



Understanding and Preventing Unauthorized, Administrative and Overall ACH Returns

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Introduction

The ProfitStars Enterprise Payment Solutions group (EPS) is required to adhere to National Automated Clearinghouse Association (Nacha) Operating Rules and Guidelines. Because EPS is classified as a “Financial Institution” by various governing bodies in the banking industry, we are required to ensure that our customers are also operating in compliance with Nacha Operating Rules and Guidelines. One of our requirements is to ensure that our Merchants’ Unauthorized, Administrative and Overall ACH return rates are within acceptable levels. The purpose of this document is to provide guidance regarding the rules and how you can reduce your ACH return issues for your organization.

Nacha’s Return Rate Thresholds

Nacha Rules mandate that a Merchant’s Unauthorized ACH return rate cannot exceed 0.5%, Administrative return rate cannot exceed 3.0% and Overall ACH return rate cannot exceed 15.0% of their ACH debit entries. The thresholds were established by Nacha for specific reasons. The Unauthorized ACH return rate of 0.5% was established to reduce the risks to consumers and their financial institutions. The Administrative return rate of 3.0% and Overall ACH return rate of 15.0% thresholds were set to establish an inquiry process that will provide Nacha with a preliminary evaluation point to research the facts behind an Originator’s ACH activity.

Because violations are subject to rules enforcement and possible fines, EPS monitors Unauthorized, Administrative and Overall ACH return rates to ensure that each Merchant is in compliance. If a Merchant’s Unauthorized ACH return rate is equal to or greater than 0.5%, Administrative ACH return rate is equal to or greater than 3.0%, and/or Overall ACH return rate is equal to or greater than 15.0%, EPS will send notification that the Merchant is out of compliance and must reduce their rate(s). EPS will provide a timeline for the Merchant to reduce their return rate(s) to an acceptable level. If the Merchant is unable to meet the timeline, EPS may opt to disable the ACH payment type in question or terminate the Merchant’s account.

It is important to note that both EPS and the Merchant are required to accept ACH return items from a disputing party’s financial institution. EPS will charge back the returned amount to the Merchant’s designated bank account. If a Merchant disputes an Unauthorized, Administrative or Overall ACH return, they must seek resolution with their customer outside of the ACH Network.

What is an Unauthorized ACH Return?

Nacha classifies select Return Reason Codes as “Unauthorized” including R05, R07, R10, R11, R29, or R51. The table below describes each code classification and indicates how long it may take, following a Merchant’s debit entry for an Unauthorized ACH return to occur. Nacha calculates the Unauthorized ACH return rates by dividing the number of ACH debit entries returned for Unauthorized reasons for the preceding two calendar months by the total number of ACH debit entries originated during the same two calendar month period.

Return Reason Code and Title	Description	Time Frame
R05 - Unauthorized Debit to Consumer Account Using Corporate SEC Code	A CCD or CTX debit Entry was transmitted to a Consumer Account of the Receiver and was not authorized by the Receiver.	60 calendar days
R07 - Authorization Revoked by Customer	A Consumer revoked the authorization previously provided to the originator for this debit Entry.	60 calendar days
R10 - Customer Advises Originator is Not Known to Receiver and/or Is Not Authorized by Receiver to Debit Receiver's Account	A Consumer or Non – Consumer has notified their financial institution that he does not know the identity of the Originator; has no relationship with the Originator; or has not authorized the Originator to debit this account. For ARC and BOC entries, a Receiver has notified their financial institution that the signature on the source document is not authentic, valid, or authorized. For POP Entries, a Receiver has notified their financial institution that the signature on the written authorization is not authentic, valid, or authorized.	60 calendar days
R11 - Customer Advises Entry Not in Accordance with the Terms of the Authorization	A Consumer or Non – Consumer and Originator have relationship and authorization to Debit exists, but there is an error or defect in the payment such that the entry does not conform to the terms of the authorization. For example, the entry is for an amount different than authorized; the entry was initiated for settlement earlier than authorized; the entry is part of incomplete transaction; the debit entry was improperly reinitiated; for ARC, BOC, or POP entries: ineligible source document, notice was not provided; amount of the entry was not accurately obtained from the source document.	60 calendar days
R29 - Corporate Customer Advises Not Authorized	A Non-Consumer has notified their financial institution that a specific Entry has not been authorized by the Non-Consumer.	2 Banking Days
R51 - RCK Item is Ineligible or RCK Entry is improper	An RCK Entry to a Consumer Account is ineligible or improper.	60 calendar days

What is an Administrative ACH Return?

Nacha classifies select Return Reason Codes as “Administrative”, including R02, R03 and R04. The table below describes the Administrative code classifications. Administrative ACH return rates calculated by dividing the number of ACH debit entries returned for Administrative reasons for the preceding two calendar months by the total number of ACH debit entries originated during the same two calendar month period.

Return Reason Code and Title	Description	Time Frame
R02 - Account Closed	A previously active account has been closed by action of the customer or the RDFI.	2 Banking Days
R03 – No Account/Unable to locate Account	The account number structure is valid, and it passes the check digit validation, but the account number does not correspond to the individual identified in the Entry, or the account number designated is not an existing account.	2 Banking Days
R04 – Invalid Account Number Structure	The account number structure is not valid.	2 Banking Days

What is an Overall ACH Return?

Overall codes include all return reason codes (excluding RCK entries). Calculation of the Overall ACH return rates is performed by dividing the number of ACH debit entries returned for any reason for the preceding two calendar months by the total number of ACH debit entries originated during the same two calendar month period.

How to Reduce a Merchant's ACH Returns Percentages

When processing ACH debit Entries, there is not a guaranteed way to prevent ACH returns. However, Merchants who effectively communicate with their customers and secure proper authorizations will generally have fewer issues. If you receive notice that a Merchant account Unauthorized ACH return rate is equal to or greater than 0.5%, Administrative ACH return rate is equal to or greater than 3.0% and/or Overall ACH return rate is equal to or greater than 15.0%, it is imperative that you mitigate the issue within the timelines provided by EPS. Below are some immediate steps recommended.

Unauthorized ACH Returns

Step	Description
Stop originating ACH debit Entries to customers with unauthorized returns	<ol style="list-style-type: none">1. Generate a Transaction Event report that identifies returned items with unauthorized Return Reason Codes2. Notate the specific customers with unauthorized Return Reason Codes3. Cancel any pending or scheduled recurring ACH debit Entries to the customers identified in the report
Review Merchant's current notification and authorization processes and correct deficiencies	<ol style="list-style-type: none">1. Based on the type of ACH debit Entry (SEC Code), is the Merchant following NACHA Rules?<ul style="list-style-type: none">- Are customer authorizations being properly obtained?- Do the customers know that their bank account will be debited by the Merchant, and when?- Is the Merchant's product or service clearly understood by its customers?2. If Merchant is scanning a check, is their customer aware that the check will be converted into ACH debit?3. Can the Merchant supply copy of specific customer authorizations on demand?
Research other possible causes and make corrections	<ol style="list-style-type: none">1. Is the Merchant's company name as it appears on their customer's bank statement clearly identifiable by the customer? A customer may not recognize a legal name or location name, for example.2. Has the Merchant confirmed that their customer does not have a debit block on their bank account? R29 returns are commonly a simple administrative issue the Merchant's customer can resolve with their bank.

Administrative ACH Returns

Reason code	What it Means	What to Do
R02 - Account Closed	The bank account you attempted to charge is closed, and you cannot resubmit this transaction.	<ol style="list-style-type: none">1. Contact your customer for a different bank account, or for another form of payment.2. If you have not yet shipped the goods or provided the services covered by the payment, you may want to wait to do so until you have confirmation of a settled payment.3. Cancel any pending or scheduled recurring ACH debit Entries to the customers identified in the report
R03 - No Account/Unable to locate Account	When entering the transaction, the Routing Number, Bank Account Number, and/or the Customer Name was entered incorrectly. You cannot resubmit this transaction.	<ol style="list-style-type: none">1. Contact your customer and confirm the Routing Number, Bank Account Number and the exact name on the bank account. (You may want to ask your customer to fax a copy of a voided check so that you can double-check these values yourself.)2. If this information does not exactly match what you initially entered, make changes and submit a NEW payment.

		3. If you did enter everything correctly, please contact ProfitStars Customer Care so that we can further investigate the problem.
R04 – Invalid Account Number	When entering the transaction, the Bank Account Number entered was wrong. You cannot resubmit this transaction	1. Contact your customer and obtain the correct bank account number. (You may want to ask your customer to fax a copy of a voided check so that you can double-check the bank account number yourself.) 2. Submit a NEW payment using the corrected bank account number.

What Payment Types are Affected?

Nacha designates each ACH payment type with a Standard Entry Class (SEC) Code. Each SEC Code has specific requirements regarding, among other things, how authorization is obtained from the Merchant's customer. The table below summarizes the SEC Codes supported by EPS.

SEC Code, Title & Description	Corresponding EPS Payment Origin	Type
<u>ARC - Accounts Receivable Entry</u> : Enables merchants to scan and convert an eligible check received by mail or dropbox location to a Single Entry ACH debit	Mailed In, Drop Box	Consumer and Non-Consumer Debit
<u>BOC - Back Office Conversion Entry</u> : Enables merchants to scan and convert, during back office processing, an eligible check received at point of purchase or manned bill payment location to a Single Entry ACH debit	Back Office	Consumer and Non-Consumer Debit
<u>CCD - Corporate Credit or Debit</u> : Enables merchants to transfer funds to or from an unrelated corporate entity, provided that the two parties have an agreement to do so	Signature Faxed, Signature Original	Corporate Credit or Debit
<u>POP - Point-of-Purchase Entry</u> : Enables merchants to scan and convert an eligible check received in-person to a Single-Entry Debit	Retail / POS	Consumer and Non-Consumer Debit
<u>PPD - Prearranged Payment and Deposit Entry</u> : Enables merchants to initiate a one-time or recurring debit to a consumer's account, provided the merchant has obtained written authorization from the consumer	Signature Faxed, Signature Original	Consumer Credit or Debit
<u>RCK - Re-presented Check Entry</u> : Enables merchants to scan and convert a check that was previously processed outside of the ACH system but returned NSF, to a Single Entry ACH debit	Represented Check	Consumer Debit
<u>TEL - Telephone-Initiated Entry</u> : Enables merchants to initiate a one-time debit Entry to a consumer's account based on oral authorization obtained by telephone. This type of Entry may be originated when (1) there is an existing relationship between the Merchant and consumer, or (2) where no relationship exists between the Merchant and consumer, but the consumer initiated the phone call.	Telephone IVR, Telephone Operator	Consumer Debit
<u>WEB - Internet-Initiated Entry</u> : This SEC Code is used to originate one-time or recurring debit Entries based on authorization communicated from a consumer to a Merchant via Internet or wireless network. Due to the risk issues inherent to these payment environments, Merchants must meet added security procedures and obligations.	Internet	Consumer Debit

Additional Resources

EPS seeks to provide the highest level of customer service to our clients and is committed to working with our customers to ensure each merchant is experiencing return rates less than the Nacha thresholds. For more information on ACH returns, please visit the 2020 Nacha Operating Rules & Guidelines found at <https://www.nacha.org/>. The following Nacha article can also be referenced for additional information:

<https://www.nacha.org/system/files/resources/Risk-and-Quality-Rules-Fact-Sheet.pdf>

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