

# NACHA Operating Rules Amendment

Recently, the National Automated Clearing House Association – The Electronic Payments Association (NACHA), announced new rules that affect check processing for retailers, businesses, consumers and financial institutions. NACHA will implement the changes in two phases—the first beginning September 15, 2006 and the second March 16, 2007. The two-phased amendment will streamline electronic check processing and allow retailers to more accurately identify checks eligible for conversion, reducing incorrect statements for businesses and consumers, and saving financial institutions time spent processing and correcting errors.

As the proven check expert, Deluxe is uniquely positioned to provide accurate and relevant information to financial institutions and their account holders regarding the implications of these changes. By offering financial institutions in-depth information about the two-phased amendment, Deluxe can help banks and credit unions manage the transition, stay ahead of the competition and excel in the eyes of their customers.

## PHASE ONE: Effective September 15, 2006

In November 2005, NACHA introduced new rule amendments that provided simple methods for retailers to identify checks that are not eligible for Automated Clearing House (ACH) conversion. Effective September 15, 2006, the new rules identify checks valued at more than \$25,000 or those that contain auxiliary on-us fields as ineligible for conversion.

Currently, rules for check conversion allow only consumer accounts to be converted to electronic transactions. However, many businesses use checks that are the same size as consumer checks, making it difficult to identify checks ineligible for conversion. As a result, many business checks are incorrectly converted, causing added costs for retailers, incorrect bank statements for businesses and additional in-house processing work for financial institutions. The first phase of the new amendment is designed to address this problem.

## KEY ELEMENTS OF PHASE ONE

- Checks that contain an auxiliary on-us field in the magnetic ink character recognition (MICR) line are ineligible for conversion. Such checks are typically used by corporate treasury, purchasing and accounts payable departments, and can be readily identified because they are nine inches long, compared to the standard six inches for consumer checks. Businesses that wish to opt out of check conversion can use check stock that contains this distinguishing feature.
- Checks valued at more than \$25,000 are ineligible for conversion. In practice, the vast majority of such checks are business checks and the dollar limit will ensure that checks sent to wholesale lockboxes are not converted.
- Businesses now have the same opt-out methods previously available only for individual consumers by contacting each of their billers to indicate their preferences.

Diagram illustrating the layout of a Personal 6" Check. The check includes fields for the payor (JAMES C. MORRISON), payee (PAY TO THE ORDER OF), amount (\$), and MICR line. Below the MICR line, there are three columns: ROUTING, ON-US TYPICALLY ACCOUNT AND CHECK SERIAL #, and AMOUNT. The check is labeled "PERSONAL 6" CHECK".

Diagram illustrating the layout of a check longer than 6 inches. The check includes fields for the payor (JAMES C. MORRISON), payee (PAY TO THE ORDER OF), date, amount (\$), and MICR line. Below the MICR line, there are five columns: AUXILIARY ON-US, EPC, ROUTING/TRANSIT, ON-US/ACCOUNT# / CHECK SERIAL#, and AMOUNT. The check is labeled "LONGER THAN 6" (at least 6" wide; cannot be more than 8 1/4")".

LONGER THAN 6" (at least 6" wide; cannot be more than 8 1/4")

## PHASE TWO: Effective March 16, 2007

On May 8, 2006, NACHA announced a second approved amendment, known as back-office conversion (BOC), which will allow retailers and billers that currently accept checks at the point-of-sale (POS) or at manned bill payment locations to convert checks to ACH debits in the back-office. Effective March 16, 2007, the amendment allows checks to be converted at the point-of-purchase (POP) by the biller in an accounts receivable conversion (ARC) transaction, or in the back-office, with BOC.

The current rule requires merchants to scan information in the check's MICR line. Under this format, known as POP, the merchant returns the check to the consumer in-store as a record of the transaction. The new amendment allows retailers to keep most consumer and small-business checks and send them to the back-office to convert later.

### KEY ELEMENTS OF PHASE TWO

- Companies that intend to back-office convert checks must post a sign at the POS and note their intent on paper handouts. These companies must also create a digital image of the entire check and archive it for two years.
- Customer notices and disclosures must be updated by January 1, 2007 to account for the Regulation E disclosures to customers for electronic transactions.
- Checks lacking an auxiliary on-us designation for opting out may be converted in the back-office.
- Financial institutions that receive a check image file from the payee can convert eligible checks within that image file into an ACH payment, provided proper notice was provided by the payee.

### PHASE TWO AMENDMENT IMPLICATIONS

- For consumers, BOC does not fundamentally change the existing experience in using checks at the register. There is no additional delay in the checkout process that had been caused by the customer being required to give a written authorization in addition to signing a check.
- For retailers, BOC eliminates the capital expenditure of installing scanning equipment at every register, as currently exists with the POP format. Only one unit needs to be installed in the back-office, making it easier to accept checks and implement the new exception rules.
- For small businesses, BOC will provide an additional option—beyond POP and ARC—when choosing how they convert checks and how their own checks are converted. Businesses that use personal size checks may choose to change to a business size document with an auxiliary on-us field to avoid conversion and maintain their existing account reconciliation practices.
- For financial institutions, BOC will increase operational efficiency by reducing time and resources needed to process check payments. The costs of accepting, processing and handling paper checks are extremely high—ranging from \$.75 to \$3 per check. For electronic checks, the cost decreases to a range of \$.32 to \$.70 per check.
- For financial institutions, changes in check conversion will affect internal operations and fraud prevention processes, like Positive Pay, or payee verification.

To arm financial institutions with the necessary tools to effectively educate their consumers, Deluxe has created the comprehensive Check Resource Center, located at [www.deluxe.com](http://www.deluxe.com). This resource is an extension of our dedication to being the most trusted partner in the industry—the model by which all others are judged.

*Information courtesy of NACHA ([www.nacha.org](http://www.nacha.org), [www.electronicpayments.org](http://www.electronicpayments.org)).*