

# BITS

FINANCIAL SERVICES  
R O U N D T A B L E

## **BITS ACH CHECK CONVERSION RISK MANAGEMENT TOOLKIT**

A PUBLICATION OF THE  
BITS FRAUD REDUCTION STEERING COMMITTEE

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## **EXECUTIVE SUMMARY**

Over the past 30 years, electronic payments have been processed through the Automated Clearing House (ACH) system safely, securely and privately. Due to the costs involved in processing a check payment, many businesses are transitioning from paper payments to ACH payments.

The ACH network, which historically has had minimal fraud, has seen a large uptick in fraudulent transactions, similar to the various types of fraud experienced in the check environment. Many financial institutions do not have fraud prevention systems in place to detect fraudulent ACH transactions as they have for paper checks or card activity, nor are their fraud prevention and investigative personnel familiar with the ACH network, or NACHA's Operating Rules under which the network functions.

The *BITS ACH Check Conversion Risk Management Toolkit* was developed by the BITS ACH Risk project group to educate financial institutions' (FI) fraud department personnel and investigators about the benefits and risks associated with ACH check conversion. There are several major concepts outlined in the *Toolkit*, including: risks and liabilities associated with check conversion from both the Originating Depository Financial Institution (ODFI) and Receiving Depository Financial Institution (RDFI) perspective; a matrix that provides details about the various check conversion methods, and a Frequently Asked Questions (FAQ) section. The FAQ section addresses general questions, as well as those specific to individual customers and business customers and questions related to ODFIs and RDFIs.

It is our hope that this *BITS ACH Check Conversion Risk Management Toolkit* will be used often within financial institutions and that it will add value to financial institutions' loss reduction efforts.

## OVERVIEW

Over the past 30 years, electronic payments have been processed through the Automated Clearing House (ACH) system safely, securely and privately. Due to the costs involved in processing a check payment, many businesses are transitioning from paper payments to ACH payments.

While debit and credit cards have become the preferred method of payment among consumers<sup>1</sup>, many consumers still opt to write checks to pay for goods and services. Merchants continue to accept checks to avoid the risk of losing a sale. Difficulties such as fraud control and the cost of recoveries and verification have influenced many to accept debit and credit cards in addition to paper checks.

E-check or check conversion is a simpler and a more efficient method of processing checks because it removes handling costs, reduces check-out time, and decreases bad debt risk and collection costs. Additional benefits of check conversion include the following:

- Uses the efficiency of electronic payments while still allowing consumers to write checks
- Provides faster check processing
- Converts funds at the point of sale
- Improves check collection rates
- Reports through all POS systems and check readers

On September 15, 2000, two Standard Entry Class (SEC) Codes for check returns and point of purchase transactions went into effect. Since that time, NACHA has approved the use of several additional SEC codes for check conversion, detailed in the following pages. In the fourth quarter of 2006 alone, there were over 1.1 billion electronic check transactions processed via ACH. This is phenomenal growth during such a brief period of time. Given the many benefits of collecting checks electronically instead of in paper form, and with the introduction of the newest type of electronic check, Back Office Conversion (BOC), this volume growth trend is certain to continue.

The ACH network, which historically has had minimal fraud, has seen a large uptick in fraudulent transactions, similar to the various types of fraud experienced in the check environment. Many financial institutions do not have fraud prevention systems in place to detect fraudulent ACH transactions as they have for paper checks or card activity, nor are their fraud prevention and investigative personnel familiar with the ACH network, or NACHA's Operating Rules under which the network functions.

That is why this *BITS ACH Check Conversion Risk Management Toolkit* was created – to serve as a handy reference tool specifically for fraud prevention personnel and case investigators.

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<sup>1</sup> Per the 2004 *Federal Reserve Payments Study*, debit card transactions saw an annual growth rate of 23.5% and credit cards had a 6.7% growth rate; however, check transactions declined 4.3% from 2000 to 2003.

## RISKS AND LIABILITIES ASSOCIATED WITH CHECK CONVERSION

### *Originating Depository Financial Institution (ODFI)*

NACHA<sup>2</sup> rules and guidelines contain warranties that an Originating Depository Financial Institution (ODFI) makes when originating any ACH transaction. There are specific warranties associated with check conversion transaction types as well. Essentially these warranties attest to the validity and viability of the transactions originated, and that no duplicate transaction will be presented. There are also warranties regarding security of source documents and related information and availability of items upon request.

The liability for breaching any of the warranties results from the indemnifications required by NACHA rules. As noted in *NACHA Operating Rules* regarding ODFI's liability for breach of warranty<sup>3</sup>: "The ODFI indemnifies the RDFI, ACH Operator, and Association against loss when breaching any of these warranties." Agreements between originators and ODFIs notwithstanding, from a payments system point of view the liability lies with the ODFI.

### *Risks*

The ACH clearing process works under the presumption that the Receiver is the account holder, and has authorized the transaction, be it debit or credit, to their account. In the traditional ACH processing scenarios, this generally held true. In today's processing environment it is not necessarily so. The ODFI must recognize that the level of control has been reduced by moving the authorization process out of the financial institution's (FI) direct control. Even if an originator uses commercially reasonable means to verify the identity of the receiver, it does not verify account ownership. A counterfeit check becomes a counterfeit check conversion.

A second area of risk has to do with the warranty that a check conversion item will not be represented in any form unless the original was returned. Even in a system where the receiver is keeper there is a risk of the item being presented multiple times due to nefarious activity on the part of the originator's employees. In the originator as keeper model, that risk is heightened due to the long-term access to paper checks, by individuals with fraudulent intent.

The paper check, once the driver and central element of the payments system has become jetsam within the system, and outside the control of the primary players. With this paradigm shift, the risk for all participants in the payments system increases. For example, a FI that unwittingly presents an original check that was part of an ACH check conversion would likely see the item returned as a duplicate, and suffer the loss, presuming the fraud perpetrator absconded with the funds. That presenting FI, however, had nothing to do with the original check conversion transaction.

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<sup>2</sup> NACHA - The Electronic Payments Association

<sup>3</sup> Available at [http://www.nacha.org/ACH\\_Rules/2003\\_bulletins\\_\\_\\_1.doc](http://www.nacha.org/ACH_Rules/2003_bulletins___1.doc)

### ***Receiving Depository Financial Institution (RDFI)***

The RDFI is responsible to process items and post them, including all pertinent information such as serial number, to customer accounts on a timely basis. There is a basic fiduciary responsibility to the account holder to post only valid and authorized items to the account regardless of the format in which they are presented. In addition to the posting process there is a responsibility to process returns accurately and timely, and process stop payments per the account holder's direction. All of the responsibilities associated with the processing of checks against customers' accounts apply to processing check conversion items as well.

#### *Risks*

The primary risk to the RDFI is that unauthorized items may be posted to the account. While a direct loss may be avoided due to the 60 day window for consumer returns for unauthorized transactions, customers may be inconvenienced and trust in the institution degraded. Identification of unauthorized items in a timely manner can be a problem, especially for commercial accounts because the ACH items have the same return timeframes as checks. When return timeframes are exceeded, the items can still be returned because they are fraudulent, but a more costly and time consuming recovery process must be used rather than the standard returns process. This risk is exacerbated because the item now exists in multiple formats, each of which could be independently presented.

## MATRIX: Converted Check Transactions<sup>4</sup>

The following matrix was developed to serve a quick reference guide for fraud managers and investigators. NACHA's "Conversion and Truncation Comparison Chart" was used as an initial source document for the development of this matrix<sup>5</sup>. Please see the FAQ section for details regarding information contained in the matrix.

SEC Codes <sup>6</sup>	Description <sup>7</sup>	Conversion Method	Notification Method	What Happens to the Check? <sup>8</sup>	Legal Framework
<b>ARC</b> (Accounts Receivable Truncated Check)	An ACH debit of a check received in the U.S. Mail to pay a bill and converted to an electronic item.	<ul style="list-style-type: none"> <li>Checks mailed or placed in a drop box to pay a bill.</li> <li>Checks equal to or less than \$25K without an Auxiliary On-Us field</li> </ul>	<ul style="list-style-type: none"> <li>Notice on invoice/bill stating payment may be converted to ACH transactions.</li> <li>Notice must have a stated opt out process.</li> <li>Must only opt out once for ACH transactions.</li> </ul>	As of March 16, 2007, the "Originator must employ commercially reasonable methods to securely store the source document and banking information related to ARC entries until destruction <sup>9</sup> ."	NACHA Rules, EFTA/Regulation E
<b>BOC</b>	An ACH debit representing a check that was taken at the point of sale but converted to ACH in a subsequent back office operation.	<ul style="list-style-type: none"> <li>Item taken over the counter as normal</li> <li>The business, agent processor, or bank converts in a back office setting, as opposed to point of sale to originate ACH files</li> <li>Checks equal to or less than \$25K without an Auxiliary On-Us field</li> </ul>	<ul style="list-style-type: none"> <li>Notice on receipt or other takeaway document stating payment may be converted to ACH transaction.</li> <li>Merchant must post conspicuous notice at point of purchase regarding collection method.</li> <li>The business must Provide the customer with an opt out.</li> </ul>	The "Originator must employ commercially reasonable methods to securely store the source document and banking information related to BOC entries until destruction <sup>10</sup> ."	NACHA Rules, EFTA/Reg E

<sup>4</sup> All the converted check transactions (ARC, POP, RCK, BOC) on this chart are also known as ECC.

<sup>5</sup> Available at <http://www.electronicpayments.org/pdfs/CheckConversionMatrix.pdf>.

<sup>6</sup> All consumer SEC codes have a 60 day right of return for unauthorized items return regardless of account the item posted to. All other items (NSFs, etc.) have a 2-day timeframe. Please see NACHA's Operations Bulletin for information regarding warranties and liabilities.

<sup>7</sup> Definitions from NACHA's ACH Rules.

<sup>8</sup> The check writer does not get a copy/image of the check in his or her monthly statement for any of these transactions.

<sup>9</sup> From [http://www.nacha.org/ACH\\_Rules/Rule\\_Making\\_Process/Recent\\_Ammendments\\_to\\_Rules/recent\\_ammendments\\_to\\_rules.htm](http://www.nacha.org/ACH_Rules/Rule_Making_Process/Recent_Ammendments_to_Rules/recent_ammendments_to_rules.htm).

<sup>10</sup> From [http://www.nacha.org/ACH\\_Rules/Rule\\_Making\\_Process/Recent\\_Ammendments\\_to\\_Rules/recent\\_ammendments\\_to\\_rules.htm](http://www.nacha.org/ACH_Rules/Rule_Making_Process/Recent_Ammendments_to_Rules/recent_ammendments_to_rules.htm).

SEC Codes <sup>6</sup>	Description <sup>7</sup>	Conversion Method	Notification Method	What Happens to the Check? <sup>8</sup>	Legal Framework
<b>POP</b> (Point-Of-Purchase)	Used as an ACH debit application as a method of payment for the in-person purchase of goods or services by consumers.	<ul style="list-style-type: none"> <li>• Checks taken at a business to pay for goods and services.</li> <li>• Checks equal to or less than \$25K without an Auxiliary On-Us field.</li> </ul>	<ul style="list-style-type: none"> <li>• Non-recurring debit entries are initiated by the originator based on written authorization (customer's signature) and account information drawn from the source document obtained from the consumer at POP.</li> <li>• Customer can opt out and merchant may ask for other form of payment.</li> </ul>	<ul style="list-style-type: none"> <li>• Check is stamped VOID and returned to check writer after account information is captured at point of purchase.</li> <li>• Business has no copy/image of the check but needs to keep copy of authorization.</li> </ul>	NACHA Rules, EFTA/Reg E
<b>RCK</b> (Re-presented Check)	A re-presented check is an ACH debit application used by originators to re-present a consumer check less than \$2500 that has been processed through the check collection system and returned because of insufficient or uncollected funds. Item may only be presented a total of 3 times via paper check and ACH combined.	<ul style="list-style-type: none"> <li>• Data from the returned check is used to create the ACH debit.</li> </ul>	Merchant must post conspicuous notice at point of purchase regarding collection method. (For example, "Returned checks may be collected electronically if returned for insufficient or uncollected funds.")	The originator must retain a copy of the front and back of the item (check) to which the RCK entry relates for seven (7) years from the settlement date of the RCK entry. <sup>11</sup>	Revised Article 4 of the Uniform Commercial Code; Reg CC

<sup>11</sup> NACHA's Operating Guidelines § IV Special Topics, Chapter XII, D. "Obligations of Originators."

SEC Codes <sup>6</sup>	Description <sup>7</sup>	Conversion Method	Notification Method	What Happens to the Check? <sup>8</sup>	Legal Framework
<b>TEL</b> (Telephone-Initiated Entry)	<p>For single entry debit transactions to a consumer's account pursuant to an oral authorization obtained from the consumer via telephone. This type of transaction may only be used when there is no standing authorization for the origination of ACH entries to the receiver's account and may only be originated when there is either (1) an existing relationship between the Originator and the Receiver, or (2) no existing relationship between the Originator and the Receiver, but the Receiver has initiated the call.</p> <p>Credit entries cannot be initiated except for reversals of TEL debit entries.</p>	<p>N/A. Consumer supplies the MICR line data on the telephone which is used to initiate the ACH debit.</p>	<p>Customer provides information to enable creation of transaction during the telephone call, so no additional notification is needed.</p>	<p>N/A as no paper check was involved.</p>	<p>NACHA Rules, EFTA/Reg E</p>

SEC Codes <sup>6</sup>	Description <sup>7</sup>	Conversion Method	Notification Method	What Happens to the Check? <sup>8</sup>	Legal Framework
<b>WEB</b> (Internet-Initiated Entry)	<p>A single or recurring debit entry to a Consumer Account initiated by an Originator pursuant to an authorization that is obtained from the receiver via the Internet. There are two components of the definition that are important to address:</p> <ol style="list-style-type: none"> <li>1. The WEB SEC is only appropriate to use when initiating debit entries that have been authorized by the receiver via the Internet.</li> <li>2. Credit entries cannot be initiated except for reversals of WEB debit entries.</li> </ol>	N/A. Consumer supplies the MICR line data on the internet which is used to initiate the ACH debit.	Customer provides information to enable creation of transaction during the online session, so no additional notification is needed	N/A as no paper check was involved.	NACHA Rules, EFTA/Reg E

## Frequently Asked Questions

Many of the following questions and answers are drawn from source material provided by NACHA. Some of the following questions and answers are taken directly from NACHA ([www.NACHA.org](http://www.NACHA.org)) or The Electronic Payments Association (<http://electronicpayments.org>), and then excerpted or amended by a BITS member.

### *General Questions about Check Conversion*

\*Please note that a glossary of terms and acronyms is available in Appendix A.

#### **What is check conversion and how does it work?**

Check conversion is the process of converting a check payment into an electronic payment or ACH (Automated Clearing House) debit. There are generally two methods for initiating a converted check payment, with a paper check, or via instructions delivered over the phone or Internet. For ARC (Accounts Receivable Entry), BOC (Back Office Conversion), POP (Point of Purchase), and RCK (Re-presented Check), the payor writes a check as usual. The check may be presented to the retailer/biller at the point of sale or sent via mail. The MICR line information from the check is captured and converted into electronic payments. If the retailer/biller chooses to convert the check electronically, they must notify the business/consumer prior to the transaction, either at the point of sale or via a mailed statement or invoice.

The merchant/biller captures the information contained on the check<sup>12</sup> and presents it to their financial institution in an ACH origination file. The ODFI (Originating Depository Financial Institution) enters it into the payment system through which it will be presented to the consumer's financial institution and the amount of the transaction debited from the business/consumer's account. Converted check transactions are processed via the ACH network, the same system used by hundreds of thousands of companies for Direct Deposit of payroll and by the Federal government for benefit payments such as Social Security. The ACH system is a closed, secure network that is not accessible to the public and has been in existence for close to 40 years. (See Appendix B for an illustration of this process.) The merchant/biller is required to securely store the check until destruction. A copy or digital image of the check is created by the merchant/biller before destruction of the original paper check. Check conversion transactions will appear on the consumer's bank statement in the format and location decided by the financial institution. It will include all of the pertinent information about the transaction.

There are two other mechanisms that fall into the check conversion category that are not associated with a physical check being presented, but rather initiation by the account holder via telephone or the Internet. For TEL (Telephone Entry) and WEB (Internet Entry), the payor initiates the transaction via telephone or the Internet respectively by providing the originator with the required information from a check, which they should then void.

#### **Does check conversion go by other names? (e-check vs. check conversion)**

Check conversion may also be called Accounts Receivable Entry (ARC), Point of Purchase (POP), Back Office Conversion (BOC), electronic check, e-check, electronic check

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<sup>12</sup> Information includes account number, routing transit number, amount, date, payee, check serial numbers, etc.

processing, ACH (although ACH is considered a broad term),<sup>13</sup> Re-Presented Check (RCK), (Telephone-Initiated Entry (TEL), and Internet-Initiated Entry (WEB).

**Who are the participants involved in Back Office Check Conversions and/or Electronic Check transaction types?**

There are at least 5 participants involved: the Originator, the ODFI, the ACH operator, the RDFI and the Receiver (account holder)<sup>14</sup>.

**What is Accounts Receivable Entry (ARC)?**

Converted checks have a unique identifier code, called a standard entry class code that distinguishes them from other ACH transactions. Accounts Receivable Entry (ARC) is the standard entry class code for check conversion for checks that were written to pay bills.<sup>15</sup> An accounts receivable agent, be that the company's own employee, a lockbox service or other aggregator, etc. can initiate these transactions.

**What types of items qualify as source documents for ARC entries?**

A check provided to the originator by the receiver via U.S. mail, or at a dropbox location that contains a preprinted serial number, is drawn on a consumer account and is completed and signed by the receiver. The item must also be \$25,000 or less. Business checks with auxiliary on-us fields and third party checks can not be used as source documents<sup>16</sup>.

**What is Point of Purchase (POP)?**

Converted checks have a unique identifier code, called a standard entry class code that distinguishes them from other ACH transactions. Point of Purchase (POP) is the standard entry class code for checks that are written at a store checkout counter and the MICR line data is captured. The check is then voided and returned to the customer and the captured data is converted through the ACH.<sup>17</sup>

**What is Back Office Conversion (BOC)<sup>18</sup>?**

Converted checks have a unique identifier code, called a standard entry class code, that distinguishes them from other ACH transactions. Back Office Conversion (BOC) is the standard entry class code for checks that are written at a payment location for goods or services, and converted from paper to electronic debit. Checks converted under BOC are supposed to be securely stored by the merchant until destroyed.<sup>19</sup> This is a significant difference between BOC and POP where the payer is keeper, and introduces a new risk element because the bank does not control the original payment instrument.

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<sup>13</sup> Q&A from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#what>.

<sup>14</sup> Source: "Understanding the ACH Network: An ACH Primer." NACHA's Buyer's Guide 2005. [www.nacha.org](http://www.nacha.org).

<sup>15</sup> Q&A from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#arc>.

<sup>16</sup> Source: NACHA ACH Rules Online.

<sup>17</sup> Q&A from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#arc>.

<sup>18</sup> Amendments to NACHA Operating Rules regarding BOC will go into effect on March 16, 2007. For more information, please see appendix C for "Key Facts About Back Office Conversion (BOC)."

<sup>19</sup> Q&A from <http://electronicpayments.org/financial/fi.check-conversion.faq.php#what>.

### **Are credit card convenience checks or Home Equity Line of Credit (HELOC) checks eligible for BOC?**

No.

### **What is a Re-Presented Check (RCK)?**

Converted checks have a unique identifier code, called a standard entry class code, that distinguishes them from other ACH transactions. A Re-Presented Check (RCK) is the standard entry class code for a check that was previously presented and returned due to uncollected or insufficient funds. This presentation is often a more effective collection tool than just redepositing the paper check because financial institutions often give ACH entries priority in their posting sequence.

### **What is a Telephone-Initiated Entry (TEL)?**

Converted checks have a unique identifier code, called a standard entry class code, that distinguishes them from other ACH transactions. Telephone-Initiated Entries (TEL) are based on a consumer's oral authorization via the telephone. Each TEL entry is a one time transfer of funds (nonrecurring), so each must be individually authorized by the consumer. This type of transaction may only be used when there is no standing authorization for the origination of ACH entries to the receiver's account and may only be originated when there is either (1) an existing relationship between the Originator and the Receiver, or (2) no existing relationship between the Originator and the Receiver, but the Receiver has initiated the call. Positive identification of the "receiver" is critical in this transaction.

### **What is an Internet-Initiated Entry (WEB)?**

Converted checks have a unique identifier code, called a standard entry class code, that distinguishes them from other ACH transactions. Internet-Initiated Entries (WEB) are created in response to a consumer's authorization that is obtained via the Internet. Due to the higher security risk of the Internet environment, originators are required to use commercially reasonable methods of authenticating the consumer as well as some additional security measures.

## ***Questions Your Individual Customers Might Have***

### **Is check conversion governed by any regulations?**

The Federal Reserve's Regulation E<sup>20</sup> and the *NACHA Operating Rules*<sup>21</sup> regulate electronic payments processed over the ACH Network. Because of Reg E and *NACHA's Operating Rules*, consumer accounts are protected from unauthorized or fraudulent transactions.<sup>22</sup>

### **What is the specific reference number in Reg E for returns?**

There are two citations that apply to reversing or stopping an electronic credit/debit. The first is 12 CFR 205.10(c) which is the section for stopping pre-authorized payments. The second is 12 CFR 205.11 which is the section on procedures for resolving errors.

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<sup>20</sup> Available at <http://www.federalreserve.gov/regulations/default.htm#e>.

<sup>21</sup> Available at <http://pubs.nacha.org/>.

<sup>22</sup> Q&A from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#regulations>.

**Is check conversion safe and secure?**

Yes. Electronic payments are safe and private—a network of computers does the work. Encryption, message authentication codes and other security procedures protect the information.<sup>23</sup>

**How will I keep track of my checks that are converted?**

The check conversion entries will be represented on your statement with all of the information that is included for paper checks that clear your account. Customers should refer to their statement.

**Who authorized this company to convert my check?**

Assuming the merchant provided the appropriate notice of conversion and the “opt-out” privilege<sup>24</sup>, the customer authorized the conversion either explicitly or implicitly by not opting out and pursuing the transaction another way.

**If a business uses check conversion, am I required to comply?**

No, you can opt out at the time of the transaction and utilize a different payment mechanism such as a debit or credit card.

**Can a billing company, store or other merchant take extra money from my account using check conversion?**

No. Under Regulation E and the *NACHA Operating Rules*, only the amount of the payment may be deducted from a customer's account. Your customers can be assured that *NACHA Operating Rules* and Regulation E provide protection if there are unauthorized debits from individual accounts.<sup>25</sup>

**Can the billing company, store or other merchant see how much money I have in my account?<sup>26</sup>**

No. Assure your customers that you protect their financial information. While the business's financial institution debits the account, the company itself has no access. Actually, less people see the customer's information when a check is converted.

**What if the company converts the wrong amount?**

Problems with check conversion are rare. Electronic payments processed through the ACH Network have fewer problems and faster error resolution than checks. If a problem should occur, advise your customer what your policy is and/or ask them to contact the business if appropriate.

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<sup>23</sup> Q&A from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#legal>.

<sup>24</sup> Notification can be provided via a statement posted at the point of sale, an invoice, or monthly statement. For information regarding suggested notification language, please see the document “Key Facts About Back Office Conversion (BOC)”, as contained in appendix C.

<sup>25</sup> Q&A from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#howmuch>.

<sup>26</sup> Q&A's 19-24 from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#howmuch>.

**What if the bill is deducted twice, once as a check and again as an electronic payment?**

The system was designed with safeguards to avoid this problem. However, in the event of any such error, your customers should alert you immediately. When the check is converted to an electronic payment, customers are protected under Regulation E, the same regulation that protects against unauthorized use of an ATM or debit card.

**Where does a check conversion show up on my account statement?**

A converted check may appear in the same space as ATM withdrawals, Direct Payments and other electronic payments, or it may remain in the check listing. Tell your customers how you display electronic payments on your print, online, and telephone/audio statements.

**How will I recognize the payment on my account statement?**

The "payee" on your customer account statements should match the "payee" on the checks they write. The check number will be included in the transaction detail on account statements.

**What if it turns out the debit is unauthorized?**

In this case, your customers should let you know that they believe the debit/transaction was unauthorized. Internal policy should be followed. Generally you will advise the customer you will return the transaction, initiate research, and they will need to sign an affidavit saying that the transaction was unauthorized.

**How do I return a debit?**

This answer may vary by institution. Please refer to your FI's policies and procedures.

**Under what circumstances can debits be refused?**

An electronic debit to your account can be refused: if the debit is a different amount than what you authorized; the debit posted earlier than you authorized; or the transaction was never authorized at all. You cannot refuse a debit to your account due to dissatisfaction with the goods or services you received.

**How can returns be disputed?**

If a transaction is returned unauthorized, and the originator disputes your claim, they cannot originate another electronic transaction; however they may seek collection through alternate means (e.g., collection agency).

**What is a check image?<sup>27</sup>**

A check image is simply a "picture" or "copy" of your customer's original check in the process of check conversion.

**Can I get my original check back? What about a copy of the check?**

Customers will most likely not be able to get the original check back. Businesses must provide a copy of the check if requested. Assure your customers that all of the relevant information will be on a customer's account statement, including the name of business, the check number, the date, and amount of payment.

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<sup>27</sup> Q&A's 28-40 from: <http://electronicpayments.org/financial/fi.check-conversion.faq.php#howmuch>,

**What happens if I have a dispute with the business?**

Customers should notify you if they cannot resolve payment disputes directly with the business. With electronic payments, a customer's account is protected against unauthorized debits by Federal Regulation E.

**Can I put a stop payment on a check conversion?**

Yes. As with a paper check, customers can place a stop payment before the payment is posted

**I placed a stop payment on a check but it went through anyway. Why did this happen?**

A stop payment must be placed before the ACH payment is presented to the paying bank (RDFI). Customers must report errors to the financial institution within 60 days after account statements are postmarked.

**Does my payment clear faster with check conversion?**

The payment may clear faster when a business has converted the paper check to an ACH electronic payment. Consumers should always be sure they have adequate funds in their accounts to cover the amount of their payments whenever they initiate **any** payment transaction<sup>28</sup>.

**How can I prove that I made the payment?**

A customer's account statement will show the date, the check number, the name of the business, the date, and the amount of the payment. The account statement is accepted as proof of payment.

**I recently made a payment by check at a business and the cashier ran the check through a machine and handed it back to me. Is this check conversion?**

Yes. The check was processed electronically. Referred to as a POP (point-of-purchase) transaction, this allows businesses to capture the customer's payment information. The payment is processed electronically through the ACH network. The original paper check is voided and is returned to the customer.

**I recently made a payment by check at a business, but didn't get the cancelled check back, and it is showing up on my account statement with the ATM withdrawals. Is this check conversion?<sup>29</sup>**

Yes. The check was most likely converted in the "back office" (BOC). This check conversion application is one way that businesses can process paper checks. Once the payment information from the check has been captured, the payment is processed electronically through the ACH Network. The original check is securely stored until destruction.

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<sup>28</sup> The latter part of this answer was provided by a BITS member.

## ***Questions Your Business Customers Might Have***

### **What is the best way to notify customers that we will begin using check conversion to process payments?**

To promote acceptance and to minimize confusion and complaints, let your customers know you will be converting checks. Businesses are required to post a notification in a "prominent and conspicuous" location and provide notification on the receipt or a "takeaway". In addition, the business must provide the customer a working telephone number that they can call for more information or dispute resolution.

### **How much notice do I have to give my customers that we will be using check conversion?**

Businesses are required to provide notice to their customers prior to the receipt of each check to be converted to an ACH electronic payment. Because check to ACH conversion transactions are considered to be single entry debits, the customer must be notified prior to each check payment.

### **How should I handle inquiries or complaints?**

To instill confidence in the business and in check conversion, business customers should make sure that their customer service representatives are trained to handle inquiries. The resources on the Business area of this Web site ([www.electronicpayments.org](http://www.electronicpayments.org)) should provide the information necessary to educate the staff at the business.

### **How should I handle topics such as opt-out and what happened to the original check?**

Businesses are required to offer their customers an opt-out and will need to build an opt-out policy into their business/operating policies. If asked, you should let the customer know your opt-out policy. The business is also required to provide secure storage for Back Office conversion (BOC) Accounts receivable entry (ARC) and Re-presented Check (RCK)<sup>30</sup>.

### **Who authorized this company to convert my check?**

Assuming the merchant provided the appropriate notice of conversion and the "opt-out" privilege<sup>31</sup>, the customer authorized the conversion either explicitly or implicitly by not opting out and pursuing the transaction another way.

### **What check conversion types are not allowed against commercial accounts?**

In addition to a \$25,000 limit that applies to all checks, check conversion transactions cannot be performed on commercial accounts that contain an auxiliary on-us field on the check. The auxiliary on-us field is an optional field in the leftmost position on the MICR line on business size checks. The field is used as an alternate location for the check serial number or other account or check specific data. WEB (Internet Entry) and TEL (Telephone Entry) are prohibited for any commercial account.

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<sup>30</sup> The latter part of this answer was provided by a BITS member.

<sup>31</sup> Notification can be provided via a statement posted at the point of sale, an invoice, or monthly statement. For information regarding suggested notification language, please see the document "Key Facts About Back Office Conversion (BOC)," as contained in appendix C.

**Would I have been notified of this check conversion? How?**

Businesses are required to provide notice to their customers prior to the receipt of each check to be converted to an ACH electronic payment. Because check to ACH conversion transactions are considered to be single entry debits, the customer must be notified prior to each check payment. The notification may be in the form of a message on your statement or invoice, or it may be in the form of a notice posted in a prominent place at the point of sale.

**What are the return timeframes for check conversions and are they different from checks?**

Regular return timeframes on ACH transactions vary by the type of transaction and type of return but the timeframes for most returns are the same as check return rules. For unauthorized transactions on commercial accounts where an incorrect standard entry class (SEC) code was used, the return deadline is extended to 60 days after settlement. This would apply to commercial accounts with auxiliary on-us fields because they are not eligible for conversion, resulting in an incorrect use of an SEC code. However, check conversion transactions on other commercial accounts would not have an extended return deadline, assuming the correct SEC code was used, even if the transaction was not properly authorized because they are eligible.

In situations where the standard return timeframe has passed, and the ACH debit was fraudulent, the transaction may still be returned because the ODFI warranted the transaction as being legitimate. In this circumstance, it is recommended a letter be sent to the ODFI citing NACHA's Operations Bulletin entitled "ODFI Liability for Breach of Warranty" and enclosing a copy of the Bulletin. Typically, this will be used on a limited basis since it is a manual process.

**Is there danger of this item being presented against my account again?**

The originating bank warrants that the item will be presented only once. Either the consumer gets the check back (in Point of Purchase transactions) or the originator is required to securely store the check until destruction.

**What is the bank doing to safeguard my account against fraudulent transactions of this nature?**

Every financial institution will have a different answer for this question. Please refer to your FIs' policies for this information.

***Risk Management Questions Specific to the Originating Depository Financial Institution (ODFI)***<sup>32</sup>

**What due diligence should be performed in regard to completing the sale and delivery of this service to customers?**

Due diligence at least as stringent as that completed for any new ACH originator should be done. An operational review should include a site inspection to assess that customer's ability to secure the paper items after conversion. Many financial institutions are using similar

underwriting criteria used for credit card acquiring merchants and pre-encoded deposits.

**What issues should be addressed in the contracts executed with customers for the delivery of this service?**

The ODFI makes warranties on actions and responsibilities of the originator. These warranties and related indemnifications should be addressed at a minimum. ACH check conversion is analogous to a preencoded deposit, and the bank's agreements for that product could be used as a guide. Remember that the ODFI is ultimately responsible for virtually any loss that occurs within the ACH payments system. In order to protect the bank, provisions in the contract should include chargeback rights for those losses attributed to an originator, including right of offset.

**What are the risk elements that need to be taken into account for this service as opposed to other ACH origination services the bank offers?**

ACH conversion transactions are intrinsically riskier than the longstanding transactions that have been processed for years. The increased risk emanates from a number of sources. The authorization process has moved out of the direct control of the receiver's financial institution. From a risk standpoint, ACH check conversions take on all of the risk that has been associated with the check-based payments system. This risk is compounded by the fact that when viewed holistically, there are four separate valid formats that a check may be represented by. A depository institution could be presented with an invalid ACH transaction, a "duplicate" in the form of the original check, an image presentment, or an IRD, depending on how the original item was processed and who came into possession of what instrument or information. All participants in the payments system are exposed to increased risk whether they were party to the original check conversion transaction or not.

**Are there best practice safeguards that can be put into place when implementing this service?**

Yes, the safeguards that the service provider should implement are the same ones that are implemented when all of the processes are under the direct control of the bank. Due diligence patterned after that done for new pre-encoded deposit customers, credit card acquiring merchants, ACH Credit origination customers, or asset-based lending agreements. A strong agreement clearly delineating the responsibilities and liabilities of the originator. Initial and periodic on-site inspection, particularly in an originator as keeper model. A robust and mandatory training program that includes both initial training and additional training for staff turnover responsibility changes and refresher. These are just a few areas that can help mitigate some of the risk.

**What are the liabilities of the ODFI regarding these transactions?**

The liability for breaching any of the warranties results from the indemnifications required by the NACHA Rules, as noted in NACHA's operation bulletin regarding ODFI's liability for breach of warranty<sup>33</sup>: "The ODFI indemnifies the RDFI, ACH Operator, and Association against loss when breaching any of these warranties."

**What are the specific warranties related to check conversion transactions?**

NACHA rules and guidelines contain warranties that an ODFI makes when originating any

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<sup>33</sup> Available at [http://www.nacha.org/ACH\\_Rules/2003\\_bulletins\\_\\_\\_1.doc](http://www.nacha.org/ACH_Rules/2003_bulletins___1.doc).

ACH transaction. There are additional warranties associated with check conversion transaction types as well. Essentially these warranties attest to the validity and viability of the transactions originated and that no duplicate transaction will be presented. There are also warranties regarding security of source documents including related information and availability of items upon request. Specific language concerning warranties can be found in the NACHA Rules and Guidelines.

**Can an ODFI choose not to be an RDFI?**

No, a financial institution can choose to be an RDFI only, however if it is an ODFI it must agree to be an RDFI as well<sup>34</sup>.

**How are “on-us” debit entries going to be handled differently?**

An ODFI typically removes these entries from the file transmission to the ACH operator. The transaction is simply retained by the FI and posted to the appropriate account. This will not change for BOC, ARC and POP transactions<sup>35</sup>.

**Which institution warrants the source document is valid?**

The ODFI warrants that all source documents signatures, to which the entry relates to, are authentic and authorized and that the item is not altered. If this item is altered, the document is not authentic.)

**How long does an ODFI have to provide a copy of an item to which an RCK entry relates once a written request from the RDFI is received?**

An ODFI has 10 business days from the date it receives the request to provide a copy of the front and back of the item<sup>36</sup>.

**How long must an originator maintain copies of converted/electronic check related entries?**

ARC – 2 years.  
RCK – 7 years.  
BOC – 2 years.<sup>37</sup>

**For BOC items, how is the information from the source document captured by the originator?**

The originator is required to use a reading device to capture the Receiver’s routing number, account number and check serial number from the MICR line of the Receiver’s source document. No key entry is allowed except for the dollar amount field<sup>38</sup>.

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<sup>34</sup> Source: “Understanding the ACH Network: An ACH Primer.” NACHA’s Buyer’s Guide 2005. [www.nacha.org](http://www.nacha.org).

<sup>35</sup> Source: “Understanding the ACH Network: An ACH Primer.” NACHA’s Buyer’s Guide 2005. [www.nacha.org](http://www.nacha.org).

<sup>36</sup> Source: NACHA ACH Rules Online. Subsection 2.8.3.10.

<sup>37</sup> Source: NACHA ACH Rules Online. Subsection 2.7.5, 2.8.3.10, 3.7.3.

<sup>38</sup> Source: NACHA ACH Rules Online. 2007 Rules Changes pg 5.

**Who will ensure that the originator maintains secure storage of all source documents until destruction?**

The ODFI will warrant the originator's compliance with these obligations<sup>39</sup>. Given the liability assumed by the ODFI, it would be wise to have a training and inspection program in place.

**What is the difference between return reason code R10 and return reason code R37?**

R10 should only be used if the originator has not been authorized to debit the account or the source document for the entry is improper.

R37 should be used when the source document was presented for payment in addition to the ACH debit<sup>40</sup>.

***Risk Management Questions Specific to the Receiving Depository Financial Institution (RDFI)***<sup>41</sup>

**What are the different types of check conversion transactions that may be encountered?**

There are six types of transactions that might be encountered:

Accounts Receivable Truncated Check (ARC); Back Office Conversion (BOC); Point-Of Purchase (POP); Re-presented Check (RCK); Telephone-Initiated Entry (TEL); and Internet-Initiated Entry (WEB). See the matrix of converted check transactions on pages 7-8 for more information.

**Are all check conversion transactions valid for both retail and commercial accounts?**

They are valid for transactions under \$25,000 for both retail and commercial accounts without auxiliary on-us fields. The auxiliary on-us field is an optional field in the leftmost position on the MICR line on business size checks. The field is used as an alternate location for the check serial number or other account or check specific data. However, TEL and WEB transactions are never authorized for commercial accounts.

**What are the return deadlines for check conversion transactions?**

Standard return time is 24 hours for all ACH with the exception of consumer which has 60 days from settlement to return an unauthorized transaction. The commercial customer can also return in the 60 day window if an improper Standard Entry Class (SEC) code was used. For example, if a transaction to a commercial account carried a Payee Proper Identification (PPD) SEC code (which is a code used for retail accounts) or if any check conversion SEC code was used on an ineligible commercial account (one with an auxiliary on-us field).

**What are the risks associated with these transactions to the paying bank (or RDFI)?**

The primary risk to the paying RDFI is to post an invalid transaction to customers' account (consumer or commercial.) Please see the "risks and liabilities" section (above) for more detail.

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<sup>39</sup> Source: NACHA ACH Rules Online. 2007 Rules Changes. pg 6.

<sup>40</sup> Source: NACHA ACH Rules Online. 2007 Rules Changes pg 7.

**What are examples of fraud schemes I might see related to this payments mechanism?**

- a. A counterfeit check conversion generated from a check that was itself counterfeit.
- b. A counterfeit or unauthorized check conversion generated from a fraudulent WEB or TEL transaction.
- c. Representment of the original check, usually through another clearing channel. This will be more prevalent for RCK, ARC and BOC, but can happen with POP as well.
- d. Presentment of counterfeit checks on the receiver's account generated from information obtained from a stolen original check. These items could be presented over-the-counter, or through Fed, correspondent, or local clearinghouse channels

**Can a RDFI hold the funds received until the transaction has been verified with the consumer?**

No. Entries must be posted to a receiver's account no later than the settlement date. If received by the ACH operator by 5pm on the banking day prior to the settlement date, the transaction must be reflected in the account balance by opening of business on the settlement date<sup>42</sup>.

**Is the RDFI responsible for ensuring that any restrictive endorsements on the original item are reviewed prior to posting?**

No, the originator agrees that any restrictive endorsement is void or ineffective upon initiation of the entry<sup>43</sup>.

**How long does an RDFI have to return an RCK entry?**

The return entry must be transmitted by midnight of the second banking day following the banking day of receipt of the presentment notice<sup>44</sup>. Unauthorized RCK entries have a 60-day right of return for consumer accounts.

**How long does the RDFI have to return BOC entries if they have received a stop payment order?**

A customer can place a stop payment against the source document and/or the BOC entry. For BOC entry stop payments the RDFI has two days from the settlement date to return the entry. For source document stop payments the RDFI has 60 days from the settlement date to return the entry<sup>45</sup> provided that a Written Statement Under Penalty of Perjury (WSUPP) form has been supplied.

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<sup>42</sup> Source: "Understanding the ACH Network: An ACH Primer." Buyer's Guide 2005. [www.nacha.org](http://www.nacha.org).

<sup>43</sup> Source: NACHA ACH Rules Online. Subsection 2.8.3.9.

<sup>44</sup> Source: NACHA ACH Rules Online. Subsection 2.8.4.

<sup>45</sup> Source: Back Office Check Conversion Application, <http://www.affirmativeusa.com/pdf/Brochure-AchBOC-Overview.pdf>.

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CUNA	SunTrust Banks, Inc.
Fifth Third Bancorp	U.S. Bancorp
Ford Motor Credit Company	USAA
General Electric Company	Wachovia Corporation
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Huntington Bancshares Incorporated	Wells Fargo & Company
KeyCorp	

## **ABOUT BITS AND THE BITS FRAUD REDUCTION PROGRAM**

### **About the BITS Fraud Reduction Program**

Established in 1998, the BITS Fraud Reduction is one of BITS' flagships. The BITS Fraud Reduction Steering Committee was created to:

- Reduce payment-related fraud losses.
- Secure a critical mass of financial institutions to participate in a shared account database and standardized data collection process.
- Identify successful strategies for reducing check fraud and make those strategies available to the industry.
- Assess fraud risk exposure to electronification and develop strategies to minimize losses.

Current Working Groups and projects under the BITS Fraud Reduction Program include:

- ACH Risks
- Debit Card/ATM Fraud
- Mortgage Fraud Reduction
- Remote Channel Fraud
- Rising Fraud Risks

### **About BITS**

BITS was created in 1996 to foster the growth and development of electronic financial services and e-commerce for the benefit of financial institutions and their customers. A nonprofit industry consortium that shares membership with The Financial Services Roundtable, BITS seeks to sustain consumer confidence and trust by ensuring the security, privacy and integrity of financial transactions. BITS works as a strategic brain trust to provide intellectual capital and address emerging issues where financial services, technology and commerce intersect, acting quickly to address problems and galvanize the industry. BITS' activities are driven by the CEOs and their appointees—CIOs, CTOs, Vice Chairmen and Executive Vice Presidents—who make up the BITS Advisory Board and BITS Advisory Council. For more information, go to [www.bitsinfo.org](http://www.bitsinfo.org).

## APPENDIX A: Glossary of Terms/Acronyms<sup>46</sup>

### **ACH - Automated Clearing House**

The ACH Network refers to the batch processing, store-and-forward system that enables electronic funds processing. Transactions received by a financial institution during the day are stored and processed later in a batch mode. Rather than sending each payment separately, ACH transactions are accumulated and sorted by destination for transmission during a predetermined time period. Instead of using paper to carry necessary transaction information, ACH transactions are transmitted electronically between financial institutions.

### **ACH Operator**

An Automated Clearing House (ACH) Operator is the central clearing facility operated by a private organization or a Federal Reserve Bank (FRB) on behalf of DFIs, to or from which Participating DFIs transmit or receive ACH entries. In some cases, there are two ACH Operators involved in a transaction, one operating as the Originating ACH Operator and the other as the Receiving ACH Operator.

### **ARC - Accounts Receivable Entry**

This Standard Entry Class Code enables Originators to convert to a Single-Entry ACH debit a consumer check received via the U.S. mail or at a dropbox location for the payment of goods or services. The consumer's check is used to collect the consumer's routing number, account number, check serial number, and dollar amount for the transaction. As of September 15, 2006, eligible checks drawn on corporate or business accounts may also be converted to ARC entries.

### **BOC - Back Office Conversion**

Back office conversion (sometimes referred to as distributed capture, remote capture, remote deposit, and electronic deposit) is a relatively new concept that is designed to identify the lowest-cost routing option for a particular check transaction. In theory, a decision is made in the *back office* of a corporation whether the check transaction should be cleared as a paper check, a Check 21 substitute check, a Check 21 image exchange, or an ACH.

BOC will allow your business customers to collect a check written at a point of sale (checkout counter, manned billing location, or service call location) and convert it to an electronic payment in a centralized location.

Back-office conversion will also allow financial institutions to convert eligible checks received in image files to ACH debits. The same rules and eligibility definitions apply to this processing scenario - i.e., proper notice and contact information must be given, customers must be given the ability to opt-out, and checks with auxiliary on-us fields or for amounts greater than \$25,000 are ineligible.

Several requirements of the BOC rules are intended to ensure that customers are properly notified that their checks may be converted, that customer service contact information is provided, and that customers have the ability to opt-out. The notification requirements are

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<sup>46</sup> Unless otherwise specified, definitions contained in this glossary are from <http://www.electronicpayments.org/financial/fi.about.glossary.php#ContentTop>.

consistent with those recently required by the Federal Reserve's changes to Regulation E.  
(Source: [www.nacha.org](http://www.nacha.org))

### **On Us Entry**

Entry within an ACH file destined for an account held at the ODFI.

### **ODFI - Originating Depository Financial Institution**

The ODFI is a participating financial institution that initiates ACH entries at the request of and by agreement with its customers. ODFIs must abide by the provisions of the NACHA Operating Rules and Guidelines.

### **Originator**

An Originator is any individual, corporation or other entity that initiates entries into the ACH Network, according to an arrangement with a Receiver. The Originator is usually a company directing a transfer of funds to or from a consumer's or another company's account. In the case of a Customer Initiated Entry (CIE), the Originator may be an individual initiating funds transfer activity from his or her own account.

### **POP - Point-of-Purchase Entry**

This ACH debit application is used by Originators as a method of payment for the in-person purchase of goods or services by consumers. These Single-Entry debit entries are initiated by the Originator based on a written authorization and account information drawn from the source document (a check) obtained from the consumer at the point-of-purchase, which is then voided by the merchant and returned to the consumer, also at the point-of-purchase. As of September 15, 2006, eligible checks drawn on corporate or business accounts may also be converted to POP entries.

### **Prearranged Payment and Deposit Entry (PPD)**

This application is for preauthorized debits and credits to allow funds to be transferred in or out of a consumer's account at the Receiving Depository Financial Institution. In most cases these are recurring payments in fixed amounts. Credits and debits can represent a variety of products, such as payroll, interest pension, insurance premiums, mortgage payments, loan payments or utility bills. (Source: 2006 NACHA Rule Book, ACH Primer)

### **RCK - Returned Check**

A re-presented check entry is a single entry ACH debit application used by Originators to re-present a check that has been processed through the check collection system and returned because of insufficient or uncollected funds.

### **RDFI - Receiving Depository Financial Institution**

The Receiving Depository Financial Institution processes and posts ACH entries to the accounts of its depositors (Receivers).

### **Regulation CC**

Governs the availability of funds deposited in checking accounts and the collection and return of checks. (Source: <http://www.federalreserve.gov/Regulations/default.htm#cc>)

## **Regulation E**

A regulation promulgated by the Federal Reserve Board of Governors in order to ensure consumers of a minimum level of protection in disputes arising from electronic funds transfers.

## **Representment**

In check clearing, electronic transmission of the check writer's account number and other payment data directly to the paying bank. Electronic check presentment does not eliminate use of paper checks, but it does allow for a more efficient and less costly method for clearing checks. The Check Clearing for the 21st Century (or Check 21) Act permits banks to send a digital image of a paper check instead of the actual check and thus eliminates much of the labor-intensive costs associated with clearing the billions of checks Americans write every year. (Source: <http://www.answers.com/topic/uniform-consumer-credit-code-in-banking>)

## **Return**

Any ACH entry that has been returned to the ODFI by the RDFI or by the ACH Operator because it cannot be processed. The reason for each return is included with the return in the form of a "return reason code."

## **SEC - Standard Entry Class code**

Three character code within an ACH Company/Batch Header record that identifies payment types within an ACH batch (e.g., CCD, CTX, etc.).

## **TEL - Telephone-Initiated Entry**

This SEC Code is used for the origination of a single entry debit transaction to a consumer's account pursuant to an oral authorization obtained from the consumer via the telephone. This type of transaction may only be originated when there is either an existing relationship between the Originator and the Receiver, or no existing relationship between the Originator and the Receiver, but the Receiver has initiated the telephone call.

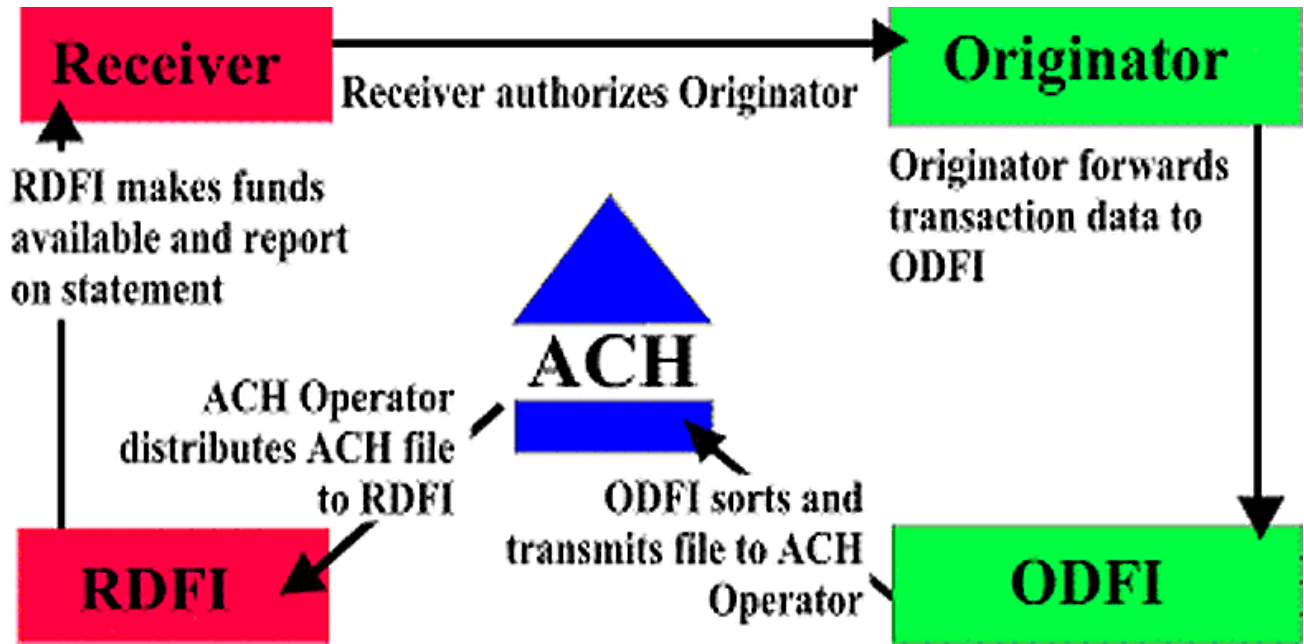
## **Uniform Commercial Code (UCC)**

The Uniform Commercial Code is a set of standardized state laws governing financial contracts. The code was drafted by the National Conference of State Law Commissioners, and was adopted in the 1950s by most states and the District of Columbia. (Louisiana, the only state which has not fully ratified the code, has adopted Article 3 of the UCC, dealing with Checks, Drafts, and Negotiable Instruments.) The code has nine separate sections, called articles. The most important of these are Article 3, dealing with negotiable instruments; Article 4, dealing with bank Deposits and Collections Article 5, dealing with Letters of Credit Article 7, dealing with Warehouse Receipts and other documents of [Title](#) and Article 8 and [Article 9](#), dealing with Secured Loans. (Source: <http://www.answers.com/topic/uniform-consumer-credit-code-in-banking>)

## **WEB - Internet-Initiated Entry**

This SEC Code is used for the origination of debit entries (either recurring or single entry) to a consumer's account pursuant to an authorization that is obtained from the Receiver via the Internet. This SEC Code addresses unique risk issues inherent to Internet payment through requirements for added security procedures and obligations.

APPENDIX B: Automated Clearing House Network<sup>47</sup>



<sup>47</sup> Source: [http://www.affirmativeusa.com/electronic\\_funds\\_transfer.htm](http://www.affirmativeusa.com/electronic_funds_transfer.htm).

## APPENDIX C: KEY FACTS ABOUT BACK OFFICE CONVERSION (BOC)<sup>48</sup>

- The new BOC rule will become effective on March 16, 2007.
- As of March 16, 2007, businesses will be able to accept checks from consumer and business customers at the point of sale (checkout counter, manned billing location, service call location) and convert them to ACH debits during back office processing.
- Businesses that will be converting checks using BOC must post a notice in a prominent and conspicuous location, and must provide a copy to the customer on the receipt or another takeaway at the time of the transaction.
- Both notices must reflect the following or substantially similar language:  
“When you provide a check as payment, you authorize us either to use the information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction. For inquiries, please call <customer service phone number>.”
- Until January 1, 2010, the posted notice (only) will be required to contain the following additional language:  
“When we use information from your check to make an electronic funds transfer, funds may be withdrawn from your account as soon as the same day we receive your payment and you will not receive your check back from your financial institution.”
- Both notices must include a working customer service telephone number for customer inquiries, which is answered during normal business hours.
- The business is required to provide customers with an opt-out option.
- Customers authorize conversion of their checks by signing the checks after they have been provided with notification.
- The business retains the check – it is not handed back to the customer.
- Once the payment information is captured from the check, an image of the check retained for at least 2 years. The original check must be securely stored until destroyed.
- The originator must have procedures to identify ineligible items and process those items as presented.

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<sup>48</sup> Source: [http://www.electronicpayments.org/pdfs/BOC\\_fact\\_sheet.pdf](http://www.electronicpayments.org/pdfs/BOC_fact_sheet.pdf).