



Payment Processing in the 2A Space

Presented by: Laura Morgan

Date: 6/15/2026



Overview



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Definitions

Acquirer

A financial institution that processes credit and debit card payments on your behalf, enabling you to accept card transactions. Also called a processor.

Issuer

A financial institution, such as a bank or credit union, that provides credit, debit, or prepaid cards directly to consumers and businesses.

Merchant

A merchant is a business owner, retailer, or service provider that accepts payments in exchange for goods or services, either in-store or online.

How Transactions Work

Here's what happens after the sale is run

1. The acquirer (processor) sends an authorization request to the issuer (the cardholder's bank).
2. The issuer sends back an authorization code that confirms the cardholder has the monetary amount being requested. Or it can decline the sale for reasons such as insufficient funds, stolen cards, etc.
3. Once the transaction is approved with a valid authorization code, it is complete.



Payment Processing 101

Breakdown of the Fees



Interchange

The wholesale cost of credit-card processing set by the card brands: Visa, Mastercard, Discover, and Amex.



Discount Fee

The % a payment processor charges on top of the interchange cost as their profit margin



Transaction Fee

Typically, a small fee per transaction the processor charges in addition to the discount fee.



Monthly Fees

Applies to pricing programs and solutions or services you may need for your payment-processing infrastructure (i.e. eCommerce gateways, POS software, etc.)

Processing Pricing



Flat Rate

A set rate and transaction fee (i.e., 3.25%) and 20 cents per transaction. For smaller businesses with low processing volume.



Interchange Plus

A set rate and transaction fee (i.e., 3.25%) and \$0.20 per transaction. For smaller businesses with low processing volume.



Surcharge/Cash Discount

You share fees with your customer. These are subject to state regulations and card brand rules.

Surcharge vs Cash Discount

Pricing programs that help merchants offset processing fees

Surcharge

- You add a percentage to the sale at checkout to help cover credit-card processing fees.
- Your customer buys something for \$100 with a credit card. They pay \$103 at checkout.
- Align payments strategy with revenue strategy
- Fees for debit transactions

Cash Discount

- Your advertised prices include the card fee.
- Your customer buys something for \$103. If they pay with cash, they only pay \$100.
- Cash discount covers 100% of your processing fees.
- No fees for debit transactions

Challenges in 2A Processing

Finding a 2A-friendly acquirer/bank

Many banks and processors won't do business with 2A-related merchants.

Paying high rates

Processors and banks that will do business with you often judge you as high risk alongside gambling, porn, CBD/marijuana, etc. They charge you higher rates.

Worrying about processing volumes

Some banks and processors put limits on your processing volume. If you grow too fast, they may hold funds or require a reserve of funds to cover increased risk for increased volume.

How to Choose a Payment Processor

- ✓ Make sure they are 2A-friendly.
- ✓ Find out if you are paying high-risk or normal rates.
- ✓ Ask what happens if you run larger transaction amounts or grow quickly. Will they hold funds? Will they deny sales of a certain size?
- ✓ Negotiate for the best rates or pricing plan that fits your business. If they offer a set rate, ask if it's on top of interchange or if interchange is included.

Q & A
