

Back Office Check Conversion Application

Software Solution: AchNow™ front end

ACH Processing Alternatives: ODFI Direct, Third Party Sender

Equipment: Imaging devices such as the Magtec Scanner and others

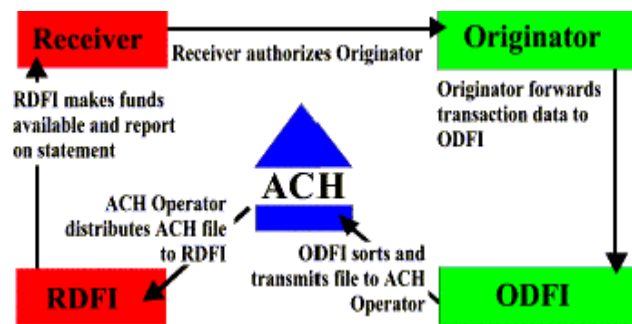
Back-Office-Conversion - Overview

Back-Office-Conversion (Proposed SEC-BOC), when enacted, will allow retail merchants the ability to convert paper checks to ACH entries in a back-office environment, rather than at the point of sale.

The objective of this NACHA rules proposal regarding Back Office Conversion (BOC) is to allow retail merchants (Originators) the ability to convert paper checks (Receivers) to ACH entries in a back-office environment, rather than in-lane at the point of sale; (1) See POP-ARC processing Comparison Table At end of this document. The proposal is designed to deliver the cost and risk benefits of electronic check conversion without impacting tender time or the need for hardware investments at every point of sale. When enacted by NACHA, the BOC SEC process will position retailers for a future Check 21 environment and the ability to optimize check clearing and settlement via either ACH or image.

Automated Clearing House Network
The ACH Network is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the NACHA OPERATING RULES, which provide for the interbank clearing of electronic payments for participating depository financial institutions.

ACH Network Payment Flow



Retailer Processing Conditions - Benefits

Retailers want the flexibility to process checks electronically in whichever model suits their environment the best. And in the Check 21 future, merchants will want to be able to truncate or convert checks from the back office depending on their individual business case and a balancing of the economic, risk and customer service impacts. Delivering this new option for check conversion to large national retailers delivers the same kind of flexibility

that the card associations have delivered in eliminating signature requirements for certain low dollar, low risk transactions (i.e. fuel, quick service restaurants, etc.). Back office conversion provides retailers with new flexibility and new options for improving efficiency of check payments while allowing them to decide what works best in their environment and is an important step toward preserving ACH check conversion in the large national retail marketplace.

Back Office Conversion - Processing Conditions

- Entries will be based upon a Regulation E; the Consumer's personal check is viewed solely as a source document; BOC Entries will not be subject to the Uniform Commercial Code and check law, as BOC transactions will not be viewed as check truncation entries
- Consumer/Receiver's routing number, account number, check serial number, and dollar amount must be captured electronically via an Imager/Scanner
- Explicit authorization of the Consumer/Receiver is not required; Consumer's source document will be deemed to be the Consumer's authorization for the BOC debit entry. Retail Merchant Originator must ensure that it has provided notice (via a document or signage) to the Receiver, in advance of receiving each source document
- Retail Merchant Originators will be prohibited from key entering the Consumer's routing number, account number, and check serial number and will need to establish procedures to capture the MICR information of the Consumer's check electronically
- For customer service purposes, the Retail Merchant Originator would retain an image, microfilm or other copy of the front of the consumer's source document for two years from the settlement date of the BOC entry
- Retail Merchant Originators will also need to develop practices and procedures to ensure that the Consumer's source document is not entered into the check collection stream for payment, and that such source documents are destroyed within fourteen calendar days of the settlement date of the BOC entry

BOC Eligible Items

- **Consumer Accounts Only** - Retail Merchant Originators must understand that BOC entries may be directed to consumer accounts only
- **POS Only** - Retail Merchant Originators will only be able to convert check payments accepted at Point-Of-Sale (Customer present)

BOC In-Eligible Items

- **No Keyed Entries** - Retail Merchant Originators will be prohibited from key entering the Consumer's check information and will need to capture the MICR information from the Consumer's check electronically
- **No Resubmission for Collection** - The source document (consumer's check) may never be collected through the check collection process and that the negotiable instrument is none enforceable
- **No Corporate Checks** - Retail Merchant Originators will be required to sort corporate checks out of their back office processing stream
- **Other In-Eligible Items** - No credit card checks, third-party checks, obligations of a financial institution, etc.
- **No Mailed or Drop Box Checks** - Checks sent via the U.S. mail or through a drop box are ineligible. The ARC entry is the only application for these items.

BOC Returnable Items

BOC entries could be returned for 60 days from the settlement date as follows;

- 1) improper source document,
- 2) no notice was provided,
- 3) the source document was presented for payment as a check,
- 4) the BOC transaction was initiated in an amount other than that indicated on the source document, and
- 5) a stop payment was placed on the source document

Benefits of Back Office Conversion compared to POP Conversion

- Lower cost of image hardware
- Little or no cashier training
- No consumer impact at point of sale (notice = authorization)
- Centralized image capture allows for "least cost routing" strategies, to include image and ACH

Benefits of Back Office Conversion compared to paper checks:

- 60 day right of return
- Check image available to support fraud prosecution

Potential drawbacks of this model compared to POP:

- New or enhanced security for physical check storage
- Cost of image storage/retrieval
- **Signature required in order to assess NSF check service fees via ACH**