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What Is an EFT Payment?

Last Updated: Nov 13, 2024

An EFT is a secure, digital money transfer that can be faster and more secure than paper checks or cash, making it the preferred method for most payments



Principal Researcher

[Adam Frankel](#)

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In This Guide

Nearly all financial transactions can now be performed through an electronic funds transfer, helping you to send and receive money faster — and with less worry. When you make an online bill payment, swipe a credit card, receive a direct deposit or use an ATM, you're using an EFT.

In this article, we at the MarketWatch Guides team cover how EFTs work, the types of EFT payments and how safe EFTs are to use.

Key Takeaways

- Electronic funds transfers are used to transfer money from a sending party to a receiving party, and they're one of the fastest ways to move money.
- EFTs offer a secure way to digitally transfer money between financial institutions and bank accounts.
- Common types of EFTs include direct deposits, ATM transactions, wire transfers and peer-to-peer transactions such as Zelle, Venmo or PayPal.

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What Is an EFT?

An EFT is a way to move money from one party to another party electronically. The [Electronic Funds Transfer Act of 1978](#) defines EFTs as a transfer of money that's initiated through an electronic terminal, telephone, computer or magnetic tape that instructs a financial institution to debit or

credit an account. This includes any digital transactions made via ATMs, point-of-sale terminals, direct deposits, automated clearing house systems or recurring payment plans by phone.

Transferring money through an EFT is quick, safe and accurate since there's an encrypted electronic record of the money being exchanged between service providers. Other methods of payment, such as [paper checks](#), typically take a few days to clear, while transferring large sums of cash can pose a safety risk and be difficult to corroborate the exact amount.

How Do EFT Payments Work?

First, the sender initiates an EFT payment. The request to make a payment is then routed electronically from the sender's account to the recipient's account. Depending on the type of EFT payment and how it was initiated, this may only take a few seconds, though it can sometimes take two to five business days to clear.

The process of electronically routing money takes place over a payment network. There are several payment networks, and the one that's used depends on the type of EFT payment.

Pros

Speed: EFT payments can be sent and received within seconds, depending on the type of EFT payment used.

Convenience: Payments can be made or received online, with a debit card, with a credit card or on your phone, making banking possible no matter where you are.

Safety: Because there's an electronic record, it's easier to dispute any fraudulent transactions.

Cons

Fees: There can be fees associated with some EFTs, such as out-of-network ATM fees or wire transfer fees.

Scams: EFT scams are fairly common, and they usually involve scammers trying to take advantage of people by asking for immediate payments through EFT services such as Venmo or Cash App.

Types of EFTs

All types of EFTs transmit money electronically, but some types are faster than others and each type serves a different purpose.

Direct Deposit

One type of EFT is the [direct deposit](#) of salaries, wages and benefits from an employer to an employee. With direct deposit, these transactions originate from the employer's bank or other financial institution and are sent in batches over the ACH network to the recipient's bank. The ACH network is run by Nacha, and the two main ACH operators are the [Federal Reserve](#) and The Clearing House.

Direct deposit and other types of ACH transfers can be made through any [U.S. bank or credit union](#) and use a [bank's routing number](#) to identify the receiving bank and your bank account number to identify your account.

Online Bill Payments

EFTs are widely used for online bill payments and recurring transactions. When you pay a utility bill online or set up your rent payment to be automatically deducted from your bank account each month, those transactions are all handled electronically.

Paying a bill through your online banking account is the same. You'll provide the payment method and the money is then either withdrawn from your account or charged to your debit or credit card and sent to the payee.

ATM Transactions

ATMs are convenient for making cash withdrawals, transfers and deposits. When you insert your ATM card or debit card into a machine and enter your PIN, you can access your funds, transfer money between your accounts, [deposit cash](#) and handle other banking transactions.

When you [enter a transaction at an ATM](#), the message is routed through the ATM network, which then sends it to your bank. Your bank will either approve or deny the transaction and send that message back through the ATM network to the terminal where you requested the transaction. This happens within a few seconds, making ATM transactions an efficient way to quickly get cash or transfer money without going into a bank branch.

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Credit Card and Debit Card Transactions

Credit card transactions rely on one of the four main credit card processing networks in the U.S. — Visa, Mastercard, American Express or Discover — to securely process funds electronically. Credit card purchases, refunds and paying your bill are all handled via electronic communication between banks.

When you use your credit card, the network will pass messages between the business terminal where you used your card and the bank that issued your card — all within seconds. If your purchase is approved, the network will send the message back to the business' receiving bank, allowing it to charge the purchase to your card. If your purchase was not approved, the terminal sends a message preventing your charge from going through.

Debit card transactions function the same way, except the funds are immediately drawn from your account. The process is the same whether it's an in-person transaction or an e-commerce one.

Wire Transfers

Wire transfers are best for sending large amounts of money as limits are usually much higher. With wire transfers, you'll typically [send money directly](#) from your bank account to another person's bank account. Domestic wire transfers usually process instantly or within a day, but international wire transfers could take a couple of business days.

While wire transfers usually have higher [fees](#) than other types of EFTs, some banks or accounts offer free domestic wires. International wire transfer fees are higher than domestic wire transfer fees, and you generally can't avoid paying them.

Peer-to-Peer Payments

Peer-to-peer payment [services such as Zelle](#), Venmo or PayPal make it easy to send money quickly through your bank or an app. Generally, you'll find the person you want to send money to through their name, email address or phone number.

Before making a peer-to-peer payment, confirm that the account information is correct for the person you want to send money to. You don't want to accidentally send money to someone with a similar name by mistake as you may not get that money back.

>>Related: [Zelle Limits at Top Banks](#)

Are EFT Payments Safe?

EFT payment methods are generally considered safer than paper checks or cash since they can't be lost, stolen or damaged. Plus, there's an electronic record of every step of the transaction.

Consumer Protections

The Electronic Fund Transfer Act of 1978, also known as Regulation E, put safeguards in place to protect consumers using EFTs. Financial institutions are required to have procedures in place to prevent unauthorized transactions and establish error resolution policies, such as allowing a customer to dispute a transaction they don't believe is valid.

The act also set liability loss limits for consumers who have unauthorized transactions and report them within a certain period of time. Consumers who report unauthorized transactions within two days will only be liable for \$50. If reported within 60 days, they'll be liable for \$500. After that, they could potentially have unlimited liability.

Always Know Who You're Paying

The speed at which EFT payments occur may make them particularly prone to errors, especially with peer-to-peer payment services. Be vigilant about who you're making a payment to as an EFT can't be reversed as quickly as it was made, if at all.

Also, never make a payment to, or share your bank account information with, someone who calls or texts and says they're with your bank. It's worth taking the extra time to hang up and call the bank back to see if it was legitimate.

The Bottom Line: What Are EFTs?

EFTs allow for quick, convenient and efficient financial transactions, and they're typically safer than using cash or paper checks. Although many types of EFTs, such as credit cards and bank transactions, have liability protections in place, some types of peer-to-peer services may not have as robust of liability protections. Use caution when sending electronic payments to someone through any method, and only send money to verified recipients.

FAQ: What Is an EFT?

How long does it take for an EFT to process? 

Are EFTs safe? 

Are there any fees associated with EFT transactions?



**Data accurate at time of publication*

Sources:

- Cornell Law School, [Electronic Funds Transfer Act](#)
- Federal Trade Commission, [Electronic Fund Transfer Act](#)
- Office of the Law Revision Counsel, [Subchapter VI—Electronic Fund Transfers](#)

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