

NACHA Rules Change Affects ACH Conversion Eligibility

NACHA — The Electronic Payments Association, recently approved an amendment (effective Sept. 15, 2006) stating that checks containing an auxiliary-on-us field in the MICR (magnetic ink character recognition) line are ineligible for accounts receivable check (ARC) conversion, Point-of-Purchase check conversion (POP) and Back-Office Conversion (BOC).

The new rule is designed to enable Originating Depository Financial Institutions (ODFIs) and Originators to more easily comply with check conversion rules, thus facilitating greater adoption of check conversion applications and reduced customer service issues.

Business checks are currently not permitted to be converted to ACH transactions due to the concern that the ACH transactions may circumvent advanced cash management services typically used by large businesses, such as controlled disbursement, automated account reconciliation or anti-fraud services like positive pay, which compares a company's check issue information with check data captured during check processing to flag suspect items.

Prior to the rule change, many six-inch checks written by businesses were inadvertently converted because ODFIs are unable to distinguish many business checks from consumer checks (see below) — an oversight that the new rule aims to improve.

Compliance Strategies

Mellon Working Capital Solutions (WCS) account holders can make efforts to prevent the conversion of business checks drawn on their accounts in several ways:

1. by ensuring that their check stock contains an auxiliary on-us field in the MICR line (please see the check graphic on page 13);
2. contacting the biller directly to opt-out of ARC transactions; or
3. refusing to sign a POP* authorization at the point-of-sale.

The new rule also states that any check drawn in an amount greater than \$25,000 is ineligible for ARC conversion and POP entries.

Reporting Unauthorized Entries

As part of the rule, a new return reason code has been established (R39) which states that the Receiving Depository Financial Institution (RDFI) determines that the source document used for an ARC or POP entry to the Receiver's account is improper.

An ARC transaction that is returned using this return reason code must be made available to the ODFI no later than the opening of business on the second banking day following settle-

PERSONAL 6" CHECK

101

JOHN DEPOSITOR
1430 ANY STREET
ANYTOWN, CA 90000

DATE _____

PAY TO THE ORDER OF: _____ \$ _____
DOLLARS

ANY COMPANY
1000 BANKING WAY
ANYTOWN, CA 90000

MEMO _____

⑆00000⑆ ⑆20⑆ ⑆5325⑆ ⑆2305⑆ ⑆0⑆ ⑆000000000⑆

↑ ROUTING _____ ON-US _____ AMOUNT _____
EPC
BANK DETERMINED
PROCESSING INSTRUCTIONS

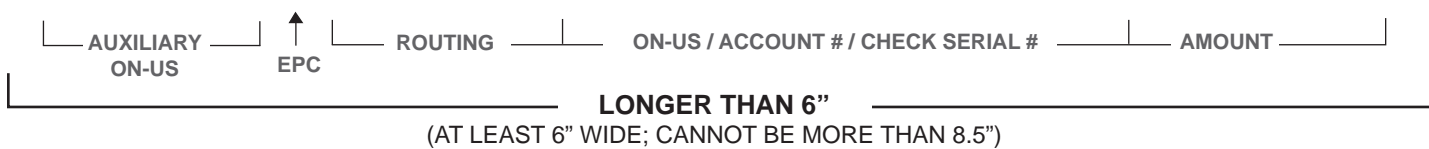
ment of the original entry. If the entry was truly unauthorized, the Receiver must sign a written statement with their RDFI and return the entry.

For more details on complying with NACHA's latest rule amendment, please contact us at 1 800 424-3004 or e-mail us at wcs@mellon.com.

*Payment method that enables the conversion of consumer check payments into one-time ACH debits at a point-of-sale location.

BUSINESS CHECK (with Auxiliary On-us Field)

| | |
|--|---|
| <p>JOHN DEPOSITOR 1430 ANY STREET ANYTOWN, CA 90000</p> | 101 DATE _____ |
| <p>PAY TO THE ORDER OF: _____</p> | <p>\$ <input style="width: 80px;" type="text"/> DOLLARS</p> |
| <p>ANY COMPANY 1000 BANKING WAY ANYTOWN, CA 90000</p> | |
| <p>MEMO _____</p> | |
| <p>⑆00000707⑆ 2⑆0000⑆P⑆20⑆ 753 256 23 05⑆ ⑆000000000⑆</p> | |



March 16, 2007 Set As Rules' Effective Date

Back Office Conversion Approved to Enhance Check Conversion Process

The membership of NACHA — The Electronic Payments Association, has approved the rules supporting Back Office Conversion (BOC), the latest electronic check conversion application created to expand the use of check conversion by originators and payment processors, effective March 16, 2007.

This latest conversion method allows payments received at the point-of-sale or manned bill payment locations to be converted in a retailers' 'back office,' mitigating concerns regarding transaction timeliness and the cost of converting checks at many locations/registers as currently occurs with Point-of-Purchase (POP) conversion. POP requires the completion of the conversion at the time of purchase due to the need to gain signed authorization and return the check marked "void" to the customer.

In contrast to POP requirements, the authorization to convert the check via BOC is to be obtained through a notice at the checkout or where the payment is made. The Originator then

retains the check and forwards it to a centralized back-office environment where the item is to be converted into an automated clearing house debit entry.

BOC is designed to improve check conversion quality and reduce costs by enabling a single workflow for all checks, removing the signed-authorization requirement and enabling electronic check capture in a controlled back-office environment.

Used in conjunction with Remote Check Capture for the clearing of all ineligible items (via substitute check or image exchange), BOC offers customers a comprehensive electronic deposit and clearing solution that helps mitigate the need to train point-of-sale personnel and reduces costs necessary to maintain conversion devices/technology at each checkout location.

For more information on BOC, and to ensure that your organization is fully prepared to implement the new application, contact our working capital solutions experts at 1 800 424-3004 or e-mail us at wcs@mellon.com.