Processes, Exceptions & Exception Handling
Module 10

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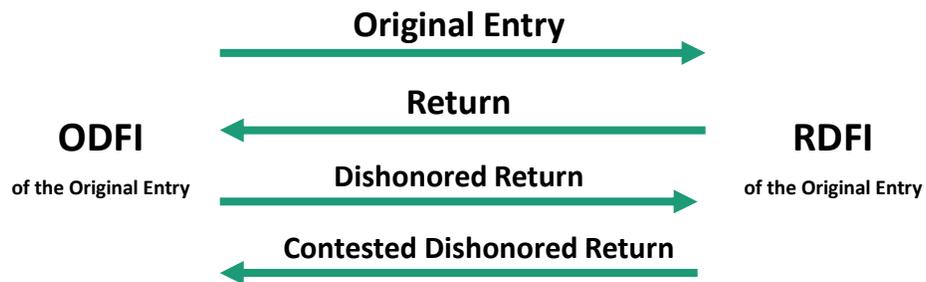
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3

Exception Processing

- Any Entry that requires further investigation before final disposition of Entry can be determined
- Must be handled timely
  - Return the Entry
  - Post the Entry
  - Post and initiate a Notification of Change Entry
- DFIs may not suspend an ACH File or Entry

4

ACH Return Flow

Original Entry →

Return ←

ODFI
of the Original Entry

RDFI
of the Original Entry

Dishonored Return →

← **Contested Dishonored Return**

5

Returns

- An RDFI may return an ACH Entry for any valid reason
- Must use appropriate Return Reason Code and Must comply with Appendix Four in accordance with *NACHA Operating Rules*

6

Returns & Same Day ACH

- Returns are eligible for Same Day ACH processing
- Receiving Same Day ACH Entries <u>is</u> <u>not</u> optional
- Returning Entries same day <u>is</u> optional
- No dollar limitations on Return Entries

7

Return Time Frame

- Transmitted by RDFI so that the Return Entry is made available to ODFI no later than opening of business on second Banking Day after Settlement Date of original Entry
- No extension for Same Day ACH Entries!

8

RCK Return Time Frame

- Must be Transmitted to RDFI's ACH Operator by midnight of the second Banking Day following the Banking Day of the receipt of the RCK Entry
  - R50 (State Law Affecting RCK Acceptance)

9

XCK Return Time Frame

- May be returned at RDFI's sole discretion for up to 60 calendar days following the Settlement Date
  - R33 (Return of XCK Entry)

10

IAT Return

- RDFI may return for any valid Return Reason Code
  - Seven mandatory Addenda Records must be contained in Return Entry
- Specific Gateway Return codes
  - R80 IAT Entry Coding Error
  - R81 Non-Participant in IAT Program
  - R82 Invalid Foreign Receiving DFI Identification
  - R83 Foreign Receiving DFI Unable to Settle
  - R84 Entry Not Processed by Gateway
  - R85 Incorrectly Coded Outbound International Payment

Return of Credit Entry

- An RDFI must return a credit Entry refused by Receiver
  - R23 Credit Entry Refused by Receiver
  - Transmit Return Entry to the ACH Operator to be available to ODFI no later than the opening of business on the second Banking Day following the RDFI's receipt of notification from the Receiver

ACH Return Entry

- Return Entry must contain the original Entry information
  - New batch and Trace Number are assigned
  - Routing number for the returning institution is listed as the ODFI
  - Transaction Code must be changed to reflect that the Entry is a Return
  - Originator Status Code may have to change from 2 to 1

ACH Return Entry

- Addenda Record contains the Return Reason Code, Trace Number of original Entry, and Original Receiving DFI Identification
  - The following also include date of death
    - R14 Representative Payee Deceased or Unable to Continue in that Capacity
    - R15 Beneficiary or Account Holder (Other than a Representative Payee) Deceased

ACH Operator Reject

- May reject Entry, batch or File that does not meet ACH input editing requirements and/or contains an invalid routing number
  - Special codes are used only by the ACH Operator
  - DFI or Originator makes the necessary corrections and resubmits
    - Deadline not extended

Acceptance of Return

- ODFIs are required to accept a Return that complies with the *NACHA Operating Rules* specifications for Return Entries
- Transmitted within the required time limits

Dishonored Return

- Must be initiated within five Banking Days after Settlement Date of Return Entry
- ODFI may dishonor all Return Entries except IAT if
  - R61 Misrouted Return
  - R62 Return of Erroneous or Reversing Debit
  - R67 Duplicate Return
  - R68 Untimely Return

Dishonored Return

- R69 Field Error(s)
  - Return Entry contains incomplete or incorrect information
  - Seven reasons to return using this Code
    - 01 Return Contains Incorrect DFI Account Number
    - 02 Return Contains Incorrect Original Entry Trace Number
    - 03 Return Contains Incorrect Dollar Amount
    - 04 Return Contains Incorrect Individual Identification Number/Identification Number
    - 05 Return Contains Incorrect Transaction Code
    - 06 Return Contains Incorrect Company Identification Number
    - 07 Return Contains an Invalid Effective Entry Date
- R70 Permissible Return Entry is not accepted / Return Entry was not requested by ODFI

Dishonored Return

- Addenda must contain
  - Dishonored Return Reason Code
  - Original Entry Trace Number
  - Original Receiving DFI identification
  - Return Trace Number
  - Return Settlement Date (Julian)
  - Return Reason Code
  - Dishonored Return Trace Number

Contested Dishonored Return

- RDFI may contest a dishonored Return Entry except IAT if
  - R71 Misrouted Dishonored Return
  - R72 Untimely Dishonored Return
  - R73 Timely Original Return
    - Original Return was initiated within the permitted time limit
  - R74 Corrected Return
    - Use when the previous Return Entry was dishonored using Return Reason Code R69 (Field Errors)

Contested Dishonored Return

- R75 Return Not A Duplicate
  - Use when the Return Entry was dishonored as a duplicate Entry (R67)
- R76 No Errors Found
  - Use when the original Return Entry was dishonored for Field Errors (R69) and the Return did not contain any errors
- R77 Non-Acceptance of R62 Dishonored Return
  - Use when both the Erroneous Entry and the related Reversing Entry have been returned or the funds relating to the R62 are not recoverable from the Receiver
  - May only be used in response to an R62 dishonored Return

Contested Dishonored Return Time Frame

- Must be initiated within two Banking Days after Settlement Date of the dishonored Return Entry

Contested Dishonored Return

- ODFI must accept the contested dishonored Return
    - If ODFI is not satisfied with the information provided with the contested dishonored Return, a solution must be sought outside of the ACH Network
    - An ODFI may not contest a contested dishonored Return

Contested Dishonored Return Entry

- Addenda must contain
    - Contested Dishonored Return Reason Code
    - Original Entry Trace Number
    - Date Original Entry Returned
    - Original Receiving DFI Identification
    - Original Settlement Date (Julian)
    - Return Trace Number
    - Return Settlement Date (Julian)

Contested Dishonored Return Entry

- Addenda must contain
  - Return Reason Code
  - Dishonored Return Trace Number
  - Dishonored Return Settlement Date (Julian)
  - Dishonored Return Reason Code
  - Contested Dishonored Return Trace Number

Reinitiation of Entry

- Originator or ODFI may Reinitiate any Entry, other than an RCK, that was previously returned if
  - Entry was returned for R01 Insufficient funds or R09 Uncollected funds
  - Entry returned for R08 Stop Payment and Reinitiation is authorized by Receiver
    - After the Originator or ODFI receives the Return Entry
  - Originator or ODFI remedies the reason for the Return

Reinitiation of Entry

- Entry must be reinitiated within 180 days after the Settlement Date of original Entry
- For R01 or R09, Entry may be reinitiated no more than two times after return of original Entry
- Company Entry Description must be "RETRY PYMT"

Reinitiation of Entry – RCK

- Originator or ODFI may Reinitiate an RCK Entry that was previously returned if
  - Entry was returned for R01 Insufficient funds or R09 Uncollected funds
  - Item to which the RCK Entry relates has been presented no more than one time through the check collection system (as a Check, substitute check, or image) and no more than one time as an RCK Entry
    - Three total attempts at collection allowed

Not Treated As Reinitiated Entry

- Debit Entry is initiated to the Receiver's correct account following the return of a previous Entry using Return Reason Code R03 or R04
- Debit Entry is one in a series of preauthorized, recurring debit Entries and is not contingent upon whether an earlier debit Entry in the recurring series has been Returned
- Originator obtains a new authorization for the debit Entry after it receives the original Return Entry

29

ODFI Request for Return

- ODFI may contact the RDFI and request the return of a particular Entry
  - R06 Returned per ODFI's Request
  - RDFI may, but is not obligated to, comply with the ODFI's request
  - If the RDFI agrees to comply and returns the Entry, the ODFI indemnifies the RDFI against any losses or liabilities which may result
  - Return time frame not defined, determined by ODFI and RDFI

30

Consumer Stop Payment

- R08 Payment Stopped
  - Must accept verbal notice
  - RDFI may require written confirmation within 14 days of verbal notice
  - If written confirmation is required but not received, stop payment order ceases to be binding after 14 days
  - Receiver may withdraw a stop payment order

31

Consumer Stop Payment

- For recurring payments, RDFI may require at least three Banking Days notice before transaction is scheduled
- For ARC, BOC, POP, RCK, or Single Entry IAT, PPD, TEL, or WEB
  - RDFI has a reasonable opportunity to act on the stop payment order prior to acting on the Entry

32

Consumer Stop Payment

- May apply to more than one Entry if Receiver's intent is to block all future Entries related to a specific authorization
- RDFI may require confirmation of Receiver's revocation with Originator
  - If not received within 14 days, RDFI is not required to stop all future Entries

Consumer Stop Payment

- Written stop payment order is effective until the earliest of the following occurs:
  - Withdrawal of the stop payment order by the Receiver
  - Return of the debit Entry; or
  - Where a stop payment order applies to more than one debit Entry relating to a specific authorization involving a specific Originator, the return of all such debit Entries

Consumer Stop Payment

- Extended Return time frame for stop payment
  - R38 Stop Payment on Source Document
    - ARC and BOC
  - R52 Stop Payment on Item Related to RCK Entry
  - 60 calendar days from Settlement Date
  - No Extended Return time frame for POP

Non-Consumer Stop Payment

- RDFI has a reasonable opportunity to act on the stop payment order prior to acting on the Entry
  - Includes ARC, BOC, IAT, and POP to Non-Consumer Accounts
- Verbal order valid for 14 calendar days unless confirmed in writing
- Written stop payment order is effective until the earliest of the following occurs:
  - Withdrawal of the stop payment order by the Receiver
  - Return of the debit Entry
  - Six months from the date of the stop payment order, unless renewed in writing

Extended Return Entry

- Must be transmitted to the RDFI's ACH Operator to be made available to the ODFI no later than the opening of business on the Banking Day following the 60th calendar day following the Settlement Date of the original Entry

Written Statement of Unauthorized Debit (WSUD)

- Must be signed and dated on or after the Settlement Date of the Entry for which recredit is requested

- More than one unauthorized debit Entry from a specific Originator may be documented on WSUD if transaction detail for each Entry is provided

Written Statement of Unauthorized Debit (WSUD)

- Minimum Information Requirements
  - Receiver's printed name and signature
  - Receiver's account number
  - Identity of the party (the payee) debiting the account, as provided to the Receiver, and, if different, the name of the intended third-party payee
  - Posting date of the Entry

39

Written Statement of Unauthorized Debit (WSUD)

- Minimum Information Requirements
  - Dollar amount of the Entry
  - Reason for return
  - Signature date
  - Receiver assertion that the WSUD is true and correct
  - Receiver assertion that the Receiver is an authorized signer or has corporate authority to act on the account

40

Written Statement of Unauthorized Debit (WSUD)

- RDFI must retain original or a copy for one year after the Settlement Date of the Extended Return Entry
- RDFI must provide a copy of the WSUD within 10 Banking Days upon receipt of the ODFI's written request

Written Statement of Unauthorized Debit (WSUD)

- Required from Receiver prior to the Return of Extended Return Entries except
    - R38 – Stop Payment on Source Document
    - R52 – Stop Payment on Item Related to RCK Entry

Extended Return Entry

- R05 Unauthorized Debit to Consumer Account Using Corporate SEC Code
  - An unauthorized CCD or CTX debit Entry transmitted to a Consumer Account
  - Written Statement of Unauthorized Debit required
  - Sixty (60) calendar days Return time frame

Extended Return Entry

- R07 Authorization Revoked by Customer
  - Customer who has previously authorized Entry has revoked authorization with the Originator
  - Written Statement of Unauthorized Debit required
  - 60 calendar days Return time frame
  - May not be used for ARC, BOC, POP, or RCK

Extended Return Entry

- R10 Customer Advises Unauthorized, Improper, Ineligible, or part of an Incomplete Transaction
  - May be used for any Entry except CCD or CTX Entries
  - Written Statement of Unauthorized Debit required
  - 60 calendar days Return time frame
  - Improperly Reinitiated debit Entries

Extended Return Entry

- Check and ACH are presented for payment
  - R37 Source Document Presented for Payment
    - ARC, BOC, or POP
    - Written Statement of Unauthorized Debit required
    - 60 calendar days Return time frame
  - R53 Item Presented for Payment
    - RCK
    - Written Statement of Unauthorized Debit required
    - 60 calendar days Return time frame

Improper Source
Document Return Entry

- R39 Improper Source Document / Source Document Presented for Payment
  - ARC, BOC, POP
  - RDFI determines the Entry is improper
  - No Written Statement of Unauthorized Debit required
  - Source document is ineligible
  - Both the Entry & source document are presented
  - Two Banking Days Return time frame

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47

Extended Return Entry

- R51 Item Related to RCK Entry is Ineligible or RCK Entry is Improper
  - Not authorized
  - Notice not provided
  - Signature not genuine
  - Item altered
  - Amount of Entry not accurately obtained from item
  - Written Statement of Unauthorized Debit required
  - 60 calendar days Return time frame

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48

Unauthorized Corporate Debit

- R29 Corporate Customer Advises Not Authorized
  - Available to the ODFI no later than the opening of business on the second Banking Day following the Settlement Date of the original Entry (two Banking Day time frame)
  - Written Statement of Unauthorized Debit not required

Unauthorized Corporate Debit

- R31 Permissible Return Entry
  - Only CCD and CTX
  - Option beyond two Banking Day Return time frame
  - RDFI must contact ODFI for permission to send a late Return
  - Written Statement of Unauthorized Debit not required but recommended

Notification of Change

- SEC Code for an NOC is COR
  - Non-Monetary Entry originated by RDFI to notify ODFI and Originator that a posted Entry or Prenotification Entry contains invalid or erroneous information that should be changed
  - Change code is used to identify the reason for the change
  - NOCs are eligible for Same Day ACH processing

Notification of Change

- Must be transmitted within two Banking Days of the Settlement Date of the Entry to which the NOC relates
  - Except in cases of merger / acquisition
- RDFI warrants to ODFI and ACH Operator that information in the NOC is correct; if warranty is breached RDFI indemnifies ODFI and ACH Operator for losses

Notification of Change

- Acquiring RDFI is permitted to identify itself as the ODFI of an NOC Entry when it purchases branches or accounts from another institution

Notification of Change

- ODFI's Responsibility for NOCs
  - ODFI must accept NOCs and corrected NOCs that comply with the *NACHA Operating Rules*
  - Each ODFI must provide the Originator with specific information relating to NOCs and corrected NOCs within two Banking Days of the Settlement Date of the NOC or corrected NOC

Notification of Change

- ODFI's Responsibility for NOCs
  - ODFI must provide the Originator with the following information relating to the Entry:
    - Company Name
    - Company Identification
    - Company Entry Description
    - Effective Entry Date
    - DFI Account Number
    - Individual Name / Receiving Company Name
    - Individual identification Number / Identification Number
    - Change code
    - Original Entry Trace Number
    - Original RDFI Identification
    - Corrected data

Notification of Change

- Originator's Responsibility for NOCs
  - Except as noted below, the Originator must make the changes specified in the NOC or corrected NOC within six Banking Days of receipt of the NOC information or prior to initiating another Entry to the Receiver's account, whichever is later
    - Originator may choose, at its discretion to make the changes specified in any NOC received with respect to any ARC, BOC, POP, RCK, Single Entry TEL, Single Entry WEB, and XCK Entry

Notification of Change

- Originator's Responsibility for NOCs
  - Exceptions continued:
    - In the case of CIE and credit WEB Entries, the ODFI or the Third-Party Service Provider (rather than the consumer Originator) must make the changes specified in the NOC
    - For an NOC that is in response to a Prenotification Entry, the Originator must make the changes specified in the NOC prior to originating a subsequent Entry to the Receiver's account if the NOC is received by the ODFI by the opening of business on the second Banking Day following the Settlement of the Prenotification Entry
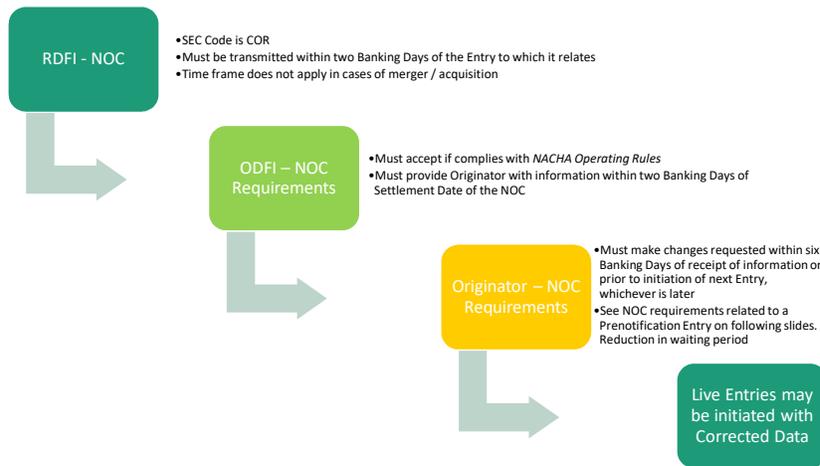
Refused Notification of Change

- ODFI may refuse to accept an NOC
  - Applies to any Entry except IAT
  - If information is incorrect or it fails to comply with *NACHA Operating Rules*
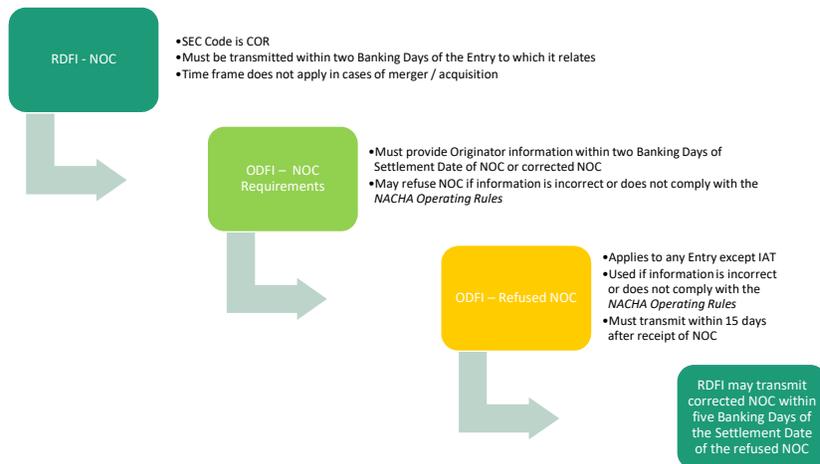 - ODFI must Transmit within 15 days after receipt of the NOC

Refused Notification of Change

- RDFI action on refused NOC
  - May Transmit a Corrected NOC within five Banking Days of the Settlement Date of the refused NOC

NOC Process Flow

RDFI - NOC
- SEC Code is COR
- Must be transmitted within two Banking Days of the Entry to which it relates
- Time frame does not apply in cases of merger / acquisition

ODFI – NOC Requirements
- Must accept if complies with *NACHA Operating Rules*
- Must provide Originator with information within two Banking Days of Settlement Date of the NOC

Originator – NOC Requirements
- Must make changes requested within six Banking Days of receipt of information or prior to initiation of next Entry, whichever is later
- See NOC requirements related to a Prenotification Entry on following slides. Reduction in waiting period

Live Entries may be initiated with Corrected Data

Refused NOC Process Flow

RDFI - NOC
- SEC Code is COR
- Must be transmitted within two Banking Days of the Entry to which it relates
- Time frame does not apply in cases of merger / acquisition

ODFI – NOC Requirements
- Must provide Originator information within two Banking Days of Settlement Date of NOC or corrected NOC
- May refuse NOC if information is incorrect or does not comply with the *NACHA Operating Rules*

ODFI – Refused NOC
- Applies to any Entry except IAT
- Used if information is incorrect or does not comply with the *NACHA Operating Rules*
- Must transmit within 15 days after receipt of NOC

RDFI may transmit corrected NOC within five Banking Days of the Settlement Date of the refused NOC

IAT Notification of Change

- Seven mandatory Addenda Records are NOT required to be Transmitted

- For Outbound IAT, where the RDFI resides in a foreign country, the Rules governing NOCs apply only to the extent that the NOC process is supported by the payment system rules of the foreign receiving country

- For an Inbound IAT Entry, where the RDFI is a U.S. Financial Institution, NOC Rules apply

Prenotification (Prenote)

- Non-Monetary Entry Transmitted by an Originator prior to the initiation of the first credit or debit Entry to a Receiver's account
- Prenotes are eligible for Same Day ACH processing

Prenotification (Prenote)

- Used to verify the validity of the Receiver's account number at the RDFI
  - Optional for the Originator
  - Originator and ODFI must comply with all Rules and formatting requirements
  - Transaction Code indicates Prenote

Prenotification (Prenote)

- RDFI is required to verify the accuracy of the account number on any Prenote Entry
  - If invalid or unprocessable either
    - Return the Prenote
    - Transmit Notification of Change
      - Must be transmitted within two Banking Days of the Settlement Date of the Entry to which it relates

Prenotification (Prenote)

- If Prenote is returned to the ODFI by opening of business on the second Banking Day following the Settlement Date of the Prenote, then the Originator <u>must</u> remedy the reason for the return prior to Transmitting a subsequent Entry

Prenotification (Prenote)

- RDFI Transmits a Notification of Change on a Prenote within two Banking Days of the Settlement Date of the Prenote Entry
  - Originator must make the required change prior to initiating a live Entry
- RDFI Transmits an untimely Notification of Change on a Prenote that is not within two Banking Days of the Settlement Date of the Prenote Entry
  - Originator must make the required change within six Banking Days of receipt of the NOC information or prior to initiating another Entry to the Receiver's account, whichever is later

Prenotification (Prenote)

- ODFI, at a minimum, must provide NOC information to the Originator within two Banking Days of the Settlement Date of the NOC or Corrected NOC
- An Originator may initiate subsequent Entries to the Receiver's account as soon as the third Banking Day following the Settlement Date of the Prenote Entry, provided the ODFI has not received a Return or a Notification of Change related to the Prenote

Death Notification Entry (DNE)

- Non-Monetary Entry to RDFI providing notification of the death of a Receiver
  - Receipt of a DNE constitutes official notification of death
  - Only a Federal Government agency may originate a DNE

Commercial Reclamation

- Debit Entry or written demand for payment initiated by the Originator to reverse a pension, annuity, or benefit payment made after the death of the Receiver to which neither the Receiver's estate nor any other account holder is entitled
- Uses PPD Entry format which must contain "RECLAIM" in the Company Entry Description field of the Batch Header Record

Commercial Reclamation

- Must be Transmitted or sent within five Banking Days after the Originator receives notice of the death of the Receiver
- Must be in a dollar amount equal to or less than the original pension, annuity, or other benefit payment to which the Reclamation relates

Commercial Reclamation

- RDFI liability is the lesser of
  - Amount of Reclamation or written demand
  - Amount in the account at the time of Reclamation or written demand

Commercial Reclamation

- If a debit Entry is returned by RDFI, Originator may make written demand for payment within 15 Banking Days
- Claim or demand by Originator is subordinate to claims of the U.S. Government

Reversing File

- Initiated by an Originator or an ODFI to reverse each Entry within a duplicate or Erroneous File
- Must be Transmitted within five Banking Days after the Settlement Date of the duplicate or Erroneous File
  - Transmit within 24 hours of discovering error
- ODFIs may not reverse Files in the case of failed settlement by the Originator

Reversing File

- "REVERSAL" must be specified in the Company Entry Description field within the Company / Batch Header Record
- A Correcting File is required to accompany Reversing File when File is reversed because of an Erroneous File
  - Unless the Erroneous File was a duplicate

Reversing File

- ODFI or ACH Operator that initiates Reversing or Correcting File indemnifies other Participating DFIs and ACH Operator from losses
- ODFI is responsible for Reversing or Correcting Files initiated by its Originators

Reversing Entry

- Initiated by an Originator to correct Erroneous Entry previously initiated to Receiver's account
- Must be Transmitted within five Banking Days after the Settlement Date of the Erroneous Entry
- ODFI indemnifies every Participating DFI and ACH Operator

Definition of Erroneous Entry

- Duplicate of previous Entry issued by ODFI or Originator
- Payment to or from a Receiver different than intended by the Originator
- Payment that was in an amount different than intended by the Originator

Definition of Erroneous Entry

- PPD credit Entry satisfying each of the following criteria
    - Entry is related to a Receiver's employment
    - Value of the credit is fully included in the amount of a Check delivered to the same Receiver at or prior to the Receiver's separation from employment
    - Credit Entry was Transmitted by the Originator prior to the delivery of the Check to the Receiver

Reversing Entry

- Originator must make a reasonable attempt to notify the Receiver of the Reversing Entry and the reason no later than the Settlement Date of the Reversing Entry

Reversals & Same Day ACH

- The reversing debit cannot settle prior to the duplicate or erroneous credit.

Possible Reversal Prior to Settlement

Payment Related Information (non Health Care EFT)

- RDFI is required to provide all payment related information contained within the Addenda Record(s) of a CCD Entry that is not a Health Care EFT transaction; a CTX Entry; or a CIE; or an IAT Entry to a Non-Consumer Account when requested by the Receiver
  - By the opening of business on the second Banking Day following Settlement Date of the Entry
- Delivery method of information is not defined by the *NACHA Operating Rules*

Payment Related Information (Health Care EFT)

- RDFI is required to provide all payment related information contained within the Addenda Record of a CCD Entry that is a Health Care EFT transaction
  - By the opening of business on the second Banking Day following Settlement Date of the Entry
- RDFI must provide either automatically or upon request by the Receiver
- RDFI must offer or make available to the Health Care Provider an option to receive or access the information via a secure, electronic means
  - If the Company Entry Description Field contains "HCCLAIMANT"
  - Must provide a commercially reasonable level of security that complies with applicable regulatory requirements

Questions?

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