

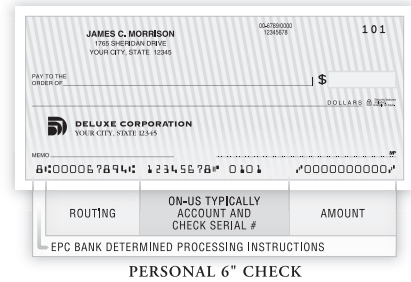
NACHA Operating Rules Amendment **FACT SHEET**

The National Automated Clearing House Association – The Electronic Payments Association (NACHA) recently announced new rules that affect the processing of paper checks 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.

PHASE ONE

Effective September 15, 2006, this phase is designed to reduce the number of incorrect check conversions. Key elements include:

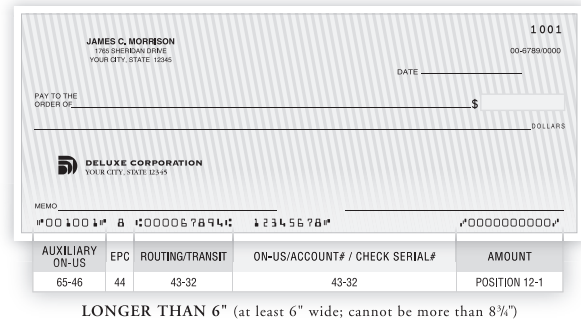
- Checks that contain an auxiliary on-us field in the magnetic ink character recognition (MICR) line are ineligible for conversion. Such checks are easily identified because they are three inches longer than standard consumer checks.
- Checks valued at more than \$25,000 are ineligible for conversion.
- The amendment allows businesses to opt out of conversion, whereas previous rules provided these provisions only to consumers.



PHASE TWO

Referred to as back-office conversion (BOC), the second phase of the amendment affects check processing for retailers and billers. Key elements include:

- BOC allows retailers and billers that currently accept checks at the point-of-sale (POS) or at manned bill payment locations to convert checks to Automated Clearing House (ACH) debits in the back-office.
- Checks valued at less than \$25,000 and lacking an auxiliary on-us field may be converted in the back-office.
- BOC will streamline the processing of paper checks for financial institutions, retailers and billers, resulting in fewer incorrect business check conversions, saving time spent correcting errors for financial institutions, and reducing incorrect financial statements for consumers and small businesses.
- Retailers who wish to use BOC must provide customer service methods and inform customers of conversion.



WHAT THE AMENDMENTS COULD MEAN 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 range from \$.75 to \$3 per check. For electronic checks, the cost decreases to \$.32 to \$.70 per check.
- The amendments will result in fewer incorrect business check conversions, reducing time spent processing and correcting errors.
- Changes in check conversion will affect internal operations and fraud prevention processes, like Positive Pay.
- With BOC, additional training will be required for customer service and front-line employees. Financial institutions should anticipate a higher-than-normal call volume with questions related to individual transactions, consumer and business account statements, and check conversion.

CONSUMERS

- 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 caused by the customer being required to give a written authorization in addition to signing a check.
- Checks that have been converted to electronic transactions will appear on periodic financial statements as brief descriptions, including the transaction date and amount, biller information and check serial number.

BUSINESSES

- BOC provides an additional option—beyond point-of-purchase (POP) and accounts receivable conversion (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. Businesses can also opt-out directly with each biller to communicate their preferences.
- Checks that have been converted to electronic transactions will appear on periodic financial statements as brief descriptions, including the transaction date and amount, biller information and check serial number.

RETAILERS

- BOC streamlines electronic check processing methods and makes it easier for retailers to continue to accept checks and implement the new exception rules.
- Checks can still be authorized by check acceptance companies at point-of-sale.
- Retailers that intend to back-office convert paper checks must post a sign at the point-of-sale (POS) that includes a customer service number established to address consumer concerns, and must also distribute written notice to consumers.
- Customer notices and disclosures must be updated by January 1, 2007 to account for the Regulation E disclosures to customers for the electronic transaction.
- Companies that back-office convert must create a digital image of the entire check and archive it for two years.
- BOC does not require 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 of each store.
- BOC requires retailers or third-party processors to securely destroy paper checks converted in the back-office.

HOW DELUXE IS RESPONDING

As the proven check expert, Deluxe is committed to providing financial institutions and their customers the most accurate and relevant information available regarding these recent rule changes. To help banks and credit unions manage the transition and educate customers, Deluxe has created the comprehensive Check Resource Center, located at www.deluxe.com. Designed to arm financial institutions with relevant information, the Check Resource Center 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, www.electronicpayments.org).