Merchant
User Guide

eCheck Best Practice FAQs

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eCheck Processing

U.S. and Canada

Merchant Best Practice FAQs

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FAQs – Rules and Regulations – Unauthorized Returns

Question 1 As a merchant, what do I need to know regarding the NACHA requirements for unauthorized returns in excess of 1%?

Answer

Network Enforcement Rule:

On March 22, 2008, NACHA implemented reporting requirements which require merchants to provide, when requested by NACHA, certain information for unauthorized entries in excess of one percent. The Network Enforcement Rule requires merchants to reduce the returns rate to a rate below one percent within sixty days after receipt of the National Associations written request for information and maintain that return rate below one percent for an additional, 180 days. This amendment applies to all SEC codes.

NACHA states that if a merchant exceeds a 1% threshold for ECP unauthorized returns in a 60 day window, the merchant is then subject to a "detail process" that NACHA has outlined they must follow to then prove that the return rate will be reduced in the future via steps and timelines outlined by NACHA.

Unauthorized Returns - Definition

R05, Unauthorized Debit to Consumer Account Using Corporate Standard Entry Class Code

R07, Authorization Revoked by Customer (adjustment entries)

R10, Customer Advises Not Authorized, Notice Not Provided, Improper Source Document, or Amount of Entry Accurately Obtained from Source Document (adjustment entries)

R29, Corporate Customer Advises Not Authorized

R51, Item is Ineligible, Notice Not Provided, Signature Not Genuine, Item Altered, or Amount of Entry Not Accurately Obtained from Item (adjustment entries)

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FAQs – Rules and Regulations – Unauthorized Returns, Continued

Question 2 How is the 1% threshold for unauthorized returns calculated?

Answer Simply put, NACHA divides 60 days worth of transaction requests by 60 days worth of total returns.

Question 3 Am I subject to a fine by NACHA if I exceed the 1% allowance for unauthorized returns?

Answer Only if the merchant has violated the time frames set forth by NACHA to explain their plan or put the necessary measures in place to maintain a < 1% return rate per the NACHA schedule are they then fined by NACHA. Any merchant, who has exceeded the 1% allowance**,** has 10 days to show NACHA the process they are using for authorizing and authenticating their consumers and produce a detail plan specific to how they will improve their process. In reality, the fines are not tied directly to any volume of unauthorized returns a merchant may experience, but rather to their inability to meet the NACHA follow up process to put an effective plan in place in a time fame determined by NACHA that can sustain a <1% return rate over time.

Below is the detail merchant time table per NACHA *Operating Rules*:

- 10 day clock begins with the notification from NACHA to the ODFI
- Within 60 days after receiving notice from NACHA the merchant will be required to reduce the unauthorized entries below the one percent rate
- The merchant must maintain that return rate below one percent for an additional 180 days.

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FAQs – Rules and Regulations – Unauthorized Returns, Continued

Question 4 What are the fines specifically for unauthorized returns?

Answer Below is an example of the NACHA fine policy in the event that a merchant has exceeded the 1% return rate and is unable to comply with supplying NACHA with the appropriate information requested above in a timely manner:

- Class 1 – First Recurrence - a maximum of $1,000
- Second Recurrence – a maximum of $2,500
- Third Recurrence – a maximum of $5,000
- Class 2 – a maximum of $100,000 per month
- Class 3 – a maximum of $500,000 per month

In Class 3 rule violation situations where fines have been unsuccessful in resolving the issues causing the violation, Suspension from the ACH network may occur.

Question 5 What reporting requirements am I subject to by NACHA if I exceed the 1% return rate?

Answer Both the ODFI and merchant are required to respond back to NACHA with specific reporting requirements within a 10 day window:

The following are the ODFI's reporting requirements:

- Originator's volume for the time period specified by NACHA
- The actual return rate for unauthorized entries, in total and by SEC Code, for the Originator that process through the ACH network
- A statement either (1) refuting NACHA's claim that the Originator exceeded the return threshold or **(2) explaining the reason causing the excessive returns**

Merchant Reporting Requirements:

- A detailed plan and time line for reducing the Originator's return rate for entries returned as unauthorized
- The address, telephone number, contact person, principal owner and officer of the Originator
- A description of the nature of the business of the Originator
- The length of the ACH relationship between the ODFI and the Originator
- The complete legal name, any doing-business-as name and taxpayer identification number of the Originator

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FAQs – Rules and Regulations – Unauthorized Returns, Continued

Question 6 What are some best practices to help me avoid being fined for unauthorized returns?

Answer

- Monitor the unauthorized return rate weekly
- Contact the consumer to understand why the authorization was not recognized
- Pay attention to a consumer's notice to stop automatic debits – create a process to update systems
- Develop a plan to reduce the rates if the returns are due to fraud

    1. Enhanced authentication – confirms accuracy of consumer name, address and phone number
    2. Engage third party to confirm above plus Date of Birth and/or Social Security #
    3. Know your ECP customers

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FAQs – Rules and Regulations – Unauthorized Returns, Continued

Question 7 What steps can I take to help me manage the amount of unauthorized returns?

Answer

1. Ensure Proper Authorization is obtained from each client
2. Enhance document retention practices to provide proof of proper authorization
3. Consider “call back process” to confirm authorization
4. Ensure Proper use of SEC when originating transactions. i.e. CCD and CTX should only be used for Corporate Accounts
5. Review check conversion rules to ensure only approved source documents are converted to ACH
6. Ensure timely Opt out process in place to ensure clients are removed from “ACH” “billing” etc.
7. Perform data validation of routing numbers (required for TEL and WEB entries) and account numbers by utilizing verification resources i.e. Fed ABA list and check verification/guarantee services.
8. Initiate pre-notification to ensure valid account at Receiving Depository Financial Institution.
9. For Internet Initiated Entries:
    a. Improve customer authentication practices by asking for several forms of identifying information and check that information again databases, ask challenge questions based upon credit bureau or other information.
    b. Send the consumer a specific piece of information, either online or offline such as a $.01 entry into their bank account before initial ACH entry then ask consumers to verify that information as a second step in the authentication process.
    c. Enhance fraudulent transaction detection systems by tracking payment history, behavior, purchase type, delivery information, etc.
10. Use originator name identifying information (as per company name field new rules) that clearly shows receiver who is debiting account
11. Visit the following websites: for updated rule changes and other helpful information
12. www.electronicpayments.org
13. www.nacha.org

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FAQs – Rules and Regulations – Unauthorized Returns, Continued

Question 8 I am seeing a high volume of "requests for authorization." Why?

Answer It could be for several reasons, however, the 2 most common are:

1. The merchant description that is printing out on the consumer's bank statement does not clearly identify the merchant and/or the goods or services purchased. Therefore, the consumer is oftentimes confused why their account was debited and will request authorization proof. An example of a generic descriptor that some merchants have used, causing consumer's confusion is "Services" or "Consumer." It is strongly encouraged that all merchants make sure the "descriptor" (10 digit field) they choose is easily identified by their consumers and can be related to the company/merchant name or goods/services purchased.
2. The consumer did not really want the goods/services and felt pressured in some way to agree initially to the transaction. Again, it is strongly encouraged that any merchant who is using an ECP MOP, should know their consumers.

Question 9 How long does a consumer have to request a return or unauthorized payment?

Answer In accordance with NACHA , the 60-day right of return offers an automated process to return unauthorized debits through the ACH network.

In addition, REG E states that a consumer has 90 days form the date of their bank statement to request an unauthorized return.

However, it should be noted that the NACHA ruling is in addition to, not in lieu of, the liabilities established under the ACH Network warranty. The NACHA language does not limit itself to the period of time in which an RDFI can recover funds through the systemic process.

Hence, the liability is really not limited to the 60 day return time but limited only by the statute of limitations for breach of contract claims under the applicable state law which can be up to 7 years in some states.

FAQs – ECP Processing and Implementation

Question 1 According to NACHA, what does “similarly authenticate” mean?

Answer The term “signed” or “similarly authenticated” means that the agreement was physically signed by the Receiver or that an electronic signature such as a pin or password has been used to authenticate the Receiver and authorize the transaction. The authentication method chosen must evidence both the signer's identity and his assent to the terms of the record. When using TEL or WEB, the consumers’ identity can not be verified face to face, therefore additional methods must be used in order to authenticate both parties in the transaction:

Example: WEB Entries:

- Shared password or pin that only the consumer and merchant have access to:
- Multiple step password process by which consumer must validate password via clicking on a separate email sent by the merchant to the consumers designated email address after to activate the password.
- Send the consumer a specific piece of information, either online or offline such as a $.01 entry into their bank account before initial ACH entry then ask consumers to verify that information as a second step in the authentication process
- Multiple questions/answers of personal questions:
  - Mother’s maiden name
  - Favorite pet
  - Father’s middle name
  - State born in
  - Current street name
  - Oldest child’s name

Example: TEL Entries:

- Consumer must explicitly authorize the debit entry orally via the telephone confirming they agree to the transaction. A silent response is not valid.
- Company is obligated either to tape record the oral authorization, or, to provide, in advance of the Settlement date, written notice to the consumer that confirms the oral authorization, to include”:
  - Date of authorization and date and amount of debit
  - Consumer’s name and telephone number for consumer inquiries
  - Statement that the authorization will be used to originate a debit to the consumers account.

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FAQs – ECP Processing and Implementation, Continued

Question 2 Is Authorization the same as an Authentication?

Answer No, "Authorization" is the permission a consumer gives either in writing or orally, that allows a transaction to be processed. "Authentication," goes to the origin or source of the order and confirms identity. **You must have BOTH in order for authorization to be valid!**

An example of an "Authentication Statement is:

- I am Ann Smith
- I am Ann Smith, holder of bank account number XXXX-XXXX-XXXX

An example of an "Authorization Statement" is:

- I authorize this debit
- This electronic check transaction is authorized

Question 3 Am I charged both a "Validate" and "Deposit" fee?

Answer No, if a transaction is rejected/returned at the "validation" stage, then you are charged an eCheck Reject Fee. If, however, the validation is approved and the transaction moves on to the deposit stage, then you are only charged a "deposit" fee. In other words, you are charged either a reject fee or deposit fee, not both.

Question 4 When should I use the "verification" process?

Answer The verification stage is an optional process for every merchant. We recommend that in addition to the "validation" stage of every ECP transaction, merchants request the verification process for those consumers they are doing business with for the first time in order to ensure you are doing everything possible to reduce the risk of a returned transaction.

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FAQs – ECP Processing and Implementation, Continued

Question 5 Can I authorize recurring TEL transactions via the telephone? Who can initiate the call between an originator and consumer in a TEL entry?

Answer When using a TEL entry, telephone authorizations for eCheck, transactions can only be used for a one time debit to the consumer's bank account. You must obtain a telephone authorization each time an eCheck transaction is processed via TEL.
However, a consumer can provide the merchant with a standing written authorization for the transmission of multiple but non recurring ACH debit entries to his account. Although the purchase may be transacted/authorized via telephone, authorization and banking information were provided by the consumer via a separate written authorization to the merchant. In this situation, ACH debit activity should be originated using the PPD Standard Entry Class Code.
A TEL entry may be transmitted only in circumstances in which (1) there is an existing relationship between the Originator and consumer, or (2) there is not an existing relationship between Originator and consumer but the consumer has initiated the telephone call to the Originator.

Question 6 Does a pre-note transaction verify that there are sufficient funds in a consumers account for me?

Answer Basically, there is no transaction that can verify account balance for a merchant via the ECP process prior to a deposit transaction. A pre-note transaction does not verify sufficient funds. A pre-note does, however, verify the following:

- status of an account – open/closed
- accuracy of a consumer's account number
- account type

Once a pre note transaction is submitted, the merchant MUST wait 6 business days before sending in the actual transaction according to NACHA rules.

Question 7 How long does it take for an ECP transaction to go through the entire validation/deposit process and the information is available for me to view on line?

Answer Assuming that there are no returns or re-deposits required, a merchant should see their transaction detail on their on line reports within 5 business days of the initial transaction. In those cases where a re-deposit may be needed or a return has been initiated, this detail information can still be found on their on line reports within the 5 business days but a final deposit may not be complete depending on the action required by the merchant.

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FAQs – ECP Processing and Implementation, Continued

Question 8 Does the on line Report Center give me the same information of any paper documents I may be receiving from Chase Paymentech?

Answer Yes, all information that is currently provided on the ECP returns documents can be found on the ECP Returns Received Report (PDE-0018 or PDE-0022). If you do not have this report in your "reporting packet", please contact you Account Executive or Merchant Services.

Question 9 Can I charge my consumer's a service fee for any checks or transactions that are returned due to insufficient funds in the account?

Answer Any service fee that a consumer is charged must be authorized by that consumer in order for the transaction to be processed electronically according to the NACHA and ACH rules. The merchant is required to provide the appropriate verbal or written notice to the consumer prior to the transaction and must send the service charge transaction separate from the sale transaction.

Question 10 When I receive a response code of 519 On Negative File from a transaction submitted to your Verification process how do I proceed?

Answer Any merchant who receives a 519 response code MUST contact their consumer and politely and discreetly provide the appropriate adverse notice due to a declined check transaction. Under the Fair Credit Reporting Act (FCRA), if the verification is negative consumers should be directed to contact Certegy Check Services directly per the instructions below to resolve any outstanding dispute and/or obtain additional detail regarding their check status.

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Decline Notice Language

Content of Decline Notice:

Decline Notice

We're sorry, but we are unable to proceed with your transaction. Our decision was based in whole or in part on information obtained from Certegy Check Services, Inc. ("Certegy"). Certegy provides authentication and risk management services to merchants and businesses nationwide.

Certegy is unable to tell you the specific reasons for the denial decision made by us, but can give you the information contained in Certegy's file.

Under the Fair Credit Reporting Act, you have the right to obtain a free copy of your information held in Certegy's file, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information in Certegy's file is inaccurate or incomplete, you have the right to dispute it with Certegy.

You may reach Certegy at www.askcertegy.com; toll free at 1-800-237-4851, or write to Certegy Check Services, Inc., P.O. Box 30046, Tampa, FL 33630-3046. If you contact Certegy, please provide the following information so they can respond promptly to your request:

- Full Name
- Driver's License Number and State
- Current Address
- Home Telephone Number
- Date Declined
- Date of Birth
- Dollar Amount
- Check/Draft/Transfer Number
- Merchant Name
- Checking Account Number
- Name of Financial Institution

FAQs – ECP Authorization Methods

Question 1 What information do I need to capture to authorize a transaction via WEB?

Answer WEB Authorizations:

- Must include written authorization that is signed or similarly authenticated by the Receiver.
- Must be readily identifiable as an ACH debit authorization in clear concise language
- For recurring payments, must provide the Receiver with a method to revoke their authorization
- Originator should prompt the consumer to print the authorization and retain a copy for their records.

WEB authorizations have recently been expanded to now include the use of mobile devices in the authorization process in accordance with WEB SEC Code Guidelines

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Question 2 What information do I need to capture to authorize a transaction via TEL knowing that TEL can only be used for single entry transactions?

Answer TEL Authorizations :

1. May be obtained orally via the telephone.
2. Originators are obligated to **either** tape record the consumer's oral authorization or to provide on advance of the settlement date of the entry, written notice to the consumer that confirms the oral authorization. If written notice is provided, the following criteria must be included:
    - Date the consumer's account will be debited
    - Amount of the debit entry to the consumer's account
    - Consumer's name
    - Telephone number available to the consumer for customer inquires that is answered during normal business hours.
    - Date of consumer's oral authorization
    - Statement by the Originator that the authorization obtained from the Receiver will be used to originate an ACH debit entry to the consumer's account.

Special Note:	TEL entries should only be used for single entry one time transfer of funds. Multiple recurring ACH debit entries that may have been transacted via the telephone must be authorized via written notification and coded as a PPD entry code. NACHA is considering allowing recurring transactions as part of the TEL SEC Code and may implement this change some time in 2011.

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FAQs – ECP Authorization Methods, Continued

Question 3 When can I use PPD (Prearranged Payment and Debit) to authorize a transaction?

Answer Primarily used for recurring payments or 1 time debit entries but can also be used for single entry transactions; popular within the mortgage, insurance, and auto finance industries. Requires 1 time debit authorization to be provided by consumer.

PPD authorizations:

1. May be via telephone or in person by the consumer
2. Must be via a document that is signed or similarly authenticated by the consumer. Copy MUST be sent to the consumer.
3. Must clearly and conspicuously state its terms; i.e. I (consumer name) authorize (company name) to initiate debit entries to checking account indicated below, etc...
4. Must be retained by Originator for a period of 2 years following the termination or revocation of the authorization.
5. Can be used for multiple non-recurring debits where amounts/time frames vary. Originators need not obtain a written authorization for each debit provided they have established a written authorization up front that establishes this activity.

Question 4 When do I use the CCD (Corporate Credit and Debit) SEC code?

Answer Any transaction that is sent to another business entity's checking account must be coded CCD regardless of how the transaction is authorized.

This application can be either a credit or debit where funds are transferred ***between corporate entities.***

CCD Authorizations:

1. Can support stand alone funds transfer, or a limited amount of payment related data with the funds transfer.
2. Merchant must have what is considered a legal binding contract with the corporation which authorizes the merchant to debit their ACH account prior to any transaction being submitted
3. Contract can be verbal or written
4. Merchants are not obligated to provide to an RDFI a proof of authorization if requested for CCD transactions.
