The Nacha Operating Rules, Pension Payments, and Recovery of Errors/Overpayments via ACH

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Direct Deposit via ACH

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Discussion Topic - Direct Deposit, Pension Payments, and ACH Error Resolution

- Like clockwork, Direct Deposit safely delivers all kinds of consumer payments directly to their bank accounts:

Payroll | Pension Payments | Travel & Entertainment | Insurance Claims | Interest Payments | Government Benefits | Tax Refunds

- Direct Deposit provides a safe, convenient, and reliable way for consumers get paid, and as far as most people are concerned, it all happens without a second thought!
- But what happens when errors occur? How are erroneous ACH payments corrected via the ACH Network?
- Retirees have expressed concerns about unexpected ACH withdrawals depleting their account balances and impacting the payment of other obligations

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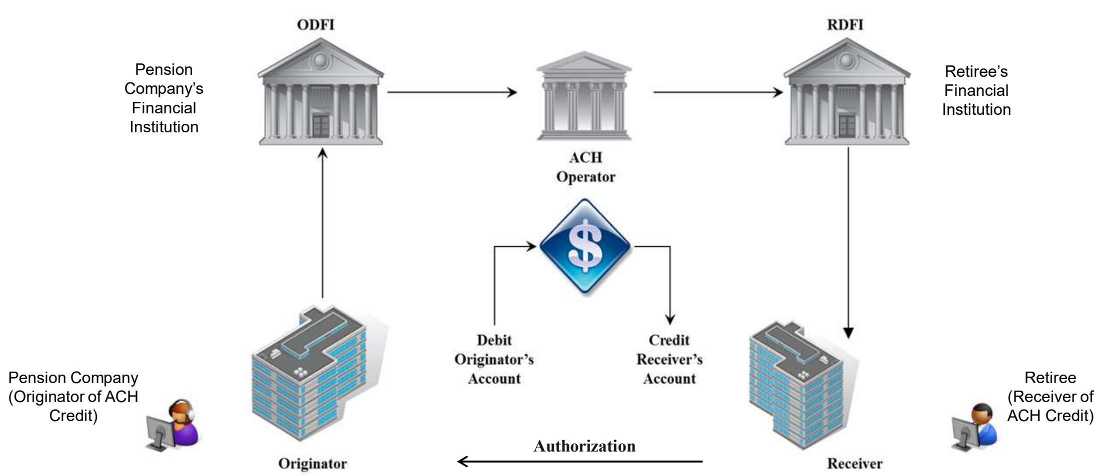
ACH Credit Entry & Funds Flow



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General Authorization Requirements for ACH Payments

- ❑ Must be authorized by the owner of the account to be debited or credited
  - Exceptions:
    - ✓ Credits between “natural persons”
    - ✓ Reversals
    - ✓ Reclamations
- ❑ Must comply with Legal Requirements
  - any law, statute, rule, or regulation, or any binding published interpretation, issued by any government authority (including courts)
  - any judicial, governmental, or administrative order, judgment, decree, or ruling
- ❑ Must be readily identifiable as an ACH authorization
- ❑ Must have clear and readily understandable terms
- ❑ Credit authorizations can be authorized in any manner permitted by Legal Requirements

“Any…authorization that is not clear and readily understandable as to its terms…does not satisfy the requirements..”


APPENDIX G

Sample Authorization for Direct Payment via ACH (ACH Debit)

CONSUMER AUTHORIZATION FOR DIRECT PAYMENT VIA ACH (ACH DEBITS)

Direct Payment via ACH is the transfer of funds from a consumer account for the purpose of making a payment.

Sample ACH Credit Authorization

Record of Authorization

- ❑ Originator must provide a copy of the authorization to the consumer receiver
- ❑ Originator must retain a copy of authorization for two years from termination or revocation
  - Required components of authorization depend on type of payment/SEC Code
- ❑ RDFI Right to Record of Authorization
  - ODFI must provide within 10 days or permit return
    - ✓ Warranty provided by ODFI
    - ✓ Cannot charge RDFI for copy

ACH Options for Recovery of Funds

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ACH Reversals

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ACH Reversals – Limited to Use with Rules-Defined Erroneous Entry Only

What is an Erroneous Entry under the Nacha Operating Rules?

- ❑ A duplicate entry
- ❑ An entry that orders payment to/from an entity different than intended
- ❑ An entry in an amount different than intended
- ❑ A direct deposit PPD credit for which a check was also issued
- ❑ A credit issued later than authorized or a debit issued earlier than authorized

No other reasons qualify – Reversals used improperly can be returned by the consumer's bank

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ACH Reversing Entry

An Originator or ODFI may originate a Reversing Entry to correct an Erroneous Entry sent to a Receiver's account

- ❑ Reversal is a new entry, the opposite of the erroneous payment, designed to net the original, erroneous payment to zero
- ❑ Must be for the full amount of the erroneous entry
  - No partial reversals are permitted
- ❑ Reversal must be within 5 banking days of Erroneous Entry
- ❑ Cannot be dated earlier than the Erroneous Entry
- ❑ A reasonable attempt must be made to notify the Receiver by the settlement date of the Reversal Entry
  - Authorization by the pensioner is NOT required

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ACH Reversal File

- An Erroneous File is defined as a file containing Erroneous Entries
  - the entire file is comprised of Erroneous Entries or multiple batches within the file contain Erroneous Entries
- A Reversing File may be sent by an Originator or ODFI if it has originated an Erroneous File
- Must be originated within 5 banking days of the Erroneous File, and within 24 hours of discovering the error, and
- Must be originated in conjunction with a Correcting File, unless the Erroneous File was a duplicate

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Reversal Standards

- Initiation of Reversing Entries or Files for any reason other than those explicitly permissible under the Rules is prohibited
- Company Entry Description field must contain “REVERSAL”
- Company ID, SEC Code, and Amount fields of the reversal must be identical to the original entry
- The contents of other fields may be modified only to the extent necessary to facilitate proper processing of the reversal
- Minor variations in the Company Name for accounting/tracking purposes permitted, provided that the Company Name remains readily recognizable to the Receiver
- Improperly-initiated Reversals (those not in accordance with the Rules) may be returned by the RDFI

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ACH Reclamations

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Reclamation Entries and Written Demands for Payment

- A Reclamation Entry is an ACH debit initiated by an Originator to recover a previously transmitted ACH benefit payment to the account of a recipient/beneficiary not entitled to the payment due to death or legally incapacity
  - Authorization by the pensioner is NOT required
- An Originator or its ODFI may also initiate a written demand for payment in attempt to recover these payments
- Used for the recovery of pensions, annuities, or other benefit payments
- Not for use with non-benefit payments such as salary, tax refunds, vendor payments, etc.
- Used by both private-sector Originators and the Federal Government

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Reclamation Standards

- A Reclamation Entry or a written demand for payment must be initiated within 5 banking days after the Originator receives notice of the Receiver's death
- If a Reclamation Entry is returned by the RDFI, the Originator may make a written demand for payment within 15 banking days after it receives the returned entry
- Each Reclamation Entry or written demand for payment must include:
  - the name of the Receiver,
  - the account at the RDFI that was credited on the Receiver's behalf,
  - the amount and approximate date of each entry involved
- Reclamations and written demands for payment may not exceed the amount of any payment to which the Receiver was not entitled
  - partial reclamations are permitted

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RDFI Liability for Commercial Reclamations

- RDFI's liability for commercial (e.g., non-Federal Government) Reclamation Entries and written demands for payment is limited to the lesser of:
  - The amount of any payments to which the Receiver was not entitled; or
  - The amount in the Receiver's account at the time the RDFI receives:
    - ✓ A Reclamation Entry that complies with the Nacha Operating Rules that is not returned by the RDFI; or
    - ✓ A written demand for payment from the ODFI or the Originator, where the RDFI has a reasonable opportunity to act on the demand for payment
- This liability can be amended only by a master agreement agreed to between both Originator and RDFI

NOTE: Federal Government Reclamations impose different liability standards on the RDFI

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RDFI Liability for Federal Government Reclamations

- Federal Government Reclamations impose different liability standards for the RDFI
- An RDFI is liable for ALL benefit payments received after the death or legal incapacity of a recipient or death of a beneficiary, unless the RDFI meets the qualifications for limiting its liability:
  - Certifies it did not have actual or constructive knowledge of the recipient's death or incapacity at the time of the deposit of any post-death benefit payments;
  - Returns all post-death benefit payments it receives after it learns of the death; and
  - Responds to the Notice of Reclamation so that it is received by the Government Disbursing Office within 60 days
- If an RDFI qualifies for limited liability, the RDFI will only be debited for the dollar amount of the post-death benefit payments received within 45 calendar days following the death.
  - Amount may not exceed the outstanding total on the Notice of Reclamation

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ACH Debit

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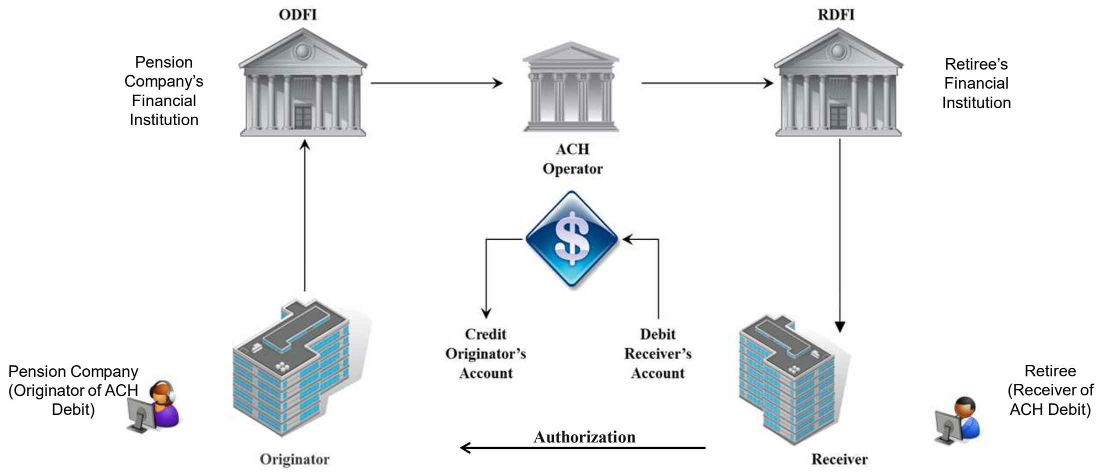
ACH Debit Payment - Entry & Funds Flow



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Consumer Debits for Recovery of Funds

- ACH debits can be used to attempt to recover funds paid in error, provided they are properly authorized by the consumer
- Recovery success is not guaranteed – debit can be returned for a variety of reasons

Written

Similarly Authenticated

Oral

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Consumer Debit Authorization Requirements

Consumer Debit Authorizations must:

- ❑ Be in writing (electronic form is permissible)
  - Can be obtained as part of original pension credit authorization, to allow ACH debit to correct potential errors, as needed
- ❑ Be readily identifiable as an ACH debit authorization and contain clear and readily understandable terms, including the name of the Originator
  - Company Name in Entry must be identifiable by the Receiver as the party granted authorization
- ❑ Include express authorization language (including whether one-time, recurring, standing)
- ❑ Specify the amount of the entry(ies) or a reference to the method used to determine the amount
- ❑ Specify the timing (including start date), number, and/or frequency of debits


Consumer Receiver

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Consumer Debit Authorizations (cont'd)

Authorization must contain:

- ❑ The consumer Receiver's name/identity
- ❑ The consumer's account number and financial institution's routing number (masked/truncated)
- ❑ Originator's name
  - ▪ Company Name in Entry must be identifiable by the Receiver as the party granted authorization
- ❑ Language that instructs the Receiver how to revoke authorization directly with the Originator
- ❑ The consumer's signature (electronic is permissible) and date signed

"Any…authorization that is not clear and readily understandable as to its terms…does not satisfy the requirements…"

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ACH Legal Framework

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ACH Legal Framework

NACHA Operating Rules	Establishes the legal framework and applies to all entries and entry data transmitted through the ACH Network
Regulation E	Establishes the basic rights, liabilities, and responsibilities of consumers who use electronic funds transfer services; and financial institutions that offer these services
Uniform Commercial Code, 4A	Governs wholesale corporate-to-corporate credits that are not subject to Regulation E
Federal Reserve Operating Circular #4	Governs the clearing and settlement of commercial ACH credits and debits by the Federal Reserve Bank, sending banks, and receiving banks
Title 31, Code of Federal Regulations, Part 210	Governs all entries originated by Federal government agencies as well as reclamation of benefit payments

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ACH Legal Framework

- ❑ Additional state laws and regulations may exist that govern a specific industry or type of payment made via ACH (examples: pensions, utilities, etc.)
- ❑ These laws and regulations are in addition to the requirements of the Nacha Operating Rules and may impose additional obligations and limitations on the parties to the transaction or the types of payments originated
- ❑ Nacha's enforcement authority is specific only to compliance with the Nacha Operating Rules
  - Enforcement of other laws and regulations is outside of Nacha's purview

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ACH Basics

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About Nacha

- ❑ Nacha governs the modern ACH Network, a thriving payment system with the capability to reach all U.S. bank and credit union accounts. Over 33.6 billion ACH Network payments were made in 2024, valued at $86.2 trillion.
- ❑ As a rule-writer within the payments space, Nacha is open and transparent by providing numerous ways for our stakeholders to have a voice in the development process.

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Logical & Physical ACH Network

ACH Logical Network

- ❑ ACH rules set, and associated payment message formats owned by Nacha
- ❑ Allows all financial institutions to transact with each other

Nacha holds the role of ACH Network:

- ❑ Administrator
- ❑ Rules creator
- ❑ Rules enforcer
- ❑ Educator
- ❑ Advocate

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Logical & Physical ACH Network

ACH Physical Network

- ❑ The physical environment required to move transactions
- ❑ The technology and telecommunications environment needed to clear and settle ACH payments

ACH Operators take the role of:

- ❑ Processing and routing transactions
  - Maintaining access to all sending and receiving endpoints
  - Inter-operator exchanges
- ❑ Services to help financial institutions manage ACH volume and risk management
- ❑ Interbank settlement
- ❑ ACH Network volume reporting to Nacha

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ACH Participants

- ❑ Originator
- ❑ Originating Depository Financial Institution (ODFI)
- ❑ ACH Operator
- ❑ Receiving Depository Financial Institution (RDFI)
- ❑ Receiver
- ❑ Third-Party Service Providers/Third-Party Senders

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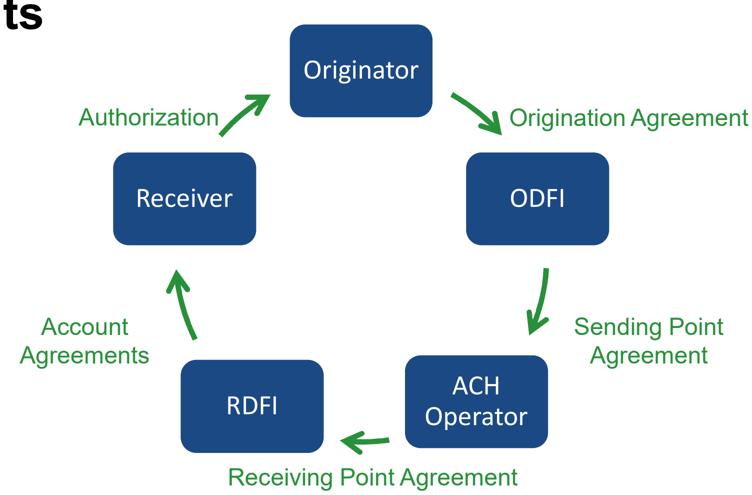
Agreements



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Contractual Hierarchy

- The ACH Operators execute agreements with depository financial institutions that bind them to the NACHA Operating Rules (Rules) and the ACH Operator's rules (which include security procedures)
- The Rules require ODFIs and RDFIs to execute agreements with Originators and third-parties, as applicable, that bind them to the Rules
- The Rules require Originators to have relationships with Receivers (agreement or authorization)

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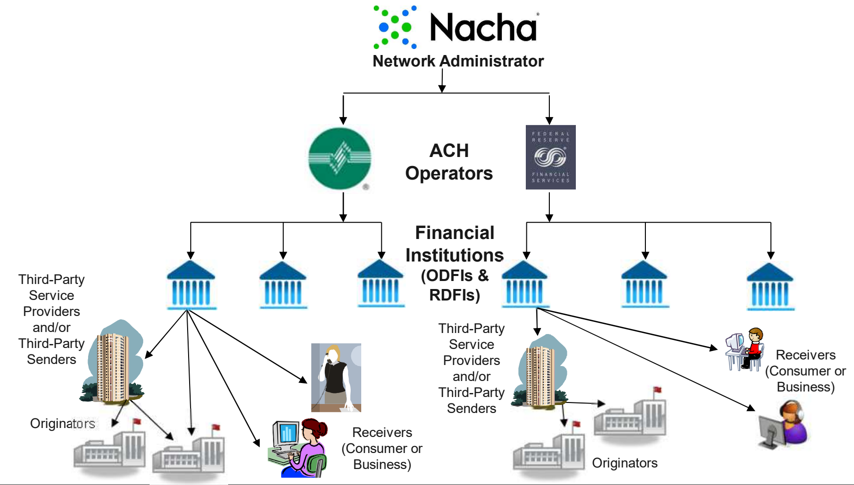
Contractual Hierarchy



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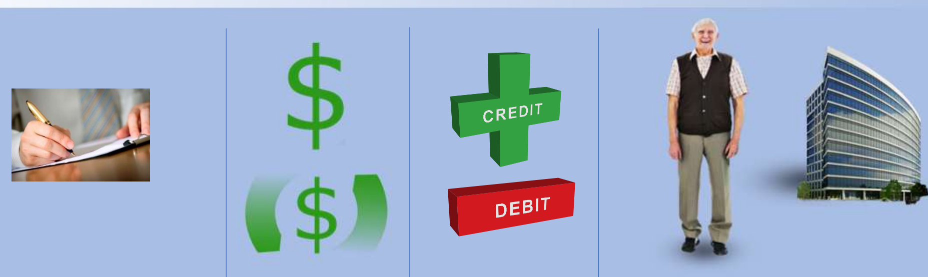
Standard Entry Class Codes & Transaction Codes

SEC Codes identify the type of payment and ACH record layout

Transaction Codes indicate whether payment is a credit to or withdrawal from the Receiver



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Types of Entries and Authorizations

- **Single-Entry** – a one-time transfer of funds initiated by an Originator based on the Receiver's authorization for a single ACH entry to the Receiver's account
- **Recurring Entry** – an entry that has been set up to occur, based on the Receiver's authorization, at regular intervals without any additional intervention by the Receiver
- **Subsequent Entry under Standing Authorization** – one or more entries to a consumer account, each initiated by a consumer's affirmative action in accordance with the terms of a Standing Authorization

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Questions?

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