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ACH Professional


**APRP**  
Accredited Payments  
Risk Professional



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## Agenda

- Reasons for Becoming an ODFI
- ODFI as Originator
- Vendor Due Diligence
- ODFI/Originator or Third-Party Agreements
- ODFI Risk
- Daily Processing Controls
- Originator Due Diligence

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## Reasons for Being an ODFI

- Customer Service
  - Consumer accounts
  - Business accounts
- Customer demand
- Competition



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## Business Opportunities

- Retain customers
- Generate fee-based revenues
- Reduce processing costs
- Improve service quality
- Reduce risk

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## *Originating for Your Own Institution*

- Why?
  - Perception by corporate customers
  - Simplest and most logical way to becoming an ODFI
  - Save money
  - Control rather than being controlled

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## *What ODFI Can Originate Internally*

- Ask two questions to get the answer:
  - “To whom are we giving or sending checks?”
  - “From whom are we receiving checks?”



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## *A Quick Note on Account-to-Account Transfers*

- Intended for Consumer Accounts
  - Restrict use to established customers
- Implement account validation by way of trial deposits or Prenotes
- Establish volume and velocity limits
- Debits to an external account should be limited to “like account owners” (A2A)
  - Subject to ACH Rules and Regulation E for unauthorized debits
- Credits maybe to other “non-like accounts” (P2P)

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## *Supplementing Fraud Detection Standards for WEB Debits*

- Existing Nacha guidance already states
  - “An important element of a commercially reasonable fraudulent transaction detection system would be the adoption of risk-based mechanisms designed to confirm the validity of an account to be debited”
- Screening is supplemented to make “account validation” part of “commercially reasonable fraudulent transaction detection system”
  - Applies to the first use of an account number, or changes to account number
  - Examples of account validation may include:
    - Prenotification Entries
    - Micro-Entries
    - Third-Party vendor solutions

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## Micro-Entries

- Micro-Entry: a credit or debit Entry used by an Originator for the purpose of verifying a Receiver's account or an individual's access to an account
  - Credit Entry must be in amount under \$1.00
  - Debit Entries must not exceed amount of corresponding credit
    - A debit offset may be more than \$1.00 only if credits total more than \$1.00
  - Credit and Debit Entry must be transmitted and settled simultaneously

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## Micro-Entries

- Company Entry Description Must be:
  - ACCTVERIFY
- Company Name:
  - Must be readily recognizable to the Receiver, and be the same or similar to the Company Name that will be used in future Entries
    - Minor variations to accommodate processing needs

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## Micro-Entries – Phase 2

Effective: March 17, 2023

- Risk management requirements for Originators
  - Must conduct commercially reasonable fraud detection on its use of Micro-Entries, including:
    - The use of commercially reasonable fraud detection to minimize the incidence of fraud schemes that make use of Micro-Entries
    - Monitoring forward and return volumes, at a minimum, establishing a baseline of normal activity

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## Building Your Project Team

*“If you fail to plan, then plan to fail”*

- Get everyone involved
  - Business Development / Sales
    - Key drivers
  - Operations
  - Audit / Compliance
  - Product Manager(s)
  - Credit Administration
  - Information Technology
  - Training Department



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## Who's Out There?

- Search for multiple vendors
- Network with other FIs
  - Wespay Connect
  - Wespay Advisors
- Narrow down based on requirements
  - Request demos
- Talk to many – RFP to few

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## Request for Proposal (RFP)

- What is an RFP?
- It's okay to RFP your existing vendor
  - They should know you're looking
- Essential to understand your vendor
  - Vendor must understand you



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## Vendor Requirements

- Operational Controls
  - How does the product integrate with core?
  - Which SEC Codes are supported?
  - How are files transmitted and accepted?
    - Does the system accept pass through files or do clients have to use vendor supported software?
- Backoffice functionality?
  - Reversals
  - Internal Origination
  - Reporting

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## Vendor Requirements

- Credit Risk Controls
  - Is prefunding supported?
  - Does the system use a goods funds model?
  - Does the system support balanced and/or unbalanced Files?
  - How are exposure limits established?
    - File Level
    - Batch Level
    - Entry Level

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## Vendor Requirements

- Fraud and Risk Controls
  - What are their data security requirements and protocols?
    - Multi-factor authentication
    - Options for dual control
    - Encryption of data through unsecured electronic networks
    - Secure storage of data at rest
  - What is their business continuity plan?
  - Can they provide proof of an annual ACH Audit?
    - Risk Assessment
  - How do they support return rate monitoring?

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## Originator or TPS/ODFI Agreements

- Setting expectations
  - “People rise to the level that’s expected of them”
  - Agreement is final say in a court of law
  - General terms vs. specifics
  - The value of education



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## Consistency With Other Agreements

- Deposit Agreement
- Definitions/Glossary
- May amend “from time to time”
- When in doubt – don’t leave it out
- Treasury Management Terms & Conditions
  - Generally under “Payment Orders” section



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## The Agreement

- Originator authorizes ODFI to originate Entries on its behalf
- Originator agrees to be bound to ACH Rules
- Originator agrees not to violate U.S. Law
- Restrictions on types of origination
- ODFI right to terminate the agreement
- ODFI right to Audit Originator
- If TPS, company has agreement with its Originators that, at a minimum, satisfies above requirements and UCC4A
  - TPS agreement should be similar to ODFI Originator agreement

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## *Third-Party Sender Agreement – Additional Considerations*

- Nested Third-Party Sender
  - A Third-Party Sender that has an agreement with another Third-Party Sender to act on behalf of an Originator, and does not have a direct agreement with ODFI
  - ODFI's TPS ACH Origination Agreement must address whether or not ODFI will allow TPS to have a Nested Third-Party Sender relationship
    - Origination Agreement must exist between a TPS and a Nested TPS
    - Applicable to new Origination Agreements effective September 30, 2022, on a going-forward basis
  - Rule does not address or limit number of levels in a Nested TPS arrangement

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## *The Agreement (UCC4A)*

- Entries will be transmitted through the ACH
- Choice of Law
- Credit given to RDFI is provisional
- RDFI entitled to a refund

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## The Agreement (cont.)

- Recitals
  - What is the agreement for?
  - State defined terms
    - Capitalized = ACH Rules
  - Subject to other FI agreements



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## The Agreement (cont.)

- Transmittal of Entries by Originator (TPS)
  - Transmit to specified locations
  - Transmit in agreed upon format



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## The Agreement (cont.)

- Compliance with Security Procedures
  - Transmission/Web application security
  - Authentication of accountholder and NOT Entries
  - Originator responsible for safeguards
    - Adherence to procedures
  - FI accepts Entries in good faith



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## The Agreement (cont.)

- Processing, transmittal and settlement by FI
  - FI transmits to Operator prior to deadlines provided:
    - Files are received by FI's related cut-off time
    - FI uses reasonable efforts to transmit on time
- On-Us Entries
  - FI "may" credit/debit Receiver's account on Effective Entry Date, even if sent same-day
- Files with today's effective date may process as Same-Day Entries
  - Opt-In vs. Opt-Out of Same-Day Entries

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## *The Agreement (cont.)*

- Rejection of Entries
  - Non-compliance with data format requirements
  - Non-compliance with security procedures
  - FI notification
    - State how you will notify Originator

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## *The Agreement (cont.)*

- Cancellation/Amendment by Originator
  - No right to cancel or amend after receipt by FI
  - FI may make reasonable efforts
  - Unable to cancel after sent to Operator
  - Client retains liability for cancellations/amendments

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## *The Agreement (cont.)*

- Notice of Returns/NOCs
  - How will you notify Originator/TPS?
  - FI will monitor Returns for excessive activity
    - State your limits
    - What is excessive?
      - 0.5% Unauthorized
      - 3% Administrative
      - 15% Overall
  - NOCs corrected within six Banking Days or prior to next Entry

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## *The Agreement (cont.)*

- Exposure Limits
  - FI must establish
  - No obligation to fund in excess limit
    - Or available balance
  - Overlimit files “may” not be processed
  - How is your Exposure Limit defined?
    - Daily
    - Aggregated
    - Transaction level

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## *The Agreement (cont.)*

- Collateral/Holdback Accounts
  - Collateral account in conjunction with funding
  - Holdback account for debits
  - Percentage of origination
  - Pro-rated release of funds
- Payment for Entries
  - Originator/TPS to pay FI for credits
  - FI to fund Originator/TPS for debits
  - Originator/TPS to pay FI for returned debits
  - FI to reimburse Originator/TPS for returned credits

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## *The Agreement (cont.)*

- Account
  - FI may obtain payment from any and all accounts without prior notice
  - Consider referring back to Deposit Agreement
    - Originator to maintain sufficient balances
    - Account may be debited for services
    - Overdraft interest
    - Right of offset

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## *The Agreement (cont.)*

- Account Reconciliation
  - Entries to reflect on Accountholder Statement
  - Originator to notify FI of discrepancies within ?-days
  - FI not liable if not notified within specified period of time
- Originator Representations
  - Receiver has authorized Entries
  - Authorization in force at time of transmittal
  - Entries limited to those agreed by FI and Originator/TPS
  - Remain within nature of stated business

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## *The Agreement (cont.)*

- Originator Representations
  - Indemnifies FI against loss, liability, expense resulting from breach
    - Includes attorney fees and costs
  - Is liable for fines or fees assessed to FI
  - Is liable for other costs
    - Research, etc.

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## The Agreement (cont.)

- FI Responsibilities
  - May rely on information provided by Originator
  - Not responsible for
    - Data errors sent by Originator
    - Originator acts or omissions
    - Acts performed by ACH Operator or RDFI
  - FI is responsible for;
    - Performing services as defined by agreement
    - Negligence or willful misconduct
    - Actual damages
      - Not consequential, incidental, punitive, etc.

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## The Agreement (cont.)

- FI Responsibilities
  - Excused from failure in the event of:
    - Legal action or constraint
    - Transmission interruption
    - Equipment failures
    - Acts of war
    - Emergency conditions
    - Other circumstances beyond FI's control
  - FI also excused from failure to transmit when:
    - Exceeding limit on net funds pursuant to Federal Reserve guidelines
    - In FI's judgment, file would violate laws or present risk

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## *The Agreement (cont.)*

- Inconsistency of name and account number
  - RDFI may post based on account number only
  - Rule applies to FI for On-Us
  - Originator still obligated to fund
- Payment for services
  - Originator to pay for services provided
  - Fees subject to change

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## *The Agreement (cont.)*

- Amendment
  - FI may amend from time to time
  - Considered received when delivered
    - Through agreed notification process
    - Consider electronic notification
  - Single mailing/notification of updated terms
  - Continued use constitutes agreement and compliance

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## *The Agreement (cont.)*

- Retention of Data
  - Originator to retain data in compliance with Nacha Rules
  - Authorizations: 2 years retention based on type of authorization
    - RCK: 7 years
  - Originator to provide information to FI upon request
    - Within (?) days
    - Give yourself time to respond if needed
  - Originator provides all documentation at own expense

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## *The Agreement (cont.)*

- Cooperation
  - Both parties agree to cooperate in the event of damages or liability incurred by either side related to origination
  - Both will undertake efforts to provide documentation and work together in recovery efforts

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## Agenda

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## General ODFI Warranties

- Entries authorized by Originator/TPS and Receiver
  - Authorizations have not been revoked at time Entries put into ACH Network
- Entries comply with Rules
- Entries not transmitted on behalf of suspended Originator/TPS
- Entries contain required information
  - Includes proper use of SEC Code

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## General ODFI Warranties (Continued)

- Credit Entries put into network in timely manner
- Debit Entries satisfy obligation or corrects error
- Entries transmitted securely
- Verification of identity of Originator/TPS using Unsecured Electronic Network

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## ODFI Noncompliance

- Could be subject to rules enforcement action according to Appendix Nine of ACH Operating Rules
- Possibility of monetary penalties and/or requirement to suspend Originator or Third-Party Sender



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## *Risk Management Program*

- Be aware of emphasis placed on reducing payments system risk by banking groups/regulators
- Should be implemented before originating ACH Entries
  - Formal ACH Risk Assessment program
    - Applies to TPS and Nested TPS
- Requires Nacha Audit
  - Applies to TPS and Nested TPS

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## *ODFI Risk Management*

- Perform due diligence relating to Originator/TPS
  - Capacity to perform obligation to comply with ACH Rules
- Assess nature of ACH activity and risks it presents
- Establish exposure limit for each Non-Consumer Originator/TPS

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## *ODFI Risk Management (Continued)*

- Established procedures to:
  - Monitor origination and Return activity across multiple Settlement Dates
  - Enforce restrictions on types of Entries that may be originated
  - Enforce exposure limits

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## *Types of Risk ODFI May Encounter*

- Credit
- Operational
- Fraud
- Third-Party
- Foreign Exchange
- Systemic
- Reputational



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## Credit Risk

- Party to Entry cannot provide necessary funds as contracted, in order for settlement to take place
- Credit risk-related losses usually arise from failure or bankruptcy of company



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## Credit Risk

- ODFI Exposure - Credit Entries
  - Period of time between initiation of ACH credit file and Originator funding account
  - Amount of risk based on total amount of file
  - Originator must have good funds to settle file
  - ODFI may not reverse due to lack of funding
  - 0-2 days exposure



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## Credit Risk

- ODFI Exposure - Debit Entries
  - Date funds available to Originator until debits can no longer be returned by RDFIs
    - Two Banking Days for NSF/Uncollected Funds
    - 60 days+ from Settlement Date for Unauthorized/Revoked
  - Amount of risk based on amount of individual or multiple returned ACH debits

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## Operational Risk

- Risk that Entry is altered or delayed due to unintentional error
- Loss usually due to clerical error or hardware/software failures



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## Fraud Risk

- Risk that payment Entry will be initiated or altered in attempt to misdirect or misappropriate funds
- Embezzlement by DFI employee or someone who gains unauthorized access to system



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## Third-Party Risk

- Risk to ODFI can occur if Third-Party is allowed to bypass ODFI when sending Entries to correspondent that processes for ODFI or when sending directly to ACH Operator
- Risk that a Third-Party operating error affects your FI or your Originator

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## Foreign Exchange Risk

- Risk involved in cross-border ACH Returns
- Foreign exchange rate can change before item is returned



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## Systemic Risk

- Risk that inability of one funds transfer system participant to settle its commitments causes other participants to be unable to settle its commitments
- Sometimes referred to as “domino effect”



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## Reputational Risk

- Caused by a number of situations
  - Internal errors that become public
  - Fraudulent activity by Originators/TPS
- May result in adverse publicity and potential loss of business
  - Word of mouth
  - Media coverage
  - News publications

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## Processing Options

- In-House Processor
  - Requires ODFI to receive origination files from Originator/TPS
  - Requires ODFI to transmit files directly to its ACH Operator
- Third-Party Service Provider
  - Allows ODFI to contract with vendor to do all or part of origination processing

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## Processing Controls

- Discussion Items for Originator/TPS
  - Delivery deadlines
  - Delivery methods
  - Input/output criteria
  - Holiday schedules
  - Processing calendar
  - Specification sheet



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## Processing Controls (Continued)

- ODFI controls
  - Contacts
    - ACH Operator
    - Sending Point
    - Originator/TPS
  - Daily procedures checklist
  - Assigning responsibilities
  - Trained staff
  - Contingency plan



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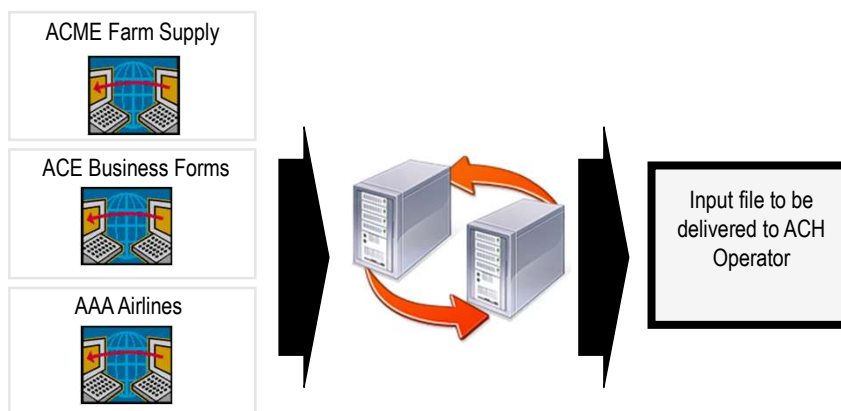
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## Processing Controls (Continued)

- Receiving and editing files
- Consolidation of ACH files



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## Exceptions

- File Problems
  - Duplicate
  - Files sent in error
  - Late delivery
  - Lost files
  - Unreadable files



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## Exceptions (Continued)

- Entry Problems
  - Returns & NOCs
  - Dishonored Returns & Refused NOCs
  - Contested Dishonored Returns & Corrected NOCs
  - Rejected Files, Batches or Entries & Reversals

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## Review ACH Policies

- Know Your Customer (KYC) and your customer's customer (KYCC)
- Define who you will bank?
- Determine risk tolerance levels for:
  - Low risk Originators
  - High risk Originators
  - Prohibited Originators



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## Review ACH Policies

- Debits and/or credits
- What types of SEC Codes will you allow?
  - PPD
  - CCD
  - CTX
  - WEB
  - TEL
  - IAT
  - Check Conversion

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## Low Risk

- Payroll for most businesses
  - Not payroll companies
- B2B Payments
  - Manufacturing
  - Engineering
- Direct Payments
  - Property Management (HOA/Apartments)
  - Insurance
  - Most lending (Auto, Mortgage, Credit Card)
    - Not Payday Lenders



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## Higher Risk

- Examples:
  - Credit Repair
  - Mail Order (telemarketing)
  - Payday Lending
  - Foreign Businesses (import / export)
  - Pawn Brokers
  - Precious Metal Dealers
  - Third-Party Senders (TPS)



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## Prohibited

- Examples:\*
- Tax Shelters
- Digital Content
- Online Gaming
- Cannabis Sales
- Online Tobacco/Liquor Sales
- Any person or business under investigation
- Any business where FI lacks expertise
  - Understand the business and how it works!



\*Examples used are for some FIs. Your FI may have a different risk tolerance.

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## Business Reports & Social Media

- In addition to regular credit reports . . .
- Better Business Bureau
  - Negative reports/complaints?
  - <http://www.bbb.org/>
- Dun & Bradstreet
  - Paying bills on time?
  - <http://www.dnb.com/>
- Social Media – “The New Tattle-Tale!”
  - Angi
  - Facebook
  - Yelp



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## Reviewing Marketing Collateral

- Check the website
  - Does it advertise the products they claim to be selling?
  - Is there misleading advertising?
  - Are there ads for other businesses on the site?

At BB Industries  
we sell medical supplies.



What they tell you

[www.bbindustries.com](http://www.bbindustries.com)

At BB Industries we sell medical  
cannabis supplies.



What they really do



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## Review Previous Statements

- Analysis statement available?
  - Total origination
  - Total Returns
    - Returns by type (if available)
  - Do balances support cash flow?
  - Repeated NSF's
  - Times/duration overdrawn
  - Are volumes consistent with type of business?

**Bank Statement**

**Better Business Bank Ltd**  
 1234 Main St, Suite 100  
 Anytown, NY 12345  
 Statement of Account

Statement for: **Questioned Paper Wholesalers** Page 1 of 1  
 Date Range: **01/01/2022 to 12/31/2022**  
 Fiscal Year: **2022**

Date	Description	Debit	Credit	Balance
01/01/22	Balance Forward			\$1,234.56
01/15/22	Check #1001	\$100.00		\$1,134.56
01/20/22	Check #1002	\$250.00		\$884.56
02/01/22	ACH Credit		\$500.00	\$1,384.56
02/15/22	Check #1003	\$150.00		\$1,234.56
03/01/22	ACH Credit		\$250.00	\$1,484.56
03/15/22	Check #1004	\$300.00		\$1,184.56
04/01/22	ACH Credit		\$100.00	\$1,284.56
04/15/22	Check #1005	\$180.00		\$1,104.56
05/01/22	ACH Credit		\$150.00	\$1,254.56
05/15/22	Check #1006	\$220.00		\$1,034.56
06/01/22	ACH Credit		\$200.00	\$1,234.56
06/15/22	Check #1007	\$120.00		\$1,114.56
07/01/22	ACH Credit		\$180.00	\$1,294.56
07/15/22	Check #1008	\$160.00		\$1,134.56
08/01/22	ACH Credit		\$120.00	\$1,254.56
08/15/22	Check #1009	\$140.00		\$1,114.56
09/01/22	ACH Credit		\$160.00	\$1,274.56
09/15/22	Check #1010	\$110.00		\$1,164.56
10/01/22	ACH Credit		\$140.00	\$1,304.56
10/15/22	Check #1011	\$90.00		\$1,214.56
11/01/22	ACH Credit		\$110.00	\$1,324.56
11/15/22	Check #1012	\$80.00		\$1,244.56
12/01/22	ACH Credit		\$80.00	\$1,324.56
12/31/22	Balance Forward			\$1,324.56

A bank statement is a document prepared by a bank for its customer which records all the cash transactions for a particular period of time.

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## Authorization Process

- Review existing authorization
- What types of Entries do they Originate?
  - Single, Recurring or Standing
  - Fixed amount or variable
  - Determine how authorizations are obtained
    - PPD – Need signatures
    - WEB – Review website process
    - TEL – Do they have recordings?
- How are authorizations stored?
  - What is the retention period?
    - Must be 2 years following last Entry and/or revocation
    - 7 years for RCK



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## *Behind Closed Doors*

- Onsite inspection/education
  - Are terminals in a secure area?
  - Is sensitive data securely stored?
  - Do they conduct employee background checks?
  - Are data-breach procedures in place?
    - Address notification in agreement
  - Are data security procedures in place?



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## *Credit vs. Debit Origination*

- Credit origination
  - Funds available to settle file
  - Prefunding vs. credit facility
- Debit origination
  - Entries returned over time
  - Ability to settle Returns

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## Credit Underwriting

- Based on ability to pay
  - And actual needs
- Generally unsecured line of credit
- Establish limits over multiple Settlement Dates
- Risk of credit deterioration
- Some Originators may not qualify
- Funding/Settlement on Settlement Date of Entries



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## Credit Underwriting Policies

- Establish policy for determining total exposure limit:
  - Ex. credit exposure is 110% of maximum file needs
    - Weekly payroll origination: \$100,000 maximum file X 110% = \$110,000 total exposure
  - Ex. debit exposure is 105% of maximum file needs
- Determine how to handle over-limit files
  - Who can approve and up to what amount?
  - Educate and ensure your credit team understands ACH risk

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## Credit Underwriting Policies

- What financials will you require for approval?
  - 3 years of audited financial statements
  - Personal guarantee
  - How will you handle start-ups?
- When will the approval expire/be reviewed?
  - Best practice: Tie to annual loan renewal



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## Credit Underwriting Policies

- How will you monitor?
  - Review origination history at annual loan renewal
  - Determine if existing limit is still suitable
  - If volumes or dollars decline, is business at risk?
- What about anomalies?
  - Annual bonuses
  - Holiday sales



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## *Prefunding*

- Credit origination
  - Verify available funds prior to transmitting file
  - Debit on transmission date not Settlement Date
    - Hold funds
      - Funds frozen by authorities after file is sent
    - Or transfer to bank-held (settlement) account
      - Originator/TPS loses earnings credit

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## *Holdback*

- Debit origination
  - Offset settlement (credit) funds placed on hold
    - Generally held 2–3 Banking Days
    - Provides time for most Administrative Returns
  - Consider pro-rated holds based on previous Return volume
    - Example: (from Settlement Date)
      - 20% of funds held 3 days
      - 5% of funds held 30 days
      - 2% of funds held 60 days

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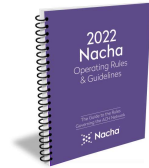
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## Available Publications for More Information

- 2022 ACH Rules
  - Print version, on-line or digital access
- ACH Compliance Manual—How to Comply with ACH-Related Rules
- ACH Originator Guide



Available at <https://www.mywespay.org/public/s/>

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# Questions

A large, bold blue question mark is centered on a white rectangular background that resembles a piece of paper with a slight shadow, giving it a 3D effect.



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## Contact Information

**Payments Hotline**  
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## Evaluation

Thank you for participating!



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