**How Does ACH Processing Work?**

**By Wayne Akey**

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How does ACH processing work?

ACH processing refers to the moving of money electronically using the Federal Government's Automated Clearing House. This clearing house provides a centralized communication network that allows for both the electronic transfers of funds and the reporting of these transfers.

Essentially banks have a pipeline (usually called a Fed Line) that connects them directly into the ACH network. This pipeline allows information to be transmitted that instructs the clearing house to transfer funds to and from bank accounts. The banks typically receive raw data reporting bank from the Federal Reserve ACH system. (Note: There are private clearing houses as well).

Most banks possess at least the ability to use a Fed Line. Some make use of this and some don't. Those that do typically have very limited front end tools. By front end we mean methods of getting transaction data to them. Their reporting systems tend to be even more primitive.

For these reasons third party processors (TPP's) entered the ACH arena. The third party processor saw the myriad benefits and opportunities to provide businesses the ability to easily move money electronically. By developing user friendly front end tools and robust reporting the third party processor has been able to offer businesses tools they need. The vast majority of TPP's have a partner bank(s) and they tie into that bank's Fed Line.

If you are familiar with credit card processing you may assume ACH processing operates in a similar fashion. It doesn't. Whereby a credit card transaction places a hold on available credit on the customer card an ACH transaction is quite different.

The ACH transaction proceeds as if the customer being debited has a valid bank account with the requisite funds available. The TPP typically receives provisional credit for the ACH transaction the day after the transaction is initiated. The two banks involved in the transaction (TPP bank and customer bank) have up to 4 days to "settle" the transaction. Settlement refers to the banks agreement that the money has been transferred.

Most of the time the transaction is "settled". However there are a variety of reasons it may "reject" or become a "return". NSF, closed account, invalid account are some of the many reasons. You also have the potential (as in a credit card transaction) of a chargeback by the consumer.

For the reasons detailed above the TPP typically imposes a 4 day hold on funds to mitigate the risk they would be exposed to if they gave faster credit. Here is a risk scenario. A business is credited $10k on Wednesday for transactions performed on Monday. Return information comes form the customer bank and the bottom line is that $5k was "returned". That $5k has to be debited from the business that initiated the transaction. If the TPP is unable to get that $5k they are on the hook. This goes to the heart of risk mitigation.

In summary ACH processing is not an instantaneous transfer of funds. Most of the time you will find out through your reporting within 48 hours if the transactions is going to result in a "return". You can use our advanced verification products to reduce your exposure to potentially unsuccessful transactions. In conjunction with advanced recollection techniques you can enjoy efficient payment processing.

If your business possesses an IT staff and sufficient transaction
we can in cases provide you a direct relationship with a bank
with a Fed Line. Contact us for details.



ABOUT THE AUTHOR: Wayne Akey has helped numerous businessesreduce costs and increase efficiency.visit http://www.ach−payments.com for moreinfo and a free ebook on ACH processing

**What is Check 21?**

**By Wayne Akey**

**What is Check 21? by Wayne Akey**

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What is Check 21?

Check 21 (the Check Clearing for the
21st Century Act) allows banks to
replace original paper checks
(source document) with digital
copies of the originals.

Why was Check 21 created?

Check 21 will reduce the time, risks
and costs associated with paper
check processing. Banks will be able
to send digital images of checks
electronically, eliminating the need
to physically transport paper checks
between banks. Clearly there will
be substantial costs and time savings
to the banks.

What is a substitute check?

A substitute check is a paper copy of

the digital image of your original check, called the source document − both front and back, with all endorsements −and is about the size of a business check. Check 21 legislation standardizes quality and allows for substitute checks to be legal copies of the originals.

Are substitute checks an acceptable proof of payment?

Yes, everyone must accept substitute checks beginning Oct. 28.

How will Check 21 impact me?

DO NOT count on float time for your check to clear. Funds will be removed from your bank account much sooner than a paper check. If you receive your canceled checks with your statement, you may receive a mix of substitute checks and original checks. If you don't receive your checks back now, you may not notice any change. Check processing will be faster with the implementation of Check 21. Funds may be removed from your account sooner than in today's system.

What happens to my original check?

After making a digital image, the bank may destroy your original check. If necessary, a substitute check may be created. Since substitute checks are legal copies of your original check, there is no need to save the original.

What if I need a copy of a canceled check?

Your bank will produce a copy for you.

How does Check 21 relate to electronic check conversion (e−check)?

Check 21 involves creating digital images of original checks, but are still processed under the same laws and regulations as paper checks. On the other hand, electronic check conversion, or e−check, occurs when a check is converted into an electronic funds transfer. The transaction is then routed through the Automated Clearing House (ACH) network.

Who wins?

THE BANKS! Banks will be saving big dollars on their operational costs. Merchant may

see faster funds availability but many were already seeing quick funds availability using paper checks. Consumers lose the float. So "suprisingly" the banks are the real winners.

For more information visit
http://www.aba.com or http://www.nacha.com

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Wayne Akey has helped numerous businessesreduce costs and increase efficiency.Get your Free Ebooks on "The Secrets of ACH Processing"and "How to Save over 80% on Payment Processing" athttp://www.ach−payments.com


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