



National System of Fines  
**ACH Rules  
Enforcement  
Case Studies**

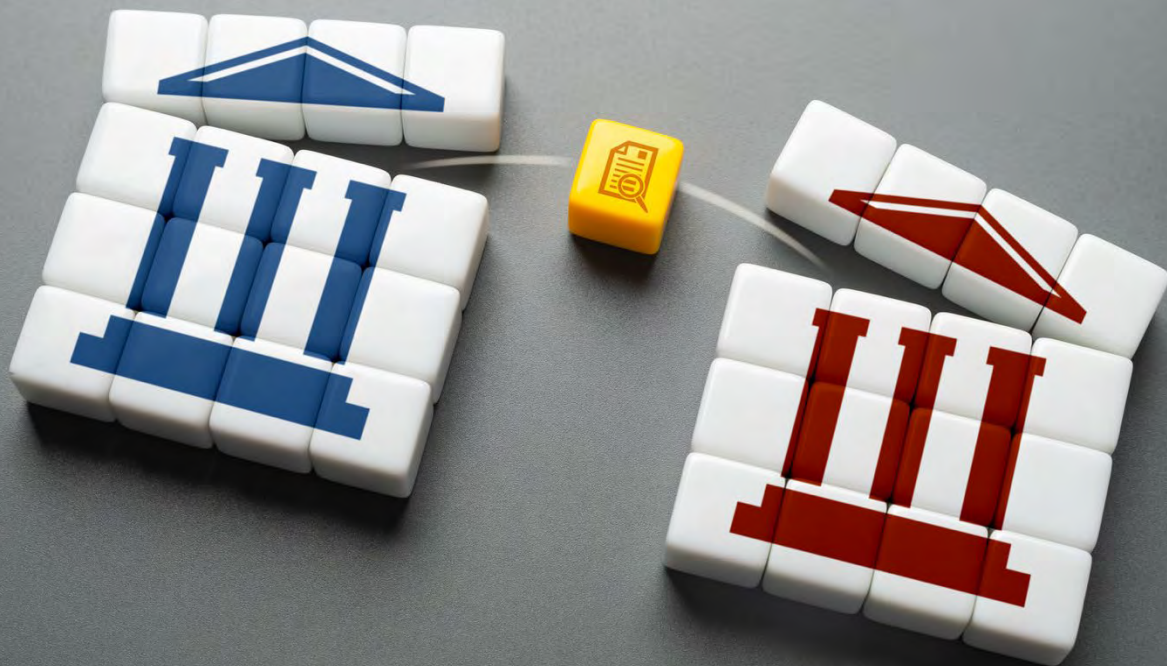


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**The National System of Fines is the rules enforcement mechanism for the ACH Network, helping to ensure compliance with the Nacha Operating Rules through a formal system of warnings and fines. Its objective is to maintain the quality of the ACH Network through more complete compliance with the Nacha Operating Rules.**

**The information contained in this document provides examples of actual cases processed by the National System of Fines. The names of the parties involved in the cases have been changed for confidentiality purposes. The facts and fines related to the cases are real. As a user of the ACH Network, it's important to know what can happen if the Nacha Operating Rules are not followed.**

**Included in the document are case studies that relate to rules violations, arbitration cases, and ODFI return rate reporting cases.**



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## Section 1

# Violation Case Studies

## Why is it important to file an alleged rule violation?

Filing an alleged rules violation provides the necessary vehicle for the issue to be brought to Nacha's attention so that it can be addressed with the respondent financial institution. The goal is to improve the quality of ACH services, reduce exception processing and maintain the reputation of the ACH Network.

### How do I submit a violation?

**Submit online:** <https://www.nacha.org/violation>  
(preferred method)

**Email:** [acha-Ntwrk-Compliance@Nacha.org](mailto:acha-Ntwrk-Compliance@Nacha.org)

**Fax:** 703-561-0819

**Mail:**  
Nacha  
Compliance Department  
11951 Freedom Drive, Suite 1001  
Reston, VA 20190



## ACH Rule Violations FAQ

**Q:** Who can submit a Report of Possible ACH Rules Violation?

**A:** A financial institution or ACH Operator that is a party to the transaction

**Q:** What rules are eligible for rules violations?

**A:** You can file for any rules infraction

**Q:** How much are the fines?

**A:** Class 1 Rules Violations

• Up to \$1,000 for a first recurrence • Up to \$2,500 for a second recurrence • Up to \$5,000 for a third recurrence

Class 2 Rules Violations

• Up to \$100,000 per month until the problem is resolved

Class 3 Rules Violations

• Fineable up to \$500,000 per month until the problem is resolved; the Panel may direct a financial institution to suspend an Originator or Third-Party Sender from originating in the ACH Network

**Q:** When does the violation need to be filed with Nacha?

**A:** Within 90 days of the rules infraction

**Q:** What if a problem continues to occur even after I've filed a violation?

**A:** If a problem continues after the resolution date provided by the respondent (via Nacha), you can submit another violation. This is an indication that the underlying problem causing the rules violation has not been resolved.

**Q:** What is the ACH Rules Enforcement Panel and what do they do?

**A:** The Panel, representing a cross section of the ACH industry (e.g., financial institutions, ACH Operators, and Payment Associations), review Class 1, Class 2 and Class 3 ACH Rules Violations. They are the final authority regarding the imposition of a fine.

## **Improper Reversal**

### **The Claim**

**K&K State Bank received a Notice of Possible Rules Violation related to an improper reversing entry involving its Originator, Glenn Transport.**

### **Background**

- **Glenn Transport initiated an ACH credit entry to its trading partner, KJN Storage, in the amount of \$50,000.**
- **The following day, Glenn Transport sent an ACH debit entry in the amount of \$50,000 to KJN Storage in an attempt to reverse the credit entry.**
- **Upon receiving the reversing entry, the receiving bank, Acclaim Bank, contacted their receiver, KJN Storage, to determine if they were aware of the reversal.**
- **KJN Storage stated that they were unaware of the reversal and that they were entitled to the funds based on an invoice sent to Glenn Transport.**
- **After contacting K&K State Bank and failing to resolve the issue, Acclaim Bank filed a Rules violation citing Glenn Transport's failure to notify the Receiver of the reversing entry and the origination of an improper reversal due to the fact that the reversing entry did not meet any of the reasons for a valid reversal:**
  - **was not a duplicate entry**
  - **was not an incorrect amount**
  - **did not order payment to or from a different Receiver than Receiver intended**
- **K&K State Bank denied the violation stating that the credit entry itself was unintended.**

### **Nacha/Panel Conclusion**

- **K&K State Bank's denial of the violation was refuted by Nacha because the reason for the reversal did not meet any of the reasons for a valid reversal under the Rules.**
- **The System of Fines does not judge or resolve an underlying dispute between an Originator and Receiver, such as in this case.**
- **The resolution of the dispute between an Originator and Receiver should happen off the ACH Network.**

### **Fine**

- **As this was the first instance of this infraction by K&K State Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.**

## Entries to Invalid Accounts

### The Claim

Messick Bank received a Notice of Possible Fine related to several hundred debit entries involving its Originator, We Loan to You, initiated to invalid accounts at a RDFI.

### Background

- After consulting with We Loan to You, Messick Bank acknowledged the violation stating that a data corruption issue caused incorrect data to be included in the ACH files.
- We Loan to You stated that they had resolved the issue and that the entries with invalid information would cease.

### Nacha/Panel Conclusion

- The ACH Rules Enforcement Panel reviewed this issue and determined that it caused excessive harm to a Participating DFI.

### Fine

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
- Given Messick Bank's repeated presence in the System of Fines, along with the high volume of invalid entries initiated, the Panel decided to impose a one-time fine of \$10,000.

## Entries to Invalid Accounts – It Continues

### The Claim

Messick Bank received an *additional* Notice of Possible Fine related to several dozen debit entries involving the same Originator, We Loan to You, to invalid accounts at the same RDFI. These transactions occurred during the two months following the resolution date of the initial violation.

### Background

- As outlined in the previous case study:
  - Messick Bank and We Loan to You had already received a violation and fine for this infraction.
  - We Loan to You stated that the erroneous transactions would cease.

- **Messick Bank acknowledged this violation and stated that the database solution implemented previously did not fully resolve the issue, which resulted in additional entries being initiated to invalid accounts.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel reviewed this issue and determined that it caused excessive harm to a Participating DFI.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **Given Messick Bank's repeated presence in the System of Fines, the Originator's failure to resolve the issue, along with the high volume of erroneous entries continuing to be initiated, the Panel decided to impose a fine of \$30,000.**

## **Unauthorized Entries**

### **The Claim**

**Best Bank received five Notices of Possible Fine related to unauthorized entries involving five different Originators with more than 700 entries returned as R10 (Unauthorized).**

### **Background**

- **Best Bank denied the violations stating:**
  - **Proper authorizations were in place.**
  - **The returns were related to the receiver's failing to cancel their subscriptions after the 30-day free trial period.**
  - **The five Originators were all using the same third-party processor whose software was incorrectly configured and allowed the continuation of unauthorized debits to be transmitted.**
  - **The decision was made to terminate all five Originators.**

### **Nacha/Panel Conclusion**

- **Best Bank's denial of the violations was refuted because the Originators continued to initiate transactions after receiving R10 returns.**
- **The ACH Rules Enforcement Panel reviewed the issues and determined that they caused excessive harm to the Network.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month/per violation until the issue is resolved.**
- **A collective fine of \$30,000 was imposed for the five violations.**

## Reinitiation of Returned Entries

### The Claim

Callen Bank received a Notice of Possible Rules Violation involving their Originator, Captiva Industries, related to the reinitiation of prenote entries that had been returned several times as R15 (Beneficiary or Account Holder Deceased).

### Background

- After consulting with Captiva Industries, Callen Bank acknowledged the violation stating that the account information would be removed and no future entries would be initiated using this account information.

### Fine

- As this was the first instance of this infraction by Callen Bank, it received a warning letter, which is not subject to a fine.

## Reinitiation of Returned Entries - It Continues

### The Claim

Callen Bank received a Notice of Possible Fine involving their Originator, Captiva Industries, related to the reinitiation of prenote entries that had been returned several times as R15 (Beneficiary or Account Holder Deceased).

### Background

- As outlined in the previous case study, Callen Bank had already received a warning letter for this infraction and acknowledged the violation.
- The receiving bank's violation submission stated that the prenote transactions were coming in on a weekly basis.
- Callen Bank acknowledged this violation stating that Captiva Industries will implement a new process that will eliminate origination of transactions for accounts where returns have been received for any reason code other than R01 (Insufficient Funds), or R09 (Uncollected Funds).

## **Fine**

- **As this was a Class 1 first recurrence of a previous infraction, the financial institution was subject to a fine between \$0 and \$1,000.**
- **The ACH Rules Enforcement Panel decided to impose a fine of \$1,000.**

## **Entries to Invalid Accounts**

### **The Claim**

**Kinley Bank received a Notice of Possible Rules Violation related to its Originator, Able Payroll Processing, for initiating an entry to an invalid account at an RDFI.**

### **Background**

- **After consulting with Able Payroll Processing, Kinley Bank acknowledged the violation and stated that it had resolved the issue.**
- **Nacha received additional reports of violations from RDFIs related to the same rules infraction and escalated the issue with Kinley Bank via notices of possible fine.**
- **Discussions with Kinley Bank revealed that Able Payroll Processing had substantially increased its client base, resulting in a significant growth in origination volume.**
- **The bank reported that a systemic issue occurred when Able Payroll Processing's system couldn't handle the increased volume, triggering incompatible routing and account information.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel reviewed the issue and determined that, regardless of internal system issues, the Originator and its ODFI are still responsible for the accuracy of account information.**

### **Fine**

- **As the violation submissions had escalated to Class 2 status, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue was resolved.**
- **The ACH Rules Enforcement Panel decided to impose a one-time fine of \$20,000.**

## **Failure to Respond to Notifications of Change**

### **The Claim**

**Riley Bank received a Notice of Possible Rules Violation regarding an NOC violation involving its Originator, Bonner Employer Group.**

### **Background**

- **Riley Bank and Bonner Employer Group acknowledged the violation and stated they would resolve the issue.**
- **Nacha continued to receive additional reports of violations from RDFIs related to the same rules infraction and escalated the issue with Riley Bank via notices of possible fine.**
- **Discussions with Riley Bank revealed that Bonner Employer Group thought that as long as its customer (the Receiver) received the money owed to them and the transaction wasn't being returned, Bonner Employer Group didn't need to act on the NOC. Bonner Employer Group was similarly ignoring other NOCs.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel reviewed the issue and determined that the ODFI is responsible for the Originator to properly act on each NOC.**

### **Fine**

- **As the violation submissions had escalated to Class 2 status, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue was resolved.**
- **The ACH Rules Enforcement Panel decided to impose a one-time fine of \$10,000.**

## **Entries to Closed Account**

### **The Claim**

Miranda Bank began receiving numerous debit entries directed to an account that had been closed. Entries were being originated by the same Originator through two different ODFIs. Several dozen entries were sent to this closed account over a period of three months. Miranda Bank filed two violations - one against each of the ODFIs.

### **Background**

- The ODFIs, Newcomb Bank and Walton Bank, each received a Notice of Possible Fine for rules violations regarding entries initiated to a closed account involving their Originator, Scholar Loans.
- After consulting with Scholar Loans, Newcomb Bank and Walton Bank both acknowledged the violations, providing similar responses.
  - A consumer Receiver accessed the Originator’s web portal to initiate several dozen single entry payments in various amounts to apply towards student loans. Invalid account information was intentionally entered by the Receiver for each transaction.
  - Three solutions were implemented:
    1. The Receiver was suspended from accessing the web portal to initiate payments.
    2. For customers set-up with recurring payments, a system change was implemented that would deactivate accounts on the web portal when administrative returns were received.
    3. For customers making single entry payments, the Originator would compare account data entered against a repository of “invalid” account information identified via previously returned entries. If a customer attempts to use invalid account information, the payment is blocked.

### **Nacha/Panel Conclusion**

- The ACH Rules Enforcement Panel determined:
  - The ODFIs had committed Class 2 rules violations due to the excessive harm caused to the receiving bank, which was forced to absorb the time and expense of handling dozens of exception items.
  - The Originator failed to respond appropriately to several dozen R02 (Account Closed) returns.

## Fine

- **These infractions were classified as potential Class 2 violations because of the high volume of transactions over an extended timeframe. As a result, each financial institution was subject to a potential fine between \$0 and \$100,000 per month until the issue was resolved.**
- **One-time fines would be imposed against Newcomb Bank and Walton Bank for the rules violations, \$7,500 and \$5,000 respectively. The fine amount differed due to the volume of transactions initiated through each of the ODFIs.**

## **Failure to Respond to Notifications of Change**

### **The Claim**

**Emerson Bank received a Notice of Possible Rules Violation regarding an NOC involving its Originator, Riley Health Group.**

### **Background**

- **Emerson Bank and Riley Health Group acknowledged the violation and stated they would resolve the issue.**
- **Over a 15-month time period, Nacha continued to receive additional reports of violations from several RDFIs related to the same rules infraction; each time Nacha escalated the issue with Emerson Bank via ongoing Notices of Possible Fine and imposing escalating fine amounts for each infraction.**
- **Emerson Bank met with Riley Health Group to address the ongoing issue. Riley Health Group determined that the underlying cause of the unresolved NOCs related to an internal issue with the delivery of their NOC file transmission.**
- **Riley Health Group addressed the issue by:**
  - **Updating their process to ensure that NOC files would be received by the appropriate internal area on a daily basis.**
  - **Providing personnel with access to view NOC reports on the ODFI's website.**
  - **Having the billing department members reach out to customers to confirm routing and account information upon receipt of an NOC.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined that since prior escalating fines had not resulted in the ODFI resolving the ongoing NOC issue, a monthly recurring fine might be in order.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **Given that there were no new violations in the queue, the Panel imposed a one-time fine of \$20,000 with the caveat that subsequent violations would result in a monthly recurring fine until the problem was resolved.**

## **Unauthorized Entries**

### **The Claim**

A business customer at Aaryn Federal Savings Bank received numerous unauthorized debits during a one-month period from Flynn Bank and its Originator, Quest Products Inc.

### **Background**

- Flynn Bank failed to respond to a request from Aaryn Federal Savings Bank for proof of authorization for the transactions.
- Aaryn FSB filed a possible ACH rules violation against Flynn Bank for transmitting unauthorized entries to its customer's account.
- After consulting with Quest Products Inc., Flynn Bank denied the violation stating:
  - The Originator obtained authorization from the Receiver.
  - The ODFI was never notified of the problem until they received a request for permissible return for these items from the RDFI, which was granted.
  - No further debits were originated once they were notified of the issue.
  - Because permissible returns were allowed by Flynn Bank, no losses were incurred by the RDFI.

### **Nacha/Panel Conclusion**

- Flynn Bank's denial of the violation was refuted because it failed to provide proof of authorization.
  - Its response to the violation included a transaction log that did not establish proof of authorization.
- The ACH Rules Enforcement Panel determined:
  - The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank and its customer.
  - The fine amount should be representative of the fact that it doesn't appear that there was malicious intent on behalf of the ODFI.
- Flynn Bank failed to respond when Nacha staff reached out to ask if it wanted to provide additional material to prove that proper authorization was in place.

### **Fine**

- These infractions were classified as potential Class 2 violations because of the number of unauthorized transactions initiated to a single account in a short period of time.

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **Since Flynn Bank made the RDFI whole and ceased origination to the Receiver's account after learning of the authorization issue, a one-time fine of \$5,000 was imposed against Flynn Bank.**

## **Improper Contested Dishonored Return**

### **The Claim**

**Gainesville Bank filed a violation against Denton Bank stating the RDFI's reason for contesting a dishonored return did not conform to the criteria as acceptable reasons for contesting as stated in Article Three, Subsection 3.8.5.2 (RDFI May Contest Dishonored Returns).**

### **Background**

- **Gainesville Bank initiated duplicate debits to a Receiver's account at Denton Bank.**
- **Later that same day, Gainesville Bank identified its error and sent a reversing credit to Denton Bank.**
- **Denton Bank returned both debits as R02 (Account Closed).**
- **Days passed without the reversing credit entry being returned, so Gainesville Bank reached out to Denton Bank, which stated that the funds were used to offset previous losses.**
- **Gainesville Bank dishonored one of the returned debits as R62 (Return of Erroneous or Reversing Debit).**
- **Denton Bank contested the dishonored return as R77 (Non-Acceptance of R62 Dishonored Return).**
- **Denton Bank acknowledged the violation, returned the funds to Gainesville Bank and stated that additional training would be conducted to ensure that staff properly handled this type of situation in the future.**

### **Fine**

- **As this was the first instance of this infraction by Denton Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.**

## **Invalid Formatting**

### **The Claim**

**Benton Bank received multiple incorrectly formatted CCD entries from S&L Bank's Originator, Greylocke Auto and returned the transactions R03 (No Account/Unable to Locate Account). The Receiving Company Name field was not being populated.**

### **Background**

- **When the R03 returns failed to resolve the issue, Benton Bank filed a rules violation.**
- **S&L Bank received a Notice of Possible Rules Violation citing a transaction formatting infraction involving its Originator, Greylocke Auto.**
- **S&L Bank denied the violation stating that the Receiving Company Name field did not need to be populated since the field was not mandatory.**

### **Nacha/Panel Conclusion**

- **Nacha refuted the ODFIs denial since, although the field is not mandatory, it is required. Omitting a required field may cause a reject at the RDFI and may result in the return of the Entry.**

### **Fine**

- **As this was the first instance of this infraction by S&L Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.**

## **Unauthorized Entries**

### **The Claim**

A customer at Keegan Bank received an unauthorized WEB entry to his account each month, for several months, from S&K Bank's Originator, BuyFromUs.com.

### **Background**

- Keegan Bank returned several of the transactions as R10 (Customer Advises Unauthorized).
- Due to the unauthorized transactions continuing to be originated, Keegan Bank's customer placed a permanent stop payment order, but the unauthorized debits continued to be originated each month even with the transactions being returned as R08 (Payment Stopped).
- Keegan Bank filed a possible ACH rules violation against S&K Bank for transmitting unauthorized entries to its customer's account.
- S&K Bank denied the violation stating that they never received a request for proof of authorization from Keegan Bank, therefore they had no way to validate the RDFI's claim that the transactions were unauthorized.

### **Nacha/Panel Conclusion**

- Nacha refuted the ODFI's denial based on:
  - The Originator and ODFI had not taken the corrective action upon receiving the unauthorized and stop payment returns.
  - The RDFI is not required to request proof of authorization.

### **Fine**

- As this was the first instance of this infraction by S&K Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.

## Transaction Reinitiation

### The Claim

Lennon Credit Union claims that Conley Bank has been reinitiating an Entry to a closed account – over a dozen times within two months.

### Background

- Lennon Credit Union contacted the Originator, W&L Insurance, to stop the transactions, but the transactions continued to come in and were returned R02 (Account Closed).
- When the returns failed to resolve the issue, Lennon Credit Union filed a rules violation.
- Conley Bank denied the violation stating:
  - W&L Insurance sent one transaction to Lennon Credit Union's customer which was returned untimely as R02 (Account Closed).
  - Conley Bank dishonored that return as R68 (Untimely Return).
  - Lennon Credit Union returned the dishonored return as R02 (Account Closed) and altered the original trace number.
  - Conley Bank dishonored this return as R69 (Field Error(s)) with an error code of 02 (Return Contains Incorrect Original Entry Trace Number).
  - The same entry has continued to be passed back and forth between the ODFI and RDFI without resolution.
- Staff reached out to Lennon Credit Union to inquire about the ODFI's statement and learned that the RDFI's third-party processor was not properly handling dishonored returns, nor was it properly alerting the RDFI of the matter in order for the RDFI to react accordingly.
- Lennon Credit Union stated that it saw the dishonored returns as new transactions (not returns) and that is why it was returning them as R02 (Account Closed).
- Lennon Credit Union is working with the third-party processor to ensure that it is aware of all return entries and can properly view return data.

### Nacha/Panel Conclusion

- Nacha accepted Conley Bank's denial because it was able to prove that they correctly dishonored the return each time:
  - The first untimely return was dishonored as R68 (Untimely Return).
  - All subsequent returns were dishonored as R69 (Field Error(s)).

## **Improper Return**

### **The Claim**

**Legend Bank returned a transaction as R06 (Returned Per ODFI's Request) without the ODFI requesting or agreeing to the return.**

### **Background**

- **Kellen Bank originated a debit entry to a Receiver's account at Legend Bank (RDFI) with a settlement date of 1/15/2017.**
- **Legend Bank returned the transaction on 4/15/2017 as R06 (Returned Per ODFI's Request).**
- **As Kellen Bank had not granted permission for this return, it was dishonored as R70 (Permissible Return Entry Not Accepted/Return Not Requested by ODFI).**
- **Legend Bank contested the dishonored return as R73 (Timely Original).**
- **Kellen Bank contacted Legend Bank via fax requesting proof that it was given permission to return the transaction late, none was provided.**
- **Kellen Bank filed a rules violation since it was unable to resolve the issue with Legend Bank.**
- **Legend Bank responded to the Notice of Possible Rules Violation stating:**
  - **It had received permission to return other items for a customer and inadvertently returned this transaction as well.**
  - **When the item was dishonored, it was inadvertently contested and returned.**
  - **Additional training has been implemented to ensure this doesn't happen in the future.**
  - **The issue has been settled with Kellen Bank.**

### **Fine**

- **As this was the first instance of this infraction by Legend Bank, the financial institution received a warning letter, which is not subject to a fine.**

## **Improper Contested Dishonored Return**

### **The Claim**

**Beckworth Bank filed a possible rules violation stating that the Larkin Bank was unjustly enriched by keeping the reversing credit entry.**

### **Background**

- **Beckworth Bank initiated a debit to a Receiver's account at Larkin Bank.**
- **The following day, Beckworth Bank identified the debit as erroneous (duplicate file) and sent a reversing credit to Larkin Bank (RDFI).**
- **Larkin Bank returned the debit as R01 (Non-Sufficient Funds).**
- **Days passed without the reversing credit being returned, so Beckworth Bank dishonored the debit return as R62 (Return of Erroneous or Reversing Debit).**
- **Larkin Bank contested the dishonored return as R77 (Non-Acceptance of R62 Dishonored Return).**

### **Nacha/Panel Conclusion**

- **Staff reviewed the case and determined that a violation *did not* occur:**
  - **The ODFI warrants the debit and credit Entries.**
  - **The ODFI indemnifies the RDFI from losses when initiating a reversing entry.**
  - **The RDFI has the right to contest the dishonored return if the funds are no longer in the Receiver's account.**

## **Entries to a Closed Account**

### **The Claim**

Waldron Bank received numerous debits on an almost daily basis from Quinn Bank and its Originator, Capital for You, to a closed account.

### **Background**

- All of the debits were returned as R02 (Account Closed), but they continued, so Waldron Bank filed a possible rules violation.
- Quinn Bank received the Notice of Possible Rules Violation related to its Originator and acknowledged the violation.
- Upon receiving the first R02 return, Capital For You ceased origination on all debits related to loan payments.
- However, it continued to originate debit entries for service fees.
- After being alerted of the issue via the violation notice, the Originator immediately ceased this origination activity.
- This violation was classified as potential Class 2 because of the number of entries initiated to a closed account in a short period of time.

### **Nacha/Panel Conclusion**

- The ACH Rules Enforcement Panel determined:
  - The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank.
  - The ODFI should have reacted to the R02 returns.
  - The fine amount should be representative of the fact that it doesn't appear that there was malicious intent on behalf of the ODFI since it did cease the origination of the loan payments as instructed.

### **Fine**

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
- A one-time fine of \$2,500 was imposed against Quinn Bank.

## **Entries to Closed Accounts**

### **The Claim**

**Lyle Bank (RDFI) received several TEL debits each month, for multiple months, from Higgins Bank (ODFI) and its Originator, Pay to View, to closed accounts.**

### **Background**

- **All of the entries included the same Receiver name.**
- **After failed attempts to resolve the issue directly with the ODFI and the Originator, Lyle Bank filed a possible rules violation.**
- **Higgins Bank denied the rules violation stating:**
  - **Even though multiple ACH debits were sent each month, they were to different account numbers for the same customer. No subsequent entry was initiated once Pay to View received the R02 (Account Closed) return.**
  - **Pay to View's customer would contact the Originator and provide them with an authorization and a different account number each time, which the Originator assumed was a valid, open account.**
  - **Upon receipt of the violation, Pay to View has changed the customer's account to "cash only."**

### **Nacha/Panel Conclusion**

- **Nacha refuted the ODFI's denial because even though subsequent debit entries weren't sent to the same account number after receiving the R02 (Account Closed) return, Pay to View should have performed more due diligence.**
  - **If a customer is contacting the Originator frequently (9 times in just one month) providing different account numbers at the same financial institution, this should raise a red flag and prompt further due diligence on this customer.**
- **After speaking with Lyle Bank and learning that the account numbers were actually invalid versus closed, Nacha staff counseled the bank on the use of return reason codes R03 (No Account/Unable to Locate Account) and R04 (Invalid Account Number Structure) as these would have been better codes to use for these entries.**

### **Fine**

- **As this was the first instance of this infraction by Higgins Bank, the financial institution received a warning letter, which is not subject to fine.**

## **Entries to a Closed Account**

### **The Claim**

**Belvista Bank received several dozen PPD and POP debits on an almost daily basis from Callum Bank and its Originator, Let's Get FIT, to a closed account.**

### **Background**

- **The Entries varied in amount and in the case of the POP Entries, the check number incremented by one digit.**
- **All of the debits were returned as R02 (Account Closed), but they continued, so Belvista Bank filed a possible rules violation.**
- **Callum Bank received the Notice of Possible Rules Violation related to its Originator and acknowledged the violation.**
- **After being alerted of the issue via the violation notice, Let's Get FIT discovered that a rogue employee, acting in violation of company policy, was submitting transactions using the account in question in an attempt to bolster sales figures.**
- **The Originator terminated the employee and created a new report that allows review and investigation of transactions that use the same account number multiple times.**
- **This violation was classified as potential Class 2 because of the number of entries initiated to a closed account in a short period of time.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank.**
  - **The ODFI should have reacted to the R02 returns.**
  - **The fine amount should be representative of the fact that the issue wasn't widespread, rather, one rogue employee at the Originator was responsible for the entire issue.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A one-time fine of \$5,000 was imposed against Callum Bank.**

## **Unauthorized Entries**

### **The Claim**

**A customer at Cotter Bank received three unauthorized WEB entries to his account, from Boden Bank's Originator, Eastern Credit.**

### **Background**

- **Cotter Bank returned the transactions as R10 (Customer Advises Unauthorized).**
- **Cotter Bank filed a possible ACH rules violation against Boden Bank for transmitting unauthorized entries to its customer's account.**
- **Boden Bank denied the rules violation stating that they never received a request for proof of authorization and reached out to the Cotter Bank to ensure they had proper contact information should they need to request proof of authorization in the future.**
- **Boden Bank included in their response a document provided by its Originator, Eastern Credit to prove the transactions were authorized.**

### **Nacha/Panel Conclusion**

- **Nacha refuted the ODFI's denial based on:**
  - **The document provided by the Originator was not a valid ACH authorization as it did not contain any of the required components of a WEB authorization.**
  - **The Originator and ODFI had not taken the corrective action upon receiving the unauthorized returns.**
  - **The RDFI is not required to request proof of authorization.**

### **Fine**

- **As this was the first instance of this infraction by Boden Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.**

## **Failure to Provide Proof of Authorization**

### **The Claim**

After three attempts to obtain a copy of the authorization, Avery Bank filed a violation against Spillman Bank for not providing proof of authorization.

### **Background**

- Avery Bank's customer received four PPD debits to her account, from Spillman Bank and its Originator, Good Health Benefits.
- The customer had authorized Good Health Benefits to debit her account; however, the amount was incorrect.
- Avery Bank sent Spillman Bank a request for proof of authorization.
- After three attempts to obtain a copy of the authorization, Avery Bank filed a violation against Spillman Bank for not providing proof of authorization.
- Spillman Bank denied the violation stating:
  - When the first request for proof of authorization was submitted, a timely response was provided to Avery Bank via email, stating that the Entries could be returned R10 (Customer Advises Unauthorized).
  - Good Health Benefits had the authorization; however, they preferred to accept the items back.

### **Nacha/Panel Conclusion**

- Nacha refuted the ODFI's denial based on:
  - The document provided by the Originator in the violation response was not a valid ACH authorization as it did not contain any of the required components of a PPD authorization.
  - The document only included a transcribed customer care call and a statement that the banking information that was given at the time of the phone call does not match the information currently on file with the Originator.
  - Providing permission to return the entries doesn't release Spillman Bank of the responsibility to provide proof of authorization upon request.

### **Fine**

- As this was the first instance of this infraction by Spillman Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.

## **Entries to Invalid Accounts**

### **The Claim**

Leonard Bank received hundreds of TEL debits over a 6-month period from Bradley Bank and its Originator, Your Choice Cable, to invalid account numbers.

### **Background**

- **Entries appeared to be an account number phishing scheme, containing similar account numbers, Receiver names and amounts.**
- **All the debits were returned as R04 (Invalid Account Number).**
- **After receiving the invalid debits for four months, Leonard Bank called Bradley Bank to notify them of the problem.**
- **The debits continued for two additional months, so Leonard Bank filed a possible rules violation.**
- **Bradley Bank received the Notice of Possible Rules Violation related to its Originator and acknowledged the violation, stating:**
  - **All the transactions were made using the Originator’s IVR system.**
  - **In order to utilize the IVR system, the user must input its account number or telephone number associated with his account, both of which are not publicly disclosed.**
  - **The Originator always verifies the routing number prior to sending the transaction to Bradley Bank.**
  - **To address the problem with invalid account numbers, Your Choice Cable will begin validating *both* the routing number and the account number for TEL Entries against bank account numbers previously returned before submitting TEL entries to Bradley Bank.**
  - **If the bank account number was associated with a previously returned entry, Your Choice Cable will further investigate and validate before submitting the TEL Entry**
  - **All new Entries will be prenoted to verify that the account exists prior to a live transaction being processed.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank.**

- **The ODFI should have reacted to the large volume of R04 returns.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A one-time fine of \$10,000 was imposed against Bradley Bank.**

## **Failure to Provide Valid Proof of Authorization**

### **The Claim**

**A business customer at Cross Bank (RDFI) received two unauthorized WEB debits from Lohan Bank (ODFI) and its Originator, Dyfort Products, Inc.**

### **Background**

- **Cross Bank submitted a request to Lohan Bank for Proof of Authorization or Permission to Return the entries.**
- **Lohan Bank responded in a timely manner as follows:**
  - **Its Originator denied the request to return the transactions late since the transactions were originated in August and September of 2017 and the Receiver waited until March of 2018 to dispute them – well beyond the 60-day extended return timeframe.**
  - **Provided Cross Bank with a document titled Payment Confirmation to prove that the Entries were authorized.**
- **Cross Bank notified Lohan Bank that the Payment Confirmation did not constitute a valid authorization according to the Nacha Operating Rules and that the person listed on the document was not a signer on the account that was debited.**
- **Cross Bank provided Lohan Bank with a copy of its customer's WSUD and police report.**
- **Cross Bank submitted an additional request for Proof of Authorization or Permission to Return request to Lohan Bank.**
- **After not receiving a response to the second request, Cross Bank filed a possible rules violation.**
- **Lohan Bank denied the violation after consulting with their Originator, Dyfort Products, Inc., stating:**
  - **Lohan Bank was timely in providing Cross Bank with a copy of the authorization.**
  - **The Originator obtained authorization from the Receiver and had no reason to believe it was fraudulent.**
  - **Cross Bank's customer was well beyond the 60-day time frame to dispute the Entries.**

### **Nacha/Panel Conclusion**

- **Lohan Bank's denial of the violation was refuted by Nacha because the Payment Confirmation provided does not constitute valid proof of authorization for a WEB Entry:**
  - **The name on the document does not match the name on the account.**

- **The document is not readily identifiable as an authorization, rather, it represents a confirmation of payment.**
- **The document is missing the following:**
  - **Authorization language.**
  - **Terms and conditions.**
  - **Revocation language.**
  - **Signature or equivalent.**

### **Fine**

- **As this was the first instance of this infraction by Lohan Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.**

## **Entries to Invalid Accounts**

### **The Claim**

**Fowler Bank became aware of an ongoing issue with the receipt of large dollar CCD debits with invalid account numbers from Sweeney Bank.**

- The Entries contained various Company Names and Company IDs.**
- All were for large dollar amounts.**
- All were returned R04 (Invalid Account Number).**

### **Background**

- Fowler Bank contacted Sweeney Bank to inform it about the issue and learned that Sweeney Bank was already aware of the problem and had known about the issue for over a year.**
- When Fowler Bank pressed Sweeney Bank about the underlying issue, Sweeney Bank stated that its Originator was applying the wrong routing numbers and account numbers to payroll debit Entries.**
- Sweeney Bank promised that it wouldn't happen again as it was going to escalate this issue with its compliance department.**
- Sweeney Bank's knowledge of the ongoing issue, without resolution for over a year, caused Fowler Bank to perform further investigation.**
- This investigation revealed that the RDFI had received roughly two dozen similar transactions in the past three years.**
- Fowler Bank's concern over potentially having one of these erroneous payroll debit transactions post to one of its customer's accounts by mistake prompted it to file a possible rules violation citing the most recent debit received.**
- Sweeney Bank received the Notice of Possible Rules Violation related to its Originator MoneyMax Payroll and acknowledged the violation, stating that a systemic solution had been implemented that would ensure all future Entries included the correct routing and account number information.**

### **Fine**

- As this was the first instance of this infraction by Sweeney Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.**

## **Entries to Closed Account**

### **The Claim**

**Kingston Bank received several dozen CTX debit entries from Exclusive Bank and its Originator, Montag Corporation, to a closed account.**

### **Background**

- **All of the debits were received over a three-month period and were all returned R02 (Account Closed).**
- **Even though the entries were returned with the proper code to notify the ODFI and Originator that the account was closed, they continued to come in, so Kingston Bank filed a rules violation.**
- **Exclusive Bank denied the violation stating:**
  - **The Nacha rules permit R02 (Account Closed) returns; such returns are considered “administrative” and not treated as violations unless the 3% return rate threshold has been exceeded.**
  - **The Originator was not aware that the account was closed until it received the violation notice.**
  - **Upon receipt of the violation notice, this issue was addressed by the Originator.**
  - **The RDFI failed to contact the ODFI to alert them of the situation.**
  - **The employees of the Originator responsible for reviewing the returns were no longer with the company.**

### **Nacha/Panel Conclusion**

- **Nacha refuted Exclusive Bank’s denial based on:**
  - **Even though the ODFI and Originator can’t be expected to know that an account has been closed, after receiving entries back repeatedly as R02 (Account Closed), the message is clear that the account is no longer open.**
  - **Nacha does enforce the rules for administrative returns, even if the ODFI and Originator are well below the 3% return rate threshold.**
  - **The Originator should be monitoring its returns, not learning about account closures once it receives notice from Nacha.**

- The RDFI is not required by the Rules to contact the ODFI or the Originator to notify it of the account closure – the use of the R02 (Account Closed) return code is the communication vehicle to deliver that message.
- This violation was classified as potential Class 2 because of the number of entries initiated to a closed account in a short period of time – without resolution.
- The ACH Rules Enforcement Panel determined:
  - The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank.
  - The ODFI should have reacted to the R02 returns.

### **Fine**

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
- A one-time fine of \$5,000 was imposed against Exclusive Bank.

## Invalid Formatting

### The Claim

Revolution Bank received a transaction from Lowe Bank that contained an “X” in the Individual Name field.

### Background

- After unsuccessful attempts to receive assistance from Lowe Bank and its Originator, Hart Payment Company, regarding the lack of useful data in this field, Revolution Bank filed a rules violation.
- Lowe Bank denied the violation stating that the use of “X” in this field does not violate the Nacha Operating Rules. Further, the Individual Name Field does not contain information required by the RDFI to comply with Subsection 3.1.5 RDFI Obligation to Provide Information about Entries. Lowe also pointed out that Subsection 3.1.2 states that the RDFI may rely solely on the account number contained in an Entry for the purpose of posting the Entry to the Receiver’s account, regardless of whether the name of the Receiver in the Entry matches the name associated with the account number in the Entry.

### Nacha/Panel Conclusion

- Nacha refuted Lowe Bank’s denial based on:
  - The rules state that the RDFI *may* rely solely on the account number, but that is at the RDFI’s discretion.
  - The field is required to be populated and should the RDFI choose to match the Receiver based on both the Account Number *and* Individual Name, the field should be populated with useful information.
  - Populating the Individual Name with “X” may cause a reject at the RDFI and may result in the return of the Entry.

### Fine

- As this was the first instance of this infraction by Lowe Bank and its Originator, the financial institution received a warning letter, which is not subject to a fine.

## **Failure to Provide Proof of Authorization**

### **The Claim**

**Savage Bank's customer received two unauthorized PPD entries to her account, from Channel Bank and its Originator, Crossover Wellness.**

### **Background**

- **Savage Bank submitted two requests via the FedACH Exception Resolution Service (ERS) to Channel Bank for proof of authorization or permission to return the entries.**
- **When Channel Bank failed to respond to either request, Savage Bank filed a rules violation.**
- **Channel Bank denied the violation stating that since they do not utilize ERS, they never received the request for proof of authorization.**

### **Nacha/Panel Conclusion**

- **Nacha accepted Channel Bank's denial since they never received the request for proof of authorization.**

## **Failure to Register Third-Party Sender Status**

### **The Claim**

**Conner Bank received a Notice of Possible Fine citing a Class 2 rules violation for failing to register its third-party sender status with Nacha, which was to be completed by March 1, 2018.**

### **Background**

- **Conner Bank denied the violation stating it had fulfilled its obligation to Nacha when it registered its Direct Access participant status in 2010.**
- **Staff reached out to Conner Bank to explain that the registration performed in 2010 was strictly related to the financial institution's direct access status and did not address whether or not the financial institution had a third-party sender relationship(s).**
- **Conner Bank insisted that, since the 2010 registration included questions that referenced third-party senders, this constituted third-party sender status registration.**
- **Staff explained that the reference to third-party senders was only in relation to whether the direct access participant(s) was a third-party sender; if the financial institution indicated that it did not have direct access participants, that did not identify to Nacha if it had third-party senders.**

### **Nacha/Panel Conclusion**

- **Nacha refuted Conner Bank's denial because it had not performed the required registration prior to March 1, 2018.**
- **The ACH Rules Enforcement Panel determined:**
  - **As no other financial institution or consumer was impacted by this rules violation and the overall goal is compliance with the rule, the fine amount should reflect that.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A one-time fine of \$500 was imposed against Conner Bank.**

## **Failure to Register Third-Party Sender Status**

### **The Claim**

**Bettis Bank received a Notice of Possible Fine citing a Class 2 rules violation for failing to register its third-party sender status with Nacha, which was to be completed by March 1, 2018.**

### **Background**

- **Bettis Bank denied the violation stating:**
  - **It was unaware of the registration rule and the March 1, 2018 deadline.**
  - **In addition to yearly audits, the financial institution had just gone through a FDIC examination where there was no discovery of being out of compliance for this rule.**
  - **The financial institution receives Nacha rules and guidelines training and does not recall this particular rule being a topic on the training agenda.**

### **Nacha/Panel Conclusion**

- **Nacha refuted Bettis Bank's denial because it had not performed the required registration prior to March 1, 2018.**
- **The ACH Rules Enforcement Panel determined:**
  - **As no other financial institution or consumer was impacted by this rules violation and the overall goal is compliance with the rule, the fine amount should reflect that.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A one-time fine of \$500 was imposed against Bettis Bank.**

# Unauthorized Payroll Reversals

## The Claim

Norton Bank, a receiving financial institution for some of the Macklyn Development employees began to receive numerous phone calls from its customers complaining about the reversal of payroll credits. In some cases, Norton Bank's customers had received multiple payroll reversals.

## Background

- Macklyn Development began receiving phone calls from employees complaining about payroll funds being withdrawn (as ACH reversals) from their bank accounts.
- Having employed Workforce Assist to handle all of its payroll needs, Macklyn Development reached out to Workforce Assist to determine if they were aware of any issues with the company payroll.
  - Macklyn Development confirmed that its account had been debited for its company payroll funds as expected.
  - Calls to Workforce Assist went unanswered.
- Macklyn Development contacted its financial institution, Crawford Bank, for advice on how to address this issue. Crawford Bank's advice was for Macklyn's employees to work directly with their respective financial institutions and request that the reversals be returned as unauthorized.
- Due to the increasing customer phone calls and withdrawn wages, Norton Bank, a receiving financial institution for some of the Macklyn Development employees, filed a Notice of Possible ACH Rules Violation against the ODFI of the reversals, Simon Bank.
  - Norton Bank stated that the reversals did not meet the criteria for valid reversals according to the Nacha Rules and were therefore unauthorized.
- Simon Bank acknowledged the rules violation after working with its Third-Party Sender, Processing for You, Inc., which initiated the payroll reversals.
  - Processing for You, Inc., a third-party payment processor worked directly with Work Force Assist to provide ACH processing.
- Simon Bank stated:
  - Once Processing for You, Inc. had learned that its customer, Workforce Assist, had not funded the payroll credits, it initiated the reversals in order to recover the funds that had been distributed via payroll credits.
  - After realizing that the initial set of reversals contained errors, Processing for You, Inc. sent an additional set of reversals, assuming that the receiving banks would automatically return the initial/incorrect reversals.

- **Processing for You, Inc. has been made aware of the allowable reasons for initiating a reversing entry.**
- **Failure to be funded by its customer, Workforce Assist, is not a valid reason to reverse entries.**
- **Processing for You, Inc. was informed by Simon Bank that all returns of the reversals would be honored.**
- **Simon Bank developed and delivered a Letter of Indemnity to all impacted RDFIs**
- **Simon Bank indicated that it would develop automated controls to monitor and suspend ACH reversals that exceed normal activity**

### **Nacha/Panel Conclusion**

- **Nacha classified this violation as a potential Class 2 infraction because of its impact to consumers, businesses, RDFIs and the ACH Network.**
- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI and its Third-Party Sender had committed a Class 2 rules violation and had caused excessive harm as follows:**
    - **Consumer accounts were drained when the Third-Party Sender initiated reversals in order to claw back funds – some consumers receiving more than one reversal.**
    - **Businesses had to access reserve funds to pay their employees again.**
    - **The ACH Network suffered substantial reputational risk as these transactions were processed via ACH.**
    - **Receiving banks were greatly impacted by having to deal with angry customers and the processing of unauthorized reversals.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A one-time fine of \$100,000 was imposed against Simon Bank.**

## **Failure to Provide Proof of ACH Compliance Audit**

### **The Claim**

**Ballmer Bank received a request to provide Proof of Completion - ACH Rules Compliance Audit for its financial institution.**

### **Background**

- **When Ballmer Bank had not responded after ten banking days, a follow-up email and phone call were made to determine why a response had not been provided.**
- **The contact at Ballmer Bank indicated that she had received both emails but didn't respond because the financial institution did not process the type of ACH transactions that required an audit to be performed.**
- **Ballmer Bank believed that only the origination of WEB ACH Entries triggered the requirement to perform an annual rules audit and that none of its ACH activity required an audit.**
- **Further discussion revealed that Ballmer Bank had never performed an ACH rules compliance audit.**
- **Staff advised Ballmer Bank that it was out of compliance as it had never performed an ACH rules compliance audit**
  - **Nacha provided Ballmer Bank with the following:**
    - **Contact information for a Payments Association that could perform the audit.**
    - **Links to the Nacha Store to review available audit publications for purchase.**
- **Ballmer Bank, being out of compliance, quickly ensured that an audit was scheduled for its financial institution.**
- **Proof of audit was provided to Nacha and Ballmer Bank is now on an annual audit schedule.**

### **Nacha/Panel Conclusion**

- **Nacha accepted Ballmer Bank's proof of ACH compliance audit.**

## **ODFI Request for Return**

### **The Claim**

**After initiating a CCD credit for \$8,300 to Haven Credit Union, Boswell Bank requested that the credit be returned.**

### **Background**

- **Approximately two weeks after initiating a credit in the amount of \$8,300 on behalf of its Originator, Edmond Incorporated, Boswell Bank sent Haven Credit Union a letter of indemnity and requested that the credit of \$8,300 be returned.**
- **Haven Credit Union honored the request and sent Boswell Bank a check in the amount of \$7,324, which was the remaining balance in the account.**
- **Two weeks later, Edmond Incorporated sent a collections letter to Haven Credit Union requesting the remaining funds.**
- **Haven Credit Union informed Edmond Incorporated that Boswell Bank had provided a letter of indemnity and there was no basis for the collections letter.**
- **Edmond Incorporated continued to send Haven Credit Union collection letters and a demand for payment-judgement letter.**
- **Haven Credit Union sent Boswell Bank a letter with instructions to have its client, Edmond Incorporated, cease and desist with its attempts to collect the remaining funds.**
- **Haven Credit Union filed a possible rules violation against Boswell Bank citing: 2.12.2 ODFI Request for Return, based on the Originator's repeated attempts to collect the remaining balance of the ACH credit.**

### **Nacha/Panel Conclusion**

- **Staff reviewed the violation submission and determined that a violation had not occurred.**
- **Staff reached out to Boswell Bank to ensure that its Originator ceased its collection efforts.**

## Invalid Returns

### The Claim

Benson Bank received two debit return Entries (\$0.35 & \$0.39) from Bank of Remington with the return reason code R16 (Account Frozen/Entry Returned Per OFAC Instruction) that did not correspond to any forward entries.

### Background

- The returns were dishonored and sent back to Bank of Remington as R69 (Field Error(s)).
- Bank of Remington then contested the dishonored return entries as R73 (Timely Original Return).
- Benson Bank's Originator, Be a Day Trader.com, had never originated debit entries to the Receiver. In fact, Be a Day Trader.com had previously originated two credit entries to Benson Bank's Receiver and both credit entries had been returned R23 (Credit Entry Refused by Receiver).
- The debit entries being returned were created by Bank of Remington using the original trace numbers of the credit entries.
- After several failed attempts via email and phone to resolve this issue with Bank of Remington, Benson Bank filed a rules violation.
- The violation from Nacha cited Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries and focused on the fact that an RDFI can only transmit one return per entry. In this case, the RDFI generated a second return for the original credit entries but used an incorrect return reason code.
- Bank of Remington acknowledged the violation stating that:
  - A user error caused the underlying problem.
  - Additional training had been conducted.
  - Return of the erroneous debits sent to Benson Bank had been arranged.

### Nacha/Panel Conclusion

- As this was the first instance of this infraction by Bank of Remington, it received a warning letter, which is not subject to fine.

## **Entries to Closed Account**

### **The Claim**

**Bank of Forrester continued to receive debit Entries to a closed account.**

### **Background**

- **Bank of Forrester's business customer closed its account in the Fall of 2019. One day after the account was closed, Bank of Forrester received and returned four ACH debit Entries from Reyes Bank and its Originator, Transport for You, as R02 (Account Closed).**
- **Following these returns, Bank of Forrester continued to receive ACH debits to this account at a rate of roughly 15-25 ACH debits every six business days.**
- **In a four-month period, Bank of Forrester received over 300 ACH debits from Reyes Bank and its Originator, Transport for You.**
- **The ODFI and Originator continued to ignore the communication behind the R02 return reason code.**
- **After reaching out to Reyes Bank regarding the issue and being told that they couldn't reach anyone at Transport for You, Bank of Forrester filed a rules violation.**
- **The violation included 69 debit entries that occurred in a one-month period.**
- **Reyes Bank acknowledged the rule violation and stated:**
  - **Its Originator, Transport for You, had originated the transactions identified in the violation per a prior agreement with the Receiver.**
  - **The Receiver's account with Transport for You was now disabled and no further transactions would be sent until the account information is updated.**
  - **Transport for You would facilitate refresher training for the team in charge of the returns and notifications of change to be aware of their responsibilities.**
  - **New validation procedures would be implemented to prevent items being sent to incorrect accounts and would require customers whose entries were returned due to closed or invalid accounts to update their records with different bank information before allowing new ACH activity.**

### **Nacha/Panel Conclusion**

- **This violation was classified as potential Class 2 because of the number of entries initiated to a closed account in a short period of time – without resolution.**
- **The ACH Rules Enforcement Panel reviewed this issue and determined that it caused excessive harm to a Participating DFI.**

## **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A one-time fine of \$10,000 was imposed against Reyes Bank.**

## **Failure to Provide Proof of Authorization (See next case study for continuation of issue)**

### **The Claim**

**Park Crest Bank requested, via fax, proof of authorization from Kempton Bank regarding an ACH debit transaction received and returned by one of its Receivers.**

### **Background**

- **Kempton Bank responded to the request stating that since the Entry had already been returned R04 (Invalid Account Number Structure), a copy of the proof of authorization (POA) wasn't required.**
- **Park Crest Bank responded to Kempton Bank that even though the Entry had been returned, Park Crest was still within its rights under the Nacha Operating Rules (Rules) to request a copy of the POA and that as the ODFI, Kempton was obligated under the Rules to provide it.**
- **Kempton Bank then requested that a copy of the Written Statement of Unauthorized Debit (WSUD) be provided to its Originator, Keller Distribution.**
- **Park Crest Bank responded to this request notifying Kempton Bank that a WSUD does not have to be obtained when an entry is returned R04, so therefore it was not available.**
- **Several weeks later, Kempton Bank sent notification to Park Crest Bank that its Originator, Keller Distribution, would require a subpoena in order to share information about its customers, including POA.**
- **Knowing that the Nacha Operating Rules (Rules) don't require a subpoena to obtain a POA, Park Crest Bank filed an online rules violation against Kempton Bank for failing to satisfy its obligation to provide a copy of POA within 10 Banking Days.**
- **Kempton Bank denied the rules violation stating:**
  - **Its client had entered the wrong account number into the system.**
  - **The transaction was returned R04, which is not unauthorized, so proof of authorization is not warranted.**
  - **Its client has admitted to making a mistake and has not attempted to reintroduce the entry into the Network after receiving the return.**
  - **In order to protect client confidentiality, POA would not be provided without a subpoena.**
- **Nacha staff reached out to Kempton Bank to discuss ODFI and Originator obligations under the Rules.**

## Nacha/Panel Conclusion

- As this was the first instance of this infraction by Kempton Bank and its Originator, it received a warning letter, which is not subject to fine.

## **Failure to Provide Proof of Authorization *It Continues***

### The Claim

Park Crest Bank continued to experience issues obtaining proof of authorization (POA) from Kempton Bank and its Originator, Keller Distribution, as it related to additional Receivers and transactions.

### Background

- After receiving a dispute from a customer stating they had received unauthorized debits from Keller Distribution, Park Crest Bank was able to return all but two of the items within the extended return timeframe.
- Two letters were sent to Kempton Bank requesting proof of authorization or permission to return the remaining unauthorized debits.
- Acknowledgement of the requests was immediately received from Kempton Bank.
- After not receiving any information after two weeks, Park Crest Bank contacted Kempton Bank by phone for an update. The representative informed Park Crest Bank they would need to email or fax the request for an update because information could not be given over the phone.
- An encrypted email was sent to Kempton Bank requesting an update. No response was provided.
- Park Crest Bank filed a rules violation against Kempton Bank for again failing to satisfy its obligation to provide POA within 10 Banking Days.
- Kempton Bank denied the rules violation stating:
  - They had received and replied to each request from Park Crest Bank.
  - It took a little longer than expected to get a response from their customer, but they did provide permission for the items to be returned – it just took longer than the 10 Banking Days.

### Nacha/Panel Conclusion

- **Nacha refuted Kempton Bank's denial because the Rules state that the ODFI must provide Record of the Receiver's authorization to the RDFI within ten Banking Days. Kempton Bank admitted that its response to Park Crest Bank was outside 10 Banking Days.**

### Fine

- **As this was a Class 1 first recurrence of a previous infraction, the financial institution was subject to a fine between \$0 and \$1,000.**
- **The ACH Rules Enforcement Panel decided to impose a fine of \$1,000.**
- **This problem continued, with Kempton Bank and its Originator not providing RDFI's with requested proof of authorization in a timely manner.**
- **The violation occurrences escalated, as did the fines.**
- **The most recent violation involving this infraction resulted in the ACH Rules Enforcement Panel imposing a fine of \$10,000.**

## Reinitiation of Returned Entries

### The Claim

Bank of Millcreek received notice from the executor of a deceased account holder's estate that a stop pay order needed to be placed for any transaction coming from Brinley Bank and its customer KMS Solar.

### Background

- Honoring the stop pay order, Bank of Millcreek began returning all transactions from Brinley Bank and KMS Solar as R08 (Payment Stopped).
- Eight months after the first stop pay return, the transactions continued to be initiated. In fact, the number of transactions to the Receiver's account were increasing by one each month.
- Bank of Millcreek contacted Brinley Bank in writing to provide notification of the stop pay order due to the account holder passing away.
- When the written notification to Brinley Bank didn't resolve the issue, Bank of Millcreek filed a violation with Nacha.
- Brinley Bank acknowledged the rules violation stating:
  - KMS Solar had already taken the necessary steps for remediation.
  - Neither the ODFI nor the Originator had any record of receiving the letter Bank of Millcreek included in the violation advising that the Receiver was deceased.
  - It did not appear the RDFI provided guidance to the executor of the estate to contact the Originator directly.
  - The Originator had no record of the executor contacting them.
  - KMS Solar included further documentation evidencing that multiple notifications were sent to the Receiver, attempting to contact and notify them of the past due account with no resolve.

### Nacha/Panel Conclusion

- The ACH Rules Enforcement Panel determined:
  - Brinley Bank had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank.
  - Brinley Bank should have reacted to the R08 returns.

- **The numerous stop pay returns are indicative of a problem – something has changed regarding the original authorization.**
- **The Originator needed to address the situation instead of continuing to initiate transactions.**

**Fine**

- **This violation was classified as potential Class 2 because of the number of entries reinitiated after receiving the R08 returns.**
- **A one-time fine of \$5,000 was imposed against Brinley Bank.**

## **Failure to Provide Valid Proof of Authorization**

### **The Claim**

**Elite Financial's customer received several unauthorized WEB debits from Moss Bank and its Originator, TDN Imports.**

### **Background**

- **Elite Financial submitted a request to Moss Bank for Proof of Authorization or Permission to Return the entries.**
- **After several additional requests from Elite Financial, Moss Bank provided an authorization document that contained a name that did not match the name of the account holder that was debited, nor was the person a signer on the account.**
- **Elite Financial made an additional request to Moss Bank for permission to return the entries late given that the authorization was not valid due to the name not matching the one on the account.**
- **Elite Financial filed a rules violation after its request for permission for late return was denied by Moss Bank.**
- **Moss Bank acknowledged the violation stating:**
  - **TDN Imports updated its procedures. Upon receipt of a request for proof of authorization for WEB transactions they will review for mismatched names if the bank provides the name of its customer. If the name on the authorization does not match the account holders name, permission to return the entries late will be provided.**

### **Fine**

- **As this was a Class 2 fourth recurrence of a previous infraction, Moss Bank was subject to a fine between \$0 and \$100,000.**
- **The ACH Rules Enforcement Panel decided to impose a fine of \$7,500.**

## Reinitiated Entries

### The Claim

Cannon Bank's customer continued to receive debit Entries after authorization was revoked and numerous transactions were returned R08 (Payment Stopped).

### Background

- Cannon Bank's business customer cancelled its service plan with AmenitiesPlus according to the agreed upon revocation plan.
- Even though authorization was no longer in place, AmenitiesPlus continued to originate monthly debits to Cannon Bank's customer.
- Cannon Bank's customer placed a stop payment order against AmenitiesPlus to prevent the debits from posting to its account.
- From the date of the stop payment order, Cannon Bank received an additional 52 identical debits from AmenitiesPlus, all returned as R08 (Payment Stopped).
- AmenitiesPlus began reinitiating multiple debits per week – sometimes multiple debits per day.
- After contacting the ODFI for AmenitiesPlus, Brice Bank and not getting a resolution, Cannon Bank filed a rules violation.
- The ODFI's and Originator's refusal to act on the numerous returned items has not only resulted in productivity issues at the RDFI, but the customer's balance was temporarily adversely affected by the memo-debit items.
- Brice Bank acknowledged the violation stating:
  - AmenitiesPlus has implemented a solution that will eliminate the reinitiation of transactions that have previously been returned for any reason other than R01 (Insufficient Funds), or R09 (Uncollected Funds), or that have been corrected to remedy the reason for the return.
  - Account information for transactions that are returned for any other reason will be removed to prevent reinitiation.

### Nacha/Panel Conclusion

- The ACH Rules Enforcement Panel determined:
  - The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the receiving bank.
  - The ODFI should have reacted to the R08 returns.

## **Fine**

- **This violation was classified as potential Class 2 because of the number of improperly reinitiated entries and its impact to the Receiver's account and the RDFI.**
- **A one-time fine of \$5,000 was imposed against Brice Bank.**

## **Failure to Provide Valid Proof of Authorization**

### **The Claim**

**Oak Hill Bank was notified by one of its business customers of an unauthorized CCD debit transaction from Wellington Bank.**

### **Background**

- **Oak Hill Bank sent a fax to Wellington Bank, requesting it provide Proof of Authorization or Permission to Return the entry.**
- **Oak Hill Bank phoned Wellington Bank after all fax requests went unanswered.**
- **The Wellington Bank representative stated:**
  - **No information related to the authorization would be provided.**
  - **Its customer had verified the validity of the entry and its authorization.**
  - **If Oak Hill Bank wanted any additional information, they were to contact the Federal Reserve.**
- **After contacting Wellington Bank and not getting a resolution, Oak Hill Bank filed a rules violation.**
- **Wellington Bank denied the rules violation and provided a copy of the signed agreement.**

### **Nacha/Panel Conclusion**

- **Nacha staff reached out to Wellington Bank:**
  - **To notify the bank that the denial of the violation was not accepted by Nacha. The Nacha Operating Rules (Rules) require an ODFI and its Originator to provide Proof of Authorization/contact information to the RDFI within ten Banking days.**
  - **To discuss ODFI and Originator obligations under the Rules.**
- **As this was the first instance of this infraction by Wellington Bank, the financial institution received a warning letter and was not subject to fine.**

## Duplicate Return

### The Claim

Bank of Beckley received a duplicate return of a debit entry from Grand Credit Union.

### Background

- Bank of Beckley received a return of a debit entry on May 10<sup>th</sup> from Grand Credit Union with a return reason code R01 (Insufficient Funds).
- Bank of Beckley received an additional return of the *same* debit entry on May 26<sup>th</sup> from Grand Credit Union with a return reason code R10 (Unauthorized).
- Since the second return was a duplicate, Bank of Beckley dishonored the return using return reason code R67 (Duplicate Return).
- Grand Credit Union contested the dishonored return using the return reason code R76 (No Errors Found).
- Bank of Beckley phoned Grand Credit Union attempting to resolve the issue. The credit union refused to address the issue without its member being on the phone as well.
- Knowing that this issue didn't involve the credit union's member, Bank of Beckley filed a rules violation to resolve the issue.
- The violation from Nacha cited Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries and focused on the fact that an RDFI can only transmit one return per entry.
- Grand Credit Union acknowledged the violation and stated:
  - The R10 (Unauthorized) return was sent in error.
  - The R67 (Duplicate Return) dishonored return sent by Bank of Beckley was rejected in error.
  - The employee that incorrectly processed the entries has been provided additional training.
- Bank of Beckley has been contacted and received payment for the duplicate return.

### Nacha/Panel Conclusion

- As this was the first instance of this infraction by Grand Credit Union, the financial institution received a warning letter and was not subject to fine.

## Duplicate Returns and Reversal Initiated by RDFI

### The Claim

**Sterling Bank (an RDFI) initiated duplicate returns and a reversal to Harper Bank.**

### Background

- **Harper Bank originated a PPD credit entry in the amount of \$950 to a Receiver's account at Sterling Bank.**
- **Sterling Bank returned the credit entry as R03 (No Account/Unable to Locate Account).**
- **Sterling Bank returned the *same* credit entry again as R03 (No Account/Unable to Locate Account).**
- **Harper Bank dishonored the duplicate return using return reason code R67 (Duplicate Return).**
- **Harper Bank then received a debit return from Sterling Bank with a Company Entry Description of REVERSAL even though Harper Bank had never originated a reversal of the original credit entry.**
- **Harper Bank dishonored the debit return using return reason code R69 (Field Error(s)).**
- **Sterling Bank contested the dishonored return using return reason code R76 (No Errors Found).**
- **Harper Bank had taken a loss of \$950 due to Sterling Bank initiating duplicate returns and initiating a debit return of a reversal that had never been originated.**
- **After numerous failed attempts via email and phone to resolve this issue with Sterling Bank, Harper Bank filed a rules violation.**
- **The violation from Nacha cited Article Three, Section 3.8 - RDFI's Right to Transmit Return Entries and focused on the fact that an RDFI can only transmit one return per entry. Also, an RDFI is not permitted to create a Reversal or create a return entry for a reversal it never received.**
- **Sterling Bank acknowledged the rules violation and stated:**
  - **Education has been provided to staff related to:**
    - **Handling returns to ensure duplicate returns and reversals are not processed.**
    - **Addressing calls and emails from financial institutions so that issues can be addressed in a timely manner.**
  - **Harper Bank has been contacted and received payment for the duplicate return.**

### **Nacha/Panel Conclusion**

- **As this was the first instance of this infraction by Sterling Bank, the financial institution received a warning letter and was not subject to fine.**

## **Failure to Register Third-Party Sender Status**

### **The Claim**

**Moorefield Bank failed to register its Third-Party Sender Status with Nacha.**

### **Background**

- **Moorefield Bank received a Notice of Possible Fine citing a Class 2 rules violation for failing to register its Third-Party Sender status with Nacha, which was to be completed by March 1, 2018.**
- **Moorefield Bank denied the violation stating:**
  - **Management was unaware of the rule to register its Third-Party Sender status.**
  - **The financial institution has an annual audit and this has never been brought to its attention.**
  - **All examinations of the financial institution's processes and procedures have had positive outcomes with minimal exceptions.**

### **Nacha/Panel Conclusion**

- **Nacha refuted Moorefield Bank's denial because it had not performed the required registration prior to March 1, 2018.**

### **Fine**

- **The ACH Rules Enforcement Panel determined:**
  - **As no other financial institution or consumer was impacted by this rules violation and the overall goal is compliance with the rule, the fine amount should reflect that.**
  - **A fine of \$500 was imposed against Moorefield Bank.**

## Back Office Conversion (BOC) – Inaccurate Information

### The Claim

Kent Bank originated an erroneous BOC entry to Mitchell Bank's customer.

### Background

- Mitchell Bank's customer wrote a check for \$42.56 to Keller Groceries with check serial number 1792.
- Kent Bank's customer, Keller Groceries, originated two BOC transactions with the same settlement date to Mitchell Bank's customer:
  - \$42.56, Check Serial Number 1792
  - \$102.33, Check Serial Number 01792
- Mitchell Bank returned the transaction in the amount \$102.33 as R10 (Unauthorized) and requested copies of the source documents for both entries.
- Kent Bank responded to the source document request by providing Mitchell Bank with a copy of the front of the check containing serial number #1792 in the amount of \$42.56.
- Kent Bank sent a copy of the *same* source document for the BOC entry in the amount of \$102.33 and check serial number 01792.
- Mitchell Bank responded to Kent Bank and explained that the Receiver was debited \$102.33 with check serial number 01792 however, the source document is the same one provided for the \$42.56 debit.
- Mitchell Bank stated that they again requested a copy of the source document for the \$102.33 debit.
- After multiple attempts to obtain a copy of a *valid* copy of a source document for the \$102.33 BOC entry, Mitchell Bank filed a rules violation.
- Kent Bank acknowledged the rules violation and stated:
  - The Originator determined that the issue causing the second BOC entry was a result of human error during processing.
  - Additional training has been conducted to prevent future issues.
  - The Receiver has been credited for the amount in question.

### Nacha/Panel Conclusion

- As this was the first instance of this infraction by Kent Bank, the financial institution received a warning letter and was not subject to fine.

## Early Posting of Debit Entries

### The Claim

**McComas Bank was posting debit entries earlier than the Settlement Date.**

### Background

- **Cabell Community Bank received almost 50,000 NSF returns over a two-month period from McComas Bank, that were all received prior to the Settlement Date of the debit transactions.**
- **The timing of the NSFs indicated that the RDFI was attempting to post debit entries prior to the Settlement Date of the entries.**
- **Cabell began receiving numerous calls from its Originators stating they were receiving complaints from their customers, the Receivers.**
  - **The Originators complained that had the RDFI posted based on Settlement Date, the funds may have been available at that time and the debits may have posted successfully.**
- **Knowing that posting debits prior to Settlement Date is against the Nacha Rules, the ODFI filed a violation.**
- **McComas Bank received a Notice of Possible Fine citing a Class 2 rules violation for posting debit entries prior to the Settlement Date of the Entry.**
- **McComas Bank acknowledged the rules violation and stated:**
  - **When the bank's software was configured to allow early posting of ACH credits, this configuration was also set up for ACH debits.**
  - **The root cause of the problem would be resolved within two weeks of being notified of the issue by Nacha.**

### Nacha/Panel Conclusion

- **The ACH Rules Enforcement Panel determined:**
  - **The RDFI had committed a Class 2 rules violation due to the excessive harm caused to the ODFI, its Originators and the Receivers**

### Fine

- **A fine of \$10,000 was imposed against McComas Bank**

## **Dishonored Return by ODFI**

### **The Claim**

**Alderman Bank dishonored a R23 (Credit Entry Refused by Receiver) as untimely.**

### **Background**

- **Turner Bank was contacted by its customer about an unexpected ACH credit received from ODFI Alderman Bank.**
  - **The customer had just discovered the credit which had been received the previous year and now wanted it returned.**
- **Turner Bank returned the credit (using Return Reason Code R23 - Credit Entry Refused by Receiver) so that it was made available to the ODFI by opening of business on the 2<sup>nd</sup> banking day from receipt of the customer's instruction to return the entry.**
- **Alderman Bank dishonored the return as R68 (Untimely Return)**
- **Turner Bank knew that the return was timely and contested the dishonored return as R73 (Timely Original Return).**
- **At this point, the returns should have stopped and the issue should have been handled outside the ACH Network; instead, for the second time, Alderman Bank dishonored the return as R68 (Untimely Return).**
- **Turner Bank again contested the dishonored return as R73 (Timely Original Return).**
- **For the third time, Alderman Bank dishonored the return as R68 (Untimely Return).**
- **Turner Bank filed a rules violation after having the returned credit entry dishonored three times.**
- **Alderman Bank acknowledged the rules violation and stated:**
  - **The original credit entry was no longer on the bank's system, so it was automatically dishonored as untimely.**
  - **The bank agrees that this credit return should not have been dishonored.**
  - **The bank's system has been updated to correctly handle R23 returns.**
  - **Staff has been educated on the proper way to handle R23 returns in the future.**

### **Nacha/Panel Conclusion**

- **As this was the first instance of this infraction by Alderman Bank, the financial institution received a warning letter and was not subject to fine.**

## **Invalid Company Name**

### **The Claim**

**Rouss Bank received numerous entries containing invalid company name data.**

### **Background**

- **Rouss Bank had over 1,500 customers call into its customer service center in one weekend expressing that they didn't recognize the data included in the Company Name of ACH debit entries received from Squires Bank.**
- **After reviewing the transactions in question, Rouss Bank filed a rules violation citing that the contents of the Company Name field did not contain a name by which the Originator is known or readily recognized by the receiver of the entry.**
- **Squires Bank denied the violation stating:**
  - **The usage of the data in the company name field was developed specifically to assist the customer in understanding what the entry represented.**
  - **The Originator sends communications to the Receiver twenty-five, ten and four days prior to the customer account being debited. The Originator will take the violation into consideration and add the Company Name data to these communications.**

### **Nacha/Panel Conclusion**

- **Nacha refuted Squires Bank's denial because the rules state that the Company Name field must contain the name by which the Originator is known and readily identifiable by the Receiver of the Entry.**
- **This violation was classified as potential Class 2 because of the number of entries that contained invalid Company Names and their impact to the Receiver's and the RDFI.**
- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the Receivers and the RDFI.**

### **Fine**

- **A one-time fine of \$5,000 was imposed against Squires Bank.**

## **Failure to Provide Proof of Authorization**

### **The Claim**

**Derring Bank failed to provide proof of authorization.**

### **Background**

- **RDFI Emmet Bank was alerted by its customer of an unauthorized ACH WEB debit transaction from ODFI Derring Bank and its Originator, Newcomb Industries.**
- **The entry was within the 60-day extended return timeframe, so Emmet Bank was able to return it R10 (Customer Advises Originator is Not Known to Receiver and/or Is Not Authorized by Receiver).**
- **Even though the customer was made whole, the customer also wanted to know who had authorized this transaction against his bank account.**
- **Emmet Bank faxed three ACH Proof of Authorization requests to Derring Bank for a WEB debit transaction in the amount of \$1,235.00 to the fax number listed in the Nacha Contact Registry. The request included a copy of the WSUD. No response was provided.**
- **After not receiving a response to the faxes, Emmet Bank emailed Derring Bank requesting ACH Proof of Authorization using the email address found in the Nacha Contact Registry. No response was provided.**
- **Emmet Bank filed a rules violation against Derring Bank citing 2.3.2.7 (Retention and Provision of the Record of Authorization) for failure to respond to its requests for ACH Proof of Authorization.**
- **Derring Bank acknowledged the rules violation and stated:**
  - **After researching the cited violation, it was determined that the Client Services team did receive the proof of audit requests from Emmet Bank, however, they are unable to locate the reply they sent back to the bank. The team believes that responding to these requests were accidentally missed during processing.**
  - **Upon receipt of the violation notice, the Customer Services team reached out to the Originator and obtained Proof of Authorization for the transaction.**
  - **The proof of authorization was immediately provided to Emmet Bank.**

### **Nacha/Panel Conclusion**

- **As this was the first instance of this infraction by Derring Bank and its Originator, the financial institution received a warning letter and was not subject to fine.**

## **Failure to Respond to Notifications of Change**

### **The Claim**

**McCormick Bank and its Originator failed to respond to Notifications of Change.**

### **Background**

- **ODFI McCormick Bank received a notice of possible rules violation regarding an NOC violation involving its Originator, Pritchard Employer Group.**
- **McCormick Bank and Pritchard Employer Group acknowledged this initial violation and stated they would resolve the issue.**
- **Nacha continued to receive additional reports of violations from RDFIs citing the same rules infraction.**
- **RDFIs were reporting that the account numbers contained in the NOCs were not being changed to reflect the correct information.**
- **These reports escalated to the 5<sup>th</sup> recurrence of an NOC violation, which is a Class 2 violation.**
- **McCormick Bank and its Originator acknowledged the Class 2 violation stating:**
  - **The Originator allows its customers to correct their individual banking information when an NOC is received.**
  - **The account numbers cited in all five violations have been corrected.**
  - **All customers have been contacted and advised not to change the account numbers back to the incorrect information.**
  - **Going forward, to prevent violations from occurring, the Originator will begin working with a company that has a program to make NOC changes automatically.**

### **Nacha/Panel Conclusion**

- **As the violation submissions had escalated to Class 2 status – the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue was resolved.**
- **The ACH Rules Enforcement Panel reviewed the issue and determined that the ODFI is responsible for the Originator to properly act on each NOC.**

### **Fine**

- **A one-time fine of \$8,500 was imposed against McCormick Bank.**

## Failure to Provide Valid Proof of Authorization

### The Claim

Connelly Credit Union and its Originator failed to provide valid proof of authorization.

### Background

- Kilmer Bank was notified by one of its customers of several unauthorized PPD debit transactions from Connelly Credit Union and its Originator, Let's Get Fit Gym.
- Kilmer Bank sent a fax to Connelly Credit Union, requesting it provide Proof of Authorization or Permission to Return the entries.
- Connelly Credit Union provided Proof of Authorization.
- Kilmer Bank contacted Connelly Credit Union and notified them that the authorization was invalid since the name on the authorization is not a signer on the account.
- After not getting a resolution, Kilmer Bank filed a rules violation.
- Connelly Credit Union denied the rules violation and stated:
  - It had met its obligation by providing the RDFI with the authorization.
  - The fact that the names did not match does not render the authorization invalid.
  - Consumers often make payments from accounts to which they are not signers of record.

### Nacha/Panel Conclusion

- Nacha staff reached out to Connelly Credit Union to notify the bank that:
  - The denial of the violation was not accepted by Nacha.
  - The Rules require an ODFI and its Originator to provide *accurate* record of the Receiver's (the party that was debited) authorization upon request. If the name on the authorization does not match the name on the Receiver's account, the authorization is deemed to not be accurate, resulting in the ODFI not meeting its obligation under the Rules.
- As this was the first recurrence of this type of infraction, Connelly Credit Union was subject to a fine between \$0 and \$1,000.

### Fine

- A one-time fine of \$1,000 was imposed against Connelly Bank.

## Micro-Entries to Invalid Accounts

### The Claim

Cassel Bank and its Originator, Settle4You initiated numerous micro-entries to invalid account numbers at the RDFI.

### Background

- Newcomb Bank began receiving hundreds of PPD debits daily from Cassel Bank and its Originator, Settle4You.
- The PPD debits were all micro-entries to invalid accounts.
- In a two-week period, Cassel Bank originated close to 4,000 of such entries to the RDFI – each with the same Company ID and invalid account number that started with the same six digits and ended with a different set of six numbers, but with different Individual Names.
- The RDFI returned them under return code R17 (File Record Edit Criteria/Entry with Invalid Account Number Initiated Under Questionable Circumstances).
- Newcomb Bank submitted a rules violation against Cassel Bank.
- Cassel Bank received a Notice of Possible Fine citing a Class 2 Rules violation for initiating almost 4,000 entries to invalid accounts.
- Cassel Bank denied the violation, stating that the Originator was using micro-entries as well as other tools as part of a commercially reasonable fraudulent transaction detection system that includes account validation.
- Cassel Bank further detailed the Originator's additional fraud control measures with respect to its use of micro entries.
- Specifically, Settle4You:
  - Conducts volume and velocity checks of micro-entries for anomaly detection at the Settle4You account level and bank account level.
  - Tracks IP level velocity also, however fraudsters are using VPN to spoof IP addresses.
  - Sends 2 credits and 1 debit, which net to \$0 in the aggregate.
  - Tracks debit blocked account ranges with RDFIs and does not allow random deposits to be sent to blocked accounts.
  - Monitors new account opening volumes, especially to one or a small number of routing transit numbers or accounts.
  - Tracks successfully opened new accounts, including those that fail to confirm micro-entries.

- **Monitors for padding zeros to evade detection of repetitive use of account numbers.**
- **Monitors for excessive return rates.**

### **Nacha/Panel Conclusion**

- **Based on the specific facts and circumstances of this case, Cassel Bank's denial of the violation was accepted.**
- **Staff reached out to the submitter to explain Nacha's position on the respondent's denial and stressed the need for the RDFI to implement return automation.**

## Duplicate Returns

### The Claim

Hale Credit Union initiated duplicate returns.

### Background

- **Howell Savings Bank originated three CCD debits to a Receiver at Hale Credit Union.**
- **Hale's Receiver reported the debits as unauthorized.**
- **Per Hale's request, Howell Savings Bank granted permission for a late return of the three debits.**
- **The entries were successfully returned using return reason code R31 (Permissible Return Entry).**
- **One month later, Hale Credit Union again returned the same three entries using return reason code R31 (Permissible Return Entry).**
- **Howell Savings Bank dishonored the second set of returns using return reason code R70 (Permissible Return Entry Not Accepted/Return Not Requested by ODFI).**
- **Hale Credit Union contested the dishonored returns using the return reason code R71 (Misrouted Dishonored Return).**
- **Howell Savings Bank attempted to contact the credit union; however, it was unable to reach someone to assist in resolving this issue, so a violation was submitted.**
- **Hale Credit Union denied the rules violation and stated that a letter was sent to Howell Savings Bank indicating that the duplicate returns were sent in error and requesting that they should be dishonored.**

### Nacha/Panel Conclusion

- **Nacha refuted the RDFI's denial based on the following:**
  - **Duplicate returns were sent by the RDFI.**
  - **The letter to the ODFI requesting that the duplicate returns be dishonored was sent one month after the returns were initiated and after the ODFI had already dishonored the returns, which were contested.**
  - **As this was the first instance of this infraction by Hale Credit Union, the financial institution received a warning letter and was not subject to fine.**

## **Entries to Invalid Account**

### **The Claim**

**Lanning Bank initiated ACH transactions to an invalid account number at the RDFI.**

### **Background**

- **Kingsport Corporate Credit Union received a dozen CCD entries to an invalid account from ODFI, Lanning Bank, that caused the corporate credit union's Federal Reserve account to overdraw by over \$100 million.**
- **The entries did not contain Individual Names and each entry contained a different Individual ID.**
- **By overdrawing Kingsport's Federal Reserve settlement account, the credit union was unable to process outgoing wire transfers and it would have been subject to substantial fines and interest if it had not been able to return and settle the debits that same day.**
- **Lanning Bank acknowledged the rules violation and stated:**
  - **Its Originator had been a victim of a fraud scheme that resulted in the initiation of the transactions.**
  - **Additional training was implemented as it relates to the origination of entries with the correct account information.**
  - **The ODFI discussed commercially reasonable processes to mitigate fraudulent incidents in the future.**
  - **New account validation services were implemented.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the RDFI.**

### **Fine**

- **A one-time fine of \$10,000 was imposed against Lanning Bank.**

## **Failure to Respond to Notification of Change**

### **The Claim**

**Patton Bank and its Originator failed to respond to Notifications of Change.**

### **Background**

- **Parkland Credit Union, sent numerous NOCs to Patton Bank, requesting a change to a Receiver's account number.**
- **Parkland Credit Union's customer was receiving approximately three dozen transactions daily from Patton Bank and its Originator, BPN Distribution.**
  - **NOCs were sent for each of these transactions, yet the account number was never changed according to the corrected data in the NOC.**
- **Parkland Credit Union reached out to the ODFI to request that BPN Distribution resolve the issue before originating any future entries.**
  - **No response was received from the ODFI, so Parkland filed a rules violation.**
- **Patton Bank denied the rules violation and stated:**
  - **BPN Distribution acknowledged its failure to address the NOC in a timely manner.**
  - **BPN's processes are being reviewed to determine the underlying issue.**
  - **The account number in question has been changed according to the corrected data in the NOC.**

### **Nacha/Panel Conclusion**

- **Nacha refuted the ODFI's denial because the Originator must make the changes defined within the NOC within six Banking Days of receipt of the NOC or prior to initiating another Entry to the Receiver's account.**
- **As this was a Class 1 second recurrence of a previous infraction, the financial institution was subject to a fine between \$0 and \$2,500.**

### **Fine**

- **A fine of \$2,500 was imposed against Patton Bank**

## **Failure to Provide Proof of Authorization**

### **The Claim**

**Stewart Bank failed to provide proof of authorization.**

### **Background**

- **Cutler Bank was notified by one of its customers of an unauthorized TEL debit transaction from Stewart Bank.**
- **Cutler Bank was unable to return the transaction as R10 (Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account) since it was outside the extended return timeframe.**
- **Several requests for Proof of Authorization or Permission to Return were faxed and emailed without a response back from Stewart Bank.**
- **After not receiving any response back from Stewart Bank, Cutler Bank filed a rules violation.**
- **Stewart Bank denied the rules violation, stating that the institution never received the faxes sent and the person that received the email requests had been out on vacation and had not set up an out of office.**
- **Nacha staff reached out to Stewart Bank:**
  - **To notify the bank that the denial of the violation was not accepted by Nacha.**
  - **Documentation from the RDFI proved that some of the faxes had indeed been received by Stewart Bank.**
- **As this was the first instance of this infraction by Stewart Bank, the financial institution received a warning letter and was not subject to fine.**

## **Failure to Provide Proof of Authorization – It Continues**

### **The Claim**

Stewart Bank received an ***additional*** violation related to not providing proof of authorization upon request.

### **Background**

- McCarthy Bank was notified by one of its customers of unauthorized WEB debit transactions from Stewart Bank.
- McCarthy Bank faxed and emailed several requests for Proof of Authorization or Permission to Return to Stewart Bank.
- A copy of the Written Statement of Unauthorized Debit (WSUD) was provided to Stewart Bank to show that the Receiver's name did not match the Individual Name on the transaction.
- After Stewart Bank failed to respond to the requests, McCarthy Bank sent another request stating that a rule violation would be submitted if a response was not provided.
- The next day, Stewart Bank responded by providing proof of authorization.
- McCarthy Bank notified Stewart Bank that the name on the proof of authorization did not match that of the Receiver and requested permission to return.
- At this time McCarthy Bank submitted a rules violation against McCarthy Bank for failing to provide a *valid* proof of authorization.
- Stewart Bank denied the rules violation, stating that the proof of authorization was provided in a timely manner and that they had reached out to McCarthy bank directly to resolve the issue.
- Nacha staff contacted Stewart Bank:
  - To notify the bank that the denial of the violation was not accepted by Nacha.
  - The name on the proof of authorization did not match that of the Receiver, which deems the proof of authorization invalid.

### **Nacha/Panel Conclusion**

- As this was a Class 1 first recurrence of a previous infraction, the financial institution was subject to a fine between \$0 and \$1,000.

### **Fine**

- The ACH Rules Enforcement Panel decided to impose a fine of \$1,000.
- This problem continued, with Stewart Bank and its Originator not providing RDFI's with *valid* proof of authorization or proof of authorization in a timely manner.

- **The violation occurrences escalated, as did the fines.**
  - **2<sup>nd</sup> Recurrence: \$2,500 fine.**
  - **3<sup>rd</sup> Recurrence: \$5,000 fine.**
  - **The most recent violation involving this infraction resulted in the ACH Rules Enforcement Panel imposing a fine of \$7,500.**

## **Failure to Respond to Notification of Change**

### **The Claim**

**Hamlin Credit Union and its Originator failed to respond to Notifications of Change.**

### **Background**

- **Hamlin Credit Union received a notice of possible rules violation regarding an NOC violation involving its Originator, We Insure You.com.**
- **Hamlin Credit Union and We Insure You.com denied the violation and stated:**
  - **When the initial NOC was received, We Insure You.com made the change to the account number 435611, in the name of Mary Jones.**
  - **When the subsequent NOC was received, it was for the same account number, 435611, but in the name of a different customer, Mark Jones.**
  - **As such, Hamlin Credit Union argued that a violation did not occur, as these are two transactions initiated by, We Insure You.com to the account for two separate individuals and unrelated.**
  - **The correction was made to the account number for the customer in question (Mary Jones). Had the RDFI sent back an NOC on the additional entry for customer in name of Mark Jones, We Insure You.com would have made the appropriate changes.**
  - **There was no NOC sent back for this particular customer on the entry which the RDFI alleged the violation occurred on.**

### **Nacha/Panel Conclusion**

- **Nacha agreed to accept Hamlin Credit Union's denial of the violation based on:**
  - **Even though the entries are from the same Originator directed to the same RDFI account, they involve two separate and unrelated insurance policies that are separately authorized.**
  - **The change cited in the NOC may not be appropriate to both policy holders.**
  - **The RDFI should send an NOC for each separate policy – one for Mary Jones, one for Mark Jones.**

## **Failure to Provide Proof of Authorization**

### **The Claim**

**Bailey Bank failed to provide proof of authorization.**

### **Background**

- **Jenkins Credit Union was contacted by one of its business customers regarding an unauthorized debit from Bailey Bank.**
- **Jenkins Bank was unable to return the transaction as R05 (Corporate Customer Advises Not Authorized) since it was outside the return timeframe.**
- **Several requests for Proof of Authorization or Permission to Return were faxed and emailed without a response back from Bailey Bank.**
- **After not receiving any response back from Bailey Bank, Jenkins Bank filed a rules violation.**
- **Bailey Bank denied the rules violation, stating that:**
  - **The institution never received the faxes or the emails.**
  - **The RDFI had used invalid contact information.**
  - **Had the RDFI used Nacha's contact registry, they would have obtained valid contact information and Bailey Bank would have responded.**

### **Nacha/Panel Conclusion**

- **Nacha agreed to accept Bailey Bank's denial of the violation since incorrect contact information was being used and Bailey Bank had never received the requests for proof of authorization.**

## Entries to Invalid Account Numbers

### The Claim

Ridge Falls Bank initiated excessive entries to invalid accounts at the RDFI.

### Background

- Leland Bank became aware of an ongoing issue with the receipt of excessive WEB and PPD debits sent from Ridge Falls Bank with invalid account numbers.
- On several days, Leland Bank returned more than 10,000 Entries as R03 (No Account/Unable to Locate Account) and R04 (Invalid Account Number Structure).
- Leland Bank stated that it appeared as though a bad actor was using sequential account number testing to determine the account number structure at Leland Bank. If the correct account structure was figured out, this could result in several risks:
  - Operational risk due to a high volume of reported unauthorized returns.
  - Financial risk to bank and/or customers.
  - Reputation risk if customers are upset because they perceive that the bank is not reducing the unauthorized returns.
- Leland Bank contacted Ridge Falls Bank in May regarding the excessive number of ACH debits to invalid account numbers being received.
  - Ridge Falls Bank stated that it was working with its Originator, Sellen Corporation to address the issue.
- Leland Bank again contacted Ridge Falls Bank in October to discuss the on-going issue.
- In December and January, the number of invalid entries began to significantly increase.
  - Leland Bank again engaged Ridge Falls Bank to inquire about a resolution.
  - At this time, Leland Bank decided to file a rules violation, with the hope that this would result in the Originator executing its action plan in a timely manner.
- Ridge Falls Bank acknowledged the violation and stated its Originator had determined the underlying cause of the entries to invalid account numbers to be:
  - Abuse of a verification method the Originator offers through integrating a third-party service.
  - Due to a logic flaw in the third-party's verification process, fraudsters were able to create multiple profiles in the Originator's system using one valid bank account, which was padded with different leading digits for each profile, eventually causing the high number of invalid ACH debits to Leland Bank.
  - The following solutions were implemented:
    - Discontinued use of the problematic third-party verification service and moved to Challenge Deposit (CD) for verification.

- **Manually removed all problematic account profiles previously verified through the third-party service.**
- **Enhanced monitoring and alerting for return rates.**
- **Updated system to handle certain transaction return codes (e.g., R03 and R04), more severely, to minimize recurrences of invalid transactions.**
- **Implemented micro entries to minimize transactions with invalid/incorrect bank account information before transaction initiation.**
- **Used alternative methods for account verification.**
- **Conducted periodic discussions with Ridge Falls Bank to detect fraudulent trends based on transaction data and updated internal controls accordingly.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the RDFI.**

### **Fine**

- **A one-time fine of \$10,000 was imposed against Ridge Falls Bank.**

## **Failure to Provide Timely Proof of Authorization**

### **The Claim**

**Bynes Bank failed to provide a timely proof of authorization.**

### **Background**

- **Stiller Bank submitted a request to Bynes Bank to provide proof of authorization or permission to return for two disputed PPD entries.**
- **Bynes Bank replied and stated that they were going to need more time to obtain the authorization from their Originator.**
- **Stiller Bank notified Bynes Bank that it would be outside the permissible ten-banking day timeframe and that if the proof of authorization could not be provided, then the RDFI requested permission to return.**
- **After not receiving a response or further communications from Bynes Bank, within ten-banking days, Stiller Bank filed a rules violation.**
- **Bynes Bank denied the rules violation stating:**
  - **It had responded within the ten-banking day timeframe to Stiller Bank's request by notifying it that additional time would be required to fulfill the request.**
  - **There was no reply from Stiller Bank indicating that the extension couldn't be granted.**
  - **It had provided an additional response to Stiller bank providing permission to return the two items – thus resolving the case.**

### **Nacha/Panel Conclusion**

- **Nacha refuted the ODFI's denial because proof of authorization must be provided to the RDFI within ten-banking days.**
- **As this was the first instance of this infraction by Bynes Bank, the financial institution received a warning letter and was not subject to fine.**

## **Failure to Provide Written Statement of Unauthorized Debit (WSUD)**

### **The Claim**

**Graham Credit Union failed to provide a copy of a WSUD.**

### **Background**

- **Benson Bank requested a copy of a Written Statement of Unauthorized Debit (WSUD) from Graham Credit Union for three transactions returned as R10 – Customer Advises Unauthorized.**
- **Graham Credit Union promptly responded the next day with an encrypted email instructing the ODFI to log in and provide a written request to receive the WSUD. The ODFI immediately responded to this request.**
- **Benson Bank reached out several times to follow-up on its request and informed Graham Credit Union that it would be filing a rules violation if it did not provide the WSUD.**
- **After not receiving anything from the RDFI, Benson Bank filed a rules violation, citing failure to provide WSUD within ten-banking days after receiving written request from the ODFI.**
- **Graham Credit Union denied the rules violation stating:**
  - **The first email request from Benson Bank was missing the attachment with the details about the return.**
  - **Graham Credit Union advised Benson Bank that additional information was needed to satisfy the request.**
  - **The second request included all the necessary information.**
  - **The WSUD was provided within ten-banking days of the second request.**

### **Nacha/Panel Conclusion**

- **Nacha staff contacted Benson Bank to verify receipt of the WSUD and learned that the institution found the correspondence in the recipient's junk email folder. Benson Bank also confirmed that it was delivered in a timely manner.**
- **Nacha accepted Graham Credit Union's denial of the violation and counseled the ODFI to review junk folders for missing correspondence before filing rules a violation.**

## Availability of Credits That Are Not Same Day ACH Entries

### The Claim

Maris Bank failed to post credits to receiver's account.

### Background

- Maris Bank's customer received two PPD credit transactions four days apart for \$55,000 and \$43,000 from Handler Bank.
- Two weeks later, Handler Bank's customer notifies the ODFI that the two credit transactions sent to Maris Bank's customer included fraudulent account information and that the deposits were not intended for the account held at the RDFI.
- Handler Bank sent Maris Bank two letters of indemnification (LOI) regarding reimbursement which included permission to return the entries as R06 (Returned per ODFI's Request) or requesting for a cashier's check for any remaining funds associated with the deposits if the full recovery was not possible. Handler Bank notified Maris Bank that the deposits were originated using fraudulent information.
- Maris Bank responded to the LOIs and indicated that the account is NSF and that the transactions cannot be returned R06. Additionally, the case had been referred to the RDFI's financial crimes department.
- Handler Bank's fraud department reached out to Maris Bank's fraud department to discuss the issue and learned that the account number used in the credit transactions was closed two years prior and the funds were applied to an active account at the RDFI.
- Handler Bank determined that based on this new information, if the account was closed when the transactions arrived at the RDFI, the credit funds should have been returned to the ODFI as account closed.
- The ODFI further stated that if the funds were applied to an account other than the one listed on the transactions, the ODFI's warranty to the RDFI no longer applied.
- Handler Bank filed a rules violation against Maris Bank citing Article Three, Subsection 3.3.1.1 Availability of Credit Entries That Are Not Same Day Entries.
- Maris Bank denied the violation stating:
  - The funds were posted timely to an account owned by the same Receiver.
  - Funds were posted to a valid account based on an order from the Receiver of the closed account.
  - NOCs were sent for both transactions when the funds were placed in the new valid account.
  - Maris Bank did respond timely to the R06 LOI requests indicating funds were not available for return.

### **Nacha/Panel Conclusion**

- **Nacha accepted Maris Bank's denial of the violation and notified Handler Bank that the funds did indeed post to a valid account based on the account information contained in the credit entries.**

## Unauthorized Entries to Receiver Accounts

### The Claim

**Majors Bank initiated unauthorized entries to accounts at the RDFI.**

### Background

- **Cavill Credit Union received over 200 unauthorized WEB debit entries within a short period of time originated by Majors Bank and its Originator, Harlow Bank.**
  - **The names on the entries did not match the Receivers at Cavill Credit Union.**
  - **Entries were being received by both consumer and non-consumer accounts.**
  - **All Entries were returned as R10 (Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account).**
- **Cavill Credit Union filed a rules violation against Majors Bank as the ODFI continued to send unauthorized transactions that appeared to be phishing attempts.**
- **Majors Bank acknowledged the violation and stated:**
  - **Harlow Bank experienced a significant fraud attack whereby fraud actors used compromised and otherwise fraudulent Harlow accounts to initiate debit originations from accounts with compromised credentials at Cavill Credit Union and other financial institutions.**
  - **The fraud actors were able to exploit protections employed in Harlow's fraud stack which includes industry standard toolsets.**
  - **In addition to exploiting its protections, the fraud actors endeavored to overwhelm Harlow's prevention capabilities by hitting it with a large volume of transaction requests designed to evade its dollar amount review rules (for example, 53% of the transactions listed in Cavill Credit Union's complaint were for items under its \$1,000 review threshold) and other human resourced controls.**
  - **Harlow Bank took many actions to overcome the fraud attack including applying toolset changes to block the fraud actor's attacks and address fraudulent debit originations. Some of the actions were specific to Cavill Credit Union while others applied to all banks.**
  - **Harlow Bank continued to improve its fraud prevention processes on a daily basis and worked to deploy additional enhancements.**
  - **The nearly viral, brute force attack suffered by Harlow Bank resulted in significant financial loss to the institution. It worked to make all counterparties and its customers whole by honoring returns and disputes in an expedited fashion.**
  - **Harlow Bank endeavored to quickly review and respond to complaints received both directly and by its regulators.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the RDFI.**

### **Fine**

- **A one-time fine of \$5,000 was imposed against Majors Bank.**

## **Improper Formatting of a Reinitiated Entry**

### **The Claim**

**Osborn Bank initiated an improperly formatted reinitiation entry to an account at the RDFI.**

### **Background**

- **Nelson Bank filed a rules violation against Osborn Bank after receiving a reinitiated Entry that was improperly formatted.**
- **Nelson Bank cited 2.13.4.2 (Formatting Requirements for Reinitiated Entries) and stated in its violation submission:**
  - **Contents of the Company Identification field were not identical to that of the original Entry.**
  - **Improper reinitiation of debit entry resulted in improper assessment of re-presentment NSF fee for the affected member account, which in turn required manual review and reversal of the fee.**
  - **Such reinitiations of debit entries which fail to comply with the Nacha Operating Rules necessitate excessive burden on our operations team, who must manually review for re-presentment NSF fees as a result.**
- **Osborn Bank acknowledged the violation and stated:**
  - **Its Originator had reviewed its processes and determined the underlying cause of the issue.**
  - **A process would be implemented to prevent future occurrences of the issue.**

### **Nacha/Panel Conclusion**

- **As this was the first instance of this infraction by Osborn Bank, the financial institution received a warning letter and was not subject to fine.**

## **Failure to Respond to Notifications of Change**

### **The Claim**

**Ferrell Bank failed to respond to Notifications of Change.**

### **Background**

- **Allen Credit Union sent several Notifications of Change (NOC) to correct an account number to Ferrell Bank.**
- **Allen Credit Union filed a rules violation against Ferrell Bank after being unable to contact them and having the NOCs going unresolved.**
- **Ferrell Bank denied the rules violation and sent a letter from its Originator stating it was using banking information provided by its customer at the time the relationship was established and had not received any updates from the customer.**
- **Nacha reviewed the denial of the violation and decided to refute the denial as the Originator did not make the change specified in the NOC prior to initiating another Entry to the Receiver's account.**

### **Nacha/Panel Conclusion**

- **As this was a Class 1 first recurrence of a previous infraction, the financial institution was subject to a fine between \$0 and \$1,000.**

### **Fine**

- **The ACH Rules Enforcement Panel decided to impose a fine of \$1,000.**

## Micro-Entries to Invalid Account Numbers

### The Claim

Hewsom Bank initiated invalid micro-entries to invalid accounts at the RDFI.

### Background

- Jordan Savings & Loan became aware of the receipt of several thousand invalid micro-entry transactions from Hewsom Bank and its Originator, Savvy Payments.
- Over nine thousand transactions were received in just over a month – with 80% being returned as R03 (No Account/Unable to Locate Account) or R04 (Invalid Account Number Structure).
- The transactions were received to numerous accounts numbers:
  - All entries contained:
    - The Entry Description “ACCTVERIFY”.
    - The same Company ID.
    - The same Company Name.
    - The same SEC code of PPD.
- Jordan Savings & Loan filed a rules violation against Hewsom Bank as the ODFI continued to send transactions with invalid account number information that appeared to be phishing attempts.
- Hewsom Bank acknowledged the violation and stated:
- Monitoring and alerts are in place to identify anomalous activity on micro-deposit initiation attempts and micro-entry returns, both at the aggregate level as well as the RDFI RTN level.
- When an alert is triggered, on-call engineers review the alert and act and/or escalate appropriately to the severity of the alert.
- The Originator continually monitors and analyzes origination and return data, remediating any anomalies, and adding controls as needed.
- Significant monitoring and risk controls were built to protect against fraud and abuse attacks.
- While Savvy Payments has invested extensively in building in-house solutions against fraud, Third-Party solutions are also being continually evaluated. However, there are coverage gaps in these solutions especially for smaller banks/credit unions, which limits Savvy Payments' use of micro-entries as account validation method to accommodate 100% of banks.
- Because of Savvy Payments' internal monitoring, they were alerted to the spike in micro-entry initiation attempts and utilized existing controls to prevent approximately 63% of the invalid entries from being introduced into the Network.

## **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the RDFI.**

## **Fine**

- **The ACH Rules Enforcement Panel decided to impose a fine of \$2,500.**

## **Failure to Perform ACH Rules Compliance Audit**

### **The Claim**

**Thurmond Bank failed to perform an annual ACH Compliance Audit.**

### **Background**

- **During Nacha's quarterly ACH Rules Compliance Audit outreach, Thurmond Bank was requested to provide proof of the bank's annual ACH compliance audit.**
- **Thurmond Bank responded to this request and indicated that it had not performed an ACH Rules compliance audit for two consecutive years.**
- **Failing to perform an annual audit constitutes a Class 2 violation of the Nacha Operating Rules, so Thurmond Bank was sent a Notice of Possible Fine related to this violation.**
- **Thurmond Bank acknowledged the violation and stated:**
  - **It had lost sight of the audit requirement.**
  - **The bank had been written up during its annual audit for the lack of ACH compliance audit.**
  - **The bank had scheduled its ACH audit with its Payments Association and would maintain the required annual schedule.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **The financial institution had committed a Class 2 rules violation.**

### **Fine**

- **The ACH Rules Enforcement Panel decided to impose a fine of \$5,000.**

## **R06 Returns Without ODFI Permission**

### **The Claim**

**Simmons Federal Credit Union failed to obtain permission to return items as R06 (Returned Per ODFI's Request).**

### **Background**

- **Booth Bank received seven CCD late returns from Simmons Federal Credit Union with the return reason code R06 (Returned per ODFI's Request).**
- **Booth Bank stated that the RDFI never requested permission to return the transactions late.**
- **Booth Bank reached out to the RDFI to determine why the items were returned late, without the ODFI's permission and to remind it of the proper contact method for requesting permission to return in the future.**
- **After not receiving a response from the RDFI, Booth Bank submitted a rules violation.**
- **Simmons Federal Credit Union acknowledged the rules violation and stated:**
  - **It had implemented an enhanced returns process that triggered a subset of transactions to be returned late, using return reason code R06 (Returned Per ODFI's Request) without the ODFI's permission.**
  - **The issue had been corrected.**
  - **It instructed ODFIs to dishonor the incorrect return(s) so that it could reinitiate the return(s) correctly.**
  - **A communication was sent to Booth Bank to get the issue resolved.**

### **Nacha/Panel Conclusion**

- **As this was a first recurrence of this type of infraction, Simmons Federal Credit Union was subject to a fine between \$0 and \$1,000.**

### **Fine**

- **The ACH Rules Enforcement Panel decided to impose a fine of \$1,000.**

## **Failure to Register in Nacha's Contact Registry**

### **The Claim**

**Barker Savings & Loan failed to register its contact information in Nacha's Contact Registry.**

### **Background**

- **Barker Savings & Loan received a Notice of Possible Fine citing a Class 2 rules violation for failing to register its contact information in Nacha's Contact Registry, which was to be completed by October 30, 2022.**
- **Barker Savings & Loan acknowledged the violation stating:**
  - **The ACH contact was new to the financial institution and unaware that the registration had not been completed.**
  - **The registration was completed after receiving the violation notification from Nacha.**
  - **The institution has calendared an annual reminder to review the registration.**
  - **Staff has been trained to update contacts as staff changes occur.**

### **Nacha/Panel Conclusion**

- **The ACH Rules Enforcement Panel determined:**
  - **As the overall goal is compliance with the rule, the fine amount should reflect that.**
  - **The financial institution had committed a Class 2 rules violation.**

### **Fine**

- **The ACH Rules Enforcement Panel decided to impose a fine of \$250.**

## Unauthorized Entry

### The Claim

O'Leary Bank processed an unauthorized WEB transaction.

### Background

- A customer at Rohan Bank instructed the bank to place a stop payment on a check written to Custom Baths LLC, a customer of O'Leary Bank.
- The contract between Rohan Bank's customer and Custom Baths LLC included notice that the check may be collected electronically via the ACH Network.
- The amount of the check was debited from the Receiver's account as a WEB without a check number and included a different company name, which caused the item to be paid.
- Upon contacting the payee of the check, the Receiver was told that all checks were processed by a Third-Party.
- Custom Baths LLC indicated to the Receiver that the funds would be credited back to their account.
- After not receiving the returned funds, the Receiver contacted Rohan Bank to complete a Written Statement of Unauthorized Debit (WSUD) and have the transaction returned as unauthorized.
- Rohan Bank returned the transaction as R10 (Customer Advises Originator is Not Known to Receiver and/or Originator is not Authorized by Receiver to Debit Receiver's Account).
- Rohan Bank filed a rules violation against O'Leary Bank related to the unauthorized transaction.
- O'Leary Bank denied the rules violation and provided a copy of the Custom Baths LLC agreement along with a copy of the Receiver's check.
- Nacha refuted O'Leary Bank's denial of the violation because the agreement contained authorization for a check conversion, it did not contain authorization for a WEB transaction.

### Nacha/Panel Conclusion

- As this was the first instance of this infraction by O'Leary Bank, the financial institution received a warning letter and was not subject to fine.

## Unauthorized Entry

### The Claim

French Bank processed an unauthorized CCD transaction.

### Background

- **RDFI Sharp Bank became aware of an unauthorized CCD debit entry to a consumer account in the amount of \$1,255.00 from ODFI French Bank and its Originator, French Bankcard.**
- **Sharp Bank's customer signed a WSUD over two months from the settlement date of the transactions stating it was unauthorized.**
- **Sharp Bank sent a fax to French Bank, requesting it provide Proof of Authorization or Permission to Return the entries.**
- **French Bank responded and provided the contact information for the Originator and met the requirement for corporate proof of authorization.**
- **Sharp Bank again faxed a request for Permission to Return the entries as its customer stated that the transaction was unauthorized.**
- **French Bank responded to the subsequent request and granted permission to return stating that Return Reason Code R06 (Returned per ODFI's Request) be used and the transaction be returned within ten business days.**
- **On the same day, the transaction was returned as R06 (Returned per ODFI's Request).**
- **One week later, the transaction was dishonored as R68 (Untimely Return).**
- **Sharp Bank reached out to French Bank to determine why the return was dishonored when permission was granted.**
- **French Bank stated that it had fulfilled its obligation under the Nacha Operating Rules by providing the Originator contact information upon request and had changed its mind about providing permission to return the item.**
- **Sharp Bank reached out to the ODFI via email to attempt to remedy the issue without receiving a response from the French Bank.**
- **Sharp Bank filed a violation citing Subsection 2.13.6.1 Dishonor of Return by ODFI.**

### **Nacha/Panel Conclusion**

- **The issue was determined to not be a violation since the Rules do not state that once the ODFI provides permission to return, that the decision is binding or final.**
- **Sharp Bank was advised to make a warranty demand against French Bank to recoup the funds related to the unauthorized transaction.**

## Commercially Reasonable Fraud Detection for Micro-Entries

### The Claim

**BWGR initiated an excessive number of micro-entries to invalid accounts.**

### Background

- **RDFI Creed Savings & Loan received over 2,700 invalid micro-entry transactions to three accounts from ODFI BWGR Bank and its Originator, Havern Billing.**
- **Creed Savings had been receiving thousands of fraudulent/invalid transactions containing an Entry Description "ACCTVERIFY".**
- **The transactions were returned as R03 (No Account/Unable to Locate Account) or R04 (Invalid Account Number Structure).**
- **After unsuccessfully addressing this issue directly with the ODFI and its Originator, a rules violation was filed.**
- **BWGR Bank acknowledged the violation and stated that several attempts had been made to resolve the underlying issue:**
  - **Maintained a comprehensive set of risk controls during onboarding process.**
  - **Implemented limits on the bank add and usage at various levels.**
  - **Blocked email domains commonly exploited by fraudsters.**
  - **Implemented daily monitoring to assist with identifying and deactivating fraudulent accounts that bypass controls.**
  - **Implemented robust internal monitoring systems specifically designed for anomaly detection related to high-velocity micro-entries.**
  - **Created a dedicated team to investigate and ascertain the nature and extent of anomalies detected.**
  - **Blocked routing numbers being targeted by fraudsters.**
  - **Deployed two major risk controls which significantly reduced the number of fraudulent bank additions from double digits to single digits.**
  - **Set up a scanner and deactivated threats daily.**
  - **Worked on developing a long-term solution which is a model-driven payment instrument validation service. This would dynamically enable the ODFI to control these types of risks.**
  - **Finally, disabled the micro-entries and implemented a new commercial account verification system to verify bank account details.**

### **Nacha/Panel Conclusion**

- **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the RDFI.**

### **Fine**

- **A fine of \$5,000 was imposed against BWGR Bank.**

## Entries to Invalid Accounts

### The Claim

Holt Bank initiated entries to closed and invalid accounts.

### Background and Nacha/Panel Conclusion

- **RDFI Gates Savings began receiving transactions to closed accounts from ODFI Holt Bank and its Originator Payments Potential Inc.**
- **Gates returned the transactions as R02 (Account Closed).**
- **When the issue continued to occur, Gates filed a rules violation against Holt Bank.**
- **The ODFI acknowledged the rule violation and stated:**
  - **The account number had been changed and no new origination would be occurring to the closed account.**
- **As this was a first recurrence of this type of infraction, Holt Bank was subject to a fine between \$0 and \$1,000.**
- **The ACH Rules Enforcement Panel reviewed the issue and imposed a fine of \$1,000.**
- **Gates continued to receive entries from Holt Bank and its Originator, Payments Potential Inc., that were being initiated to either closed accounts or to accounts that could not be located at the RDFI. Entries were all returned as R02 (Account Closed), R03 (No Account/Unable to Locate Account), or R04 (Invalid Account Number Structure).**
- **As the issue continued, Gates filed multiple violations resulting in Holt Bank receiving Notices of Possible Fine citing 2<sup>nd</sup> through 4<sup>th</sup> recurrences of the same rules infraction involving the same Originator.**
- **Holt Bank acknowledged each of the violations stating it would resolve the issue either by correcting the account information or deactivating the account so there would be no further ACH originations.**
- **As the violation occurrences escalated, the fines did as well.**
- **2<sup>nd</sup> Recurrence: \$2,500 fine.**
- **3<sup>rd</sup> Recurrence: \$5,000 fine.**
- **The most recent violation involving this infraction resulted in the ACH Rules Enforcement Panel imposing a fine of \$7,500.**

## **Failure to Perform ACH Rules Compliance Audit**

### **The Claim**

**Aldean Bank failed to provide proof of ACH Rules compliance audit for its Third-Party Sender.**

### **Background**

- **During Nacha's quarterly ACH Rules Compliance Audit outreach, ODFI Aldean Bank was requested to provide proof of its Third-Party Sender's (Aerial Management Solutions) annual ACH compliance audit as outlined in the Nacha Operating Rules, Article One, Subsection 1.2.2 (Audit of Rules Compliance).**
- **Aldean Bank responded to this request and indicated that Aerial Management Solutions could not provide proof that it performed an ACH Rules compliance audit for the prior year.**
- **Failing to perform an annual audit constitutes a Class 2 violation of the Nacha Operating Rules, so Aldean Bank received a Notice of Possible Fine related to this violation.**
- **Aldean Bank acknowledged the violation and stated:**
  - **Aerial Management Solutions had purchased a self-audit guide to complete the required ACH compliance audit by the end of the year.**
  - **The bank sends annual communications to all Third-Party Senders advising them of their obligations under the rules, including the requirement to complete annual audits.**

### **Nacha/Panel Conclusion**

- **The financial institution had committed a Class 2 rules violation.**

### **Fine**

- **A fine of \$5,000 was imposed against Aldean Bank.**

## **Improper Formatting of Reinitiated Entries**

### **The Claim**

Miranda Bank received a violation for formatting reinitiated entries incorrectly.

### **Background**

- **RDFI Fox Savings & Loan filed a rules violation against ODFI Miranda Bank after receiving a reinitiated Entry that was improperly formatted.**
- **Fox Savings & Loan cited Article Two, Subsection 2.13.4.2 (Formatting Requirements for Reinitiated Entries) and stated in its violation submission:**
  - **RETRY PYMT was not included in the Company Entry Description.**
- **Miranda Bank acknowledged the violation and stated:**
  - **Its Originator would implement a process to prevent future occurrences of this issue.**
- **As this was the first instance of this infraction by Miranda Bank, the financial institution received a warning letter that was not subject to a fine.**
- **Fox Savings & Loan received a *subsequent* reinitiated Entry from Miranda Bank that was also improperly formatted.**
- **In its subsequent violation submission, Fox Savings & Loan again cited 2.13.4.2 (Formatting Requirements for Reinitiated Entries) and stated:**
  - **Contents of the Company Identification field were not identical to that of the original Entry as specified in the Nacha Operating Rules.**
- **Miranda Bank acknowledged this violation as well and stated:**
  - **Its Originator would implement system enhancements and merchant education to ensure Nacha requirements for reinitiated entries were met.**
- **Violations continued to be submitted related to the same rules infraction with the ODFI providing the same response, resulting in the 1<sup>st</sup> through 4<sup>th</sup> recurrences of a rules violation.**

### **Nacha/Panel Conclusion**

- **It had the option to fine between \$0 and \$1,000 for the first recurrence, between \$0 and \$2,500 for the second recurrence, between \$0 and \$5,000 for the third recurrence and \$0 and \$100,000 per month until the problem causing the fourth recurrence was resolved – which is a Class 2 rule violation.**

## **Fine**

- **A combined fine of \$15,000 for the 1<sup>st</sup> through 4<sup>th</sup> recurrences was imposed against Miranda Bank.**

## **Failure to Register Contacts in Contact Registry**

### **The Claim**

**Levy Bank failed to register its contacts in Nacha's Contact Registry.**

### **Background**

- **Levy Bank received a Notice of Possible Fine citing a Class 2 rules violation of Article One, Subsection 1.14 (Participating DFI Contact Registration), for failing to register its contact information in Nacha's Contact Registry, which was to be completed by October 30, 2020.**
- **Levy Bank acknowledged the violation stating:**
  - **Mandatory and secondary contacts have been added to the mandatory categories in the Contact Registry.**
  - **The registration was completed after receiving the violation notification from Nacha.**
  - **Staff had been trained to update contacts as staff changes occur.**

### **Nacha/Panel Conclusion**

- **As the overall goal is compliance with the rule, the fine amount should reflect that.**
- **The financial institution had committed a Class 2 rules violation.**

### **Fine**

- **A fine of \$1,000 was imposed against Levy Bank.**

## **Failure to Register Third-Party Sender Status**

### **The Claim**

**SDF Bank failed to register its Third-Party status in Nacha's Risk Management Portal.**

### **Background**

- **SDF Bank received a Notice of Possible Fine citing a Class 2 rules violation of Article Two, 2.18.3 (Third-Party Sender Registration), for failing to register its Third-Party Sender status with Nacha, which was to be completed by March 1, 2018.**
- **SDF Bank acknowledged the violation stating:**
  - **Management was unaware of the rule to register its Third-Party Sender status.**
  - **The registration had been completed.**

### **Nacha/Panel Conclusion**

- **As no other financial institution or consumer was impacted by this violation, and the overall goal is compliance with the rule, the fine amount should reflect that.**
- **The financial institution had committed a Class 2 rules violation.**

### **Fine**

- **A fine of \$1,000 was imposed against SDF Bank.**

## ODFI Must Accept a Contested Dishonored Return Entry

### The Claim

McNamara Bank did not accept a contested dishonored return entry.

### Background

- McNamara Bank and its Originator, Alcock Automotive, originated a WEB debit for \$1,350.
- RDFI Carroll Valley Bank returned the Entry as R01 (Insufficient Funds).
- McNamara Bank dishonored the R01 as R67 (Duplicate Return).
- Carroll Valley Bank contested the dishonored R67 return as R75 (Return Not a Duplicate).
- McNamara Bank returned the contested dishonored return as R06 (Returned per ODFI's Request) and included Duplicate Return in the addenda.
- Carroll Valley Bank returned the R06 as R61 (Misrouted Return).
- McNamara Bank again dishonored the return as R67 (Duplicate Return).
- Carroll Valley Bank again contested the dishonored R67 return as R75 (Return Not a Duplicate).
- McNamara Bank again returned the contested dishonored return as R06 (Returned per ODFI's Request) and included Duplicate Return in the addenda.
- Through the return process, Carroll Valley Bank was unable to get McNamara Bank to accept the contested dishonored return, which is required by the Nacha Operating Rules, so the RDFI filed a violation citing Article Two, Subsection 2.13.6.3 (ODFI Must Accept a Contested Dishonored Return Entry).
- McNamara Bank acknowledged the violation and stated:
  - Alcock Automotive is a large customer who has an extended warehouse of items in its system.
  - The issue is due to the volume of returns received by the client.
  - Due to the long warehouse of items, the par/trace numbers roll or repeat.
  - This is a known systemic issue where the system will flag an item as duplicate when it is not, and items are dishonored in error.
  - McNamara Bank is working to train staff to view each duplicate more carefully to avoid any issues going forward.

### **Nacha/Panel Conclusion**

- **As this was the first instance of this infraction by McNamara Bank, the financial institution received a warning letter and was not subject to fine.**

## **Failure to Perform ACH Rules Compliance Audit**

### **The Claim**

**Moore Bank failed to provide evidence of its annual ACH compliance audit.**

### **Background**

- **During Nacha's quarterly ACH Rules Compliance Audit outreach, RDFI Moore Bank was asked to provide evidence of its annual ACH compliance audit as required by the Nacha Operating Rules, Article One, Subsection 1.2.2 (Audit of Rules Compliance).**
- **Moore Bank responded, stating it could not provide proof because it had not conducted an annual ACH Rules compliance audit in the past four years.**
- **The failure to conduct an annual audit is classified as a Class 2 violation of the Nacha Operating Rules, resulting in Moore Bank receiving a Notice of Possible Fine.**
- **Moore Bank acknowledged the violation and indicated:**
- **An audit was scheduled to be completed within the next two months, and the bank planned to resume its annual audit schedule.**
- **The ACH Rules Enforcement Panel concluded:**

### **Nacha/Panel Conclusion**

- **The institution had committed a Class 2 rules violation.**

### **Fine**

- **A fine of \$5,000 was imposed against Moore Bank.**

## **Respond to ODFI Request for Return**

### **The Claim**

Ventura Bank failed to respond to the ODFI's request for return.

### **Background**

- **Greene Savings & Loan filed a rules violation against Ventura Bank after the RDFI failed to respond to the ODFI's request for return.**
- **Greene Bank cited Article Three, Subsection 3.8.6 (Response to ODFI Request for Return) and stated in its violation submission:**
  - **Two requests for return had been submitted to Ventura Bank without response.**
- **Ventura Bank acknowledged the violation and stated:**
  - **It had engaged a vendor to build a tracking system for email and faxes to ensure delivery to the ACH team.**
  - **Until the automated process was completed, a manual process would be implemented.**

### **Nacha/Panel Conclusion**

- **As this was the first instance of this infraction by Ventura Bank, the financial institution received a warning letter that was not subject to a fine.**

## Unauthorized Entries to Receiver Accounts

### The Claim

Ventura Bank failed to respond to the ODFI's request for return.

### Background

- Carpenter Bank became aware of several hundred unauthorized WEB debit entries to consumer accounts from Warner Bank and its Originator, Hopper Industries.
- Carpenter Bank stated:
  - It attempted to resolve the on-going issue with the ODFI prior to reporting the violation.
  - Individual Names included in the transactions did not match those of the account holders.
  - Customers were closing accounts due to the fraudulent debit activity.
  - Additional monitoring had to be put into place to verify Hopper Industries' transactions to ensure valid debits flowed through successfully.
  - The transactions were received within a three-month period.
- After unsuccessfully addressing this issue directly with the ODFI, a rules violation was filed.
- Carpenter Bank's violation submission cited Article Two, Subsection 2.3.2.2 (Debit Entries to Consumer Accounts).
- Warner Bank denied the rules violation and stated:
  - The data provided by Hopper Industries demonstrated the following:
    - Full compliance with all Nacha authorization requirements.
    - An unauthorized transaction rate below the 0.5% level established by the Nacha Operating Rules.
    - Authorizations that met all required elements specified in Subsection 2.3.2.2.
      - Each element is addressed through a combination of the User Agreement accepted by customers at the time of account creation, the specific authorization actions taken during bank account linkage, and the customer authorization obtained at the time of each individual transaction.
  - The following account confirmation methods were used:
    - Micro deposits.
    - Instant account verification through account opening.

- **Based on Hopper Industries' account history.**
- **Based on bank account history.**

### **Nacha/Panel Conclusion**

- **Nacha refuted Warner Bank's denial based on:**
  - **Nacha enforces the unauthorized entry rule even if the ODFI and Originator are below the 0.50% unauthorized entry return rate level.**
  - **The ODFI warrants that every ACH entry initiated is properly authorized by the Receiver (account holder).**
- **The ACH Rules Enforcement Panel determined:**
  - **The ODFI had committed a Class 2 rules violation due to the excessive harm caused to the RDFI.**

### **Fine**

- **A fine of \$10,000 was imposed against Warner Bank.**

## **Entries to Invalid Accounts**

### **The Claim**

**Crandle Bank initiated entries to closed and invalid accounts.**

### **Background**

- **Busman Bank had been receiving numerous transactions to invalid accounts from Crandle Bank and its Originator Payments Potential Inc., for over two years.**
- **The transactions were being initiated to either closed accounts or accounts that could not be located at the RDFI.**
- **All entries were returned as R02 (Account Closed), R03 (No Account/Unable to Locate Account), or R04 (Invalid Account Number Structure).**
- **As the issue continued, Busman filed multiple violations resulting in Crandle Bank receiving a Notice of Possible Rules Violation and multiple Notices of Possible Fine citing 1<sup>st</sup> through 6<sup>th</sup> recurrences of the same rules infraction involving the same Originator.**
- **Crandle Bank acknowledged each of the violations stating that the following changes would be made to prevent future violations:**
  - **It would resolve the issue either by correcting the account information or deactivating the account so there would be no further ACH originations.**
  - **Closed merchant accounts would remain closed until updated banking information was obtained.**
  - **The analytics team would develop automated reporting to identify repeat offenders.**
  - **Changes would be made to the business model to increase automated contact attempts to the merchant.**
  - **Continued closure of merchant accounts no longer in use.**
  - **Monthly mass emails via the client communications team to the line of business would be implemented.**
- **The ODFI's most recent response stated:**
  - **Due to an internal miscommunication following the initial deactivation of the merchant in question, the merchant was temporarily reactivated using outdated bank account information. The error has since been corrected. The previous merchant bank account has been deactivated, and a new account has been properly established.**

### **Nacha/Panel Conclusion**

- **For each violation, the ACH Rules Enforcement Panel found Cradle Bank to be in violation of the Nacha Operating Rules and imposed a fine.**

### **Fine**

- **As the number of violations increased, so did the fines.**
  - **1st Recurrence: \$1,000 fine.**
  - **2nd Recurrence: \$2,500 fine.**
  - **3rd Recurrence: \$5,000 fine.**
  - **4th Recurrence: \$7,500 fine.**
  - **5th Recurrence: \$10,000 fine.**
- **The latest violation (6th recurrence) led the ACH Rules Enforcement Panel to impose a \$20,000 fine.**

## Section 2

# Arbitration Case Studies

# Arbitration Claim Checklist

- Identification of Parties
- Summary of Facts
- Statement of Damages
- Supporting Documentation
- Filing Fee to Nacha

**Contact Nacha's compliance department to discuss your possible case!**

## How do I submit an Arbitration case?

**Submit online:** <https://www.nacha.org/violation>  
(preferred method)

**Email:** [Nacha-Ntwrk-Compliance@Nacha.org](mailto:Nacha-Ntwrk-Compliance@Nacha.org)

**Fax:** 703-561-0819

**Mail:**  
Nacha  
Compliance Department  
11951 Freedom Drive, Suite 1001  
Reston, VA 20190



## Arbitration FAQ

**Q:** Who can file an arbitration claim?

**A:** An arbitration claim is filed by a financial institution against another financial institution.

**Q:** How much does it cost to file an arbitration claim?

**A:** The filing fee is \$250.

**Q:** Is arbitration effective?

**A:** Yes! It's a cost-effective alternative to taking another financial institution to court when money has been lost due to rules infractions.

**Q:** What is the difference in filing a violation and filing an arbitration claim?

**A:** The focus of a traditional violation is to resolve the underlying issue causing the rules infraction. No money is recouped as part of the process. Arbitration allows a financial institution that has lost money due to another financial institution's actions to have its case adjudicated and monetary damages considered and awarded.

**Q:** How many arbitrators will be on a particular case?

**A:** The number of arbitrators on a case is dependent on the amount of damages claimed.

- \$10,000 or less – 1 Arbitrator
- \$10,000 - \$50,000 – 3 Arbitrators
- \$50,000+ 3 Arbitrators

**Q:** Is a hearing held?

**A:** This only applies to Procedure C Cases (\$50,000+ in damages). A hearing will be held unless both parties agree to not have one.

## **Breach of Warranty / Failure to Provide Copy of WSUD**

### **The Claim**

**K&G Bank submitted an arbitration claim against B&B Bank citing breach of warranty for an extended return entry.**

### **Arbitration Case Background**

- **K&G Bank claimed the following:**
  - **K&G's Originator, Vacation Express, transmitted an authorized debit to its customer at B&B Bank on April 7<sup>th</sup>**
  - **B&B Bank returned the transaction R10 (Unauthorized) on May 20<sup>th</sup>**
  - **K&G Bank requested a copy of the Written Statement of Unauthorized Debit (WSUD) on June 1<sup>st</sup> and again on June 15<sup>th</sup>**
  - **B&B Bank did not respond to either request**
- **Since the damages claimed in this case were in excess of \$10,000, it was classified as an Arbitration Procedure B case and included three arbitrators.**
- **The arbitrators were provided with documentation from both the complainant and the respondent, which included:**
  - **Summary of the events.**
  - **Proof of request of WSUD.**
  - **Voice recording of the Receiver's authorization.**
  - **WSUD.**

### **Arbitrators' Decision**

- **After extensive review and discussion of the material, the arbitrators determined the following:**
  - **Even though B&B Bank failed to provide a copy of the WSUD upon request, B&B Bank had obtained a WSUD from its client.**
  - **K&G Bank, as the ODFI, was in breach of warranty itself since the documentation and the voice recording of the authorization proved its Originator was not in compliance with the Rules:**
    - **The transaction was submitted as a PPD, when it should have been a TEL.**
    - **The recorded authorization did not contain the minimum information required by the Rules.**

- **Circumstances surrounding the transaction and the Originator’s subsequent bankruptcy filing were suggestive of possible fraudulent activity.**

### **Award of Damages**

- **Based on these facts, the arbitrators’ decision was:**
  - **B&B Bank would reimburse K&G Bank the \$250 arbitration filing fee and pay the arbitrators’ stipend since they did violate the Rules by not providing a copy of the WSUD and there wouldn’t have been a case to file had they provided K&G Bank with the WSUD as requested.**
- **B&B Bank would *not* be held responsible for the \$10,500 transaction since K&G Bank, as the ODFI, is required to provide general indemnity and therefore would be responsible for its Originator’s entry.**

## **Breach of Warranty / Failure to Provide Copy of WSUD / Untimely Return**

### **The Claim**

**Bonham Bank submitted an arbitration claim against Scout Bank citing breach of warranty for an extended return entry and untimely return.**

### **Arbitration Case Background**

- **Bonham Bank claimed:**
  - **Bonham Bank's Originator, Seadog Cruises, transmitted an authorized PPD debit to Scout Bank's customer on April 9<sup>th</sup>.**
  - **Scout Bank's return of the transaction as R07 (Authorization Revoked by Customer) on June 9<sup>th</sup> was untimely.**
  - **Bonham Bank requested a copy of the Written Statement of Unauthorized Debit (WSUD) on June 12<sup>th</sup>.**
  - **Scout Bank failed to respond to the request.**
- **As the damages claimed were less than \$10,000, the case was classified as an Arbitration Procedure A case and included one arbitrator.**
- **The arbitrator was provided with documentation from both the complainant and the respondent:**
  - **Summary of events (ODFI).**
  - **Proof of request for WSUD.**
  - **Voice recording of the Receiver's authorization.**
  - **Response to claim (RDFI).**
  - **WSUD.**

### **Arbitrator's Decision**

- **After extensive review and discussion of the case material, the arbitrator determined:**
  - **Scout Bank was in violation of the Rules for failing to provide a copy of the WSUD upon request; however, Scout Bank had complied with the Rules by obtaining a WSUD from its client.**
  - **Scout Bank had returned the transaction in question within the allowable timeframe.**
- **Bonham Bank, as the ODFI, was in breach of warranty itself since it:**

- 1. Allowed the origination of a transaction for which authorization had been revoked, and**
- 2. The transaction in question was submitted as a PPD, whereas the recording of the consumer's oral authorization demonstrated that it should have been a TEL.**

### **Award of Damages**

- Based on these facts, the arbitrator's decision was to assign 100% of the responsibility to Bonham Bank, to include the \$250 arbitration filing fee and the \$100 arbitrator's stipend.**
- Bonham Bank still had the right to file a rules violation against Scout Bank for failure to provide a copy of the consumer's written statement.**

## **Improper Reversal**

### **The Claim**

Ross Bank submitted an arbitration claim against Struthers Bank citing improper reversal.

### **Arbitration Case Background**

- **Ross Bank claimed the following:**
  - **Its customer received a PPD credit for remittance of an invoice in the amount of \$5,196 with a settlement date of August 12<sup>th</sup>.**
  - **Its customer received a reversing PPD debit in the amount of \$5,196 with a settlement date of August 18<sup>th</sup>.**
  - **Its customer was not notified of the reversing entry.**
  - **A representative of Struthers Bank told Ross Bank that the reason for the reversal was due to a Third-Party Sender's failure to receive funding from the Originator.**
- **Since the damages claimed in this case were less than \$10,000, it was classified as an Arbitration Procedure A case and included one arbitrator.**
- **The arbitrator was provided with documentation from both the complainant and the respondent, which included a:**
  - **Summary of the events.**
  - **Recorded voicemail from Struthers Bank stating the reason for the reversal was a failure to fund.**

### **Arbitrator's Decision**

- **After extensive review of the material, the arbitrator determined:**
  - **Struthers Bank had violated the Rules for reversing an entry for a reason other than those specified in the Nacha rules.**
  - **Struthers Bank's response stated that the reason for the reversal was valid since the transaction in question was not intended for the Receiver.**
  - **However, Struthers Bank's response did not address or correct the information provided in the voicemail recording where a representative from their financial institution clearly states that the reason for the reversal was failure to fund.**

## Award of Damages

- **Based on these facts, the arbitrator's decision was:**
  - **Struthers Bank would reimburse Ross Bank the amount of the transaction (\$5,196), the amount of the arbitration filing fee (\$250) and pay the arbitrator's stipend (\$100).**

## Unauthorized Entries

### The Claim

Carr's Credit Union submitted an arbitration claim against Sylvan Bank citing unauthorized entries.

### Arbitration Case Background

- Carr's Credit Union claimed the following:
  - Its customer was a victim of identity theft and had received four unauthorized WEB debits, each in the amount of \$1,815.
  - Two Entries were within the 60-day extended return timeframe and were returned as R10 (Unauthorized).
  - As the other two Entries were outside the 60-day extended return timeframe, Carr's Credit Union sent Sylvan Bank a request for permission for late return, along with a copy of its customer's Written Statement of Unauthorized Debit (WSUD).
- Sylvan Bank denied permission to return the two items stating:
  - Its Originator, Bartle Inc., had properly authenticated the customer and obtained proper authorization for the transactions.
  - This was an existing customer who had initiated similar transactions in the past via Bartle's website.
- Since the damages claimed in this case were less than \$10,000, it was classified as an Arbitration Procedure A case and included one arbitrator.
- The arbitrator was provided with documentation from both the complainant and the respondent, which included a:
  - Summary of the events.
  - Correspondence, copies of WSUDs, proof of authorization, screen shots of the Originator's authentication process, transaction logs and the police report related to the identity theft.

### Arbitrator's Decision

- After extensive review of the material, the arbitrator determined:
  - Sylvan Bank was aware of the identify theft and did not provide additional research or follow-up to Carr's Credit Union
  - Bartle Inc.'s authentication process requires further review by Sylvan Bank as some of the validation components are questionable:

- **Account Created Date was a date after the dates of the transactions in dispute.**
- **IP Address was inconsistent between the transactions provided as examples.**
- **Two of the validation elements that one would expect to be “true” for accurate authentication were set to “false.”**
- **Sylvan Bank did not take appropriate action to confirm that the transactions were properly authorized and fulfill their obligation as an ODFI in the ACH Network**

### **Award of Damages**

- **Based on these facts, the arbitrator’s decision was:**
  - **Sylvan Bank would reimburse Carr’s Credit Union the amount of the two transactions (\$3,630), the amount of the arbitration filing fee (\$250 and pay the arbitrator’s stipend (\$100).**

## **Improper Posting**

### **The Claim**

Wise Bank submitted an arbitration claim against Sherman Bank claiming that it had violated the rules related to the posting of entries to the Receiver's account (Article Three, Section 3.1.2 - RDFI May Rely Solely on Account Numbers for Posting of Entries).

### **Arbitration Case Background**

- **Wise Bank stated the following:**
  - Its Originator, Renner Inc., initiated a PPD credit to a Receiver at Sherman Bank
  - Renner Inc., contacted Wise Bank after being notified by its Receiver that they had not received the credit.
  - Wise Bank contacted Sherman Bank to verify receipt and posting of the deposit.
- **Sherman Bank verified that it had posted the credit, as follows:**
  - When the entry was received, it contained a 14-digit account number.
  - Since Sherman Bank's system only accepts 10-digit account numbers, Sherman Bank truncated the account number by dropping the first four digits.
  - The entry was posted to the account that matched the remaining 10 digits.
- **Wise Bank requested, in writing, that Sherman Bank return the funds since they were credited to the wrong account.**
- **Sherman Bank responded and stated that the funds were not available in the erroneous account and was unable to return the deposit.**
- **Wise Bank argued that since the account number did not meet Sherman's account number structure, Sherman Bank should have returned the entry as R04 – Invalid Account Number instead of altering and posting the credit to a different account at the financial institution.**
- **Since the damages claimed in this case were less than \$10,000, it was classified as an Arbitration Procedure A case and included one arbitrator.**
- **The arbitrator was provided with documentation from both the complainant and the respondent, which included:**
  - A summary of events.
  - Correspondence.

### **Arbitrator's Decision**

- **After extensive review of the material, the arbitrator determined:**
  - **Wise Bank sent a prenote Entry to Sherman Bank with a 14-digit account number, which Sherman Bank was required to have validated.**
  - **Article Three, Section 3.5 states: “An RDFI that receives a Prenotification Entry must verify that the account number contained in the Prenotification is for a valid account. If the Prenotification does not contain a valid account number, or is otherwise erroneous or processable, then the RDFI must Transmit either a) a Return Entry, or b) a Notification of Change.”**
  - **Sherman Bank did not transmit a Return Entry or a Notification of Change Entry to Wise Bank upon receipt of the prenote Entry.**
  - **Wise Bank subsequently sent a live transaction with a 14-digit account number - an ACH Credit Entry for \$2,100 - to Sherman Bank.**
  - **Sherman Bank manipulated the account number due to its processing system restrictions, which caused the credit to be posted to an unintended receiver.**
  - **Sherman Bank did not appear to reach out to its account holder who had received the unintended credit for \$2,100.**
  
- **Based on these facts, the arbitrator’s decision was in favor of the submitter, Wise Bank, because:**
  - **Sherman Bank did not transmit a Return Entry or Notification of Change after receiving the prenote Entry.**
  - **Sherman Bank did not post the transaction to the account number as received in the incoming transaction.**

### **Award of Damages**

- **Sherman Bank would reimburse Wise Bank the amount of the transaction (\$2,100), the amount of the arbitration filing fee (\$250) and pay the arbitrator’s stipend (\$100).**

## Unauthorized Entries

### The Claim

Windham Bank submitted an arbitration claim against Thomas Bank citing unauthorized entries.

### Arbitration Case Background

- Windham Bank claimed the following:
  - Its customer had received 11 fraudulent WEB debit transactions totaling \$4,100.00.
  - After obtaining a Written Statement of Unauthorized Debit from its customer, Windham Bank contacted Thomas Bank, requesting permission to return the debits since the 60-day extended return time frame had expired.
  - Thomas Bank did not address the permission to return request; instead, it provided proof of authorization to Windham Bank.
  - Windham's customer reviewed the authorization document and established that he did not recognize the name of the person that authorized the transactions, nor was this person an authorized signer on the account.
  - Windham Bank again contacted Thomas Bank and stated that the transactions were fraudulent and requested permission to return the debits.
  - Thomas Bank responded by stating that it would not honor the request to return the transactions late and that the Receiver should have been monitoring his account better in order to detect and prevent misuse of the account.
- Since the total damages in this case were less than \$10,000, it was classified as an Arbitration Procedure A case and included one arbitrator.
- The arbitrator was provided with documentation from the complainant. The respondent, Thomas Bank, chose not to provide a response to the claim.

### Arbitrator's Decision

- After extensive review of the documentation, the arbitrator found in favor of the complainant, Windham Bank and determined:
  - Thomas Bank, as the ODFI warrants that ACH transactions placed into the Network are properly authorized as outlined in Section 2.4 (specifically, Subsection 2.4.1.1 The Entry is Authorized by the Originator and Receiver and Subsection 2.4.5.1 Indemnity for Breach of Warranty).

## **Award of Damages**

- **Thomas Bank was required to reimburse Windham Bank the amount of the transactions (\$4,100), the investigation/documentation costs (\$440) and the amount of the arbitration filing fee (\$250). It was also required to pay the arbitrator's stipend (\$100).**

## Entries to Invalid Accounts

### The Claim

- Oak Hill Bank (RDFI) submitted an arbitration claim against Charleston Bank (ODFI) stating that the ODFI violated the rules related to Article Two, Subsection 2.4.1.4 – The Entry Contains Required Information.

### Arbitration Case Background

- Oak Hill Bank stated the following:
  - Charleston Bank and its customer, Payments4You, transmitted a WEB debit in the amount of \$6,850 to a closed account at Oak Hill Bank.
  - Oak Hill Bank returned the entry in a timely manner as R02 (Account Closed).
  - Two banking days later, Oak Hill Bank received an additional WEB debit in the amount of \$6,850 to the same account number from Charleston Bank and its Originator, Payments4You.
  - Oak Hill Bank also returned this debit as R02 (Account Closed) but was late in transmitting the return.
  - Charleston Bank dishonored the late return as R68 (Untimely Return).
  - Oak Hill Bank reached out in writing to Charleston Bank requesting permission to return the entry and explaining the account in question has been closed for five years.
  - Charleston Bank denied the request for late return, stating its Originator would not accept the RDFI's request since the return Entry was received a week outside the Nacha return timeframe.
  - Oak Hill Bank felt that the ODFI's warranty of the transaction should supersede the late return.
- Upon receipt of the arbitration claim, Charleston Bank responded and stated:
  - The user had an active account with Payments 4You and at the time the account was established, the bank account at Oak Hill Bank was validated via micro deposits.
  - Even though the first transaction for \$6,850 was returned as R02 (Account Closed), the subsequent transaction for the same amount, to the same account had already been transmitted.
  - The RDFI, Oak Hill Bank, has an obligation to process returns in a timely manner.
  - The Originator, Payments 4You, refused to accept the late return because it was one week past the return deadline.
  - Since the RDFI was not timely with the return, Payments 4You had already made the funds available to its customer.
  - The Payments4U's customer's account no longer had the funds to be recovered and sent to the RDFI, thus, honoring this late return would result in the Originator taking a loss.

- **Since the damages claimed in this case were less than \$10,000, it was classified as an Arbitration Procedure A case and included one arbitrator.**
- **The arbitrator was provided with documentation from both the complainant and the respondent, which included:**
  - **A summary of events.**
  - **Correspondence.**

### **Arbitrator's Decision**

- **After extensive review of the material, the arbitrator determined:**
  - **The RDFI returned the second debit late and failed to obtain permission for the late return from the ODFI prior to the return of the debit.**
  - **Even though Payments 4You's customer was an active customer, the Originator was using a funding account at Oak Hill Bank that had not been used in several years. The Originator's customer had several funding accounts on file.**
  - **When the Originator was unavailable to provide funds availability for the first transfer that was returned as R02 (Account Closed), this should have prompted a review of the subsequent transaction.**
  - **Based on the sequence of events, funds from the second transfer were released to Payment4U's customer five days after the Payments4U was notified of the return of the first transfer. Payments4U would have been within its rights to withhold funds availability from its customer for the second transfer, knowing that the first transfer failed due to the account being closed.**
  - **Both financial institutions could have prevented the dispute and both bear potential responsibility.**
  - **While the RDFI failed to return the entry in a timely manner, this does not negate the ODFI's warranty to originate to valid, open accounts.**

### **Award of Damages**

- **Charleston Bank would refund the amount of the debit transaction (\$6,850) to Oak Hill Bank.**
- **Oak Hill Bank would be responsible for the amount of the arbitration filing fee (\$250) and pay the arbitrator's stipend (\$100).**

## Untimely Contested Dishonored Return

### The Claim

- Armada Bank (ODFI) submitted an arbitration claim against Premium Bank (RDFI) stating that the RDFI violated the rules related to Article Three, Subsection 3.8.5.2 – RDFI May Contest Dishonored Returns.

### Arbitration Case Background

- Armada Bank stated the following:
  - It's Originator, Pointer Molding initiated a credit to its vendor, Willow Plastics in the amount of \$24,680.
  - The next day:
    - Pointer Molding was alerted that bank account information had changed for Willow Plastics.
    - Immediately generated a reversal on the credit believing the ACH Entry was erroneously sent to an incorrect account.
- Pointer Molding initiated a new credit to Premium Bank as this is where Willow Plastics purportedly had set up their new account.
- Shortly after initiating the new credit to Premium Bank, Pointer Molding learned that Willow Plastics had been a victim of Business Email Compromise (BEC) and the new account information used to reissue payment was fraudulent.
- Pointer Molding was instructed by its ODFI to initiate a reversal to Premium Bank because the credit entry was sent to an account they mistakenly believed belonged to their vendor, Willow Plastics.
- Pointer Molding was also advised of to file a fraud complaint on the FBI's internet crime complaint center: <https://www.ic3.gov>.
- Premium Bank returned the reversal timely as R16 (Account Frozen/Entry Returned Per OFAC Instruction).
- Armada Bank dishonored the return timely as R62 (Return of Erroneous Reversing Entry).
- Premium Bank contested the dishonored return *untimely* as R77 (Non-Acceptance of R62 Dishonored Return)
- It was Armada Bank's belief that the RDFI's untimely return of the dishonored return caused the ODFI to take a loss of almost \$25,000.
- Armada's statement of damages included:
  - Credit Entry amount: \$24,680.
  - Reimbursement of arbitration filing fee: \$250.

- A request that Premium Bank pay the arbitrator's stipends (one percent of the arbitrator's decision).
- The damages claimed in this case were more than \$10,000, so it was classified as an Arbitration Procedure B case and included three arbitrators.
- Both the complainant and the respondent submitted documents outlining their perspectives to the arbitrators.

### Arbitrator's Decision

- The arbitrators had thirty days to render their decision and found in favor of the RDFI, Premium Bank.
- The arbitrators' decision was based on the following:
  - The use of a Reversal was improper in this situation as the circumstances did not meet the criteria for a reversal as outlined in Article Two, Subsection 2.10.1 (General Rules for Reversing Entries). A transaction initiated under false pretenses does not qualify as an erroneous entry as Armada Bank claimed.
  - After receiving the R16 return, Armada Bank should have reached out to Premium Bank for further inquiry. Premium Bank explained in its response to the arbitration claim that it only had access to partial funds and under the Nacha rules the exact dollar amount of original entry needed to be returned.
  - Premium's untimely contested dishonored return is immaterial to the loss that Armada's incurred. The loss would be the same even if the contested dishonored return was received timely.
  - The loss occurred when Pointer Molding made the payment to the fraudster's account using information that was not confirmed with its vendor through a separate channel.
  - The ODFI assumes responsibility for authorized entries it initiates, as well as those submitted by its Originator, through the warranties and indemnities established within the ACH Network.

### Award of Damages

- Armada Bank, the complainant, would pay the arbitrator's stipend fees.
- The arbitrators advised Armada bank to work directly with Premium Bank to obtain the partial funds that were available and reimburse Pointer Molding to offset their loss.

## Section 3

# ODFI Return Rate Reporting Case

## Return Rate Threshold & Levels

- **Unauthorized Return Rate Threshold – 0.5%**
- **Administrative Return Rate Level – 3%**
- **Overall Return Rate Level – 15%**

### Return Reason Codes

#### Unauthorized Returns

R05 • R07 • R10 • R11 • R29 • R51

#### Administrative Returns

R02 • R03 • R04

#### Overall Returns

All Return Reason Codes

*(Excludes RCKs)*



## ODFI Return Rate Reporting FAQ

**Q:** Threshold versus level.

**A:** If the unauthorized return rate threshold has been exceeded, this is a violation of the Nacha Operating Rules. If the administrative or overall return rate level(s) have been exceeded, this may trigger an inquiry by the National System of Fines. Exceeding a return rate level is not automatically a violation of the Rules.

**Q:** What is the inquiry process?

**A:** If a financial institution's administrative or overall return rates have exceeded the defined return rate level(s), Nacha may initiate an inquiry. This allows Nacha the opportunity to evaluate an Originator's or Third-Party Sender's ACH activity to determine if additional action is warranted.

**Q:** How are the return rates calculated?

**A:** There are two ways to calculate the return rates:

1. Divide the number of debits returned for the preceding 60 days or two calendar months by the number of
2. Divide the number of debits returned by the number of debits originated for preceding 60 days or two calendar months

**Q:** Are prenotes included in the calculations?

**A:** Yes. Although forward debit and credit prenotes have their own transaction codes, returned prenotes do not. This makes returned prenotes hard to identify for exclusion.

## Unauthorized Return Rate Exceeded

### The Claim

Meech Bank received a request from Nacha's Risk Investigations team to provide return rate data for a specific Third-Party Sender and its Originators. The data provided by Meech Bank revealed:

- The Third-Party Sender had two Originators who had exceeded the unauthorized return rate threshold.
- The Third-Party Sender itself and nine of its Originators individually had exceeded the administrative and overall return rate levels.

### Background

- Meech Bank received notification from Nacha's Risk team to reduce the two Originators' unauthorized return rates within 30 days.
- Further, the reporting related to administrative and overall return rate levels was turned over to the System of Fines to begin the inquiry process.
  - Notices of Inquiry were sent to Meech Bank requesting supplemental information for the Third-Party Sender and each of the nine Originators that had exceeded the return rate levels.
    - This information would allow the ACH Rules Enforcement Panel to review origination and business practices and determine if a directive to reduce the return rate(s) would be required.
- Meech Bank responded to the Risk team with an update regarding its unauthorized return rates:
  - Of the two Originators previously identified as having exceeded the unauthorized return rate threshold.
    - One Originator was successful in reducing its return rate below 0.5% within 30 days.
    - The other Originator was not successful in reducing its unauthorized return rate within 30 days, so the case was forwarded to the System of Fines.
- Meech Bank responded to the Inquiry Notices and stated that it would be terminating its relationship with the Third-Party Sender as it related to a particular line of business. Other than monitoring, no further action was taken by Nacha regarding the administrative and overall return rates.
- Meech Bank responded to the Notice of Possible Fine related to failing to reduce its Originator's unauthorized return rate and stated that after reviewing all the Originator's business practices, the decision had been made to terminate its relationship.

## Fine

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **The ODFI was fined \$10,000 per month until it could prove to Nacha and the Panel that the unauthorized return rate had been reduced below 0.5%.**
- **After being in a recurring fine status for one month, Meech Bank was able to prove that the unauthorized return rate had been successfully reduced and requested that the recurring fine end.**
- **The ACH Rules Enforcement Panel approved Meech Bank's request to be removed from recurring fine status.**

## **Administrative Return Rate Exceeded**

### **The Claim**

Nacha's Risk Investigations team sent a letter to Helmsly Bank regarding the administrative return rate level for its Originator, Garrett, Inc. Helmsly Bank responded to the request and acknowledged that Garrett, Inc. had an administrative return rate of 10.39%. Nacha's Risk team turned the case over to the System of Fines to begin the inquiry process.

### **Background**

- Nacha sent a Notice of Inquiry to Helmsly Bank requesting supplemental information for Garrett, Inc.
- Helmsly Bank's initial response failed to provide adequate information for the ACH Rules Enforcement Panel to make a determination as to whether the rate should be reduced, so the Panel provided staff with specific questions to pose to the ODFI.
- Helmsly Bank responded with additional material related to the origination practices for Garrett, Inc. along with responses to the Panel's questions.

### **Nacha/Panel Conclusion**

- The Panel reviewed and determined that the administrative return rate needed to be reduced, as the number of entries returned due to invalid account information was of concern.
- The Panel sent Helmsly Bank a Directive to Reduce Notice that required Helmsly Bank to respond within 10 banking days with a plan to reduce the return rate within 30 days.
- After 30 days, Helmsly Bank stated that they had implemented a solution, but not enough time had passed to prove its effectiveness.
  - Nacha sent a Notice of Possible Fine to the ODFI citing a Class 2 violation for failing to reduce its Originator's return rate per the Panel's directive.
  - As more time passed, the ODFI was able to prove their solution was successful in reducing the Originator's return rate well below 3.0%.

### **Fine**

- The Panel determined that the ODFI took corrective action and did not impose a fine.

## Unauthorized Return Rate Exceeded

### The Claim

Sheldon Bank received a request from Nacha's Risk Investigations team to provide return rate data for a specific Originator, Luck, Inc. Sheldon responded to the request and acknowledged that Luck, Inc.'s unauthorized return rate was 6.23%.

### Background

- As this rate is well above the 0.5% threshold, Nacha's Risk team sent Sheldon Bank notification to reduce Luck, Inc.'s unauthorized return rate within 30 days.
  - Failure to successfully reduce the return rate at or below 0.5% would result in the case being escalated to the National System of Fines.
- At the end of the 30-day reduction period, Nacha reached out to Sheldon Bank and learned that Luck, Inc.'s unauthorized return rate had been reduced but was not at or below 0.5%.
  - The case was turned over to the National System of Fines.
- Sheldon Bank received a Notice of Possible Fine citing a Class 2 rules violation for failing to reduce its Originator's return rate.
- Sheldon Bank acknowledged the violation and provided both short-term and long-term solutions being implemented that would reduce Luck, Inc.'s unauthorized return rate.

### Fine

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
- The ACH Rules Enforcement Panel reviewed Sheldon Bank's response and imposed a monthly recurring fine of \$5,000 until Luck, Inc.'s return rate was successfully reduced.
- After being in a recurring fine status for 7 months, Nacha reached out to Sheldon Bank to obtain current return rate reporting for Luck, Inc. and to determine if the recently implemented changes were proving to be successful.
- Nacha shared the report with the ACH Rules Enforcement Panel and it was determined that based on the continuing excessively high unauthorized return rate, the recurring fine amount would be increased to \$10,000 per month until Luck, Inc.'s return rate was successfully reduced to 0.5% or below.
- Over the next several months, Nacha continued to work with Sheldon Bank to discuss possible enhancements and solutions that could be implemented that would result in fewer unauthorized returns.

- **After being in a recurring fine status for 23 months, Sheldon Bank contacted Nacha to request that the recurring fine be concluded as it had terminated its relationship with its Originator, Luck, Inc.**
- **The ACH Rules Enforcement Panel approved Sheldon Bank's request to be removed from recurring fine status.**

## **Failure to Respond Completely and Accurately Within the Proper Timeframe**

### **The Claim**

Drew Bank received a request from Nacha's Risk Investigations team to provide return data for a specific Originator, CW Merchant Services. Drew Bank provided a timely response, however, the data included in the response was not complete and it contained inaccurate information.

### **Background**

- **Nacha's Risk team notified Drew Bank that the issue had been turned over to the System of Fines since failing to respond to Nacha's request completely and accurately is considered a Class 2 violation of the Rules.**
- **Drew Bank acknowledged the violation and stated that in its haste to meet the response deadline, it failed to complete the response form and validate the return rate data provided by its Third-Party Sender.**
- **A completed response form with correct unauthorized return rate data was provided to the System of Fines. Drew Bank also stated that based on its Originator exceeding the unauthorized return rate, it had decided to terminate origination services for this customer.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **The ACH Rules Enforcement Panel reviewed Drew Bank's response and imposed a one-time fine of \$5,000.**

## Unauthorized Return Rate Exceeded

### The Claim

Ashburn Bank received a request from Nacha's Risk Investigations team to provide return data for a specific Originator, K & B Billing Services. The data provided by Ashburn Bank revealed that K & B Billing Services had an unauthorized return rate of 0.64%.

### Background

- **As this rate is above the 0.5% threshold, Nacha's Risk team sent Ashburn Bank notification to reduce K & B Billing Service's unauthorized return rate within 30 days.**
  - **Failure to successfully reduce the return rate at or below 0.5% would result in the case being escalated to the National System of Fines.**
- **At the end of the 30-day reduction period, Nacha reached out to Ashburn Bank and learned that K & B Billing Service's unauthorized return rate had actually increased slightly to 0.69% after 30 days.**
  - **The case was turned over to the National System of Fines.**
- **Ashburn Bank received a Notice of Possible Fine citing a Class 2 rules violation for failing to reduce its Originator's return rate.**
- **Ashburn Bank acknowledged the violation and provided a remediation plan. This plan outlined process vulnerabilities that were being addressed, along with promotional offerings that were obviously being misinterpreted by customers of K & B Billing Service and later returned as unauthorized. Resolution to these issues would result in lowering the unauthorized return rate.**
- **Ashburn Bank provided additional return rate reporting to Nacha that proved that the remediation plan had successfully reduced the unauthorized return rate below 0.5%.**

### Fine

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **The ACH Rules Enforcement Panel reviewed Ashburn Bank's response and imposed a one-time fine of \$5,000.**

## Unauthorized Return Rate Exceeded

### The Claim

Slader Capital Bank received a request from Nacha's Risk Investigations team to provide return data for a specific Originator, Quote4You Insurance. The data provided by Slader Capital Bank revealed that Quote4You Insurance had an unauthorized return rate of 1.07%.

### Background

- As this rate is well over the 0.5% threshold, Nacha's Risk team sent Slader Capital Bank notification to reduce Quote4You Insurance's unauthorized return rate within 30 days.
  - Failure to successfully reduce the return rate at or below 0.5% would result in the case being escalated to the National System of Fines.
- At the end of the 30-day reduction period, Nacha reached out to Slader Capital Bank and learned that Quote4You Insurance had not been successful in reducing its unauthorized return rate below 0.5% after 30 days.
  - The case was turned over to the National System of Fines.
- Slader Capital Bank received a Notice of Possible Fine citing a Class 2 rules violation for failing to reduce its Originator's return rate.
- Slader Capital Bank acknowledged the violation and stated that after investigating the returns with its Originator, the decision was made to no longer accept ACH transactions via the internet as the majority of the unauthorized transactions had the SEC code of WEB.
- This change was successful in reducing the unauthorized return rate below 0.5%

### Fine

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
- The ACH Rules Enforcement Panel reviewed Slader Capital Bank's response and imposed a one-time fine of \$5,000.

## Unauthorized Return Rate Exceeded

### The Claim

Litton Bank received a request from Nacha's Risk Investigations team to provide return data for a specific Originator, Rotunda Financial Services. The data provided by Litton Bank revealed that Rotunda Financial Services had an unauthorized return rate of 10.9%.

### Background

- **As this rate is well over the 0.5% threshold, Nacha's Risk team sent Litton Bank notification to reduce Rotunda Financial Services' unauthorized return rate within 30 days.**
  - **Failure to successfully reduce the return rate at or below 0.5% would result in the case being escalated to the National System of Fines.**
- **At the end of the 30-day reduction period, Nacha reached out to Litton Bank and learned that Rotunda Financial Services had not been successful in reducing its unauthorized return rate below 0.5% after 30 days.**
  - **The unauthorized return rate had actually increased to 11.11% during the 30-day reduction timeframe.**
  - **The case was turned over to the National System of Fines.**
- **Due to the failure to reduce the unauthorized return rate within 30-days, the case transitioned from Nacha's Risk Investigations to Nacha Enforcement and became a Class 2 rules violation.**
- **Litton Bank acknowledged the rules violation and stated:**
  - **It believed that the return rate was primarily due to third-party fraud:**
    - **Rotunda utilizes customer verification tools at the time of account opening.**
    - **When the customer wants to add an external bank account to use for ACH transfers, additional verification tools are utilized to determine account validity and balance.**
    - **If these verifications fail, the external account cannot be used for ACH transfers with the Rotunda Financial Services account.**
    - **Litton Bank believes that the external accounts being used for the transfers have been compromised.**
    - **The perpetrator is creating an account with Rotunda Financial Services using stolen identity credentials to initiate debit entries from the**

compromised external bank account, resulting in the debits being returned as unauthorized.

- Litton Bank has engaged an external vendor to conduct an internal review of ACH processes and procedures.
- Litton Bank also implemented a proprietary identity verification tool that verifies that the name tied to the phone number on the customer's Rotunda Financial Services account matches the customer's name based on a public records search of the customer's phone number.
- After implementing the identity verification tool, Rotunda's unauthorized return rate for the following month was reduced to 5.59%.
- It's the ODFIs goal to reach a rate that is at or below 0.5% within the next five months and successfully maintain that rate for an additional 180 days.

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A recurring fine of \$5,000 was imposed against Litton Bank and will continue until the issue is resolved and Litton Bank can prove that Rotunda Financial Services has reduced its unauthorized return rate at or below 0.5%.**

# Unauthorized Return Rate Exceeded

## The Claim

Griffith Bank received a request from Nacha's Risk Investigations team to provide return data for a specific Originator, Deposit Advantage. The data provided by Griffith Bank revealed that Deposit Advantage had an unauthorized return rate of 13.4%.

## Background

- **As this rate is well over the 0.5% threshold, Nacha's Risk Investigations team sent Griffith Bank notification to reduce Deposit Advantage's unauthorized return rate within 30 days.**
  - **Failure to successfully reduce the return rate at or below 0.5% would result in the case being escalated to the National System of Fines.**
- **At the end of the 30-day reduction period, Nacha reached out to Griffith Bank and learned that Deposit Advantage had not been successful in reducing its unauthorized return rate below 0.5%.**
  - **The unauthorized return rate had significantly decreased to 3.15% during the 30-day reduction timeframe.**
  - **The case was turned over to the National System of Fines since the rate still exceeded the 0.5% threshold.**
- **Due to the failure to reduce the unauthorized return rate within 30-days, the case transitioned from Nacha's Risk Investigations to Nacha Enforcement and became a Class 2 rules violation.**
- **Griffith Bank acknowledged the rules violation and stated:**
  - **The reason for the majority of the returns was related to fraud.**
  - **Deposit Advantage's efforts to minimize returns had made a material impact during the last 90+ days and forward volume was projected to increase (which would offset the number of returns and lower the unauthorized return rate percentage).**
  - **Deposit Advantage was not blatantly failing to follow the rules applicable when dealing with legitimate customers. This could be proved by reviewing the number of R05, R07, R11 and R51 returns.**
  - **Deposit Advantage had taken the following steps to address the issue:**
    - **Adjusted KYC settings with its vendor to "high risk", specifically removing tolerances for the SSN, date of birth provided and physical address at registration.**
    - **Introduced phone number and address validation.**

- **The ODFIs goal was to reach a rate at or below 0.5% within four months and successfully maintain that rate for an additional 180 days.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A recurring monthly fine of \$5,000 was imposed against Griffith Bank and would continue until the issue was resolved and Griffith Bank proved that Deposit Advantage had reduced its unauthorized return rate at or below 0.5%.**

## Unauthorized Return Rate Exceeded

### The Claim

Sweeney Bank received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Garrett Processing, a healthcare claim payment processor.

### Background

- Sweeney Bank responded to the request for information and indicated that the return rate for unauthorized entries was 1.31%.
  - The volume relating to this percentage was 34,948 CCD forward entries with 458 of those being returned as unauthorized – the majority being returned R29.
- Risk Investigations notified Sweeney Bank that Garrett Processing's unauthorized return rate would need to be reduced to a rate at or below 0.5% within 30 days.
- The response from Sweeney Bank after 30 days revealed that the unauthorized return rate for Garrett Processing had increased to 1.42% during the 30-day reduction timeframe.
- Due to the failure to reduce the unauthorized return rate within 30-days, the case transitioned from Nacha's Risk Investigations to Nacha Enforcement and became a Class 2 rules violation.
- Sweeney Bank received a Notice of Possible Fine citing a Class 2 rules violation for failure to successfully reduce its Third-Party Sender's unauthorized entry return rate to a rate at or below 0.5% within 30 days.
- The respondent financial institution acknowledged the rules violation stating:
  - The ODFI and the Originator had been working diligently to reduce the unauthorized return rate level.
  - The Originator enhanced its premium product to allow organizations to set up a bank account where payment for services can be put on file and used for future payment of invoices via ACH Debit.
  - Even though authorization was obtained and the Receivers were instructed to update their debit filters to allow this particular ACH Company ID to debit their accounts, the Originator saw a higher number of unauthorized returns with this product enhancement.
  - Many of the Receivers misunderstood the steps necessary to update the ACH debit filter.
  - The Originator reached out to provide education on this to ensure the transactions flowed through and would not trigger an automated return from the RDFI.

- **Additionally, the following actions were taken:**
  - **Receivers with unauthorized returns were contacted either by email or phone, or both.**
  - **Receivers with unauthorized returns were removed from Garrett’s premium product until the ACH debit filters were modified.**

### Fine

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A recurring fine of \$5,000 was imposed against Sweeney Bank and would continue until the issue is resolved and Sweeney Bank proved that Garrett Processing reduced its unauthorized return rate at or below 0.5%.**
- **After seven months of being in a recurring fine status, Sweeney Bank and its Originator, Garrett Processing reported back to Nacha several enhancements made to its processes and requested to be removed from recurring fine status.**
- **Nacha brought this request to the Panel and based on return rate reporting provided by Sweeney Bank, the bank was able to demonstrate that Garrett Processing was able to maintain a return rate for the previous four months below 0.5%.**
- **The ACH Rules Enforcement Panel approved Sweeney Bank’s request to be removed from recurring fine status.**

## Unauthorized Return Rate Exceeded

### The Claim

Woodside Bank received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, I Betcha, a sports betting company.

### Background

- **Woodside Bank responded to the request for information and indicated that the return rate for unauthorized entries was 6.98%.**
  - **The volume relating to this percentage was 4,035 WEB forward entries with 261 of those being returned as unauthorized – all being returned R10.**
- **Risk Investigations notified Woodside Bank that I Betcha's unauthorized return rate would need to be reduced to a rate at or below 0.5% within 30 days.**
- **The response from Woodside Bank after 30 days revealed that the unauthorized return rate for I Betcha had been reduced to 3.46% during the 30-day reduction timeframe.**
- **Due to the failure to reduce the unauthorized return rate to a rate at or below 0.5% within 30-days, the case transitioned from Nacha's Risk Investigations to Nacha Enforcement and became a Class 2 rules violation.**
- **Woodside Bank received a Notice of Possible Fine citing a Class 2 rules violation for failure to successfully reduce its Originator's unauthorized entry return rate to a rate at or below 0.5% within 30 days.**
- **The respondent financial institution acknowledged the rules violation stating:**
- **The return rate threshold had been exceeded during this timeframe due to a fraud ring targeting two specific ABA routing numbers.**
  - **To resolve the excessive return rate, I Betcha performed an internal review to determine what adjustments and other risk mitigation efforts could be made through its risk engine.**
  - **I Betcha is a licensed and regulated online sports betting site. As the business ramps up into the football season new users were being added and activity continued to change.**
  - **It had been determined that the unauthorized returns were due to new users and fraudulent activity.**
  - **I Betcha had analysts working to identify new users versus fraudulent users.**
  - **I Betcha continued to move forward with the adjustment of velocity thresholds for its new user demographic to combat the fraud and negative processing trends that were produced.**
  - **I Betcha continued to monitor for any anomalies.**
  - **The data show the unauthorized returns had decreased substantially and should continue to do so based on the adjustments made by I Betcha.**

## Fine

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A recurring monthly fine of \$5,000 was imposed against Woodside Bank and would continue until the issue was resolved and Woodside Bank proved that I Betcha had reduced its unauthorized return rate at or below 0.5%.**

## Unauthorized Return Rate Exceeded

### The Claim

1st Bank of Jenner received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Power Sources.

### Background

- 1st Bank of Jenner received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Power Sources.
- 1st Bank of Jenner responded to the request for information and indicated that the return rate for unauthorized entries was 1.05% - well above the 0.5% threshold.
  - The volume relating to this percentage was 52,019 WEB and TEL forward entries with 546 of those being returned as unauthorized – all being returned R05, R07, R10 and R29.
- Risk Investigations notified 1st Bank of Jenner that Power Sources' unauthorized return rate would need to be reduced to a rate at or below 0.5% within 30 days.
- The response from 1st Bank of Jenner after 30 days revealed that the unauthorized return rate for Power Sources had *increased* to 1.40% during the 30-day reduction timeframe.
- Due to the failure to reduce the unauthorized return rate to a rate at or below 0.5% within 30-days, the case transitioned from Nacha's Risk Investigations to Nacha enforcement and became a Class 2 rules violation.
- 1st Bank of Jenner received a Notice of Possible Fine citing a Class 2 rules violation for failure to successfully reduce its Originator's unauthorized entry return rate to a rate at or below 0.5% within 30 days.
- The respondent financial institution acknowledged the rules violation stating:
  - The Third-Party Sender started seeing a shift in ACH transaction volume for Power Sources early in the year as the client started using a competitor for IVR payments. As a result of this shift in ACH transaction volume, the platform is now supporting primarily guest web payments for Payment Sources, rather than registered user payments.
  - Guest web payments typically see a higher rate of unauthorized returns, and without the registered user ACH transaction volume, the overall rate of unauthorized returns as a percentage of the overall transaction volume began increasing during this time.
  - Once notified the rate was exceeding the limit, the Third-Party Sender took immediate steps to begin remediating the issue of the unauthorized return rate with some initial success. The Third-Party Sender is committed to bringing Power

**Sources' unauthorized return rate within Nacha's limits by implementing additional controls and closely monitoring returns.**

### **Fine**

- **As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.**
- **A recurring fine of \$5,000 was imposed against 1st Bank of Jenner and would continue until the issue is resolved and 1st Bank of Jenner proved that Power Sources reduced its unauthorized return rate at or below 0.5%.**

### **Removal of Recurring Fine**

- **After three months of being in a recurring fine status, 1st Bank of Jenner contacted Nacha and requested that the ACH Rules Enforcement Panel consider halting the recurring fine.**
- **This request was based on the Originator resolving the underlying issue causing the excessive unauthorized return rate.**
- **1st Bank of Jenner's request stated that the unauthorized return rate for the prior two months was 0.30%.**
  - **The volume relating to this percentage was 40,867 WEB and TEL forward entries with 123 of those being returned as unauthorized.**
- **Power Sources, along with its Third-Party Sender, and the bank were able to implement an action plan to successfully reduce the unauthorized return rate, as well as have an ongoing plan to ensure continued oversight to maintain return rates below the established threshold.**
- **The action plan included:**
  - **Weekly and monthly monitoring.**
  - **Implemented firmer velocity controls.**
  - **Blocking a phone number found to be part of a scam.**
  - **Consumer awareness through media.**
  - **Bank account owner validation.**
- **The ACH Rules Enforcement Panel approved 1st Bank of Jenner's request to be removed from recurring fine status.**

## Unauthorized Return Rate Exceeded

### The Claim

Kennedy Savings and Loan received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Holmes Credit Services.

### Background

- ODFI Kennedy Savings and Loan received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Holmes Credit Services.
- Kennedy Savings and Loan responded to the request for information and indicated that the return rate for unauthorized entries was 1.17% - well above the 0.5% threshold.
- The volume relating to this percentage was 119,200 WEB forward entries with 1,394 of those being returned as unauthorized – all being returned R07, R10 and R11.
- Risk Investigations notified Kennedy Savings and Loan that Holmes Credit Services' unauthorized return rate would need to be reduced to a rate at or below 0.5% within 30 days.
- The response from the ODFI after 30 days revealed that the unauthorized return rate for Holmes Credit Services had decreased to 1.04% during the 30-day reduction timeframe.
- Due to the failure to reduce the unauthorized return rate to a rate at or below 0.5% within 30 days, the case transitioned from Nacha's Risk Investigations to Nacha Enforcement and became a Class 2 rules violation.
- Kennedy Savings and Loan received a Notice of Possible Fine citing a Class 2 rules violation for failure to successfully reduce its Originator's unauthorized entry return rate to a rate at or below 0.5% within 30 days.
- The respondent financial institution acknowledged the rules violation stating:
  - The monthly membership fee being returned as unauthorized encompassed most of the returns.
  - Authorization language was reviewed to ensure that the monthly fee was clear and conspicuous.
  - Friendly fraud was identified related to individuals creating multiple accounts on the Originator's app in order to obtain a larger cash advance.
  - The bad actors were denied access to the advance, but the monthly fee was assessed and subsequently returned as unauthorized.
  - Customers that did receive the advances also returned the monthly fee as unauthorized.

- The Originator experienced a system glitch that allowed transactions to be initiated with invalid names. Some of these debits were returned as unauthorized.
- Part of Holmes Credit Services' remediation plan included:
  - Implementation of an enhanced fraud detection system to prevent multiple profiles from being created.
  - Deactivation of accounts for users who disputed debits as unauthorized.
  - Implementation of a rule that would not allow a user to schedule an advance repayment to a bank account different than the bank account that received the advance.
  - Implementation of a risk engine that estimates the likelihood of ACH return so that transactions with a higher likelihood of returns can be intercepted proactively.
  - Fixing the system glitch that triggered returned debits.

### Fine

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
  - A recurring fine of \$5,000 was imposed against Kennedy Savings and Loan and would continue until the issue is resolved and the ODFI proved that Holmes Credit Services reduced its unauthorized return rate at or below 0.5%.

### Removal of Recurring Fine

- After three months of the ODFI being in a recurring fine status of \$5,000 per month, the ACH Rules Enforcement Panel reevaluated the case and determined that a higher fine of \$10,000 per month was necessary.
- The intent of the increased fine amount was to ensure progress toward correcting the underlying problem causing the rules violation.
- After two months in the new recurring fine amount, Kennedy Savings and Loan contacted Nacha and requested that the ACH Rules Enforcement Panel consider halting the recurring fine:
  - This request was based on the Originator resolving the underlying issues causing the excessive unauthorized return rate.
  - Kennedy Savings and Loan's request stated that the unauthorized return rate for the prior 60 days was 0.41%.
- The ACH Rules Enforcement Panel approved Kennedy Savings and Loan's request to be removed from recurring fine status.

## Unauthorized Return Rate Exceeded

### The Claim

Intercoastal Savings and Loan received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Colter Solutions.

### Background

- Intercoastal Savings and Loan received a request from Nacha's Risk Investigation's team to provide return rate data for a specific Originator, Colter Solutions, Inc. as required by the Nacha Operating Rules, Article Two, Subsection 2.18.2 (ODFI Return Rate Reporting).
- When Intercoastal Savings and Loan failed to respond to the request for information the case transitioned from Nacha's Risk Investigations to Nacha Enforcement and became a Class 2 rules violation.
- Intercoastal Savings and Loan received a Notice of Possible Fine citing a Class 2 rules violation for failure to respond to Nacha's request for information related to its Originator's return rate for unauthorized entries.
- The respondent financial institution acknowledged the rules violation and indicated that the return rate for unauthorized entries was 1.06% - well above the 0.5% threshold.
  - The volume relating to this percentage was 32,095 WEB forward entries with 340 of those being returned as unauthorized – all being returned R07, R10 and R11.
- The respondent financial institution also stated:
  - It did not receive the request from Nacha's risk team until after the deadline to respond and it never would have intentionally ignored the request. Contact issues were resolved with Nacha.
  - It has been working closely with the Originator to lower the Unauthorized return rate:
    - Including review of authentication processes of ACH transactions and providing tangible resources to minimize the potential for fraudulent transactions, such as supplying an electronic payment checklist, Nacha Rules explanations, explaining FFIEC guidance, as well as emphasizing the importance of utilizing fraudulent detection systems and layered security measures.
    - In addition, the financial institution discussed Originator responsibilities for having strong and valid proof of authorization documentation to ensure complete transparency with the Receiver when agreeing to debit authorizations and the value of authorization and authentication occurring simultaneously, or near simultaneously.
    - Intercoastal began weekly check-ins with Colter Solutions, Inc. to closely monitor return rates.

## **Fine**

- As a Class 2 violation, the financial institution was subject to a fine between \$0 and \$100,000 per month until the issue is resolved.
  - A recurring fine of \$5,000 was imposed against Intercoastal Savings and Loan and would continue until the ODFI proved that Colter Solutions, Inc. reduced its unauthorized return rate at or below 0.5%.
- After nine months of the ODFI being in a recurring fine status of \$5,000 per month, the ACH Rules Enforcement Panel reevaluated the case and determined that a higher fine of \$10,000 per month was necessary.
  - The intent of the increased fine amount was to ensure progress toward correcting the underlying problem causing the rules violation.

## **Removal of Recurring Fine**

- After four months in the new recurring fine amount, Intercoastal Savings and Loan contacted Nacha and requested that the ACH Rules Enforcement Panel consider halting the recurring fine:
  - This request was based on the Originator resolving the underlying issues causing the excessive unauthorized return rate.
  - Intercoastal Savings and Loan's request stated that the unauthorized return rate for the prior 60 days was 0.41%.
- The ACH Rules Enforcement Panel approved Intercoastal Savings and Loan's request to be removed from recurring fine status.
  - Nacha monitored the reduced return rate for an additional 180 days to ensure that the Originator maintained the reduced rate.

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**Questions regarding the  
National System of Fines  
ACH Rules Enforcement  
Case Studies should be  
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