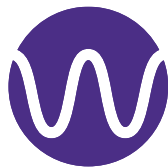




ELECTRONIC FUNDS TRANSFERS (EFT) AUTHORIZATION REQUIREMENTS



pdcflow

WHAT ARE EFT TRANSACTIONS?

Transactions initiated through electronic terminals, telephones, or computers which debit or credit a consumer's checking or savings account, are electronic funds transfers. This definition includes transfers resulting from debit card transactions whether or not initiated through an electronic terminal.

THE EFT ACT DEFINES A "PREAUTHORIZED ELECTRONIC FUNDS TRANSFER" AS AN ELECTRONIC FUNDS TRANSFER WHICH IS:

1. authorized
2. in advance
3. to recur at substantially regular intervals

The Federal Reserve Board implements EFTA through Regulation-E, which includes an official staff commentary.

For additional information: https://www.federalreserve.gov/boarddocs/calendars/2008/0807/08-07_attachment.pdf

ELECTRONIC FUNDS TRANSFER ACT

The Electronic Funds Transfer Act (EFTA) (15 USC 1693 et seq.) of 1978 is intended to protect individual consumers engaging in electronic funds transfers (EFTs). EFT services include transfers through automated teller machines, point-of-sale terminals, automated clearinghouse systems, telephone bill-payment plans in which periodic or recurring transfers are completed, and remote banking programs.

Both NACHA (National Automated Clearing House Association) and the EFT Act (or Regulation-E) require that businesses involved in electronic funds transfer activities implement specific procedures to ensure the consumer has given their authorization for an electronic funds transfer.

WHAT THE EFT ACT REQUIRES:

Preauthorized electronic funds transfers from a consumer's account for both one-time and recurring payments may be authorized "only by a writing signed or similarly authenticated by the consumer."

This requirement focuses on what the consumer must provide to the payee, not what the payee must provide to the consumer. The consumer must give their:

1. authorization
2. by writing
3. writing is signed or similarly authenticated

The Act further requires the recipient of the authorization to provide a copy of it to the consumer.

WHAT NACHA REQUIRES:

NACHA - the organization that oversees the Automated Clearing House (ACH) network - has established three reasons a consumer can dispute ACH charges to their account.

1. If it was never authorized by the account holder or the authorization was revoked.
2. If it was processed on a date earlier than authorized.
3. If it is for an amount different than authorized.

A consumer disputing an ACH charge must provide notice to the bank in writing that one of these three conditions exists.

ACH AUTHORIZATION REQUIREMENTS

TEL ONE-TIME TRANSACTION TYPE:

Telephone initiated (TEL) transaction is a single entry (one-time) transaction to a consumer's account based on the authorization obtained verbally from the consumer via the telephone.

A one-time ACH transaction taken over the phone requires either a notice prior to debit, or a recorded call of the oral authorization.

TEL RECURRING TRANSACTION TYPE:

Telephone initiated (TEL) transaction is a recurring transaction to a consumer's account based on the authorization obtained verbally from the consumer via the telephone.

A recurring ACH transaction taken over the phone requires a notice prior to debit AND a recorded call of the oral authorization.

WEB TRANSACTION TYPE:

One-time or recurring debit transactions where the consumer authorization for the payment was obtained via the internet.

Companies that originate WEB debits are required to use a commercially reasonable fraudulent transaction detection system (PDCflow offers ACH Verify services for this.) An ACH processed via a website requires input that validates the consumer's identity, must provide evidence of permission to debit and must display Revocation language.

PPD TRANSACTION TYPE:

Prearranged Payment and Deposit Entry (PPD) is by definition a single or recurring credit or debit transaction initiated by a business that grants permission to debit a consumer's personal checking or savings account.

An ACH processed as a PPD, a post dated or recurring payment schedule set up in person, requires a written authorization.

CCD TRANSACTION TYPE:

A Cash Concentration or Disbursement is a one-time or recurring ACH transaction that debits or credits a business account.

A one-time or recurring business to business ACH transaction, requires a written authorization or "wet" signature.

Getting the correct Proof of Authorization for each ACH transaction type is important because: it can prevent consumers reversing transactions, and because it is required by NACHA.

TEL TRANSACTION AUTHORIZATION GUIDE

A Telephone Initiated (TEL) transaction is a single entry (one-time) or recurring debit to a consumer account based on an authorization obtained verbally from the consumer via the telephone. NACHA permits TEL transaction types if the consumer initiates the call, or if the business initiates the call and there is a pre-existing relationship between the customer and the business (such as a contract in place or the consumer has done business with the organization in the last two years).

HOW TO AUTHORIZE:

1. Record the call, clearly state:

- that the consumer is authorizing an ACH debit to his or her account
- date the consumer's account will be debited
- amount of the debit
- consumer's name
- date of the verbal authorization
- a phone number that is available for the consumer for inquiries
- receive a clear "I agree" from the consumer

OR (IF ONE-TIME) AND (IF RECURRING)

2. Send a notice prior to debit either via email, fax or mail confirming the authorization and the payment amount. Make sure the notice contains:

- consumer's name
- last 4 digits of the bank account number
- transaction amount
- date processed
- how the authorization can be cancelled
- time frame a consumer has to cancel the authorization
- phone number the consumer can call to contact your office
- must be able to prove the notice prior to debit was sent, but you are not required to prove it was received.

3. A copy of the recorded oral authorization and/or the notice prior to debit must be retained for a minimum of two years from the date of the authorization.

4. For Recurring TEL transactions, if the amount of the debit entry to the consumer account differs from that of the original authorization, a new written notification of the new amount must be sent to the consumer a minimum of 10 calendar days prior to debit.

5. For Recurring TEL transactions, if the date of the debit entry changes, a written notification of the new date must be sent to the consumer a minimum of seven calendar days before the date of the first entry affected by the change.

EFT ACT (REGULATION-E) REQUIRES:

Preauthorized transfers from a consumer's account may only be authorized by the consumer:

1. In writing.
2. Signed or similarly authenticated by the consumer.
3. Signed, written authorizations may be provided electronically, subject to the E-Sign Act.
4. In all cases, the party that obtains the authorization from the consumer must provide a copy to the consumer.

Please note: If a third party payee fails to obtain an authorization in writing or fails to provide a copy to the consumer, the third party payee and not the financial institution has violated Regulation E.

SAMPLE RECORDED TEL AUTHORIZATION SCRIPT

Agent: Hello, is this M_____?

Consumer: Yes, this is M_____.

Agent: This is (Agent name) from (agency name). Today is (Date) I have to advise you this a recorded line and that this is an attempt to collect a debt (payment). Any information will be used for that purpose.

Consumer: Okay.

Agent: The debt (payment) I am calling on is for the _____ who have turned over a debt in the amount of \$_____ to our agency for collection. We are calling in an attempt to resolve that.

Consumer: I cannot afford to pay all of that today. Can I make payments?

Agent: Absolutely. A recurring payment schedule can be set up and would work like this: You would agree to provide either checking or credit card information. You would agree to authorize (agency name) to withdraw or charge your account with \$_____ each month on a day that fits your budget. Will this type of payment arrangement work for you?

Consumer: Yes.

Agent: In that case, how much can you pay and on which day of the month would you like this set up?

Consumer: I can afford \$_____ on the _____ of each month.

Agent: Now I will need either your credit card or checking account information. If you would allow me to repeat your agreement and if you could confirm the agreement, please.

Today is (Day/Date) and you are agreeing to allow (agency name) to withdraw \$_____ per month on the _____ of every month until you have fulfilled your obligation.

Your routing number is:

Your checking account number is:

Now, if you could please state your name again and verbally confirm that you agree to the terms that we have discussed.

Consumer: Yes, my name is (Name) and I agree to these terms.

Agent: Please understand that this authorization will remain in full force and effect until you notify us that you wish to revoke this authorization. And we require at least five (5) business days prior notice in order to cancel this authorization. If you have any questions, you may also contact us at (xxx) xxx-xxxx.

WEB TRANSACTION AUTHORIZATION GUIDE

WEB transactions are authorized by a consumer entering payment information into a web form, actively checking a box to agree to the terms and conditions for the transaction and clicking a "Submit" button.

HOW TO AUTHORIZE:

1. Validate identity.
2. Receive permission to debit the bank account.
3. Display Revocation Language on the Website or payment form using NACHA mandated language.
4. Give consumer the ability to view, print or email a receipt.
5. For Recurring WEB transactions, if the amount of the debit entry to the consumer account differs from that of the original authorization, a new written notification of the new amount must be sent to the consumer a minimum of 10 calendar days prior to debit.
6. For Recurring WEB transactions, if the date of the debit entry changes, a written notification of the new date must be sent to the consumer a minimum of seven calendar days before the date of the first entry affected by the change.
7. The authorization along with identity verification must be retained for a minimum of two years.
8. A copy of the authorization must be provided within 10 days if requested by Originating/Receiving Financial institution.

SAMPLE REVOCATION LANGUAGE

I understand that this authorization will remain in full force and effect until I notify COMPANY [insert manner of revocation, i.e., in writing, by phone, location, address, etc.] that I wish to revoke this authorization. I understand that COMPANY requires at least [X days/weeks] prior notice in order to cancel this authorization.

PPD TRANSACTION AUTHORIZATION GUIDE

PPD transactions are a Single or Recurring Debit or Credit Entry to Consumer account generally initiated in person.

PPD RECURRING TRANSACTIONS DEFINITION

Grants permission to debit a consumer's personal checking or saving account:

1. For the same amount on a regular schedule, such as weekly, bi-weekly or monthly.
2. For different amounts on a regular basis.
3. For a payment plan for the payoff of a large debt.

10. For Recurring PPD transactions, if the amount of the debit entry to the consumer account differs from that of the original authorization, a new written notification of the new amount must be sent to the consumer a minimum of 10 calendar days prior to debit.

11. For Recurring PPD transactions, if the date of the debit entry changes, a written notification of the new date must be sent to the consumer a minimum of seven calendar days before the date of the first entry affected by the change.

12. A copy of the authorization must be provided within 10 days if requested by Originating/Receiving Financial institution.

HOW TO AUTHORIZE:

1. Must be in writing.
2. Must be signed or similarly authenticated by the consumer. Similarly authenticated standard permits signed, written authorization to be provided electronically. The authorization must evidence both the consumer's identity and the assent to the authorization.
3. Must be a legal "wet" signature.
4. Must provide the consumer with an electronic or paper copy of the authorization.
5. Must clearly state terms (amount, date, frequency of payment).
6. Must provide clear cancellation information.
7. Must provide evidence of consumer's identity and consent to transaction.
8. Must keep authorization on file for a minimum of 2 years after all payments have been completed.
9. Must send a receipt (mail, email, fax) for each transaction processed as part of the schedule.

EFT ACT (REGULATION-E) REQUIRES:

Preauthorized transfers from a consumer's account may only be authorized by the consumer:

1. In writing.
2. Signed or similarly authenticated by the consumer.
3. Signed, written authorizations may be provided electronically, subject to the E-Sign Act.
4. In all cases, the party that obtains the authorization from the consumer must provide a copy to the consumer.

Please note: If a third party payee fails to obtain an authorization in writing or fails to provide a copy to the consumer, the third party payee and not the financial institution has violated Regulation E.

CCD TRANSACTION AUTHORIZATION GUIDE

A one-time or recurring ACH transaction that debits or credits a business account.

HOW TO AUTHORIZE:

1. Must be in writing (such as a contract between companies).
2. Must be a legal "wet" signature.
3. Must retain a copy of the authorization or agreement/contract for at least two years.
4. A copy of the authorization must be provided within 10 days if requested by Originating/Receiving Financial institution.

CONSUMER FINANCIAL PROTECTION BUREAU

The Dodd-Frank Act transferred rule-making authority under the EFTA from the Federal Reserve Board to the Consumer Financial Protection Bureau (CFPB) and, with respect to entities under its jurisdiction, granted authority to the CFPB to supervise and enforce compliance with EFTA and its implementing regulations.

For additional information on the CFPB's opinion on Regulation-E:

<https://www.consumerfinance.gov/eregulations/1005-1/2016-24506#1005-1-a>

PDCflow for Regulation E

PDCflow makes Regulation E compliance simple for you, your staff and your customers. With our FLOW Technology, you can comply with Regulation E requirements without disrupting your workflow.

- **NEGOTIATE A PAYMENT PLAN** - Set up a recurring schedule that works best for you and your consumers. Flexible payment terms mean they can choose the time of month that works best for them, and control the minimum payment amounts they can pay to ensure the plans make sense.
- **SEND PAYMENT TERMS INSTANTLY** - Send payment schedules, terms and payment consent forms to consumers through text or email.
- **GAIN AUTHORIZATION** - Ask consumers to authenticate their identity, review the information, sign, enter their payment information (credit card or bank account number) and send back – all within minutes.

SAMPLE OF WRITTEN AUTHORIZATION

AUTHORIZATION TO INITIATE ACH DEBIT ENTRIES

Name of Company _____

CUSTOMER INFORMATION

I (We) hereby authorize Company as shown above, hereinafter called COMPANY, to initiate debit entries to my (our) bank account as detailed below, and to debit the same to such account. Should a transaction be returned, I (we) further authorize debiting this account for non-sufficient fund fees according to applicable State Law. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. Law.

Full Name on Account: _____

Account #: _____ Routing #: _____

Account Type (select one): ☐Checking ☐Savings
Account Class (select one): ☐Consumer Account ☐Business Account

Debit Payment Details:

Payment Amount: _____ Number of payments: _____

Date of next payment: _____ Frequency of payments: _____
(example: one-time, monthly, etc.)

I understand that this authorization is to remain in full force and effect until Company has received written notification from me of its termination at least five (5) business days prior to the payment due date. I further understand that canceling my ACH authorization does not relieve me of the responsibility of paying my account in full, and that if I cancel or revoke this authorization before any remaining debt is paid in full, the Company may take additional actions including legal actions to secure the debt.

Customer Signature: _____ Date: _____
(Authorized Signer for Account)

Customer Printed Name: _____

Customer Contact Telephone #: _____