perform a specific function on a computer system. Examples would be accounting systems, manufacturing systems, order entry and fulfillment, ticketing, reservations, etc. The application is either purchased or built by the merchant, and must be interfaced with a credit card authorization system in order to provide on-line transaction processing.

Prism's Interactive Database System (PIDS):

This subscription-only system allows authorized bank personnel to view, change, and close merchants, as well as setting up new merchant accounts and adding additional locations online via a secure Internet connection.

PROMPT:

Available to Prism customers for managing their merchant portfolio including new merchant setups, changes and viewing merchant information.

Private Label Cards:

Credit, debit or stored-value cards that can be used only within a specific merchant's store. Also referred to as proprietary cards.

Point Of Sale (POS):

A location where credit card transactions are performed with the cardholder present, such as a retail store. The card is read magnetically, and the cardholder's signature is obtained as insurance against the transaction. This is the most secure form of credit card commerce.

Processing Network (Vendor):

The medium of data transport between the merchant application and the processor. This company authorizes and captures credit card transactions. Some examples of processing networks are Paymentech Network Services (PNS), MAPP and Envoy.

Procurement/Purchasing Cards:

Charge cards used by businesses to cover purchasing expenses, such as raw materials or office supplies.

Sales Draft (Ticket):

A form showing an obligation on the cardholder's part to pay money (i.e., the sales amount) to the card issuer. This is the piece of paper that is signed when making the purchase. Sales draft data can be captured electronically and sent to be processed over the phone lines. *Also see Electronic Data Capture.*

Settlement:

The process of sending a merchant's batch to the network for processing and payment. For non-bankcards, the issuer pays the merchant directly (less applicable fees) and then bills the cardholder. For bankcards, the acquirer

pays the merchant (less applicable fees) with funds from Visa/MasterCard. The bankcard issuer then bills the cardholder for the amount of the sale. *Also see Capture.*

Terminal Software:

Programming that determines the characteristics and features of the terminal.

Smart card:

A payment card that electronically stores account information utilizing chip technology rather than a magnetic stripe.

T & E cards:

Credit or charge card used by businesses for travel and entertainment expenses. Examples of these cards are American Express, Diners Club, Carte Blanche and JCB. *Also see Corporate Cards.*

Terminal:

Equipment used to capture, transmit and store credit card transactions.

Terminal Identification Number (TID):

A unique number assigned to each POS terminal.

Third-Party Processor:

A third-party processor is a company that provides a variety of bank/merchant services including billing, reporting, customer service, authorization and settlement services on behalf of the acquiring financial institution. Examples of third-party processors are Paymentech, First Data Corporation (FDC), Global Payment Services (GPS), NOVA Information Systems (NOVA), Vital Processing Services (VITAL), etc.

Value Added Reseller (VAR):

Third-party vendor that enhances or modifies existing hardware or software, adding value to the services provided by the processor or acquirer.