

NACHA Electronic Check Council—Quick Reference Chart*

Highlights And Key Features Of ACH Check Conversion AND Check 21

January 2004

Subject	Check Conversion (ARC and POP)	Check 21
THE BASICS		
<p>What it is</p>	<p>Paper check payment is converted to an ACH electronic payment. This works as follows:</p> <ul style="list-style-type: none"> • Paper check is tendered for payment. • Using MICR scanner, payee scans MICR data from check. • Payee adds payment amount and name of payee, then transmits data through the ACH Network to debit customer's account. • In ARC, the check is destroyed after conversion; in POP, the check is returned to the checkwriter at the time of payment. <p>These transactions flow through the ACH Network.</p>	<p>Paper check payment is imaged; the image is later converted into a substitute check. The substitute check is used in the paper check collection system. This works as follows:</p> <ul style="list-style-type: none"> • Paper check is captured and converted into a digital image. (This step is not covered by Check 21 Act.) • An FI—the reconverting bank—uses the digital image to create a substitute check, which is a paper reproduction of the original check (front and back). <p>The substitute check must bear this legend: "This is a legal copy of your check. You can use it the same way you would use the original check."</p> <p>These transactions do not flow through the ACH Network.</p>
<p>Enabling legislation or rules (see also Legal Framework below)</p>	<p><i>NACHA Operating Rules</i></p>	<p>Check Clearing for the 21st Century Act</p>

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This chart provides top-level, basic, simplified information about the ACH Network's ARC and POP services under NACHA Operating Rules compared to the provisions of the Check Clearing for the 21st Century Act. Information in this chart should be not relied on for legal, regulatory, strategic, marketing, operational or other purposes; review the underlying legal, regulatory and rules documents for detailed information.

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What the enabling legislation or regulation does not cover	Transmission or exchange of copies.	Creation, transmission or exchange of images.
Why was it developed	Provides benefits such as efficiency and additional consumer protection to nation's payment system by handling cost-effective electronic transactions (faster collection and return of payments), while allowing customers to continue writing checks.	Provides framework for changes in check processing that can benefit the nation's payment system by handling efficient electronic transactions (faster collection and return of checks), while allowing customers to continue writing checks and to obtain substitute checks that legal equivalent of original check.
When service began/ will begin	POP: 1999 ARC: 2002	October 28, 2004
ORIGINAL CHECK COPIES/IMAGES		
Type of allowable non-paper copy of the original paper check	ARC: Reproducible, legible, image, microfilm or copy (copy of front of check required; copy of back of check optional). POP: No copy required; consumer receives the check back at the time of payment.	This is not covered under the Act. It is anticipated that the Reconvert-ing Bank is likely to have an image of the front and back of the original check. Other banks in payment system will have appropriate copies such as microfilm or image.
When non-paper copy of original check is made	ARC: In lockbox processing. POP: No copy required; consumer receives the check back at the time of payment.	This is not covered under the Act. It is anticipated that a copy may be made at point of capture, branch, ATM, etc. Other banks in payment system may make copies during check processing.
Disposition of original paper check	ARC: Destroyed by payee within 14 calendar days. POP: Returned to customer at time of payment.	Not covered by the Act.

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Length of time non-paper copy of check is retained	ARC: 2 years; held by ODFI or agent. POP: No copy required; consumer receives the check back at the time of payment.	Covered by UCC (typically requires 7 Years).
How checkwriter obtains: <ul style="list-style-type: none"> • Paper copy of original check (ACH) • Substitute check (Check 21) 	ARC: Ask own FI or payee. POP: Checkwriter already has check.	May receive substitute check in bank statement; may request substitute check from Paying Bank.
LEGAL FRAMEWORK AND CONSUMER PROTECTION		
Legal Framework	<ul style="list-style-type: none"> • Electronic Fund Transfer Act • Regulation E • <i>NACHA Operating Rules</i> • Fed Operating Circular 	<ul style="list-style-type: none"> • Check Clearing for the 21st Century Act • Regulation CC • Clearing house rules • Fed Operating Circular
Legal status of payment	Covered by electronic banking law and regulations. Check becomes a source document and is not negotiated; it is therefore not covered by check law.	Covered by Check 21 and check law. Substitute check is the legal equivalent of the original check for all purposes.
Relationship to state law	Applicable state laws must be followed; however, ACH-oriented state laws are rare.	Supercedes state law that is inconsistent with Act.
Underlying standards	NACHA Operating Rules	X9B standards
Proof of payment	(1) Payment listing on check statement (includes payee name) (2) copy of check	Same as in current paper check environment but the substitute check is used in place of the original check.
Consumer protection	Right to dispute payment and amount (set forth in Electronic Fund Transfer Act and Regulation E).	Expedited Rcredit (set forth in Check Clearing for the 21 st Century Act); Regulation CC (to be amended by Fed for this purpose); UCC.

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Timeframe for consumer disputes	60 days from day of settlement.	40 days from date the statement is mailed or substitute check is made available to consumer.
Information on customer statement	Date, amount, payee, check number; no copy of check	This is not covered by the Act, but typical practices are expected to be: <ul style="list-style-type: none"> • If checks are returned with statement: substitute checks • If images are returned with statement: image of check or substitute check • If neither check or image is returned: date, check number and amount on statement
ELIGIBLE ITEMS		
Types of checks eligible	Consumer checks drawn on U.S. banks in U.S. dollars.	All checks drawn on U.S. banks in U.S. dollars.
Can RDFI/Paying Bank choose not to receive these transactions.	No; all RDFIs must accept these transactions.	No; all paying banks must accept substitute checks.
CHECKWRITER AUTHORIZATION		
Authorization required from checkwriter to convert or truncate	Billor or retailer obtains authorization from checkwriter to convert checks	None
Checkwriter right of refusal to allow conversion or truncation (i.e., check electronification)	Payee may, but does not have to, allow checkwriter to "opt out" of electronification	None for substitute checks. Act does not cover other forms of check electronification, which may require authorization.

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Provides information about authorization	Payee provides information about authorization at time authorization is obtained. Checkwriter can contact payee or FI for more information.	FIs must provide consumer awareness about substitute checks. Payment authorization is customer signature.
RETURNS		
Reasons for return	Usual ACH reasons plus POP- and ARC-specific reasons	Usual check reasons; possibly violations of warranties in the Act
Stop payments allowed	Yes	Yes
Return as unauthorized	Yes, with statement under penalty of perjury	Same as original check
Maximum number of presentments	3	2
OTHER INFORMATION		
Other names for this service	Electronic check, eCheck ARC: Accounts Receivable POP: Electronic check conversion	Check truncation; CTA; Check Truncation Act
For more information	<ul style="list-style-type: none"> • NACHA – The Electronic Payments Assn. • Regional Payments Assns. • Electronic-check.org • <i>NACHA Operating Rules</i> 	<ul style="list-style-type: none"> • ABA – ABA.com • BAI – BAI.org • ECCHO – ECCHO.org • Federal Reserve • NACHA / Electronic Check Council: Ecc.nacha.org • Most banking trade associations • The Act; regulations • <i>Congressional Record</i>
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