



NACHA Operating Rule Amendments – Frequently Asked Questions

1. What do the amendments to the NACHA Operating Rules entail?

The National Automated Clearing House – The Electronic Payments Association (NACHA) recently announced new rules that affect the processing of paper checks for retailers, businesses, consumers and financial institutions. The rules, designed to reduce the number of incorrect business check conversions, impact the methods for converting paper checks to Automated Clearing House (ACH) transactions. In addition, the rules provide simple guidelines for the types of checks that can be converted.

2. When will the NACHA changes become effective?

NACHA will implement the changes in two phases—the first beginning September 15, 2006 and the second March 16, 2007.

3. What happens in the first phase of the new rules?

Designed to reduce the number of incorrect check conversions, this phase establishes simple guidelines to help retailers and billers identify business checks that are ineligible for conversion to electronic transactions. Effective September 15, 2006, the new amendment allows retailers and billers to convert business checks only if those checks have the same magnetic ink character-recognition (MICR) line length as consumer checks. In addition, the amendment will provide businesses methods to opt out of check conversion, whereas existing rules provide opt-out methods only for consumers.

4. What happens in the second phase of the new rules?

The second phase of the rule change, referred to as back-office conversion (BOC), affects the way retailers process consumer and business checks. Effective March 16, 2007, the new amendment allows retailers to keep most consumer and business checks presented in checkout lanes and send them to the back office to convert to electronic payments later, the same way financial institutions process conversions.

5. What is BOC?

Back-office conversion, known as BOC, is a new ACH electronic check application that offers retailers, billers and financial institutions an alternative method of electronic check processing. Using BOC, originators can accept checks at the point-of-purchase (POP) or at manned bill payment locations and convert those checks to ACH debits during back-office processing. BOC also enables financial institutions to convert checks within an image file to ACH payments.

6. What are the benefits of BOC?

BOC may offer substantial benefits for financial institutions, retailers, businesses and consumers. The two-phased amendment establishes easy-to-follow guidelines that will reduce the number of inadvertent and incorrect conversion of checks to electronic transactions resulting in:

- Fewer incorrect financial statements received by consumers and businesses
- Less time correcting erroneous conversions for financial institutions
- Streamlined check acceptance and processing for retailers
- A cost-effective means to collect large volumes of payments



7. What is check conversion?

Check conversion is the process of converting payments from paper checks into electronic payments. These payments are processed through the ACH and offer a secure means to process checks while saving time and increasing efficiency for businesses, retailers and financial institutions.

8. What types of checks can be converted under the new amendments?

The first phase of the amendment identifies checks valued at more than \$25,000 or do not contain an auxiliary on-us field in the MICR as ineligible for conversion to electronic transactions. Other types of checks, like travelers' checks, money orders, cashier checks and Treasury checks are already ineligible for conversion.

9. How does BOC differ from other forms of electronic check conversion?

Unlike existing methods of check conversion, BOC enables financial institutions, retailers and other billers to process large numbers of checks in the back office. Current methods of electronic conversion, including POP, accounts receivable conversions (ARC) and ACH conversions require retailers and billers to process each check at the point-of-sale (POS). In addition, the two-phased NACHA amendment change simplifies the process by establishing clear guidelines that identify checks ineligible for conversion.

10. Where can I go to find additional information?

As a companion to its existing online Check 21 Center, located at www.deluxe.com, Deluxe has developed the comprehensive Check Education Center that contains in-depth information on the amendments to the NACHA Operating Rules. Visit the "Additional Tools & Resources" section of this online center to learn more from NACHA and other key organizations. In addition, NACHA will introduce consumer, retailer and financial institution education information in late summer/early fall 2006. These materials will contain employee and customer service training guidelines as well as other important information.