



NACHA Operating Rules Amendment – Glossary of Terms

The following terms are commonly used in reference to the most recent amendments to the NACHA Operating Rules regarding electronic check processing.

Accounts Receivable Conversion (ARC) – An automated clearing house (ACH) transaction format that supports the electronic clearing and settlement of checks converted to electronics at lockboxes or other remittance collection sites. An example of this would be when a check is written, typically to pay a bill, and the biller converts that check to an ACH transaction.¹

Automated Clearing House (ACH) – A nationwide electronic funds transfer system that allows interbank clearing of electronic payments for participating financial institutions. Common examples of ACH deposits include automated deposits for social security, payroll or income tax refunds.²

Auxiliary On-Us Field – This optional field is located in the line of numbers at the bottom of all checks. Checks that contain this field are generally nine-inches long—three inches longer than standard consumer checks—and are easy to identify. Checks that contain an auxiliary on-us field are ineligible for conversion to electronic transactions.³

ACH-Based Electronic Check – A payment that begins as a source document is converted into an ACH debit entry; or a payment that begins as a paper check is truncated to an ACH debit entry.⁴

Back-Office Conversion (BOC) – An ACH based electronic check processing method that allows retailers to keep most consumer and small-business checks presented in checkout lanes and send them to the back office to convert to electronic payments later in a batch, the same way financial institutions process conversions.⁵

Biller – A business or organization that issues a bill or invoice requesting payment for a product or service rendered to a customer or client.⁶

Check Conversion – The processes of converting a source document (a paper check) to an ACH debit or ATM/point-of-sale (POS) debit. When a check is converted to an ACH debit, the rules of the National Automated Clearing House Association apply.⁷

Consumer – An individual who writes a check drawn on a consumer account.⁸

Consumer Account – An account used primarily for personal, family and household purposes.⁹

Financial Institution – Any depository financial institution, including a national bank, a state bank, a federal or state savings bank, a credit union, or a savings association.¹⁰

Lockbox Provider – A lockbox is a post office box used by organizations to receive mailed payments. A lockbox provider manages a lockbox for a business, processing incoming payments to streamline operations, decrease float and accelerate check clearing.¹¹

Magnetic Ink Character-Recognition (MICR) – A type of recognition that relies on detecting characters that have been machine-printed in magnetic ink to rigid specifications.¹²



MICR Line – Numbers printed in magnetic ink near the bottom on the front of a check to facilitate automated processing. These numbers identify the financial institution on which the check is drawn, the account at that institution, the amount of the check and other identifying information. The position and content of the MICR line are governed by industry standards.¹³

National Automated Clearing House Association — The Electronic Payments Association (NACHA) – NACHA is a not-for-profit association representing more than 11,000 financial institutions through direct memberships and a network of regional payments associations, and 650 organizations through industry councils. NACHA develops operating rules and business practices for the ACH Network and for electronic payments in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), e-checks, financial electronic data interchange (EDI), international payments, and electronic benefits services (EBS).¹⁴

Original Check – The first paper check written or issued with respect to a particular payment transaction.¹⁵

Originating Depository Financial Institution (ODFI) – Financial institution that originates ACH entries at the request of and by an agreement with its customers. ODFI's must abide by the provision of the NACHA Operating Rules and Guidelines.¹⁶

Payee Verification – Payee verification is an enhanced security option that expands on Positive Pay software. By verifying the payee name matches the initial Positive Pay report, payee verification ensures payee information has not been altered and reduces the chance of check fraud and loss.¹⁷

Positive Pay – Positive Pay is a check matching service used by financial institutions to detect and prevent fraud. Businesses provide their financial institution a report of all checks issued, including date, amount and check number. When the issued checks are deposited or cashed, the financial institution compares deposit information to the initial report, and alerts the business of discrepancies. The business that issued the check must approve or deny the payment before the check can clear.¹⁸

Point-of-Purchase (POP), Point-of-Purchase-Processing (POPP) —An ACH transaction format for converting checks tendered at the point-of-sale to electronic (ACH) transactions. With this format checks are voided and returned to a customer at the checkout counter.¹⁹

Point-of-Sale (POS) – The location where a transaction occurs.²⁰

Receiving Depository Financial Institution (RDFI) – A financial institution qualified to receive ACH entries and has agreed to abide by the NACHA Rules.²¹

Regulation E – A Federal Reserve Board regulation that establishes and protects the rights, liabilities, and responsibilities of participants in electronic fund transfer (EFT) systems.²² Due to recent revisions to this regulation, NACHA must ensure all consumer disclosure notices maintain compliance with Regulation E. As a result, retailers and billers must provide updated disclosure notices that match Regulation E notice language to educate consumers about BOC no later than January 1, 2007.²³

Retailer/Merchant – An individual or company that sells goods or commodities to consumers, including those who accept payments at manned bill payment locations (usually referred to as billers).²⁴



Standard Entry Class (SEC) Code – NACHA requires the use of SEC Codes for each transaction settled through the ACH network. Each code identifies what type of transaction must occur to complete the payment. ARC, POP and BOC are examples of SEC Codes.²⁵

Small Business – An independently owned and operated business that conforms to standards set by the Small Business Administration or by state law regarding number of employees and yearly income.²⁶

Small-Business Account – An account used by a small business primarily for business and related expenses including travel, supplies, payroll, etc.²⁷

^{1-5, 7, 9, 10, 12-14, 19, 20, 23}NACHA – www.nacha.org and www.electronicpayments.org

^{11, 27}Info Merchant

⁶Accounts Payable Network

^{15, 16, 21}Wachovia Corp.

^{11, 17, 18}eBankLink.com

^{8, 24, 26}Dictionary.com

²²Federal Reserve Board

²⁵Alliance Payment Technologies, Inc.