# ACH Operations Bulletin #2-2014

## ACH Transactions Involving Third-Party Senders and Other Payment Intermediaries

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### EXECUTIVE SUMMARY

In most ACH transactions, the roles of the various parties to the transaction (e.g., Originator or Receiver) are well understood. When a transaction involves a Third-Party Sender or other payment intermediary, however, roles can become confused. Although the proliferation of new payment models makes it impossible to catalogue all the different fact patterns that may arise, this ACH Operations Bulletin is intended to provide some representative examples that should help participants and observers properly categorize the roles of the parties in payment scenarios involving different types of third party payment intermediaries, and understand how ACH transactions should be identified for consumers.[1]

### DISCUSSION

A NACHA rule change became effective on March 21, 2014 that revised the definition of a Third-Party Sender.[2] The new definition focuses on two fundamental characteristics of the relationship among Third-Party Senders and Originators/ODFIs: 1) the Third-Party Sender acts as an intermediary between the Originator and the ODFI; and (2) the Third-Party Sender (rather than the Originator) has the Origination Agreement with the ODFI. Further, the new definition acknowledges that an ACH participant can be a Third-Party Sender for one set of Entries and an Originator for another set of Entries, including when multiple Entries are used in different stages of an overall transfer (as described in the scenarios below).

In order to analyze an ACH Entry or series of Entries that involve the participation of a payment intermediary, the first step is to identify the underlying transaction that is taking place and the persons or entities that have the underlying direct obligations to each other as part of that transaction. For example, when an employer makes payroll payments to employees, the underlying transaction is a payment of wages or salary from the employer to the employee. A simple, direct payment from the employer to the employee might involve the employer

[1]This ACH Operations Bulletin is for information purposes only, and is intended to provide general guidance regarding certain principles regarding the interpretation of the *NACHA Operating Rules*. All applications of the *NACHA Operating Rules* are subject to the facts and circumstances of the specific case. This ACH Operations Bulletin is not intended to provide legal advice. Readers should obtain their own legal advice regarding their obligations under the *NACHA Operating Rules* or applicable legal requirements.

[2] *See* Section 8.104 "Third-Party Sender," *2015 NACHA Operating Rules & Guidelines*, page OR69.

(Originator) instructing its bank (ODFI) to initiate an ACH credit from the employer's account at the ODFI to the employee's (Receiver) account at the employee's bank (RDFI).

If the employer engages a payroll processor to act as a third-party payment intermediary on its behalf, that does not change the nature of the underlying transaction – the employer's payment of wages or salary to the employee – but it may result in the underlying transaction being split into two related ACH Entries: 1) an ACH debit initiated by the payroll processor to obtain payroll funds from the employer: and 2) an ACH credit initiated by the payroll processor to complete the payment to the employee on behalf of the employer. The second step of the analysis therefore is to understand on whose behalf the third-party intermediary is acting. Where the payment intermediary is visible only to one party, as in this example, it is clear that the intermediary acts on behalf of that party, e.g., the payroll processor acts on behalf of the employer. In other circumstances it may be necessary to inquire more deeply into the relationships of the intermediary, including its activities in obtaining authorizations from different parties, to confirm its role.

Once these roles are identified, the ACH Entries that comprise the different legs of the overall transaction must be analyzed separately to determine the capacity in which the intermediary is acting. In the payroll example above, the payroll processor is acting in its own name when it debits the employer's deposit account to obtain funding for the wage and salary payments that it has contracted to process. The underlying obligation for this leg of the transaction is between the employer and payroll provider; therefore, the payroll provider is acting as an Originator of the ACH debit to the employer's (Receiver) funding account.

By contrast, in the second leg of the transaction, the ACH credit to the employee's account, the payroll processor is acting for the employer to satisfy the employer's underlying obligation to pay the employee. Therefore, the employer, which has instructed the payroll processor, is the Originator of the ACH credit to the same extent as if the employer had initiated the ACH credit directly itself, while the employee remains the Receiver. The payroll processor, however, acts in a different role for this ACH Entry. When a third-party moves funds on behalf of another through the ACH Network, that entity, at a minimum, acts as a Third-Party Service Provider (TPSP). To decide whether or not that entity also acts as a Third-Party Sender (a particular type of TPSP), it must be determined whether or not the Originator or the intermediary has an ACH Origination Agreement directly with the ODFI for the origination of Entries.

- If the Originator has the ACH Origination Agreement with the ODFI, there is no Third-Party Sender involved in the transaction, and the intermediary is only a Third-Party Service Provider.
- If the intermediary has the ACH Origination Agreement with the ODFI, the intermediary acts as a Third-Party Sender.

It is important to remember that regardless of whether the payment intermediary is the Originator or a Third-Party Sender with respect to its role in any specific Entry, the ODFI should perform appropriate diligence and monitoring of the intermediary's ACH activity, as provided in

Subsection 2.2.3 of the *NACHA Operating Rules*[3]. ODFIs that support payment models involving payment intermediaries must fully understand the nature of the risks that are created by their payment intermediaries and should take action commensurate with the risks to mitigate resulting exposures, including the risk of failure of the intermediary.

[3] See Subsection 2.2.3 ODFI Risk Management, *2015 NACHA Operating Rules & Guidelines*, page OR6.

## Scenarios Involving Payment Intermediaries

1. Payroll Processing

- Scenario: An Employer needs to move funds from its account at Bank A to the accounts of its Employees at numerous other financial institutions in satisfaction of the Employer's weekly wage and salary obligations. The Employer enters into an agreement with a Payroll Processor to handle the Employer's payroll. In order to use the ACH to do so, the Payroll Processor has an Origination Agreement with an ODFI that allows it to process payroll transactions through the ODFI. In this situation, the Employer generally does not have an agreement with the ODFI.

- Transaction Structure:

    - It is critical to understand that in most third-party payroll services, there are two separate types of transactions: 1) a "funding" transaction, whereby the Payroll Processor obtains the funds from the Employer with which to make payroll payments to Employees; and 2) the actual payroll payments, whereby salary or wage payments are credited to Employees' accounts.

    - The amount of the funding transaction may not necessarily equal the aggregate value of all the payroll credits to Employees. For example, the amount of the funding transaction also might cover amounts withheld for taxes and benefits, and also may include the Payroll Processor's service fee.

    - The timing of the funding transaction and the payroll payments might also vary, depending on the specific processing arrangements between the parties. For example, the Payroll Processor might initiate the funding debit at the same time as the payroll credits; or it might initiate the funding debit several days in advance of the payroll credits in order to have good funds on hand.

    - In addition, although the transaction flows below assume that the funding transaction is done as an ACH debit and the payroll payments are done as a set of ACH credits, each could be accomplished through other means. For example, the Employer and Payroll Processor might agree to fund payroll through a wire transfer or an ACH credit sent by the Employer to the Payroll Processor's account; or the Payroll Processor might maintain an account at the Employer's bank (Bank A), so that funding is accomplished through a book transfer by the bank. Similarly, the crediting of Employees' accounts might include payment of some Employees by check instead of ACH credit. Regardless, the diagrams below apply to each stage for which the ACH Network is used to complete the Employer's payroll obligations.

# Payroll Processing Scenario

## Funding Transaction via an ACH Debit

**Employer**

- The Employer enters into an agreement with a Payroll Processor, authorizing the Payroll Processor to debit the Employer's account at Bank A via the ACH.

**Payroll Processor**

- The Payroll Processor has an Origination Agreement with Bank X that allows the Payroll Processor to submit ACH debits through Bank X.
- The Payroll Processor is the **Originator** of the ACH debit for the Funding Transaction. The ACH debit is on the Payroll Processor's own behalf.
- The ACH debit for this Funding Transaction would use the CCD SEC Code, because it is an ACH transaction from the account of one organization to the account of another organization.
- The Payroll Processor's name goes in the Company Name field for the batch of ACH debits.

**Payroll Processor's Bank**

- The Payroll Processor sends the ACH debit to Bank X, which is the **ODFI** of the ACH debit.

**ACH Operator**

- Bank X submits the Payroll Processor's ACH debit to the **ACH Operator**.
- The ACH Operator directs the Payroll Processor's ACH debit to the Employer's bank - Bank A.

**Employer's Bank and Employer's Account**

- Bank A is the **RDFI** of this Funding Transaction via an ACH debit.
- The RDFI receives the ACH debit and posts it to the Employer's account.
- The RDFI displays the name of the Payroll Processor, as the party to which payment was made, on the Employer's account statement. The name comes from the Company Name field of the batch of ACH debits.
- The Employer is the **Receiver** of this ACH debit used as a Funding Transaction.

# Payroll Processing Scenario

## Payroll Payments via ACH Credits

**Employer**

- The Employer's agreement with the Payroll Processor directs the Payroll Processor to credit employees for salary and wage payments on specified days.
- The Employer is the **Originator** of the ACH credits sent to Employees' accounts.

**Payroll Processor**

- The Payroll Processor has an agreement with Bank X to originate ACH credits through Bank X.
- The Payroll Processor is a **Third-Party Sender** for the ACH credits used for Payroll Payments because it is an intermediary transmitting the ACH credits on behalf of the Employer.
- The ACH credits used for Payroll Payments would use the PPD SEC Code, because they are from the account of an organization to the accounts of consumers.
- The Employer's name goes in the Company Name field of the batch of ACH credits.

**Payroll Processor's Bank**

- The Payroll Processor sends the ACH credits to Bank X, which is the **ODFI.**

**ACH Operator**

- Bank X submits the Payroll Processor's ACH credits to the **ACH Operator**.
- The ACH Operator directs the Payroll Processor's ACH credit files to the financial institutions where Employees maintain their deposit accounts.

**Employees' Banks and Employees' Accounts**

- The Employees' financial institutions are the **RDFIs** of the ACH credits.
- The RDFIs receive the ACH credits and post them to the Employees' accounts.
- The Employees are the **Receivers** of the ACH credits for Payroll Payments.
- The Employees' financial institutions display the name of the payor on the Employees' account statements. The name comes from the Company Name field of the batch of ACH credits.

2. Tuition Processing

- Scenario: A University enters into an agreement with a Tuition Processor to act as the University's exclusive provider for the processing of online tuition payments. The identity of the Tuition Processor is disclosed to the Student, who must sign the Tuition Processor's form of authorization allowing the Tuition Processor to initiate ACH debits against the Student's deposit account on behalf of the University. The authorization must be clear and readily understandable, and should specifically identify that authorization is being obtained on behalf of the University. Failure to properly identify the University in the authorization, however, does not affect the characterization of the University or the Tuition Processor in the scenario below.

  In order to use the ACH to debit the Student's account, the Tuition Processor has an Origination Agreement with an ODFI that allows it to process tuition payments through the ODFI. In this situation, the University generally does not have an agreement with the ODFI.

- Transaction Structure:

  - It is critical to understand that in most payment scenarios of this type, there are two separate types of transactions: 1) the collection of tuition payments from the Students' accounts, whereby the Tuition Processor obtains the funds with which to credit to the University; and 2) the tuition "settlement" transaction, whereby tuition funds collected from Students are credited to the University's account.

  - Multiple tuition payments are likely to be aggregated into a single daily or other periodic settlement transaction to the University. For example, the Tuition Processor might process 100 tuition payments to Students' accounts in a single calendar day, and transfer the aggregate proceeds from these payments to the University in one daily settlement transaction.

  - The ACH Network may or may not be used for either of these transactions. For example, the Tuition Processor may accept credit cards for the tuition payments, but still settle the payments to the University via an ACH credit; or, the Tuition Processor might use ACH debits for some or all of the tuition payments, but settle the payments to the University using a wire transfer. The example below assumes that both the tuition payments and the settlement transaction are made via ACH. Regardless, the diagrams below apply to each stage for which the ACH is used to complete the transaction.

  - In this scenario, and in other scenarios below, that involve an ACH debit to a Consumer Account as part of a "split transaction," the ACH debit could become subject to the rule on Incomplete Transactions.[4] If the Tuition Processor debits a Student's account via ACH for the Tuition Payment, but fails to remit the proceeds to the University, the ACH debit would be considered an Incomplete Transaction. When reported by the Student to the RDFI, the debit would be treated as an unauthorized debit; the Student would be

[4] See Subsection 3.12.3 Incomplete Transaction, *2015 NACHA Operating Rules & Guidelines*, Pages OR50.

promptly recredited by the RDFI, which then would transmit an Extended Return Entry to the ODFI. The ODFI is ultimately responsible for accepting Extended Return Entries in the event that the Tuition Processor fails in its obligation, whether due to technical or operational failure, bankruptcy, fraud or embezzlement, etc.

- "Nested" Processors: In some circumstances, the entity in the position of the Tuition Processor may not itself have a direct agreement with the ODFI, but rather may have an agreement with another processor ("Direct Processor") that itself has an Origination Agreement with the ODFI. In such a circumstance, both the Tuition Processor and the Direct Processor are Third-Party Senders under the *Rules*, as they both are intermediaries between the ODFI and the Originator. It should be noted in this regard that Federal banking agencies have indicated that heightened diligence is appropriate where such "nested" processor relationships are permitted.

- Settlement Accounts: Questions also arise under this and other scenarios whether the proper characterization of the parties under the *Rules* will vary depending on whether the University (or similarly situated party) also maintains a settlement account at the ODFI. While this practice may facilitate settlement, it does not affect the determination whether the intermediary – in this case the Tuition Processor - is acting as a Third-Party Sender.

- Tuition Processing Scenario Variation: In a variation on the tuition processing scenario, even when the University obtains the ACH debit authorizations directly from the Students, if the University uses the Tuition Processor as an intermediary in transmitting the ACH debits to an ODFI with which the University does not have an Origination Agreement, the University is the Originator of the ACH debits and the Tuition Processor is a Third-Party Sender of the ACH debits.

# Tuition Processing Scenario

## Tuition Payments via ACH Debits

**University**

- The University enters into an agreement with the Tuition Processor, authorizing the Tuition Processor to obtain ACH debit authorizations on behalf of the University to debit Student's accounts.
- The Tuition Processor obtains authorization from Students to debit their accounts.
- Because the ACH debit authorization is obtained on behalf of and for the benefit of the University, and the obligation is owed to the University, the University is the **Originator** of the ACH debits.

**Tuition Processor**

- The Tuition Processor has an Origination Agreement with Bank X that allows the Tuition Processor to submit ACH debits through Bank X.
- The Tuition Processor is a **Third Party Sender** of the ACH debits because it is an intermediary transmitting the ACH debits on behalf of the University.
- The ACH debits would use the WEB SEC Code because authorization is obtained via the Internet.
- The University's name goes in the "Company Name" field of the batch header record of the ACH debits.

**Tuition Processor's Bank**

- The Tuition Processor submits the ACH debits to Bank X, which is the **ODFI** of the ACH debits.

**ACH Operator**

- Bank X transmits the Tuition Processor's ACH debits to the **ACH Operator.**
- The ACH Operator directs the Tuition Processor's ACH debit files to the Students' financial institutions.

**Students' Banks and Students' Accounts**

- The Students' financial institutions are the **RDFIs** of the ACH debits.
- The RDFIs receive the ACH debits and post them to the Students' accounts.
- The Students are the **Receivers** of the ACH debits for Tuition Payments.
- The RDFIs display the name of the University, as the party to which payment was made, on the Students' account statements. The name comes from the Company Name field of the batch of ACH debits.

# Tuition Processing Scenario

## Settlement Transaction via ACH Credit

**Tuition Processor**

- The Tuition Processor remits funds to the University via an ACH credit once each business day for the aggregate amount of Tuition Payments collected from Students the previous business day.
- The Tuition Processor is the **Originator** of the ACH credit to pay the University.
- The ACH credit uses either the CCD or CTX SEC Code (depending on the need for addenda) because it is from the account of one organization to the account of another organization.
- The Tuition Processor's name goes in the Company Name field in the batch of ACH credits.

**Tuition Processor's Bank**

- The Tuition Processor sends the ACH credit to Bank X, which is the **ODFI** of the ACH credit.

**ACH Operator**

- The ODFI submits the Tuition Processor's ACH credit to the **ACH Operator.**
- The ACH Operator directs the Tuition Processor's ACH credit to the University's bank, Bank A.

**University's Bank and University's Account**

- Bank A is the **RDFI** of the ACH credit.
- The RDFI receives the ACH credit from the ACH Operator and posts it to the University's account.
- The RDFI displays the name the Originator (i.e., the Tuition Processor) as the payor on the University's account statements.
- The University is the **Receiver** of the ACH credit.
- Remittance information allowing the University to reconcile the ACH credit with its individual Students' Tuition Payments is provided separately by the Tuition Processor or as part of a CTX Entry.

3. Homeowners Association Dues Processing Scenario

- Scenario: A Homeowners Association enters an agreement with a Property Manager to collect Homeowners' dues from the members of the Association on a recurring basis. The identity of Property Manager is disclosed to the Homeowners, who authorize Property Manager to initiate recurring ACH debits on behalf of the Association. As in the Tuition Processing scenario, the authorization must be clear and readily understandable, and should specifically identify that authorization is being obtained on behalf of the Association.

  In order to use the ACH to debit Homeowners' accounts, the Property Manager has an Origination Agreement with an ODFI that allows it to process dues payments through the ODFI. In this situation, the Association generally does not have an agreement with the ODFI.

- Transaction Structure:

  - As in the Tuition Processor example above, it is critical to understand that in most payment scenarios of this type, there are two separate types of transactions: 1) the actual collection of dues from Homeowners' accounts, whereby the Property Manager obtains the funds with which to credit to the Association; and 2) the dues "settlement" transaction, whereby funds collected from Homeowners for dues are credited to the Association's account.

  - Multiple dues payments are likely to be aggregated into a single periodic (such as monthly or quarterly) settlement transaction to the Association. For example, the Property Manager might process 100 dues payments on the first day of a month, and transfer the aggregate proceeds from these payments to the Association in one settlement transaction on the fifth day of the month.

  - The ACH Network may or may not be used for either types of these transactions. For example, the Property Manager may accept credit cards for the dues payments, but still settle the payments to the Association via an ACH credit; or, the Property Manager might use ACH debits for some or all of the dues payments, but settle the payments to the Association using a wire transfer. The example below assumes that both the dues payments and the settlement transaction are made via ACH. Regardless, the diagrams below apply to each leg for which the ACH is used to complete the transaction.

  - Homeowners Association Dues Processing Scenario Variation: In a variation on this scenario, even when the Association obtains the ACH debit authorizations directly from the Homeowners, if the Association uses the Property Manager as an intermediary in transmitting the ACH debits to an ODFI with which the Association does not have an Origination Agrement, the Association is the Originator of the ACH debits and the Property Manager is a Third-Party Sender of the ACH debits.

# Homeowners Association Dues Processing Scenario

## Dues Payments via ACH Debits

**Homeowners Association**

- The Association enters into an agreement with the Property Manager, authorizing the Property Manager to obtain ACH debit authorizations on behalf of the Association to debit Homeowners' accounts for recurring Dues Payments.
- The Property Manager obtains authorization from a Homeowner to debit his account via ACH.
- Because the ACH debit authorization is obtained on behalf of, and for the benefit of, the Association, and the obligation to pay dues is owed to the Association, the Association is the **Originator** of the ACH debit.

**Property Manager**

- The Property Manager has an Origination Agreement with Bank X that allows the Property Manager to submit ACH debits through the Bank X.
- The Property Manager is a **Third-Party Sender** of the ACH debit because it is an intermediary transmitting the ACH debits on behalf of the Association.
- The ACH debits would use the PPD SEC Code because authorization is obtained in writing for pre-authorized, recurring debits.
- The Association's name goes in the Company Name field of the batch of ACH debits.

**Property Manager's Bank**

- The Property Manager submits the ACH debit to Bank X, which is the **ODFI** of the ACH debits.

**ACH Operator**

- Bank X transmits the Property Manager 's ACH debit to the **ACH Operator.**
- The ACH Operator directs the Property Manager's ACH debit to the Homeowner's financial institution.

**Homeowner's Financial Institution and Homeowner's Account**

- The Homeowner's financial institution is the **RDFI** of the ACH debit.
- The RDFI receives the ACH debit and posts it to the Homeowner's account.
- The Homeowner is the **Receiver** of the ACH debit for dues payments.
- The RDFI displays the name of the Association, as the party to which payment was made, on the Homeowner's account statement. The name comes from the Company Name field of the batch of ACH debits.

# Homeowners Association Dues Processing Scenario

## Dues Settlement Transaction

**Property Manager**

- The Property Manager remits funds to the Association via an ACH credit on the fifth day of the month for the aggregate amount of Dues Payments collected from Homeowners.
- The Property Manager is the **Originator** of the ACH credit to pay the Association.
- The ACH credit uses either the CCD or CTX SEC Code (depending on the need for addenda) because it is from the account of one organization to the account of another organization.
- The Property Manager's name goes in the Company Name field of the batch of ACH credits.

**Property Manager's Bank**

- The Property Manager sends the ACH credit to Bank X, which is the **ODFI** of the ACH credit.

**ACH Operator**

- The ODFI submits the Property Manager's ACH credit to the **ACH Operator.**
- The ACH Operator directs the Property Manager's ACH credit to the Association's bank, Bank A.

**Association's Bank and Association's Account**

- Bank A is the **RDFI** of the ACH credit.
- The RDFI receives the ACH credit from the ACH Operator and posts it to the Association's account.
- The RDFI displays the name the Originator, i.e., the Property Manager, as the payor on the Association's account statements.
- The Association is the **Receiver** of the ACH credit.
- Remittance information allowing the Association to reconcile the ACH credit with its individual Homeowners' dues payments is provided separately by the Property Manager or as part of a CTX Entry.

4. Property Management Vacation Rental Scenario

- Scenario: A Property Manager has an agreement with an Owner of a vacation property to rent the property. The Property Manager markets the property, and obtains rental agreements from Renters. A rental agreement includes an ACH payment option, in which a Renter authorizes the Property Manager to initiate an ACH debit to his account.

- In order to use the ACH to debit the Renter's account, the Property Manager has an Origination Agreement with an ODFI that allows it to process rental payments through the ODFI. The Property Manager collects amounts due from Renters via ACH, and periodically remits rental proceeds to the Owner (e.g., monthly), less the Property Manager's fees. Unlike in the previous Homeowners Association scenario, however, in this scenario the two parties - Owner and Renter - are not identified to each other, have no direct agreement with each other, and have no obligations to each other. The Owner and Renter each have separate agreements with the Property Manager. This is a critical distinction from the previous Homeowners Association scenario, in which the Homeowner has a direct obligation to the Association, and the Homeowner and Association would recognize each other as counterparties to an ACH payment. Another critical distinction from the previous Homeowners Association scenario is that in this scenario the Property Manager is obtaining authorization on its own behalf rather than on behalf of the Owner.

- Transaction Structure:

    - As in the examples above, it is critical to understand that in most payment scenarios of this type, there are two separate types of transactions: 1) the rental payment collected from the Renter by the Property Manager; and 2) the remittance of rental proceeds from the Property Manager to the Owner.

    - Proceeds from multiple rentals to multiple Renters may be aggregated into a single periodic (such as monthly or quarterly) remittance transaction to the Owner. For example, the Property Manager might rent the property for four weeks each month to four different Renters, and remit proceeds to the Owner at the end of each month.

    - The ACH Network may or may not be used for either type of transaction. For example, the Property Manager may accept checks for the rental payments, but still remit proceeds to the Owner via an ACH credit; or, the Property Manager might use ACH debits for some or all of the rental payments, but remit proceeds to the Owner with a check. The example below assumes that both the rental payments and the remittance of rental proceeds are made via ACH. Regardless, the diagrams below apply to each stage for which the ACH is used to complete the transaction.

# Property Management Vacation Rental Scenario

## Rental Payments via ACH Debit

**Property Manager**

- A Property Manager has an agreement with Owner to market and rent a vacation property.
- The Property Manager enters into a rental agreement with a Renter, and obtains the Renter's authorization to initiate an ACH debit to the Renter's account. Owner is not a party to this agreement and is not identified as a beneficiary.
- The Property Manager is the **Originator** of the ACH debit because Renter has not incurred a direct obligation to the Owner, and the Renter and Owner have no agreement with each other.
- The ACH debit likely would use the PPD SEC Code if authorized in writing as part of, or concurrent with, a written rental agreement. It is possible the debit could use the WEB SEC Code if the requirements for a WEB Entry are met.
- The Property Manager's name goes in the Company Name field of the batch of ACH debits.

**Property Manager's Bank**

- The Property Manager has an Origination Agreement with Bank X that allows the Property Manager to submit ACH debits through the Bank X.
- The Property Manager submits the ACH debit to Bank X, which is the **ODFI** of the ACH debit.

**ACH Operator**

- Bank X transmits the Property Manager 's ACH debits to the **ACH Operator.**
- The ACH Operator directs the Property Manager's ACH debit to the Renter's financial institution.

**Renter's Financial Institution and Renter's Account**

- The Renter's financial institution is the **RDFI** of the ACH debit.
- The RDFI receives the ACH debit and posts it to the Renter's account.
- The Renter is the **Receiver** of the ACH debit for the rental payment.
- The RDFI displays the name of the Property Manager, as the party to which payment was made, on the Renter's account statement. The name comes from the Company Name field of the batch of ACH debits.

# Property Management Vacation Rental Scenario

## Remittance of Rental Proceeds via ACH Credit

**Property Manager**

- A Property Manager has an agreement with Owner to market and rent a vacation property, and obtains the Owner's authorization to initiate an ACH credit to the Owner's account to remit rental proceeds.
- The Property Manager is the **Originator** of the ACH credit.
- The ACH credit would use the PPD SEC Code because it is from the account of an Organization to the account of a Consumer (assuming Owner is a Consumer).
- The Property Manager's name goes in the Company Name field of the batch of ACH credits.

**Property Manager's Bank**

- The Property Manager has an Origination Agreement with Bank X that allows the Property Manager to submit ACH credits through the Bank X.
- The Property Manager submits the ACH credit to Bank X, which is the **ODFI** of the ACH credit.

**ACH Operator**

- Bank X transmits the Property Manager's ACH credit to the **ACH Operator.**
- The ACH Operator directs the Property Manager's ACH credit to the Owner's financial institution.

**Owner's Financial Institution and Owner's Account**

- The Owner's financial institution is the **RDFI** of the ACH credit.
- The RDFI receives the ACH credit and posts it to the Owner's account.
- The Owner is the **Receiver** of the ACH credit for the rental proceeds.
- The RDFI displays the name of the Property Manager, as the party from which payment was made, on the Owner's account statement. The name comes from the Company Name field of the batch of ACH credits.

5. E-Wallet Purchase with Concurrent Funding

- Scenario: An E-Wallet Provider (or Digital Wallet) enables consumers to make payments at websites where the E-Wallet Provider's service is accepted. The Consumer is given the option of funding his purchases from: 1) a stored account balance with the E-Wallet Provider; 2) an ACH debit to his account; or 3) a charge to his debit or credit card. Merchants who agree to accept the E-Wallet credentials in payment for goods or services are paid by the E-Wallet Provider via an ACH credit. In order to use the ACH, the E-Wallet Provider has an Origination Agreement with an ODFI that allows it to process ACH credits and debits through the ODFI. Generally, neither the Merchant nor the Consumer has an agreement with the ODFI.

  In this "Purchase with Concurrent Funding" scenario, the Consumer makes a purchase from a Merchant for $100, and elects to pay with the E-Wallet Provider's credentials. Further, the Consumer has no stored balance available with the E-Wallet Provider; the Consumer elects to "fund" this purchase by authorizing the E-Wallet Provider to initiate an ACH debit for $100 to his deposit account. Funding is considered "concurrent" in this context if the debit to the Consumer's deposit account is authorized by the Consumer as part of the transaction, or if the Consumer has a standing authorization permitting the E-Wallet Provider to debit his deposit account to consummate transactions.

- Transaction Structure:

  - Like the other examples above, there are two separate types of transactions that are used to complete each purchase: 1) the funding debit to the Consumer's account, whereby the E-Wallet Provider obtains the funds with which to pay the Merchant for the purchase; and 2) the "settlement" transaction, whereby funds collected from Consumers for purchases are remitted to the Merchant's account.

  - Multiple purchases are likely to be aggregated into a single periodic (such as daily) settlement transaction to the Merchant. For example, the E-Wallet Provider might process 100 purchases with the Merchant on a given day, and transfer the aggregate value from these purchases to the Merchant in one settlement transaction on the next day.

  - The ACH Network may or may not be used for either of these transactions. For example, the E-Wallet Provider might allow charges to credit cards to fund purchases, but still settle the purchase amounts to the Merchant via an ACH credit; or, the E-Wallet Provider might only allow ACH debits to fund purchases, but settle the purchases to the Merchant using a wire transfer. The example below assumes that both the funding debits and the settlement credits are made via ACH. Regardless, the diagrams below apply to each stage for which the ACH is used to complete the purchase.

  - In this scenario, the Merchant likely has no knowledge of the specific method the Consumer uses to fund the purchase. Nevertheless, if the Consumer concurrently authorizes an ACH debit to fund the purchase, the E-Wallet Provider should place the Merchant's name in the Company Name field so that this identification is provided to the Consumer on his periodic statement. The "Company Name Identification" rule adopted

in 2008 provides that when "the Originator of a debit Entry is not the payee of the transaction (the party to which payment is ultimately being directed), the Company Name field of the debit Entry must contain the name by which the payee is known and readily recognized by the Receiver of the Entry." The purpose of this requirement is to enable the RDFI to provide the Consumer with the identity of the party to which funds are being transferred.

- NACHA is aware that some intermediaries also use the Company Entry Description field in the batch header record to further identify to Consumers the parties to the transaction. Regarding the Company Entry Description field, the *Rules* state that the "Originator establishes the value of this field to provide the Receiver with a description of the purpose of the Entry." In some cases, it might be possible that the inclusion of the identity or trade name of the intermediary could meet this purpose and provide the consumer Receiver with additional information that would help ensure that the consumer can identify the transaction properly.

- There are a number variations that could arise in this E-Wallet Provider scenario. On the funding side, the Consumer may have a stored balance in his E-Wallet account in excess of $100, resulting from a variety of earlier funding sources including transfers of stored value between users of the service. If the Consumer elects to use $100 of this stored value to fund the purchase, then there is no ACH debit initiated to the Consumer's deposit account.

- In another variation, the Consumer has some stored value in his E-Wallet account, but not enough to cover the full $100 purchase amount. The Consumer elects to fund the purchase with $50 of stored value from his E-Wallet account, and another $50 by concurrently authorizing the E-Wallet Provider to initiate an ACH debit for $50 to his deposit account. In this variation, the funding ACH debit will not equal the amount of the Consumer's purchase. Regardless, if the funding of the purchase is initiated in connection with the purchase, or through a standing instruction for the same purpose, the proper treatment of this ACH debit under the *NACHA Operating Rules* is the same as when the funding debit is for the full amount of the purchase.

# E-Wallet Purchase Scenario with Concurrent Funding

## Funding Transaction via ACH Debit

**Consumer Purchase with Merchant**

- The Consumer makes a purchase at a Merchant website.
- The Merchant accepts, and the Consumer elects to pay with, an E-Wallet service.
- The Consumer authorizes the E-Wallet Provider to initiate an ACH debit to his bank account to fund the purchase.
- The ACH debit might be for the full amount of the purchase, or for a partial amount.

**E-Wallet Provider**

- The E-Wallet Provider has an agreement with Bank X that allows the E-Wallet Provider to submit ACH debits through Bank X.
- The E-Wallet Provider is the **Originator** of the ACH debit.
- The ACH debit would use the WEB SEC Code because it is a debit to a Consumer's account that was authorized via the Internet.
- The Merchant's name goes in the Company Name field of the batch of the ACH debits, in accordance with the Company Name rule.

**E-Wallet Provider's Bank**

- The E-Wallet Provider submits the ACH debit to Bank X, which is the **ODFI** of the ACH debit.

**ACH Operator**

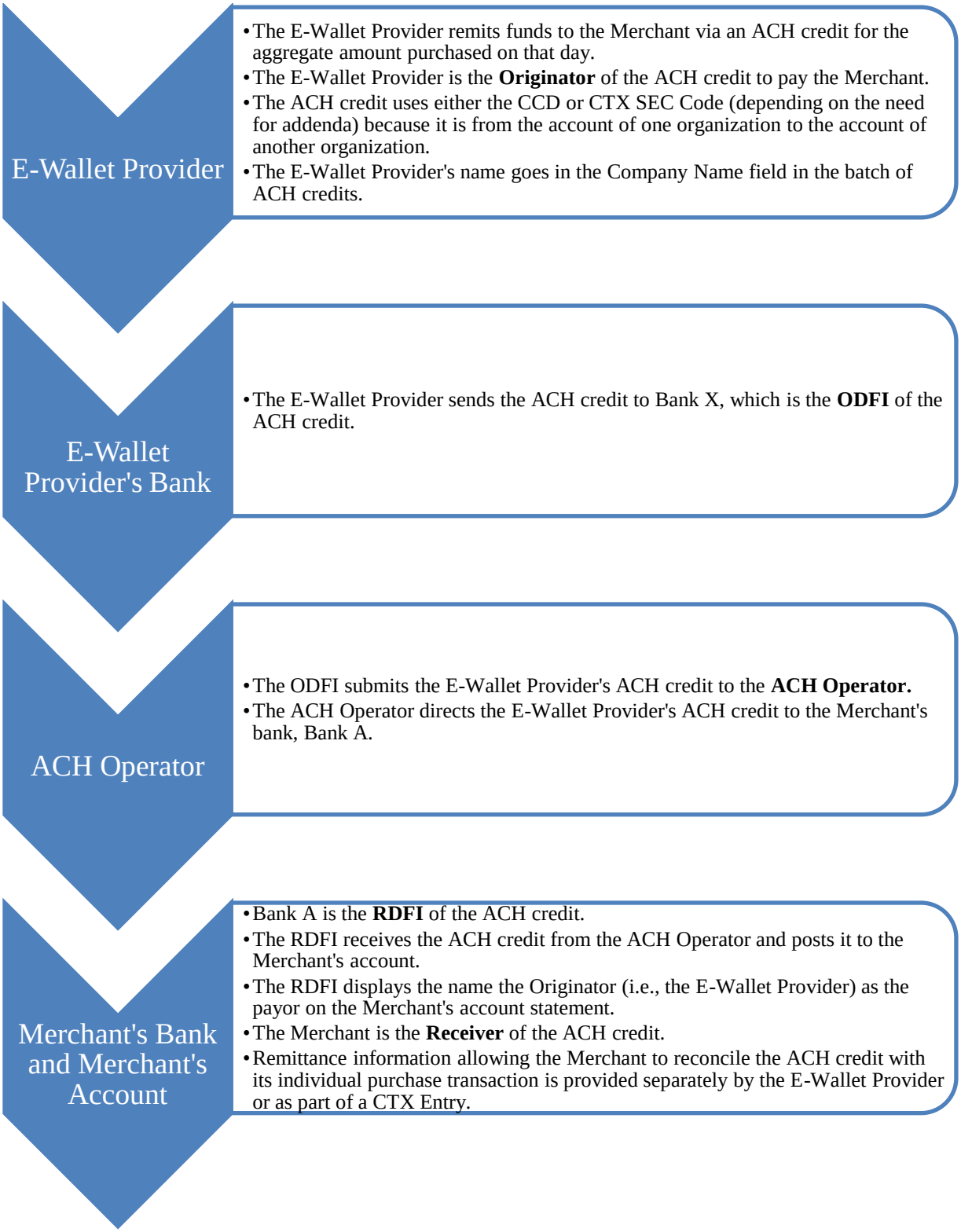
- Bank X transmits the E-Wallet Provider 's ACH debit to the **ACH Operator.**
- The ACH Operator directs the E-Wallet Provider's ACH debit to the Consumer's financial institution.

**Consumer's Financial Institution and Consumer's Account**

- The Consumer's financial institution is the **RDFI** of the ACH debit.
- The RDFI receives the ACH debit and posts it to the Consumer's account.
- The Consumer is the **Receiver** of the ACH debit used to fund the purchase.
- The RDFI displays the name of the Merchant, as the party to which payment was made, on the Consumer's account statement. The name comes from the Company Name field of the batch of ACH debits.

# E-Wallet Purchase Scenario with Concurrent Funding

## Settlement Transaction



6. E-Wallet Purchase with Stand-Alone Funding

- Scenario: As in Scenario 5, an E-Wallet Provider enables consumers to make payments for purchases at websites where the E-Wallet Provider's service is accepted. In order to maintain a prepaid, stored account balance with the E-Wallet Provider for such payments, the Consumer may periodically "reload" the stored value maintained in his E-Wallet account by authorizing an ACH debit to his linked bank account. This reload to the stored balance is not directly associated with any other transaction; the funds are stored so that they are available to be used in the future, such as for a purchase with a Merchant. Therefore, this scenario does not involve funding arising out of the purchase itself, but rather is "stand-alone" funding (funding authorized separately from the purchase).

- Transaction Structure:

  - In this scenario, there is only a single entry – the ACH debit to fund the Consumer's E-Wallet stored value account.

# E-Wallet Purchase with Stand-Alone Funding Transaction via ACH

**Consumer**

- The Consumer authorizes the E-Wallet Provider to initiate an ACH debit to his account to fund the prepaid stored balance in his E-Wallet account.

**E-Wallet Provider**

- The E-Wallet Provider has an Origination Agreement with Bank X that allows the E-Wallet Provider to submit ACH debits through the Bank X.
- The E-Wallet Provider is the **Originator** of the ACH debit**.** The debit is on the E-Wallet Provider's own behalf, and not as an intermediary on the behalf of another organization.
- The ACH debit would use the WEB SEC Code because it is a debit to a Consumer's account that was authorized via the Internet.
- The E-Wallet Provider's name goes in the Company Name field of the batch of ACH debits.

**E-Wallet Provider's Bank**

- The E-Wallet Provider submits the ACH debits to Bank X, which is the **ODFI** of the ACH debit.

**ACH Operator**

- Bank X transmits the E-Wallet Provider's ACH debit to the **ACH Operator.**
- The ACH Operator directs the E-Wallet Provider's ACH debit to the Consumer's financial institution.

**Consumer's Financial Institutions and Consumer's Accounts**

- The Consumer's financial institution is the **RDFI** of the ACH debit.
- The RDFI receives the ACH debit and posts it to the Consumer's account.
- The Consumer is the **Receiver** of the ACH debit.
- The RDFI displays the name of the E-Wallet Provider, as the party to which payment was made, on the Consumer's account statement. The name comes from the Company Name field in the batch of ACH debits.

7. E-Wallet Person-to-Person (P2P) Payment with Concurrent Funding

- Scenario: An E-Wallet Provider enables a consumer (Consumer 1) to send money to another consumer (Consumer 2). Consumer 1 is given the option of funding the payment from: 1) a stored account balance with the E-Wallet Provider; 2) an ACH debit to his account; or 3) a charge to his debit or credit card. Consumer 1 may authorize an ACH debit to fund all or part of his payment. Consumer 2 must provide her bank account information in order to have the payment credited to her account via an ACH credit.

- Transaction Structure:

  - Like the other examples above, there are two separate types of transactions that are used to complete each transfer: 1) the funding ACH debit to Consumer 1's account, whereby the E-Wallet Provider obtains the funds to send to Consumer 2; and 2) the P2P payment to Consumer 2, in which funds are sent to Consumer 2's account via an ACH credit.

  - The ACH Network may or may not be used for either type of transaction. For example, the E-Wallet Provider might allow a charge to Consumer 1's credit card to fund P2P payments, but still send the amount to Consumer 2 via an ACH credit; or, the E-Wallet Provider might only allow ACH debits to fund P2P payments, but send a check to Consumer 2 or simply increase Consumer 2's stored balance with the E-Wallet Provider. The example below assumes that both the funding debit and the P2P payment (credit) are made via ACH. Regardless, the diagrams below apply to each stage for which the ACH is used to complete the purchase.

  - There are a number of variations that could arise in this E-Wallet Provider scenario. On the funding side, Consumer 1 may have a stored balance in his E-Wallet account, resulting from a variety of earlier funding sources including transfers of stored value between users of the service. If Consumer 1 elects to use this stored value to fund the P2P payment, then there is no ACH debit initiated to Consumer 1's account.

  - In another variation, Consumer 1 has some stored value in his E-Wallet account, but not enough to cover the full amount of the P2P payment. Consumer 1 elects to partially fund the payment with the stored value from his E-Wallet account, and the remaining amount by concurrently authorizing the E-Wallet Provider to initiate an ACH debit to his account. In this variation, the funding ACH debit will not equal the amount of the Consumer 1's payment to Consumer 2. Regardless, if the funding of the P2P payment is authorized in connection with the instruction to make the P2P payment, or through a standing instruction for the same purpose, the proper treatment of this ACH debit under the *NACHA Operating Rules* is the same as when the funding debit is for the full amount of the P2P payment.

# E-Wallet P2P Scenario with Concurrent Funding

## P2P Funding Transaction via ACH Debit

**Consumer**

- Consumer 1 uses the E-Wallet service to send $100 to Consumer 2.
- Pursuant to a standing authorization to debit Consumer 1's deposit account for PtoP payments, the E-Wallet Provider initiates an ACH debit to Consumer 1's deposit account for $100.

**E-Wallet Provider**

- The E-Wallet Provider has an agreement with Bank X that allows the E-Wallet Provider to submit ACH debits through Bank X.
- The E-Wallet Provider is the **Originator** of the ACH debit.
- The ACH debit should use the WEB SEC Code because it is a debit to a Consumer account authorized via the Internet.
- Consistent with the P2P rule, the name of Consumer 2 goes in the Company Name field of the batch of ACH debits.

**E-Wallet Provider's Bank**

- The E-Wallet Provider submits the ACH debit to Bank X, which is the **ODFI** of the ACH debits.

**ACH Operator**

- Bank X transmits the E-Wallet Provider 's ACH debit to the **ACH Operator.**
- The ACH Operator directs the E-Wallet Provider's ACH debit to Consumer 1's financial institution.

**Consumer's Financial Institution and Consumer's Account**

- Consumer 1's financial institution is the **RDFI** of the ACH debit.
- The RDFI receives the ACH debit and posts it to Consumer 1's account.
- Consumer 1 is the **Receiver** of the ACH debit.
- The RDFI displays the name of the Consumer 2 on the Consumer 1's account statement. The name comes from the Company Name field of the batch of ACH debits.

# E-Wallet P2P Scenario with Concurrent Funding

## Person-to-Person Payment via ACH Credit

**E-Wallet Provider**

- Consumer 2 agrees to receive payments automatically via ACH credit to her account.
- Consumer 1 is the **Originator** of the ACH credit, which should be treated as a P2P Entry and use the WEB Credit SEC Code.
- The E-Wallet Provider is a **Third-Party Sender** of the ACH credit.
- Under the Rules for P2P Entries, the name of the E-Wallet Provider should appear in the Company Name field, and the name of Consumer 1 (the payor) should appear in the Individual Identification Number field.

**E-Wallet Provider's Bank**

- The E-Wallet Provider submits the ACH credit to Bank X, which is the **ODFI** of the ACH credit.

**ACH Operator**

- Bank X transmits the E-Wallet Provider 's ACH credit to the **ACH Operator**.
- The ACH Operator directs the E-Wallet Provider's ACH credit to Consumer 2's financial institution.

**Recipient Consumer's Financial Institution and Consumer's Account**

- Consumer 2's financial institution is the **RDFI** of the ACH credit.
- The RDFI receives the ACH credit from the ACH Operator and posts it to Consumer 2's account.
- Consumer 2 is the **Receiver** of the ACH credit.
- The RDFI displays the name of Consumer 1 (as the payor) on Consumer 2's account statement. According to the *NACHA Operating Rules* for P2P Entries, the information is in the Individual Identification Number field of the ACH credit.