

ODFI Best Practices for Originating ACH Transactions

An ACH Risk Management White Paper

This white paper includes survey results from NACHA's Risk Management Advisory Group's April 2009 survey *ODFI Best Practices for Originating ACH transactions in Challenging Economic Times* and includes an analysis of possible gaps in ODFI practices in relation to the *NACHA Operating Rules* and Office of Comptroller of the Currency (OCC) Guidelines.



Introduction

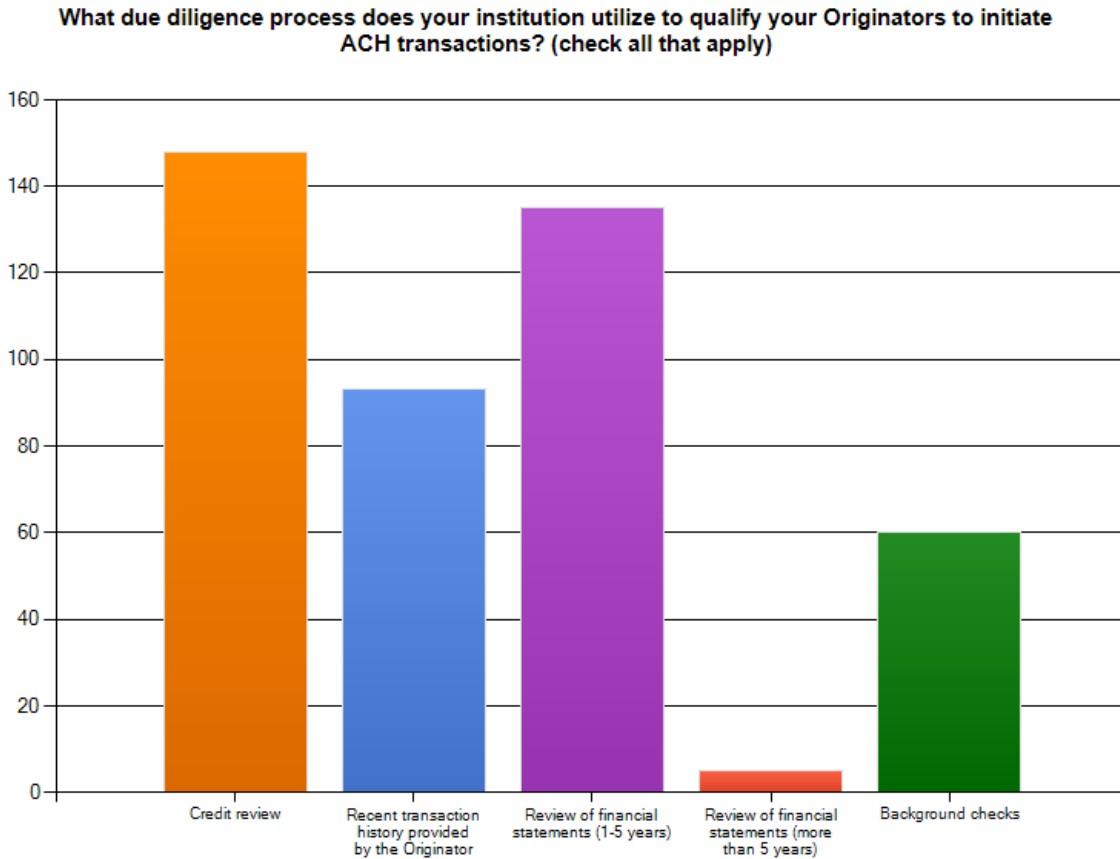
NACHA's Risk Management Advisory Group (RMAG) sponsored a survey in April 2009 entitled, *ODFI Best Practices for Originating ACH Transactions in Challenging Economic Times*. One hundred sixty-three ODFIs responded to the survey offering insight into current ACH origination practices. This analysis of the survey results considers the ODFIs' responses in relation to provisions of both the *2009 NACHA Operating Rules (Rules)*, as well as the Office of Comptroller of the Currency (OCC) Bulletins 2006-39, *Automated Clearing House Activities: Risk Management Guidance* and 2008-12, *Payment Processors: Risk Management Guidance*. These OCC Bulletins, while specifically addressing national banks and their examiners, have become the basis for discussions of sound risk management practices for ODFIs in all regulatory classifications.

Responses to this survey confirm that many ODFIs adhere closely to prescribed rules and guidelines for ACH origination. These ODFIs lend strength to the Network. Survey responses also reveal some ODFI practices that depart from the rules and guidelines creating gaps that could add risk to the Network. These gaps can be closed by adherence by ODFIs to sound risk management practices including the following six practices. It is recommended that an ODFI:

- employ a multi-faceted approach to underwriting Originators; a credit review alone is not enough to qualify a new Originator;
- seek objective, unbiased information about Originators;
- know details about all Originators related to third party relationships – i.e., know their customers' customers;
- monitor credit exposure across multiple settlement dates;
- recognize that risk exposure related to an Originator spans payment channels; and
- review policies and practices periodically as the business environment changes.

Analysis and Interpretation of Survey Results

Question 1: What due diligence process does your institution utilize to qualify your Originators to initiate ACH transactions?



<u>Answer Options</u>	<u>Response Count</u>
Credit review	148
Recent transaction history provided by the Originator	93
Review of financial statements (1-5 years)	135
Review of financial statements (more than 5 years)	5
Background checks	60
Total Respondents to Question 1	163

Over 90% of respondents indicated that they perform credit reviews on their Originators. It is of some concern that a small number of ODFIs do not perform credit reviews before allowing a new Originator to initiate transactions. It is difficult to imagine how an ODFI could determine an effective exposure limit without performing a credit review of an Originator.

Article Two, Subsection 2.1.12, ODFI Exposure Limits, of the *Rules* states that an ODFI must establish an exposure limit for the Originator or Third-Party Sender, review that exposure limit periodically, implement procedures to monitor entries relative to the exposure limit across settlement dates, and implement procedures associated with IAT entries and WEB entries.¹

Most ODFIs that responded to the survey indicate that they perform credit reviews on Originators, but most respondents indicated that they do not perform background checks. The *Rules* do not require background checks, but OCC Bulletin 2006-39 includes a section on establishing Originator underwriting standards that does list background checks as a component of sound underwriting standards:

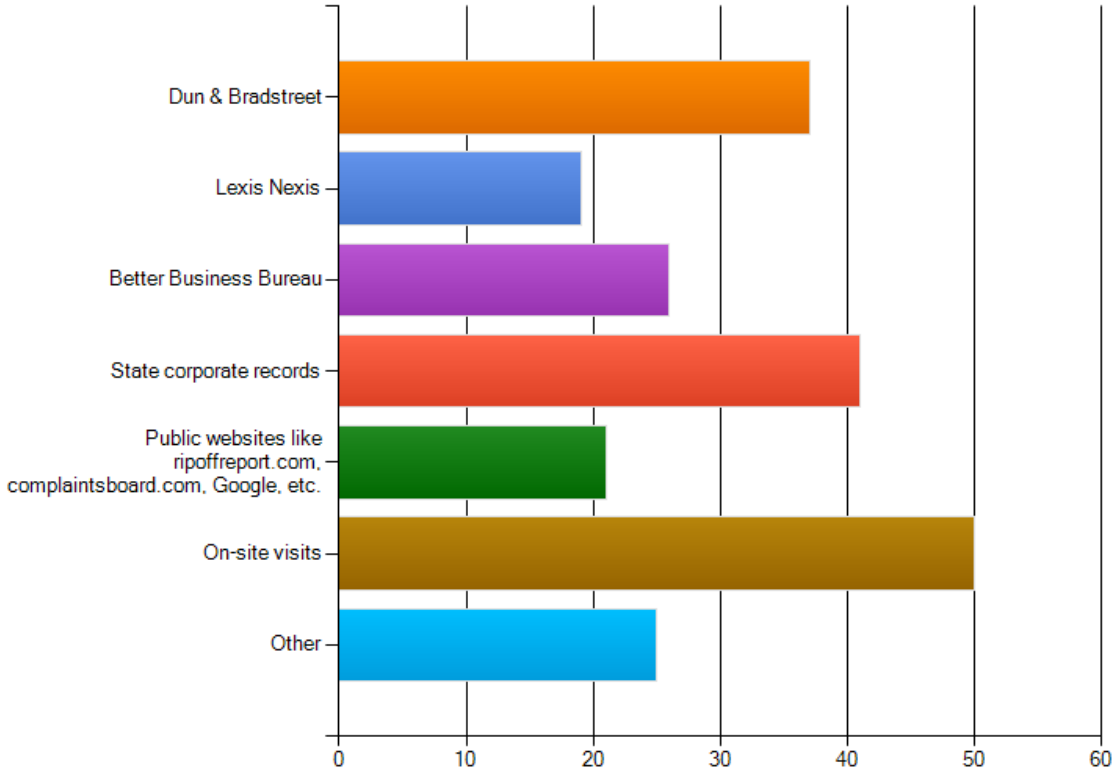
“...bank management should implement underwriting standards for all Originators. Such standards generally:

- Define desirable, prohibited, and restricted Originators;
- Require a background check of the Originator to validate the legitimacy of the business (if necessary, this check can be supplemented with a background check on the principal business owners of the Originator);
- Require evaluation of the Originator’s creditworthiness, including a comprehensive financial analysis (similar to that performed on other potential unsecured borrowers);
- Outline the type and timing of financial information to be provided by the Originator;
- Require review of the Originator’s sales history;
- Summarize documentation requirements, including social security number or tax identification number;
- List permissible Standard Entry Class (SEC) types;
- Provide authorization procedures for approved Originators;
- Provide guidelines for setting exposure limits, including requirements for pre-funding or collateral requirements;
- Establish over-limit monitoring and approval;
- Outline Originator account termination procedures; and
- Allow the bank to audit Originators’ ACH processes and controls at the bank’s discretion.”

¹ IAT Rules became effective September 18, 2009

Question 2: If your institution performs background checks, which sources are used?

If your institution performs background checks, which sources are used? (check all that apply)

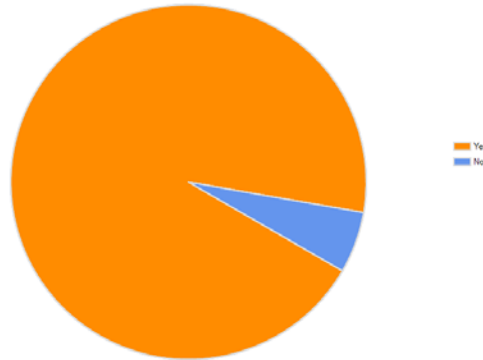


<u>Answer Options</u>	<u>Response Count</u>
Dun & Bradstreet	37
On-site visits	17
Better Business Bureau	26
State corporate records	41
Public websites	21
Lexis Nexis	50
Other	25
Total Respondents to Question 2	83

All of these sources provide some useful information; however, users should understand that some of them contain information that comes directly from the entity being profiled. In such cases, the information may include a biased opinion rather than objective facts. That does not imply that the information is necessarily incorrect, just that an ODFI performing a background check should consult more than one source in order to corroborate information about an Originator.

Question 3: Does your institution take into consideration the Originator’s business line?

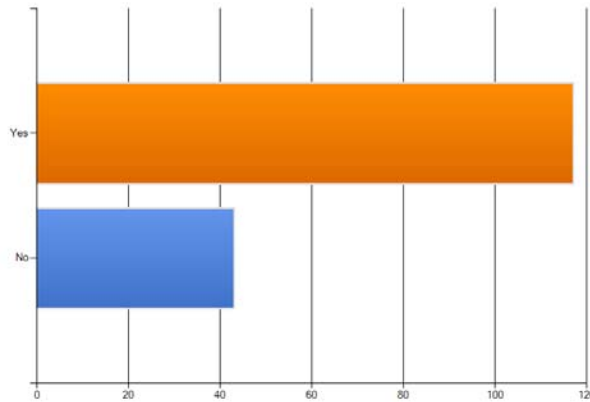
Does your institution take into consideration the Originator’s business line? (i.e. bill payment, selling widgets, online payment processor, mail order/telephone order companies, credit repair companies, etc.)



<u>Answer Options</u>	<u>Response Count</u>
Yes	152
No	9
Total Respondents to Question 3	161

Question 4: Does your institution vary the qualification process depending on the Originator’s business line or industry?

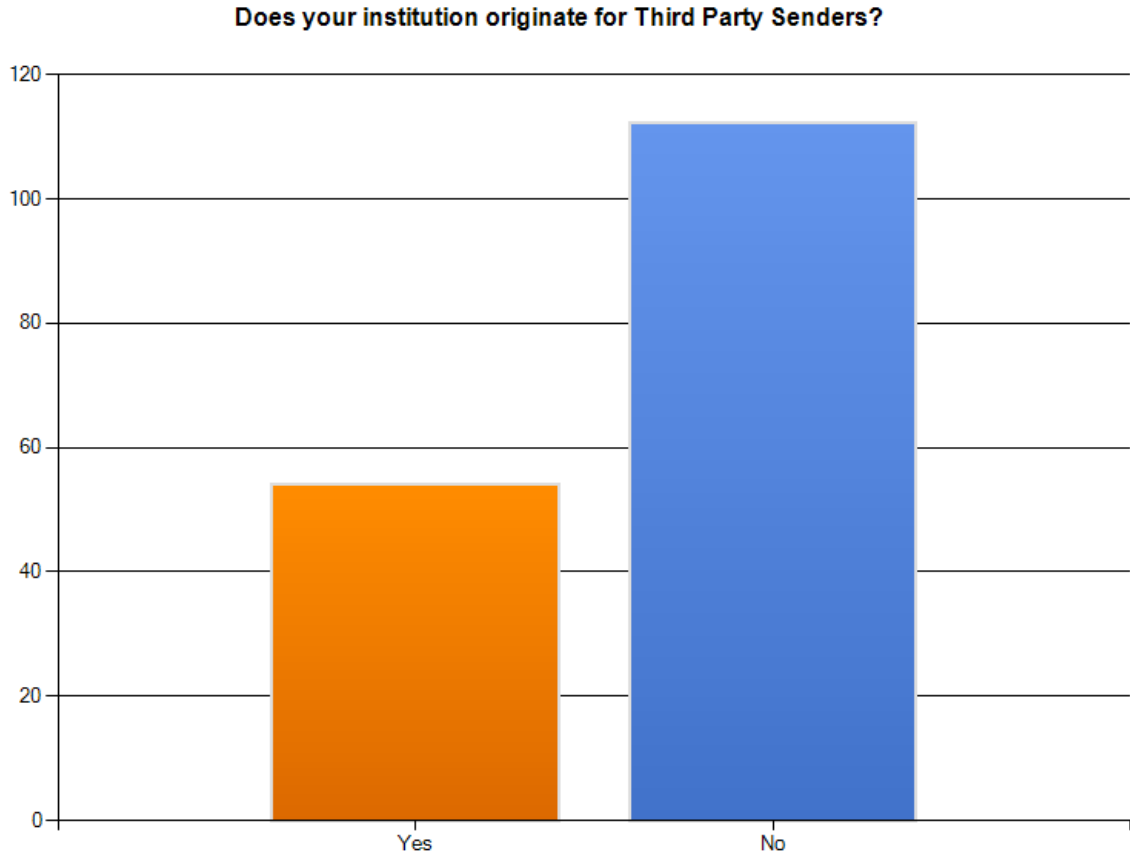
Does your institution vary the qualification process depending on the Originator’s business line or industry?



<u>Answer Options</u>	<u>Response Count</u>
Yes	117
No	43
Total Respondents to Question 4	160

While most respondents to Question 3 indicated that their institution takes into consideration the Originator’s business line, Question 4 indicates that many ODFIs do not differentiate their handling of Originators depending on the Originator’s line of business or industry after that consideration.

Question 5: Does your institution originate for Third-Party Senders?



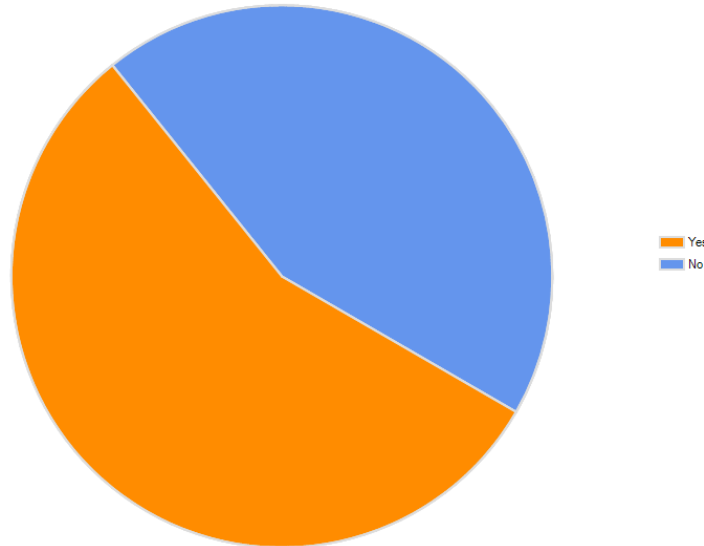
<u>Answer Options</u>	<u>Response Count</u>
Yes	54
No	112
Total Respondents to Question 5	166

Over 68% of the respondents to this question indicate that their institution does not originate for Third-Party Senders. A follow-up question might be “Are you sure?” Third-Party Senders are not always easily recognized or appropriately identified by an ODFI. A simple explanation of a Third-Party Sender is an entity other than the Originator which initiates ACH transactions to their ODFI on behalf of an Originator or Originators. Many ODFIs mistakenly believe that a Third-Party Sender is the ultimate Originator because the ODFI has the contractual relationship with the Third Party Sender and not with the Originator. A closer look may reveal Third-Party Sender relationships. Examining the Company Name Field of Batch Header Records in an ACH file can help ODFIs identify Third-Party Sender relationships. A file containing multiple batches with different Company Names in the Header Record may suggest that the Originator is in fact a Third-Party Sender.

OCC Bulletin 2006-39 clearly addressed the need for ODFIs to know details about all participants in third party relationships by indicating that financial institutions “should know, at a minimum, for which Originators they are initiating entries into the ACH Network. Thus, banks should require Third-Party Senders to provide certain information on their Originator customers such as the Originator’s name, taxpayer identification number, principal business activity, and geographic location. Also, before originating transactions, a bank should verify (directly or through a Third-Party Sender) that the Originator is operating a legitimate business.”

Question 6: Does your due diligence differ between Originators and Third-Party Senders?

Does your due diligence differ between Originators and Third Party Senders?



<u>Answer Options</u>	<u>Response Count</u>
Yes	57
No	45
Total Respondents for Question 6	102 ²

OCC 2008-12 states that “When a bank has a relationship with a processor, it is exposed to risks that may not be present in relationships with other commercial customers.”

The response to Question 6 could be interpreted two ways. It may be that all ODFIs that originate for Third-Party Senders employ a more stringent due diligence process for this type of origination (which carries an increased risk over direct relationships with Originators), as the ODFI does not have an agreement with Originators behind Third-Party Senders. The responses to this question could also mean that many ODFIs that originate for Third-Party Senders do not differentiate their due diligence for different relationships. If so, they may not have a defined process for knowing and evaluating not just their immediate customer, but their customer’s customer.

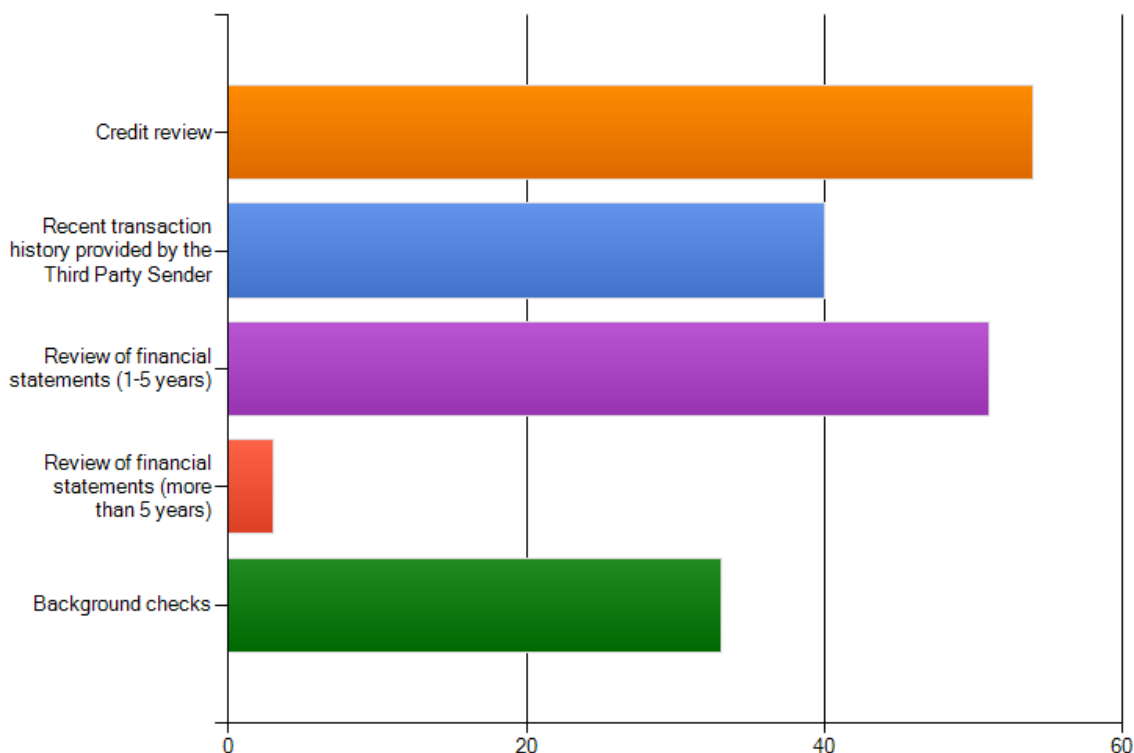
The OCC Guidance goes on to say that “Banks have two distinct areas of responsibility to control these risks. The first is due diligence and underwriting, and the second is monitoring these high-risk accounts for high levels of unauthorized returns and for suspicious or unusual patterns of activity.”

² *Note – in Question 5, 54 respondents answered affirmatively that they have Third-Party Sender relationships. However, 102 responses were received to Question 6 regarding their due diligence process difference between Third-Party Senders and Originators. It is important to understand the fundamental differences between a Third-Party Service Provider and Third-Party Sender. (See Appendix for more information.)

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Question 7: If your institution originates for Third-Party Senders, what due diligence process does your institution utilize to qualify a Third-Party Sender to initiate ACH transactions?

If your institution originates for Third Party Senders, what due diligence process does your institution utilize to qualify a Third Party Sender to initiate ACH transactions? (check all that apply)

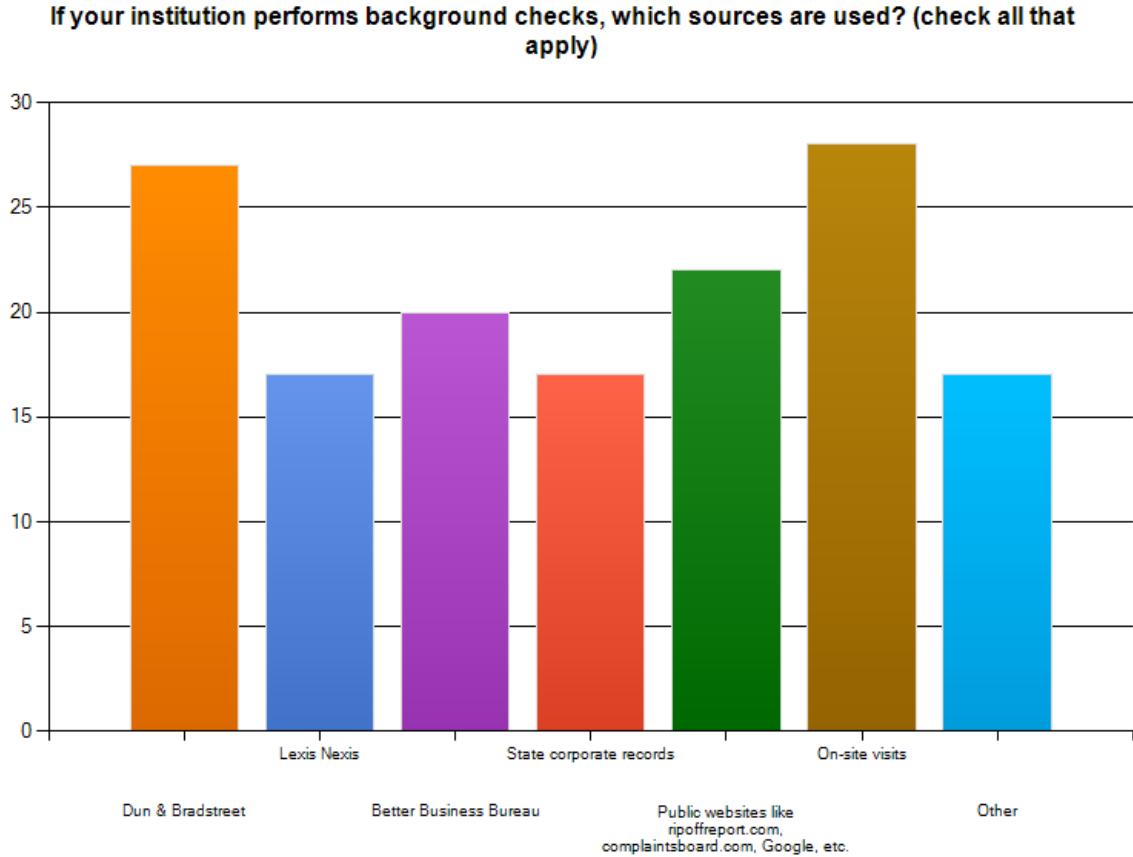


<u>Answer Options</u>	<u>Response Count</u>
Credit review	54
Recent transaction history provided by Third-Party Sender	40
Review of financial statements (1-5 years)	51
Review of financial statements (more than 5 years)	3
Background checks	33
Total Respondents for Question 7	57

Responses to this question suggest that ODFIs who originate for Third-Party Senders are more likely to perform background checks on new Third-Party Senders (58% of respondents) than ODFIs are to perform such checks on new Originators (37% of respondents to Question 1).

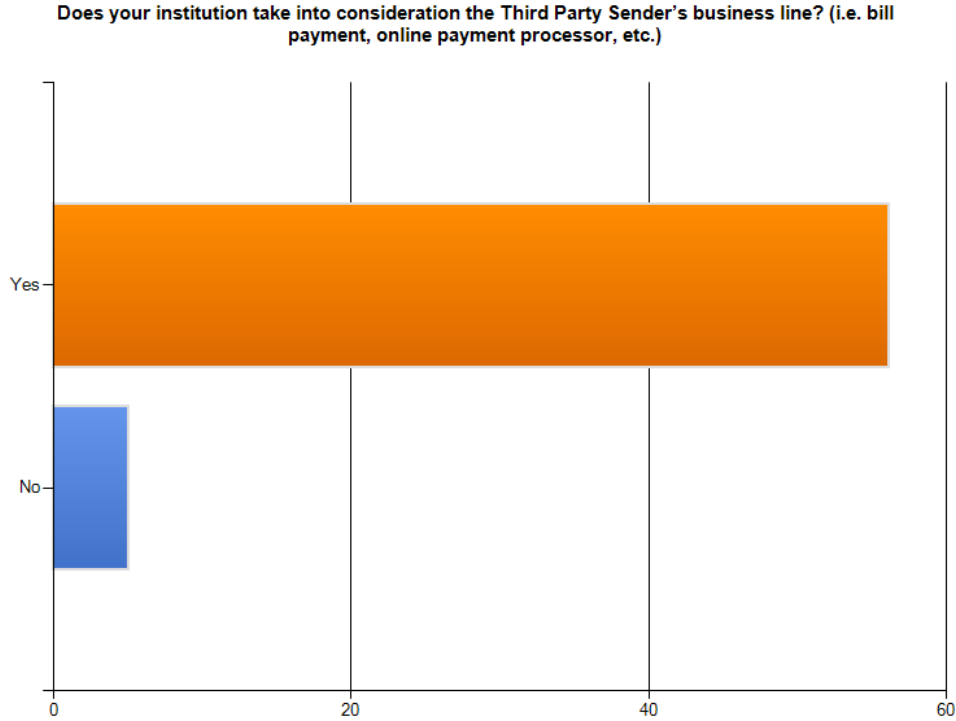
OCC Bulletin 2008-12 focuses on risk management guidance related to payment processors and states “Risks are heightened when neither the processor nor the bank performs adequate due diligence on the merchants for which they are originating payments.”

Question 8: If your institution performs background checks, which sources are used?
This question asked about sources of information used in background checks on third parties.



<u>Answer Options</u>	<u>Response Count</u>
Dun & Bradstreet	27
Lexis Nexis	17
Better Business Bureau	20
State corporate records	17
Public websites	22
On-site visits	28
Other	17
Total Respondents to Question 8	45

Question 9: Does your institution take into consideration the Third-Party Sender's business line (i.e. bill payment, online payment processor, etc.)? Presumably, the respondents who skipped this question do not originate for Third-Party Senders.

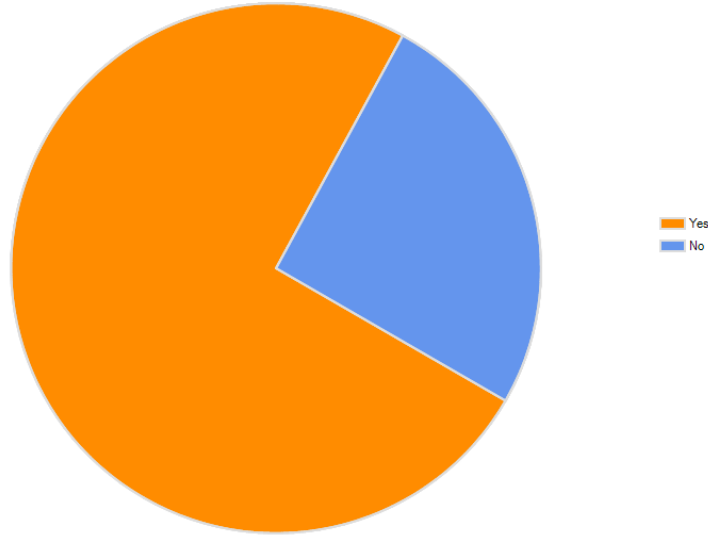


<u>Answer Options</u>	<u>Response Count</u>
Yes	56
No	5
Total Respondents to Question 9	61 ³

³ *Note – in Question 5, 54 respondents answered affirmatively that they have Third-Party Sender relationships. However, 61 responses were received to Question 9 regarding Third-Party Senders. It is important to understand the fundamental differences between a Third-Party Service Provider and Third-Party Sender. (See Appendix for more information.)

Question 10: Does your institution vary the qualification process depending on the Third-Party Sender's business line or industry?"

Does your institution vary the qualification process depending on the Third Party Sender's business line or industry?

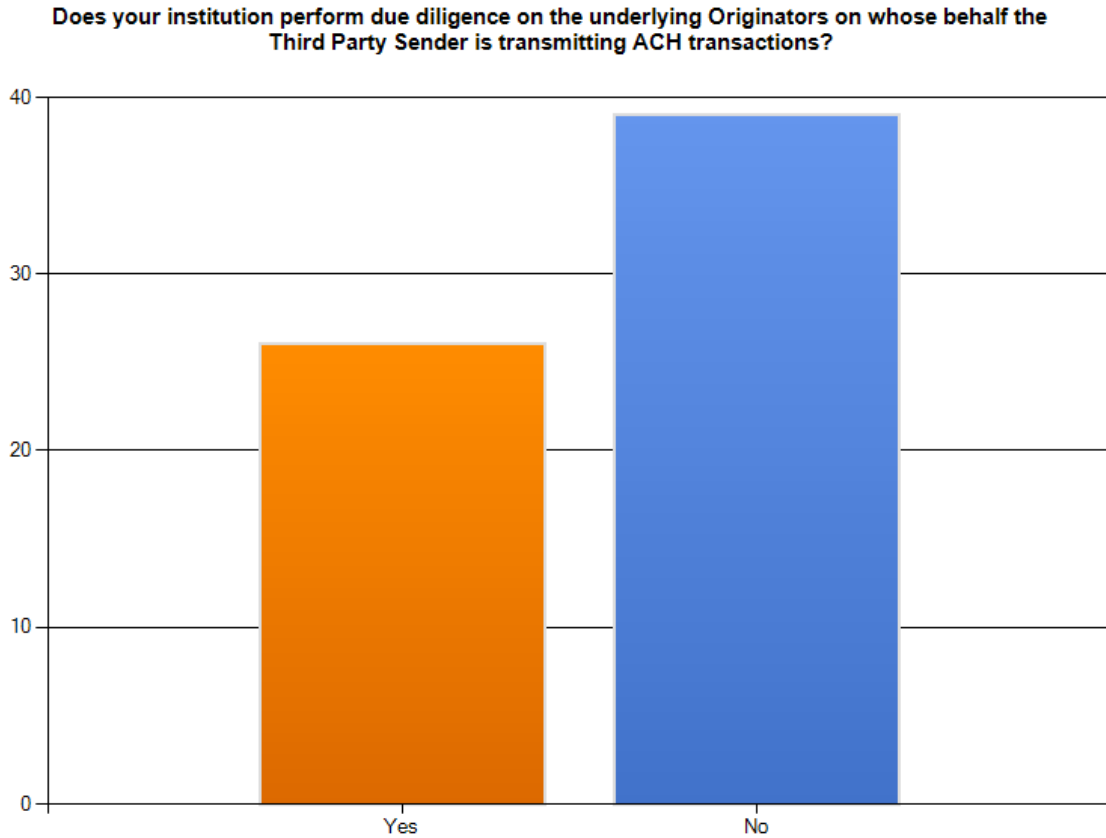


<u>Answer Options</u>	<u>Response Count</u>
Yes	47
No	16
Total Respondents to Question 10	63 ⁴

Responses to Question 11 suggest an opportunity for many ODFIs to improve their due diligence practices.

⁴ *Note – in Question 5, 54 respondents answered affirmatively that they have Third-Party Sender relationships. However, 63 responses were received to Question 10 regarding Third-Party Senders. It is important to understand the fundamental differences between a Third-Party Service Provider and Third-Party Sender. (See Appendix for more information.)

Question 11: Does your institution perform due diligence on the underlying Originators on whose behalf the Third-Party Sender is transmitting ACH transactions?



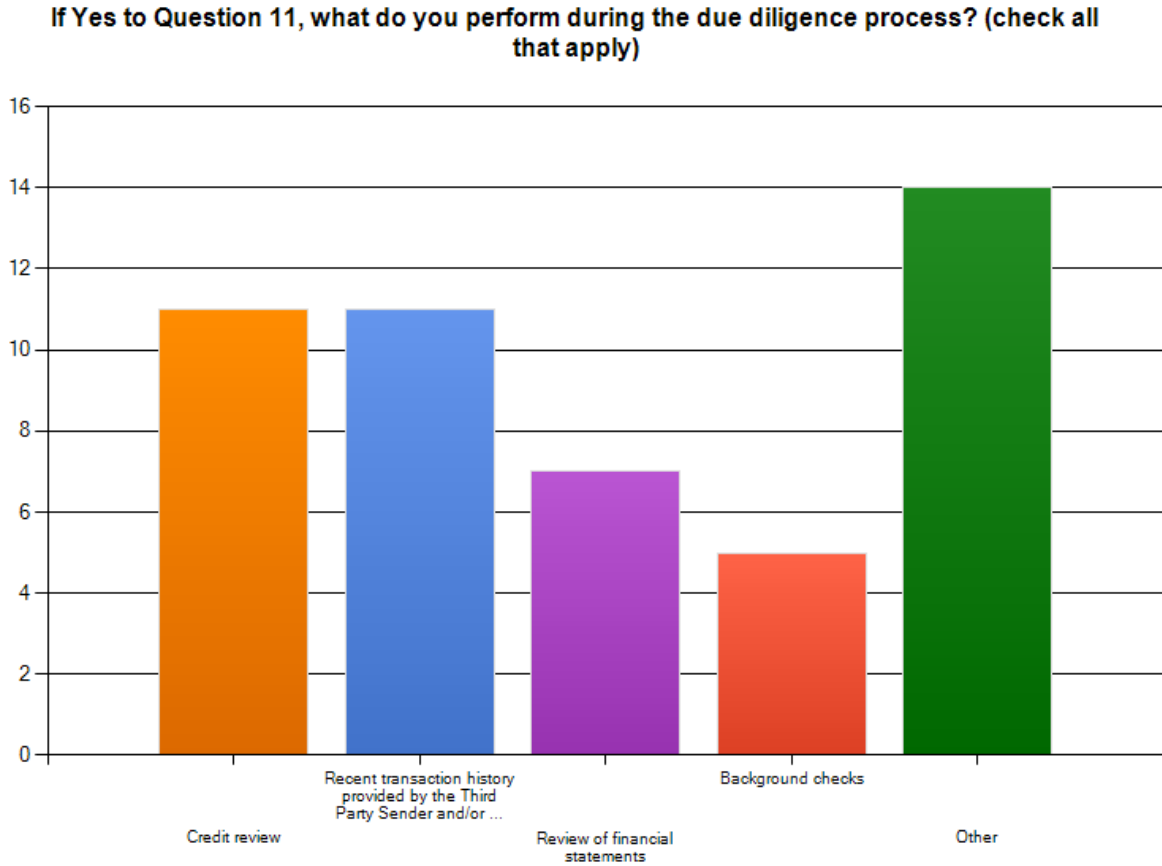
<u>Answer Options</u>	<u>Response Count</u>
Yes	26
No	39
Total Responses to Question 11	65 ⁵

Responses to Question 11 suggest an opportunity for many ODFIs to improve their due diligence practices.

Those ODFIs who responded ‘No’ clearly depart from the guidance set forth in OCC Bulletin 2006-39 which states that “banks should require Third-Party Senders to provide certain information on their Originator customers such as the Originator’s name, taxpayer identification number, principal business activity, and geographic location.” Also, before originating transactions, a bank should verify that the Originator is operating a legitimate business.

⁵ *Note – in Question 5, 54 respondents answered affirmatively that they have Third-Party Sender relationships. However, 65 responses were received to Question 11 regarding Third-Party Senders. It is important to understand the fundamental differences between a Third-Party Service Provider and Third-Party Sender. (See Appendix for more information.)

Question 12: If Yes to Question 11, what do you perform during the due diligence process?

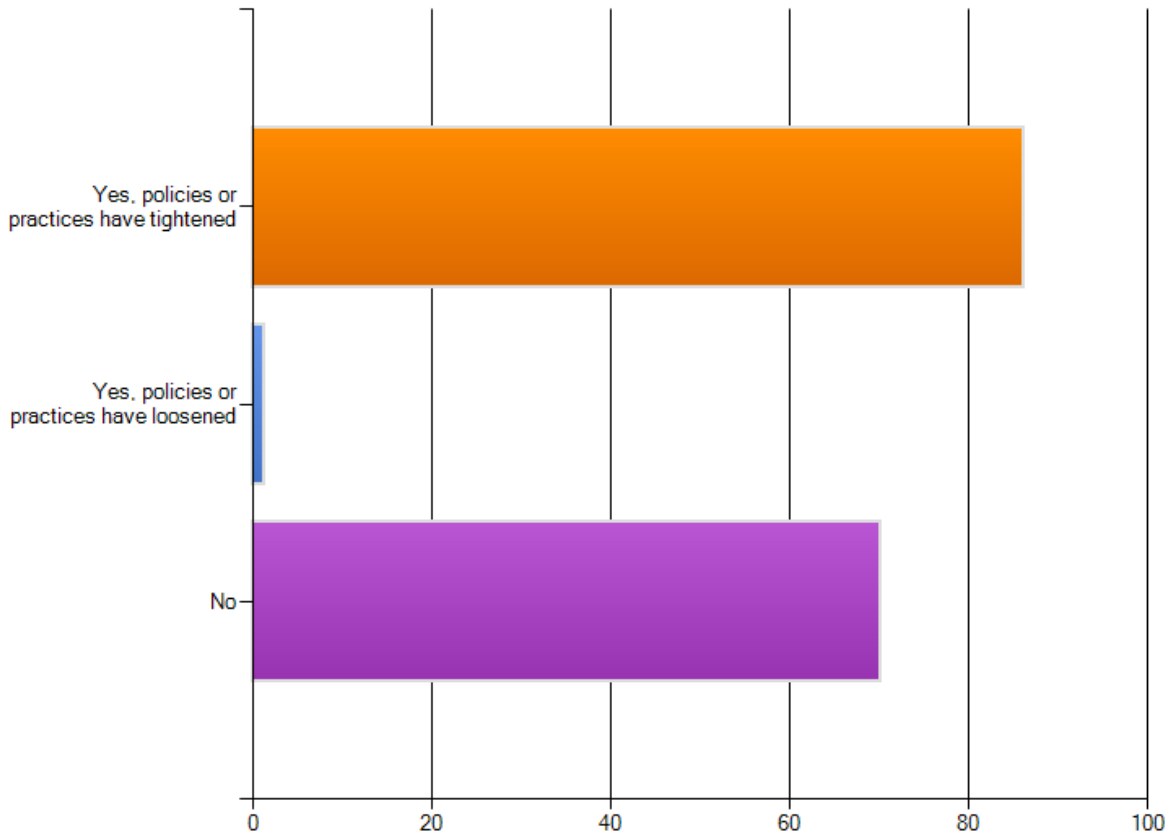


<u>Answer Options</u>	<u>Response Count</u>
Credit review	11
Recent transaction history provided by the Third-Party Sender and/or Originator	11
Review off financial statements	7
Background checks	5
Other	14
Total Respondents to Question 12	26

Question 13: Have any qualification policies or practices changed in the last 12 months?

This question begins to get at how changes in the economic environment may have affected underwriting practices.

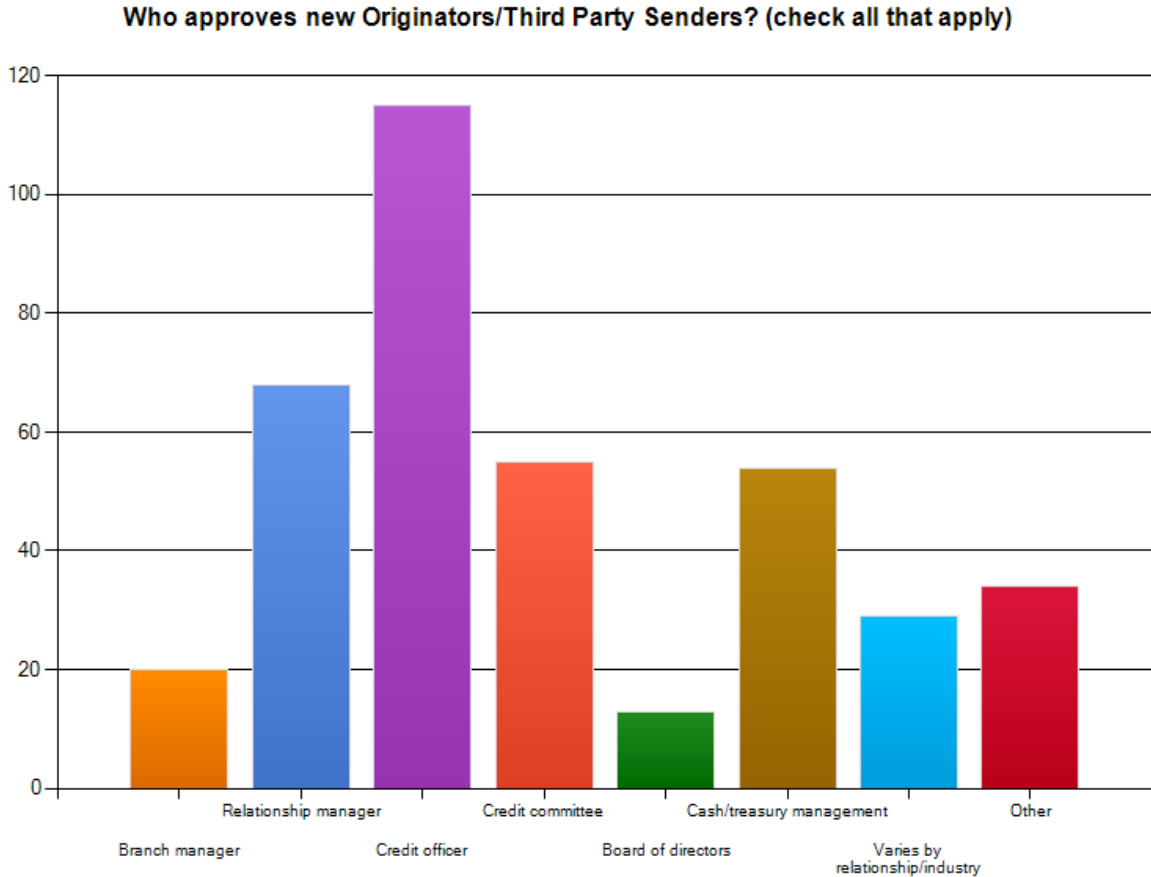
Have any qualification policies or practices changed in the last 12 months?



<u>Answer Options</u>	<u>Response Count</u>
Yes, policies or practices have tightened	86
Yes, policies or practices have loosened	1
No	70
Total Respondents to Question 13	157

Over half of the ODFIs responding have reacted conservatively to environmental changes. The fact that 44% of the respondents indicated no change is not necessarily alarming. They may have reviewed their policies and practices and found them sufficient. Others may not even have thought about the adequacy of their policies and procedures during changing economic circumstances. These may be the same ODFIs whose Originator qualification programs were inadequate even before the economic downturn.

Question 14: Who approves new Originators/Third-Party Senders?



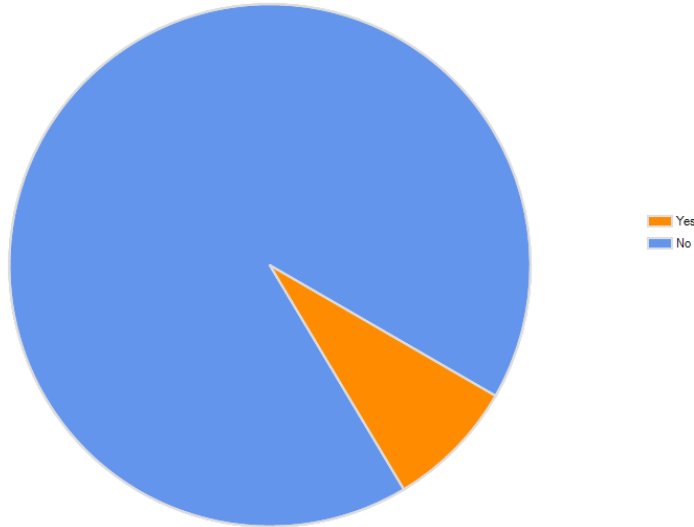
<u>Answer Options</u>	<u>Response Count</u>
Branch manager	20
Relationship manager	68
Credit officer	115
Credit committee	55
Board of directors	13
Cash/treasury management	54
Varies by relationship/industry	29
Other	34
Total Respondents to Question 14	159

Because the total count for all responses exceeds the number of respondents who answered this question, the results indicate that most respondents require multiple approvals before implementing a new Originator. This very positive finding aligns with OCC Guidance that bank management should “[s]et limits and obtain appropriate internal approvals before allowing ACH transactions to be initiated.”

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Question 15: Does your institution require a borrowing relationship in order to provide ACH origination services?"

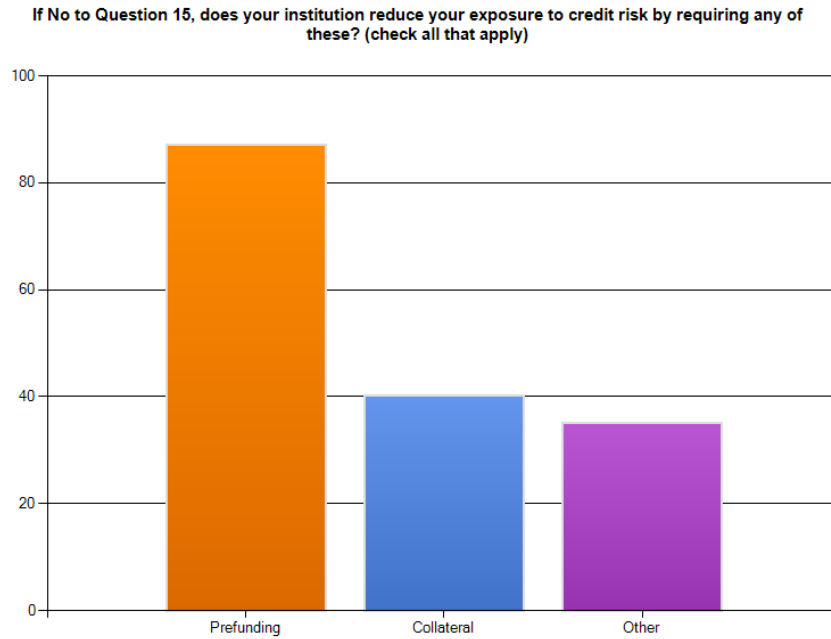
Does your institution require a borrowing relationship in order to provide ACH origination services?



<u>Answer Options</u>	<u>Response Count</u>
Yes	13
No	148
Total Respondents to Question 15	161

To further reduce credit risk, OCC Bulletin 2006-39 suggests that bank management should “require lending and ACH operations personnel to consult with one another at least annually to confirm that the Originator’s financial condition has not changed from the time the credit facility was approved.”

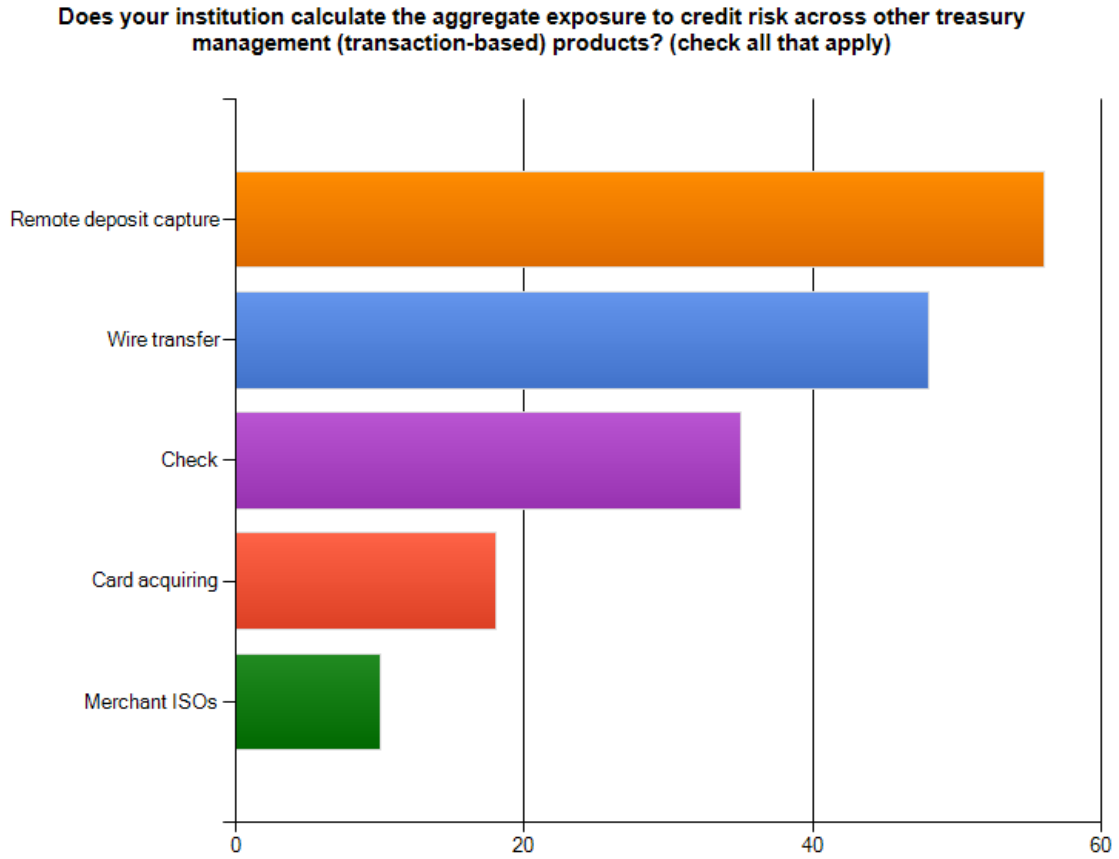
Question 16: If No to Question 15, does your institution reduce your exposure to credit risk by requiring any of these?



<u>Answer Options</u>	<u>Response Count</u>
Prefunding	87
Collateral	40
Other	35
Total Respondents to Question 16	115

Prefunding is one example of how 75% of the respondents to this question are mitigating their risk. OCC 2006-39 states “In cases in which the bank requires pre-funding before transactions are originated through the ACH Network, the bank should ensure that it has collected funds before an ACH file is sent to the ACH Operator.”

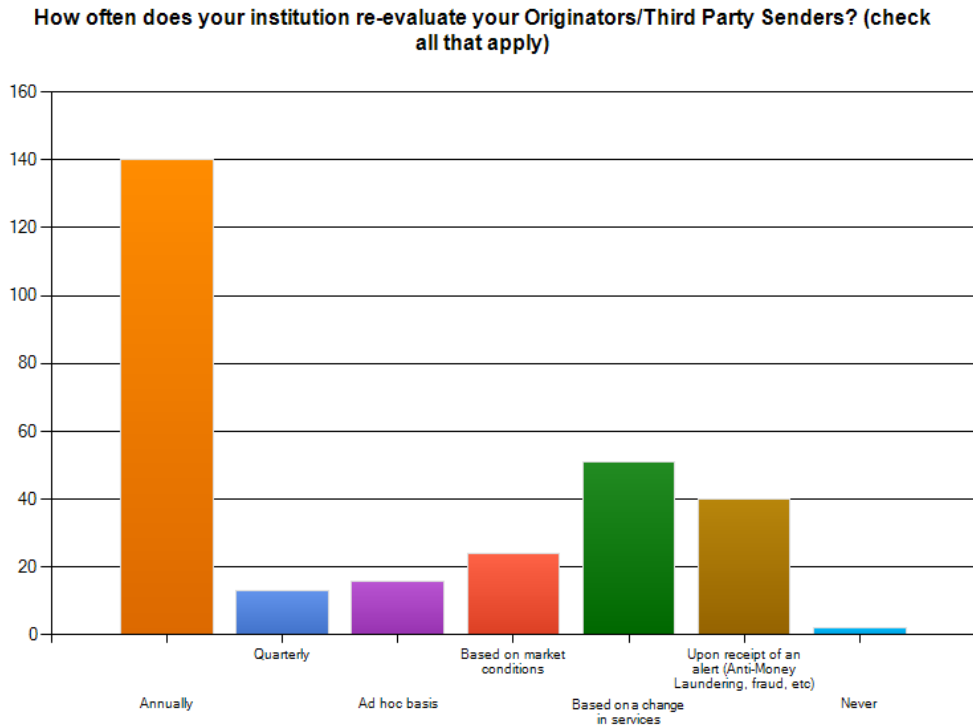
Question 17: Does your institution calculate the aggregate exposure to credit risk across other treasury management (transaction-based) products?



<u>Answer Options</u>	<u>Response Count</u>
Remote deposit capture	56
Wire transfer	48
Check	35
Card acquiring	18
Merchant ISOs	10
Total Respondents to Question 17	78

While neither the *Rules* nor OCC Bulletin 2006-39 mention calculating exposure in this way, the OCC Guidance does say that ODFI’s should “[e]stablish processes to ensure bank management remains abreast of Originators’ ongoing financial condition so management can take timely mitigating action, such as amending exposure limits or requiring pre-funding.” This suggests looking at an Originator’s entire relationship rather than basing ACH decisions solely on ACH activity. In fact, this guidance refers to the Originator’s overall financial condition, which transcends the relationship with the ODFI.

Question 18: How often does your institution re-evaluate your Originators/Third-Party Senders?



<u>Answer Options</u>	<u>Response Count</u>
Annually	140
Quarterly	13
Ad hoc basis	16
Based on market conditions	24
Based on a change in services	51
Upon receipt of an Alert (AML, fraud, etc)	40
Never	2
Total Respondents to Question 18	160

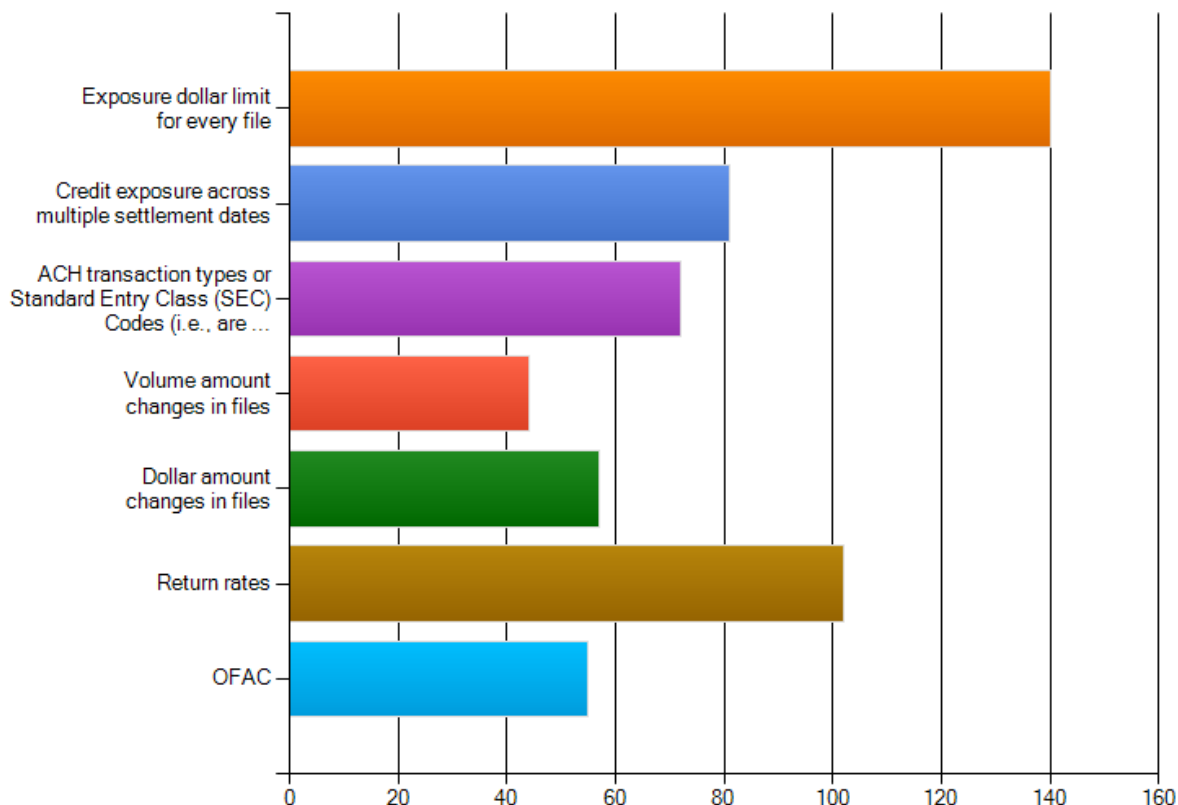
Article Two, Subsections 2.1.12, ODFI Exposure Limits, and 2.12.2.3, ODFI Exposure Limits, of the *Rules* require that an ODFI has implemented procedures to review exposure limits periodically. The OCC Guidance says banks “should set ACH credit and debit exposure thresholds for Originators and monitor the appropriateness of, and compliance with, such limits on a regular basis.” Neither calls for an annual evaluation of thresholds, but an annual review aligns with the OCC’s recommendation for lending and ACH operations personnel to consult at least annually about the Originator’s financial condition.

Note that Question 18 asks about more than just credit qualification. ODFIs must understand that a periodic re-evaluation should consider more than just creditworthiness. It should also consider risk factors such as changes in lines of

business, as well as other factors such as changes in market condition or changes in service.

Question 19: How does your institution monitor your Originator's/Third-Party Sender's files?

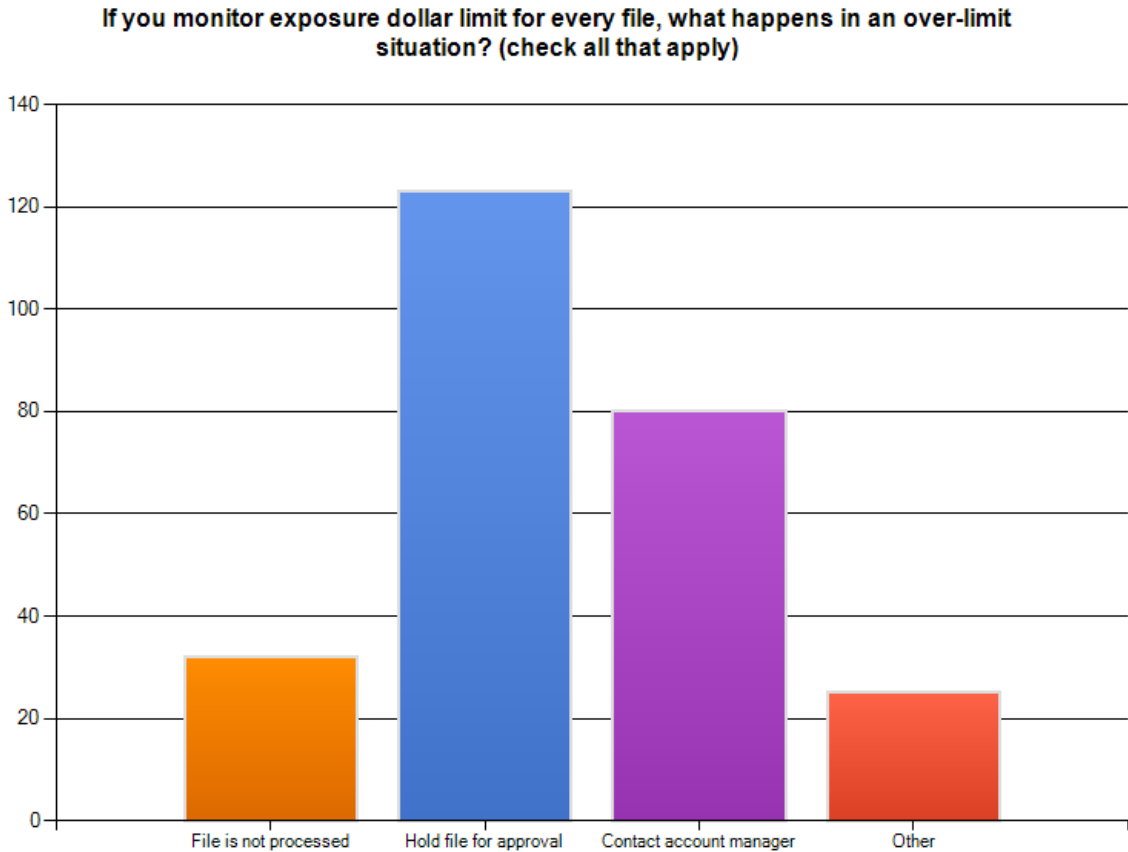
How does your institution monitor your Originator's/Third Party Sender's files? (check all that apply)



<u>Answer Options</u>	<u>Response Count</u>
Exposure dollar limit for every file	140
Credit exposure across multiple settlement dates	81
ACH transaction types or SEC Codes	72
Volume amount changes in files	44
Dollar amount changes in files	57
Return rates	102
OFAC	55
Total Respondents to Question 19	159

The most glaring gap between requirements and practices revealed by this survey is the possibility that half of the respondents to this question do not monitor credit exposure across multiple settlement dates. This is an explicit requirement in the *Rules*, clearly spelled out as a prerequisite to origination in Article Two, Subsections 2.1.12, ODFI Exposure Limits, and 2.12.2.3, ODFI Exposure Limits. The OCC Guidance echoes this with equal clarity, saying that banks “should also implement procedures to monitor ACH entries relative to the exposure limit across multiple settlement dates.”

Question 20: If you monitor exposure dollar limit for every file, what happens in an over-limit situation?



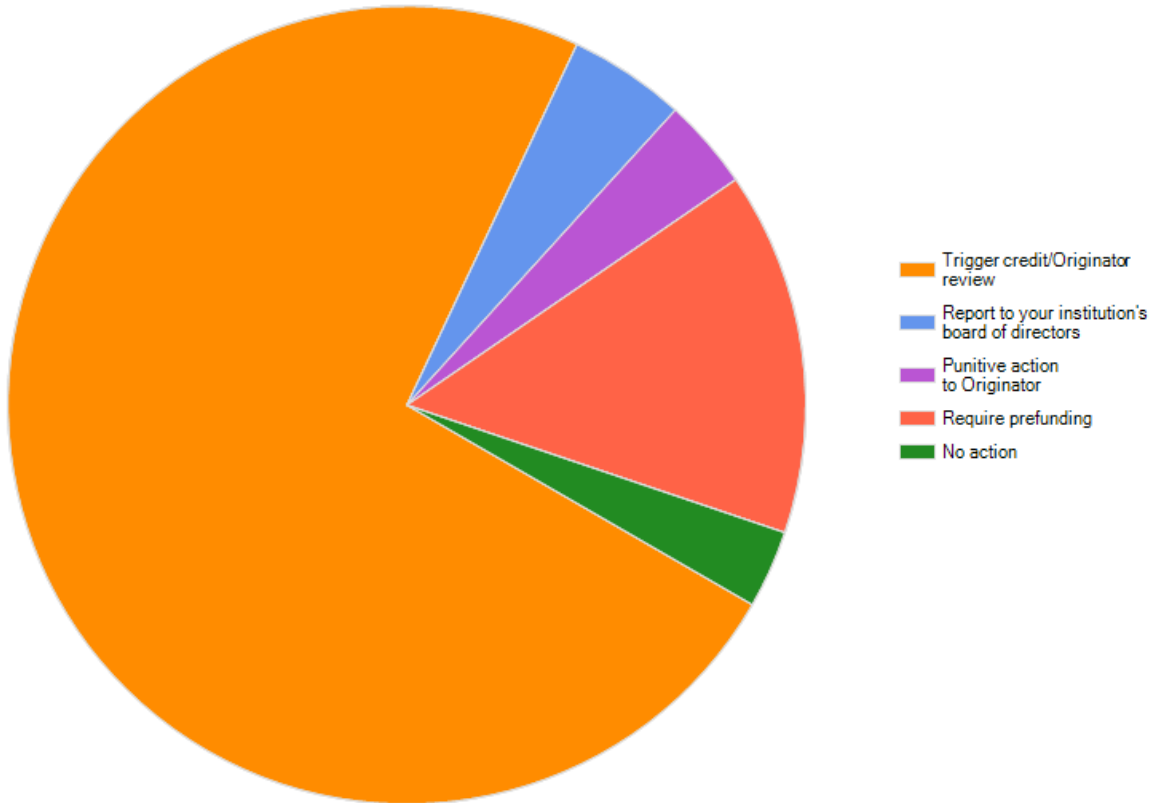
<u>Answer Options</u>	<u>Response Count</u>
File is not processed	32
Hold file for approval	123
Contact account manager	80
Other	25
Total Respondents to Question 20	154

Although a disappointing number of respondents do not monitor credit exposure over multiple settlement dates (Question 19), this question reveals that a good number do monitor origination activity and seek approvals.

The OCC Guidance advises management to “[i]mplement a process to ensure that approvals of over-limit transactions are well controlled and consistent with the bank’s policies for extending unsecured credit.”

Question 21: If excessive violations of over-limit situation occur, what is the consequence?

If excessive violations of over-limit situation occur, what is the consequence? (check all that apply)

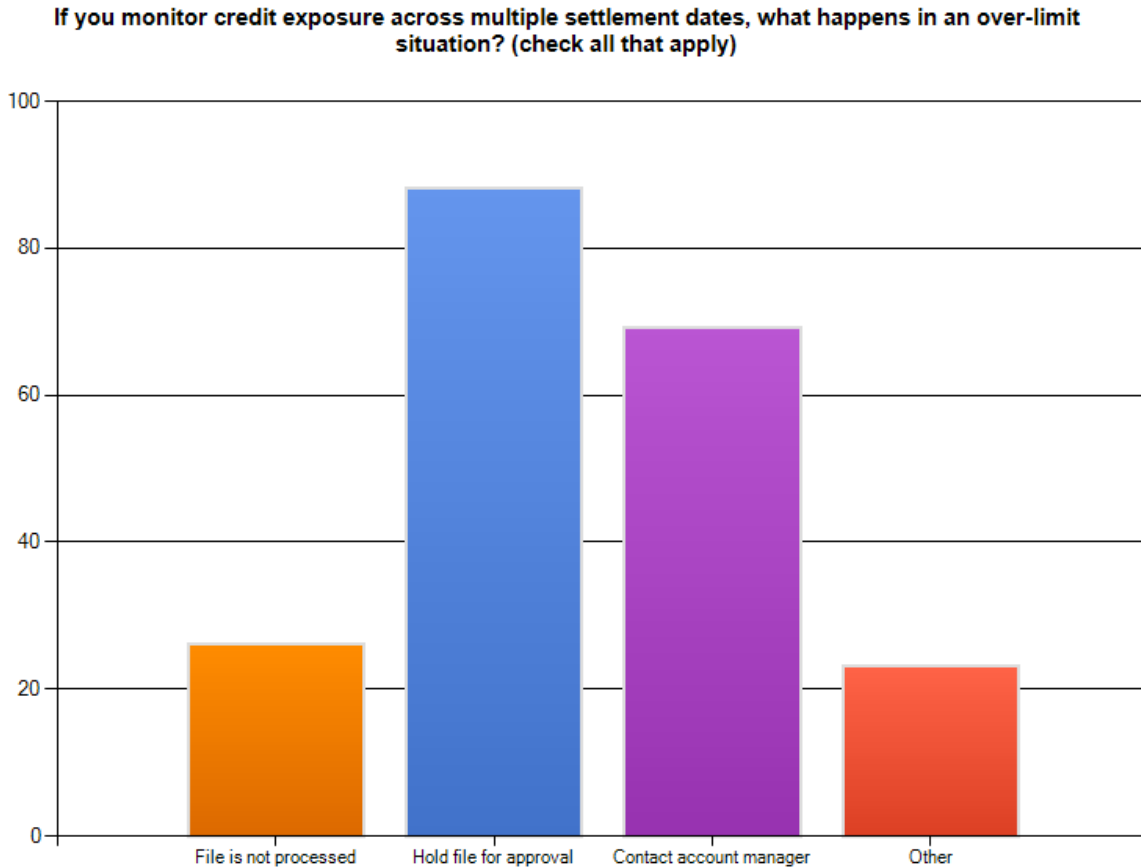


<u>Answer Options</u>	<u>Response Count</u>
Trigger credit/Originator review	140
Report to your institution's board of directors	9
Punitive action to Originator	7
Require prefunding	28
No action	6
Total Respondents to Question 21	151

The vast majority of respondents indicated that over-limit situations prompt a review of the Originator's relationship with the bank, or at least the Originator's credit qualification.

Questions 22 and 23 resemble 20 and 21, but address monitoring across multiple settlement dates and the consequences of over-limit situations for this type of monitoring. The results of these questions are very similar.

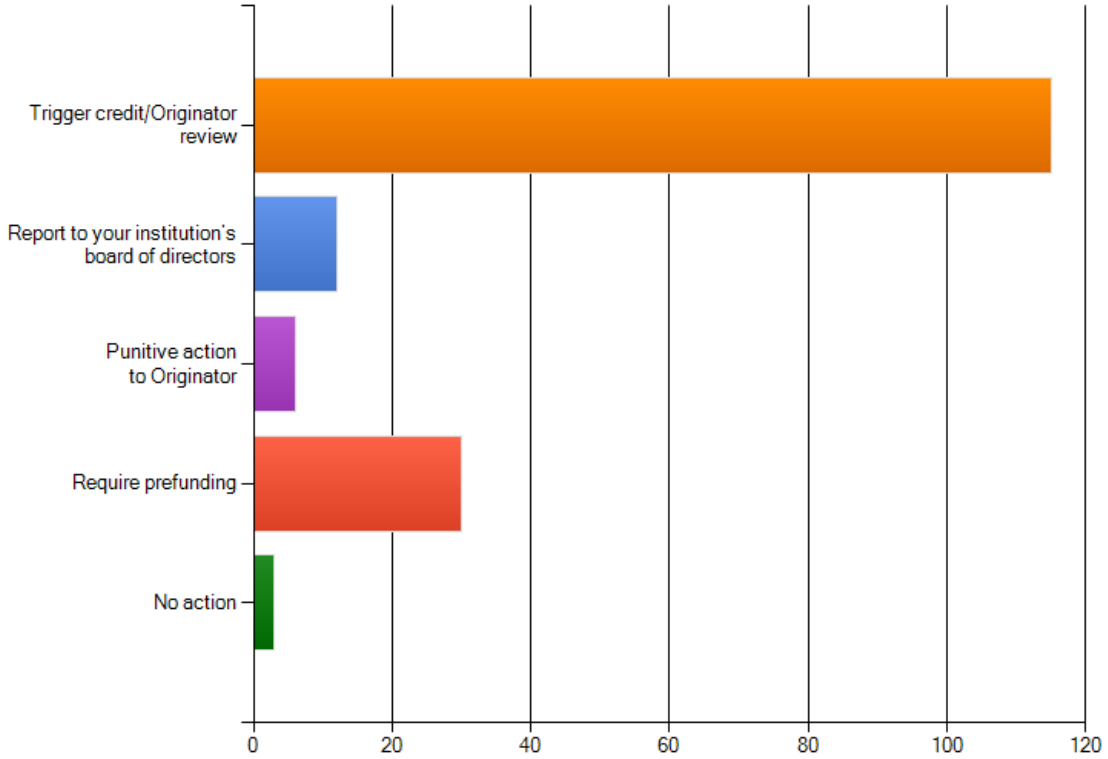
Question 22: If you monitor credit exposure across multiple settlement dates, what happens in an over-limit situation?



<u>Answer Options</u>	<u>Response Count</u>
File is not processed	26
Hold file for approval	88
Contact account manager	69
Other	23
Total Respondents to Question 22	111

Question 23: If excessive violations of an over-limit situation occur, what is the consequence?

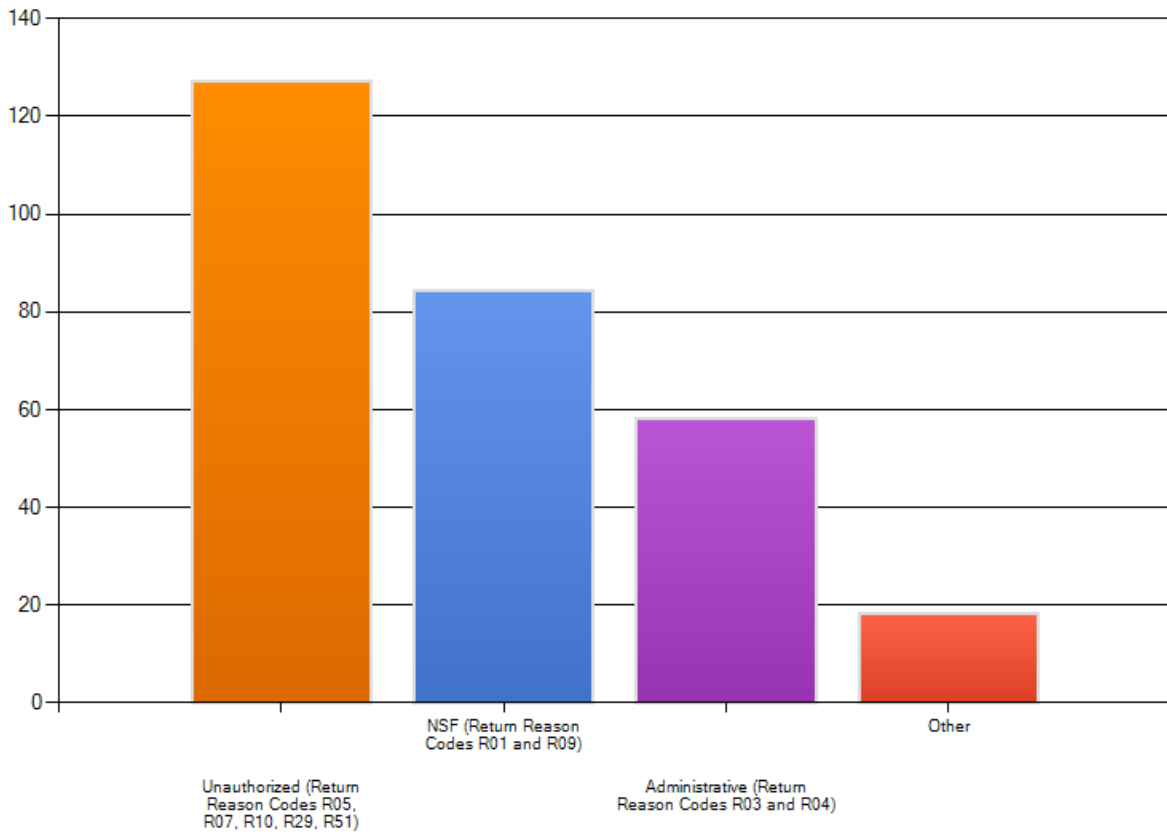
If excessive violations of an over-limit situation occurs, what is the consequence? (check all that apply)



<u>Answer Options</u>	<u>Response Count</u>
Trigger credit/Originator review	115
Report to your institution's board of directors	12
Punitive action to originator	6
Require prefunding	30
No action	3
Total Respondents to Question 23	124

Question 24: If you monitor return rates, which return categories are monitored?

If you monitor return rates, which return categories are monitored? (check all that apply)



<u>Answer Options</u>	<u>Response Count</u>
Unauthorized (R05, R07, R10, R29, R51)	127
NSF (Return Reason Codes R01 and R09)	84
Administrative (R03 and R04)	58
Other	18
Total Respondents to Question 24	132

The survey did not ask what ODFIs do with the return rate information they capture, but the survey results indicate that the great majority of ODFIs who responded are at least capturing the information.

Nearly all ODFI respondents monitor return rates for ACH transactions returned for unauthorized reasons and a majority monitor NSF return rates. Just as important is the administrative return category, but responses were markedly lower. While the administrative (or invalid) return category may simply point to issues with the quality of the transactions, high return rates may also indicate high risk activity by the Originator.

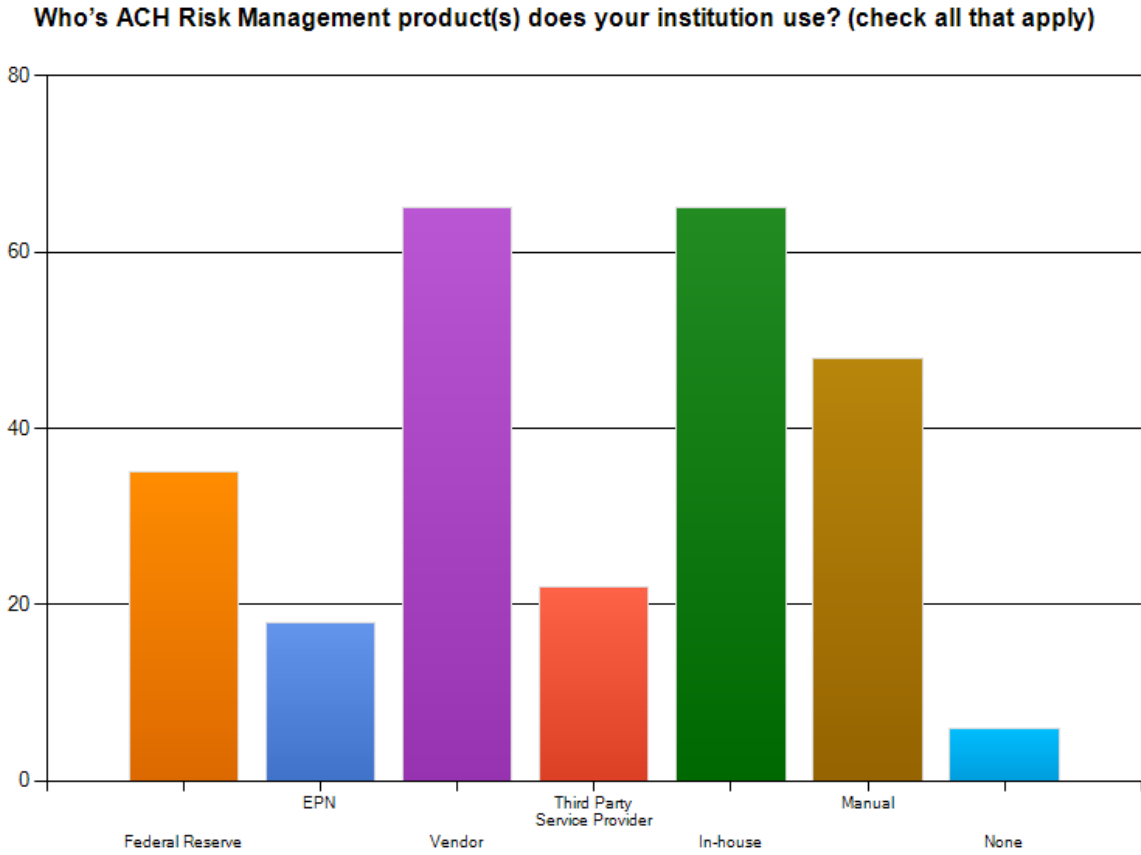
The ACH Rules do not *require* ODFIs to monitor return rates. However, Article Two, Section 2.18, ODFI Reporting Requirements, states that “Upon receipt of a written
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request [from NACHA], each ODFI must report the actual return rate for unauthorized entries, in total and by SEC Code, for the Originator or Third-Party Sender;" among other pieces of information. Because of the risk issues related to potentially originating unauthorized entries, it makes sense for all ODFIs to monitor return rates. In addition, ODFIs who regularly monitor their return rates would be prepared to fulfill a request from NACHA if one is received (related to returns for unauthorized reasons).

Return rate monitoring is an ongoing necessity. The OCC Guidance suggests that to "oversee management's execution of the ACH program effectively, the board of directors, or a committee thereof, should receive periodic reports that allow the board to determine whether ACH activities remain within board-established risk parameters and are achieving expected financial results." Among other elements, the recommended reports include:

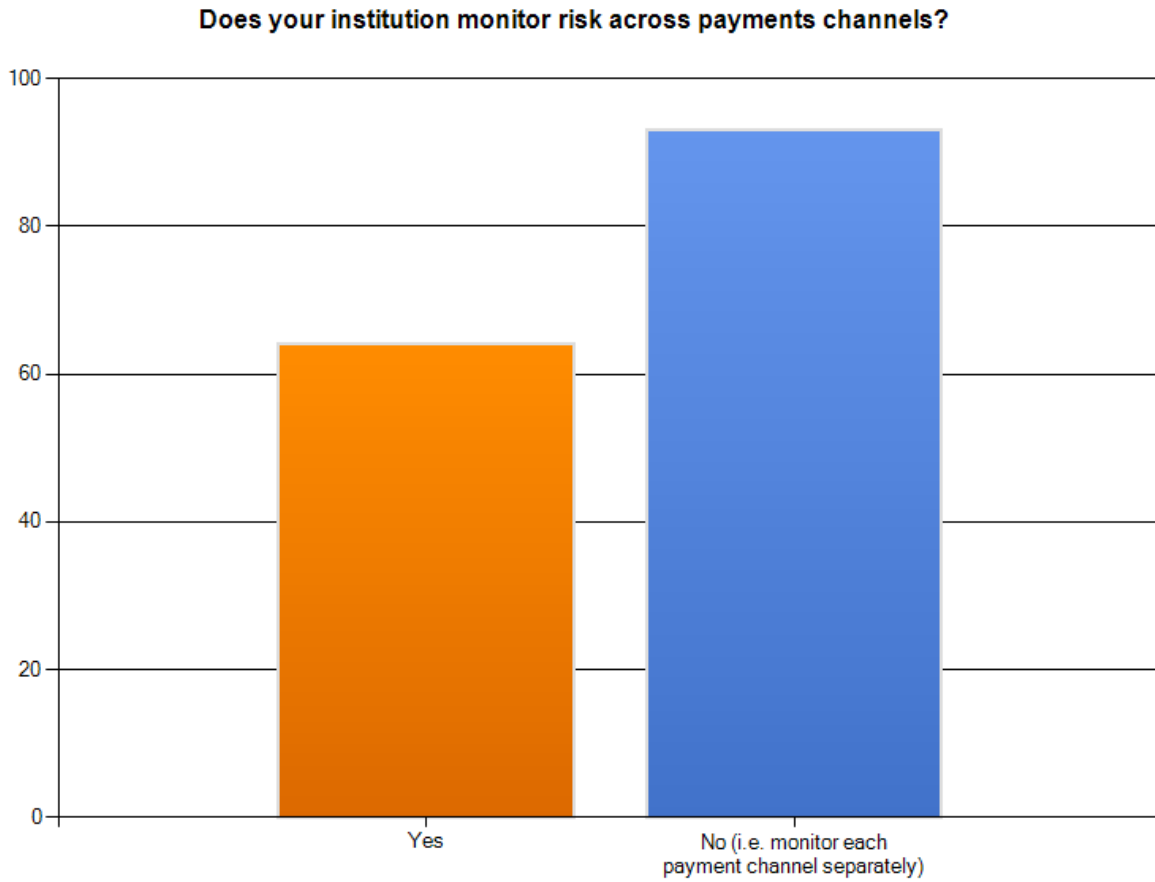
- "Metrics and trend analyses on ACH volume, returns, operational losses, and transaction types, with explanations for variances from prior reports;
- A summary of return rates by Originator, and, as applicable, Third-Party Senders; and
- Unauthorized returns that exceed board-established thresholds."

Question 25: Who's ACH Risk Management product(s) does your institution use?



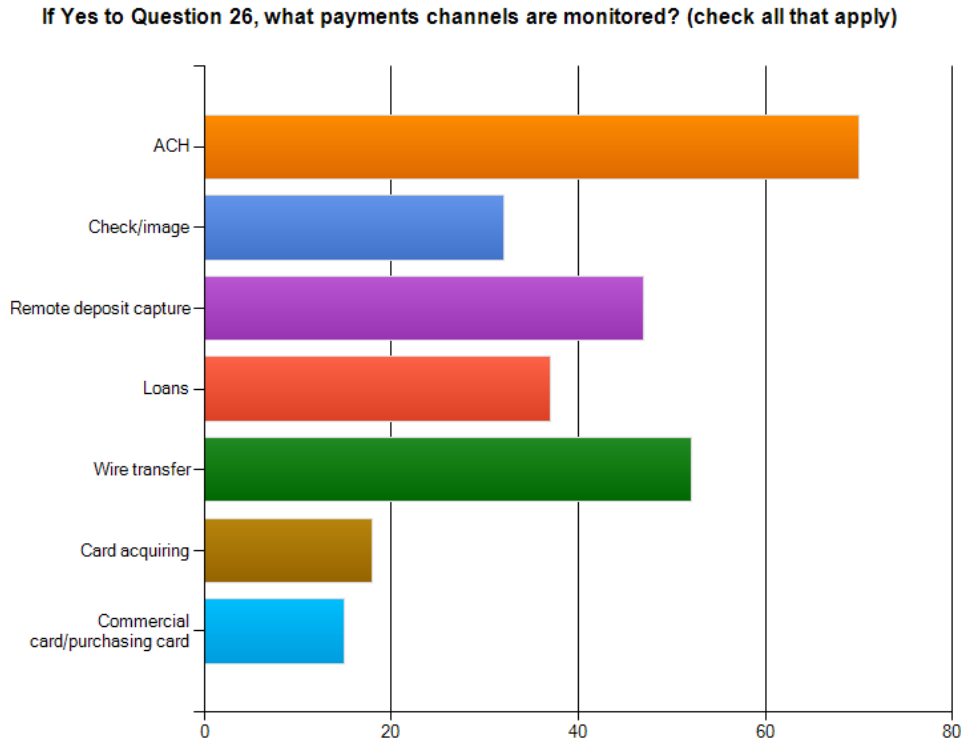
<u>Answer Options</u>	<u>Response Count</u>
Federal Reserve	35
EPN	18
Vendor	65
Third-Party Service Provider	22
In-house	65
Manual	48
None	6
Total Respondents to Question 25	160

Question 26: Does your institution monitor risk across payments channels?



<u>Answer Options</u>	<u>Response Count</u>
Yes	64
No (i.e., monitor each channel separately)	93
Total Respondents to Question 26	157

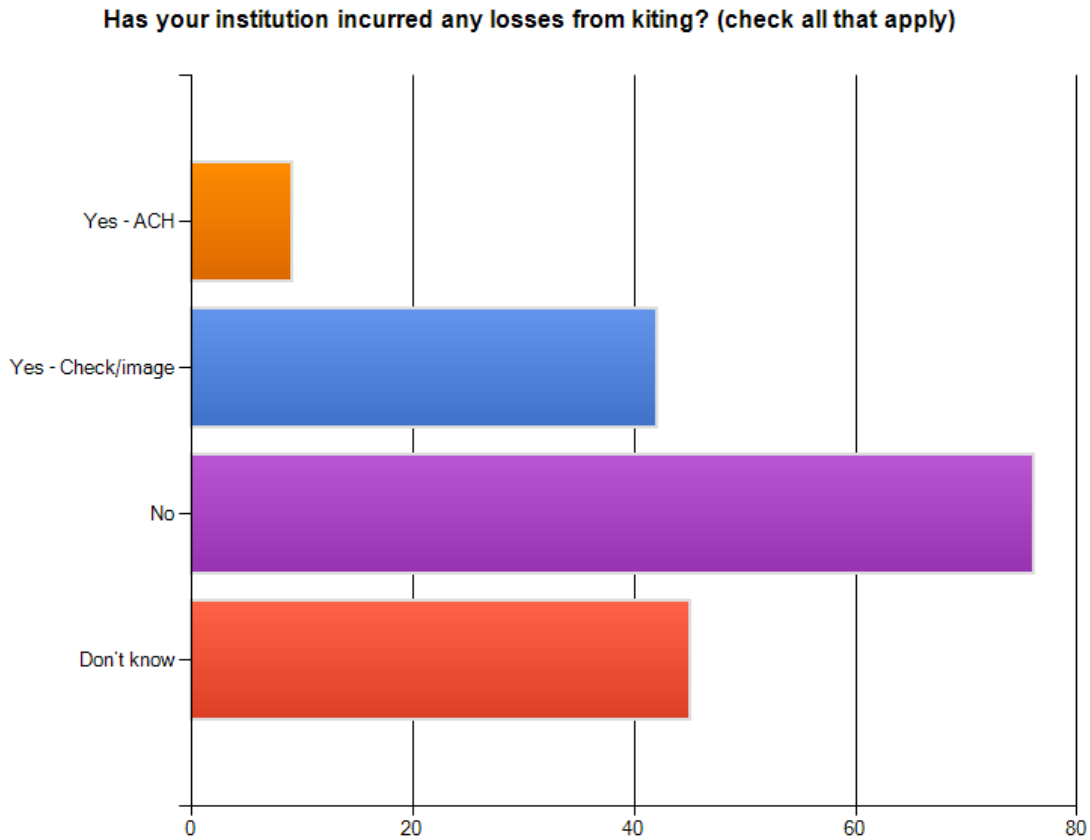
Question 27: If Yes to Question 26, what payments channels are monitored?



<u>Answer Options</u>	<u>Response Count</u>
ACH	70
Check/image	32
Remote deposit capture	47
Loans	37
Wire transfer	52
Card acquiring	18
Commercial card/purchasing card	15
Total Respondents to Question 27	71

The OCC Guidance acknowledges that cross-channel risk adds additional complexity to determining a bank’s total risk exposure. It says, “[a]n effective ACH risk management program should be designed to coordinate with other retail and wholesale payment-risk management programs to mitigate total bank risk exposure.” A good number of survey respondents appear to understand this and have developed methods of monitoring cross-channel risk, but cross-channel monitoring remains a gap for a majority of respondents who still monitor risk solely within payment silos.

Question 28: Has your institution incurred any losses from kiting?



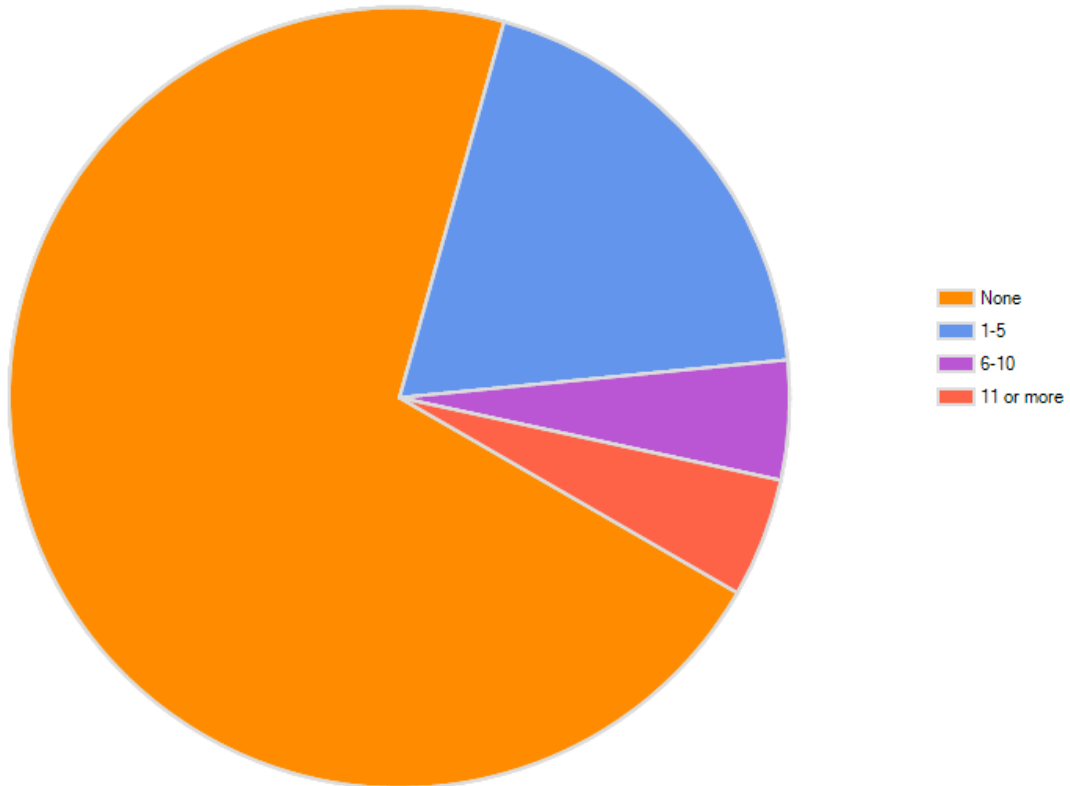
<u>Answer Options</u>	<u>Response Count</u>
Yes - ACH	9
Yes - Check/image	42
No	76
Don't know	45
Total Respondents to Question 28	163

The term “ACH kiting” has received some discussion recently, yet survey results indicate that losses do not take place at a level that the amount of conversation might suggest. A number of factors could account for this result: (1) few losses related to ACH kiting have actually occurred; (2) ACH kiting is difficult to identify and losses are attributed to some other root cause; or (3) loss data related to ACH kiting may be assigned to other root causes or charge-off reasons. Considering the potential exposure that may be undetected in a kiting scheme, this subject probably deserves further exploration.

The last three questions in the survey deal with termination of an ACH origination relationship.

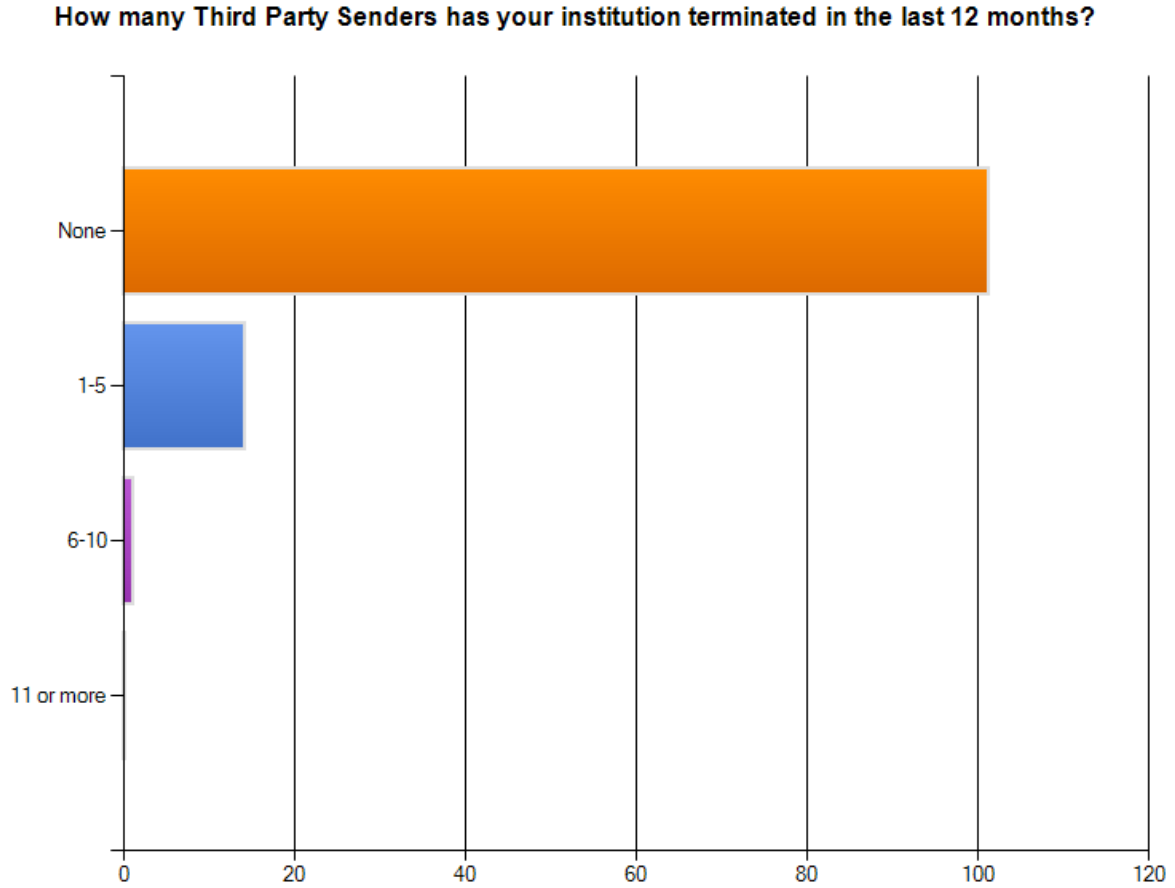
Question 29: How many Originators has your institution terminated in the last 12 months?

How many Originators has your institution terminated in the last 12 months?



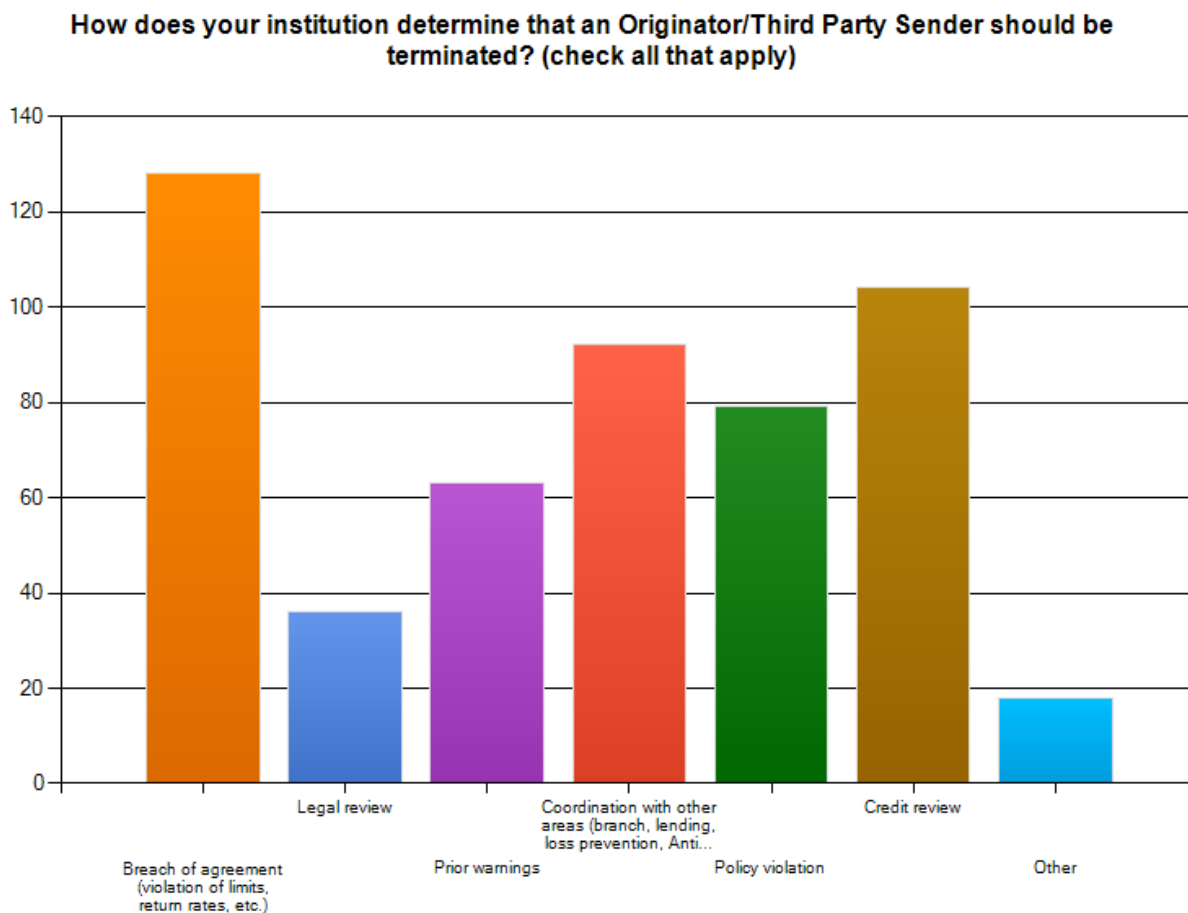
Answer Options	Response Count
None	115
1 to 5	31
6 to 10	8
11 or more	8
Total Respondents to Question 29	162

Question 30: How many Third-Party Senders has your institution terminated in the last 12 months?



<u>Answer Options</u>	<u>Response Count</u>
None	101
1 to 5	14
6 to 10	1
11 or more	0
Total Respondents to Question 30	116

Question 31: How does your institution determine that an Originator/Third-Party Sender should be terminated?



<u>Answer Options</u>	<u>Response Count</u>
Breach of agreement (violation of limits, return rates, etc.)	128
Legal review	36
Prior warnings	63
Coordination with other areas	92
Policy violation	79
Credit review	104
Other	18
Total Respondents to Question 31	148

While only a minority of ODFIs who responded had actually terminated any Originators or Third-Party Senders in the last 12 months, the great majority of respondents indicated at least one specific way in which they determine that termination is appropriate. The OCC Guidance says that ODFIs should “[o]utline Originator account termination procedures” as a specific component of underwriting standards for all

Originators. Termination criteria and procedures are therefore the logical complement to onboarding criteria that make up the classic core of the underwriting process.

Appendix – ACH Participant Definitions

Originator - the person or organization that initiates ACH entries according to an authorization from a Receiver.

Originating Depository Financial Institution (ODFI) - the financial institution that receives ACH entries from Originators and delivers ACH entries directly (or indirectly through a third party) to the ACH Operator.

Receiver - individual, corporation, or other entity that has authorized an Originator to initiate a debit or credit ACH entry to an account at the RDFI.

Receiving Depository Financial Institution (RDFI) - the financial institution that receives ACH entries directly (or indirectly through a third party) from the ACH Operator and posts the ACH entries to Receivers.

Third-Party Service Provider (TPSP) - an organization that processes ACH files and/or entries on behalf of an ODFI and/ or RDFI and/or Originators.

Third-Party Sender (TPS) - an organization to which Originators outsource payment services. The ODFI has an agreement with the TPS, but the ODFI does not have any direct agreements with the Originators behind the TPS. A TPS is an intermediary between the Originator and the ODFI.

Sources

2009 NACHA Operating Rules, ©2009, National Automated Clearing House Association

OCC Bulletin 2006-39, *Automated Clearing House Activities: Risk Management Guidance*, September 1, 2006

OCC Bulletin 2008-12, *Payment Processors: Risk Management Guidance*, April 24, 2008