

Best Practices for Originators

Hampton Roads Association for Financial Professionals

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Agenda

- ❑ Pre-notes & Notifications of Change
- ❑ Authorization
- ❑ Returned Transactions
- ❑ Reversals

Prenotification (Prenotes) Best Practice

- ❑ A non-dollar ACH sent through the network to allow the RDFI to verify the banking routing and account numbers (not the name)
 - ❑ May not initiate entries sooner than six banking days following the Settlement Date of the prenote entry
 - ❑ Responses to returned prenotes
 - If returned by ACH operator (e.g., incorrect ABA), RDFI has never seen it. Make corrections and prenote again
 - If returned by RDFI, research based on Return Reason Code
 - If Notification of Change, make required correction within six banking days, or prior to initiating a subsequent entry, whichever is later
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Notifications of Change (NOC)

- ❑ It is a rules violation not to respond to NOCs
 - ❑ Delays receipt of transaction
 - ❑ Know how bank will make notification and ensure that the correct person receives NOCs timely
 - ❑ Understand how to read the report
 - ❑ Make required correction within six banking days, or prior to initiating a subsequent entry, whichever is later
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Authorization-Commercial ACH

- SEC Codes
 - CCD
 - CCD+
 - CTX
 - Receiver has an agreement with the Originator under which the Receiver agrees to be bound by NACHA rules in effect from time to time
 - Many companies have debit filters on bank accounts
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Authorization for Consumer Entries

- ❑ Copy must be provided to the Receiver for debit entries
 - ❑ Must be retained for two years after authorization is revoked
 - ❑ Must provide copy of authorization if requested by ODFI for use by the RDFI (e.g., in the event of an entry returned as unauthorized).
 - ❑ If amount of debit is variable, must send written notification of amount and date of debit 10 days prior to settlement
 - ❑ If the date of the debit is changed, must send written notification not less than 7 days prior to settlement
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Authorization-Consumer ACH

SEC Code (App. Two, Section 2.2)	Requirements
PPD	<ul style="list-style-type: none">➤ Must be in writing*➤ Readily identifiable as an authorization➤ Must provide method of notification for the revocation of authorization
ARC	<ul style="list-style-type: none">➤ Notification➤ Reasonable procedures to opt out
BOC	<ul style="list-style-type: none">➤ Notification➤ Reasonable procedures to opt out
POP	<ul style="list-style-type: none">➤ Authorization receipt signed at time of purchase➤ Notification

*electronic authorization permitted

Authorization-Consumer ACH

SEC Code	Requirements
WEB	<ul style="list-style-type: none">➤ Authentication➤ Ability to read the authorization language displayed on the screen➤ Must provide method of notification for the revocation of authorization
TEL	<ul style="list-style-type: none">➤ Oral authorization either recorded or provide written confirmation prior to settlement date
RCK	<ul style="list-style-type: none">➤ Notification

Components of Proper Notification

ARC, BOC, POP, RCK

- The notice must be posted in a prominent and conspicuous location and a copy of notice, must be provided to the Receiver at the time of the transaction.

 - ***“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.”***

 - Until January 1, 2010, the posted notice must also notice that
“When we use information from your check to make an electronic fund transfer, funds may be withdrawn from your account as soon as the same day you make your payment.”
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Items Ineligible for ARC, BOC, and POP Conversion to ACH

- Checks containing an Auxiliary on Us field
 - Amounts greater than \$25,000
 - 3rd party checks
 - Remotely created checks and checks that do not contain the signature of the Receiver
 - Credit Card and Investment Company (MMA) Checks
 - Money Orders, Traveler's Checks, Cashier Checks
 - US Treasury, Fed Reserve or FHLB Checks
 - Foreign checks and checks in foreign currency
 - State and local government checks not payable through a Participating DFI
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TEL Authorization

- Must include at a minimum in your script:
 - Date that the transaction will occur
 - Amount of the transaction
 - The name of the Receiver of the debit
 - Telephone number for inquiries during normal business hours
 - Current date
 - Statement by originator the authorization is for a single entry ACH debit
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WEB Transactions-Special Considerations

- ❑ Must employ commercially reasonable methods of authentication to verify the identity of the Receiver
 - ❑ Must employ a commercially reasonable fraudulent transaction detection system
 - ❑ Must use commercially reasonable procedures to verify that routing numbers are valid
 - ❑ Must conduct or have conducted annual audits to ensure that the financial information it obtains from Receivers is protected by security practices and procedures
 - Physical security
 - Access Controls
 - Network Security
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RCK: Collection of NSF Checks

Best practices solution for the collection of “bad” checks

- ❑ Can be represented twice, if permitted by your ODFI, whereas checks can only be presented one more time
 - ❑ Typically banks process electronic items prior to paper items
 - ❑ Can time settlement to coincide with typical payday.
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RCK Entries

- Check must have been returned due to NFS or uncollected funds
 - Is for less than \$2,500
 - Dated 180 days or less
 - Drawn on consumer account
 - Been presented no more than 2 times through check clearing system
 - Been presented no more than 1 time as an RCK entry
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Return Codes (Found in Appendix Five, Section 5.4)

- R01 Insufficient Funds**
- R02 Account Closed**
- R03 No Account/Unable to Locate Account**
- R04 Invalid Account Number**
- R07 Authorization Revoked by Customer**
- R08 Payment Stopped**
- R10* Customer Advises Not Authorized, Notice Not Provided, Improper Source Document, or Amount of Entry Not Accurately Obtained from Source Document**
- R29 Corporate Customer Advises Not Authorized**
- R37 Source Document Presented for Payment**

*special use for ARC, BOC, POP and RCK entries

When Things Go Wrong

Reversing Files

- ❑ Duplicate file or file in which each entry contains erroneous data
 - ❑ May initiate a reversing file to reverse each entry
 - ❑ Must be available to RDFI within 5 banking days after the settlement of the duplicate file
 - ❑ Must be transmitted to ACH Operator within 24 hours of discovery
 - ❑ A reversing file to correct an erroneous batch must be accompanied by a correcting file
 - ❑ ODFI indemnifies each RDFI and ACH Operator against any claim resulting from the reversing and correcting entries.
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When Things Go Wrong

Reversing Entries

- ❑ May initiate a reversing entry to correct erroneous debit or credit

 - ❑ Erroneous entry is one that:
 - Is a duplicate
 - Orders payment to or from the wrong Receiver
 - Orders payment in the wrong amount

 - ❑ Must notify Receiver of reversing entry and the reason for it no later than the Settlement date.

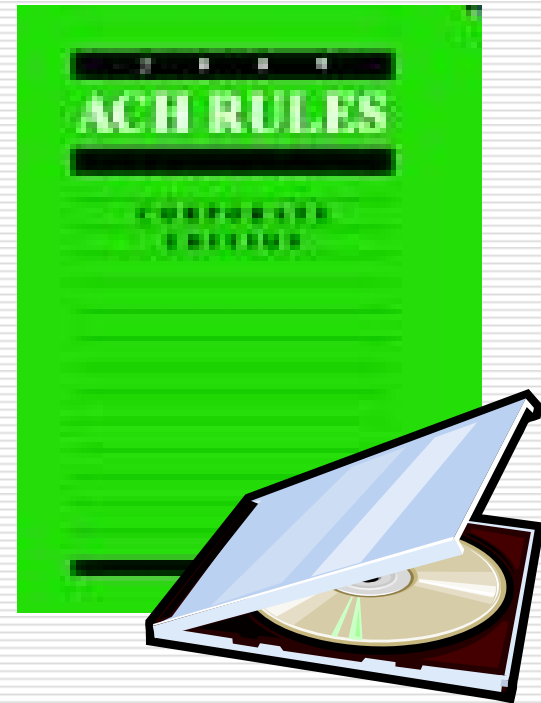
 - ❑ Must be available to RDFI within 5 banking days after the settlement of the duplicate file
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Other Considerations- Best Practices

- ❑ Provide ODFI with Calendar of scheduled file transmissions
 - ❑ Make sure company name is readily identifiable to Receiver
 - ❑ Computer security (Firewalls, Virus Protection) to prevent key logging
 - ❑ Ask for copy of WSUPP in the event of a return for unauthorized entry
 - ❑ Request that vendors have bank account information verified by their financial institution
 - ❑ Commercially reasonable measures to protect Receiver's financial information from theft, data breaches, loss
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Resources for Rules

- ❑ Your ODFI
- ❑ Your regional ACH Association
- ❑ **2009 ACH Rules, Corporate Edition**
 - Member: \$17.00
 - Nonmember: \$37.00



<http://pubs.nacha.org/rules.html>

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