

Payments Basics For Frontline Staff

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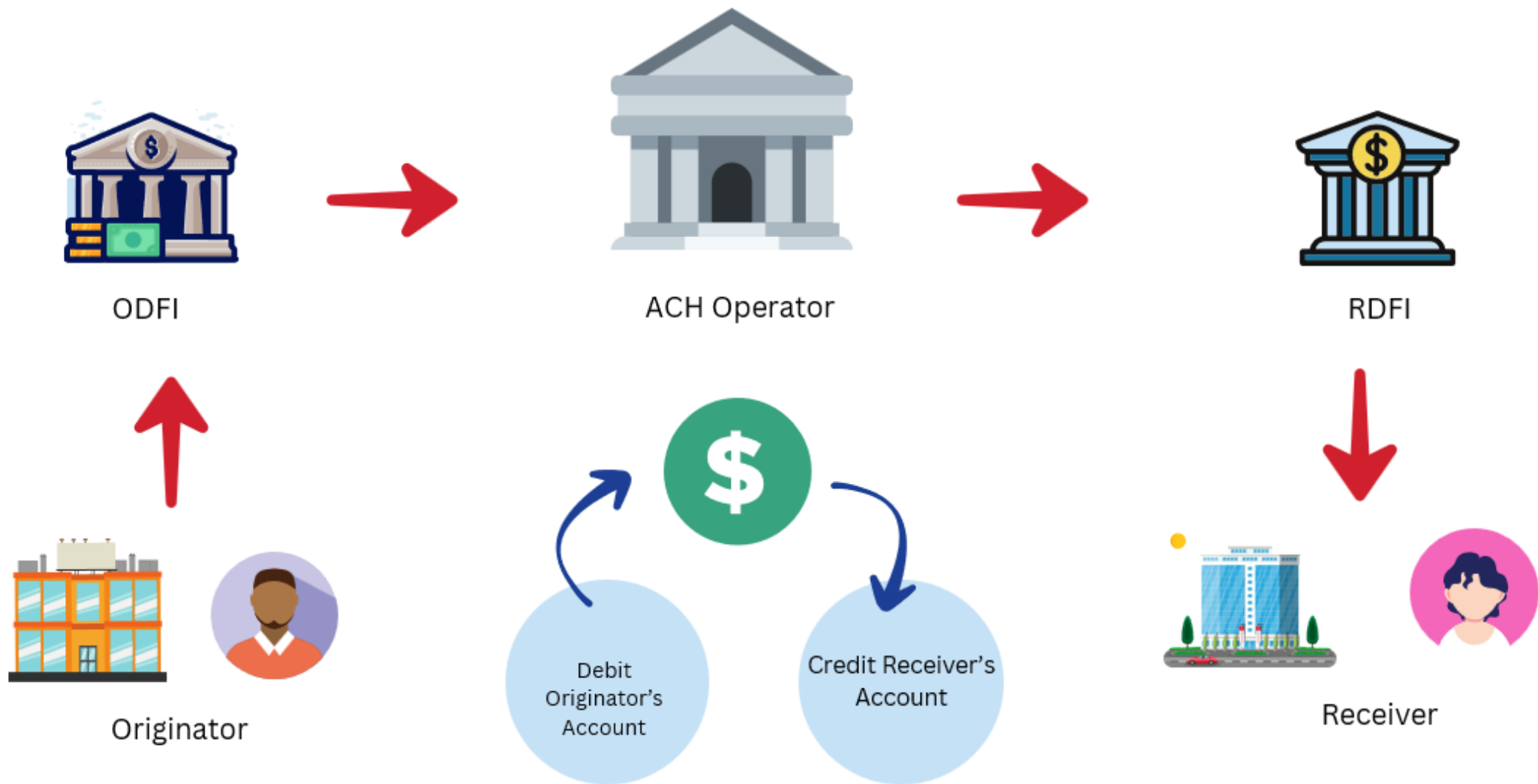
Understanding Payment Flows

- ACH
- Card Transactions
- Check
- Wire Transfer

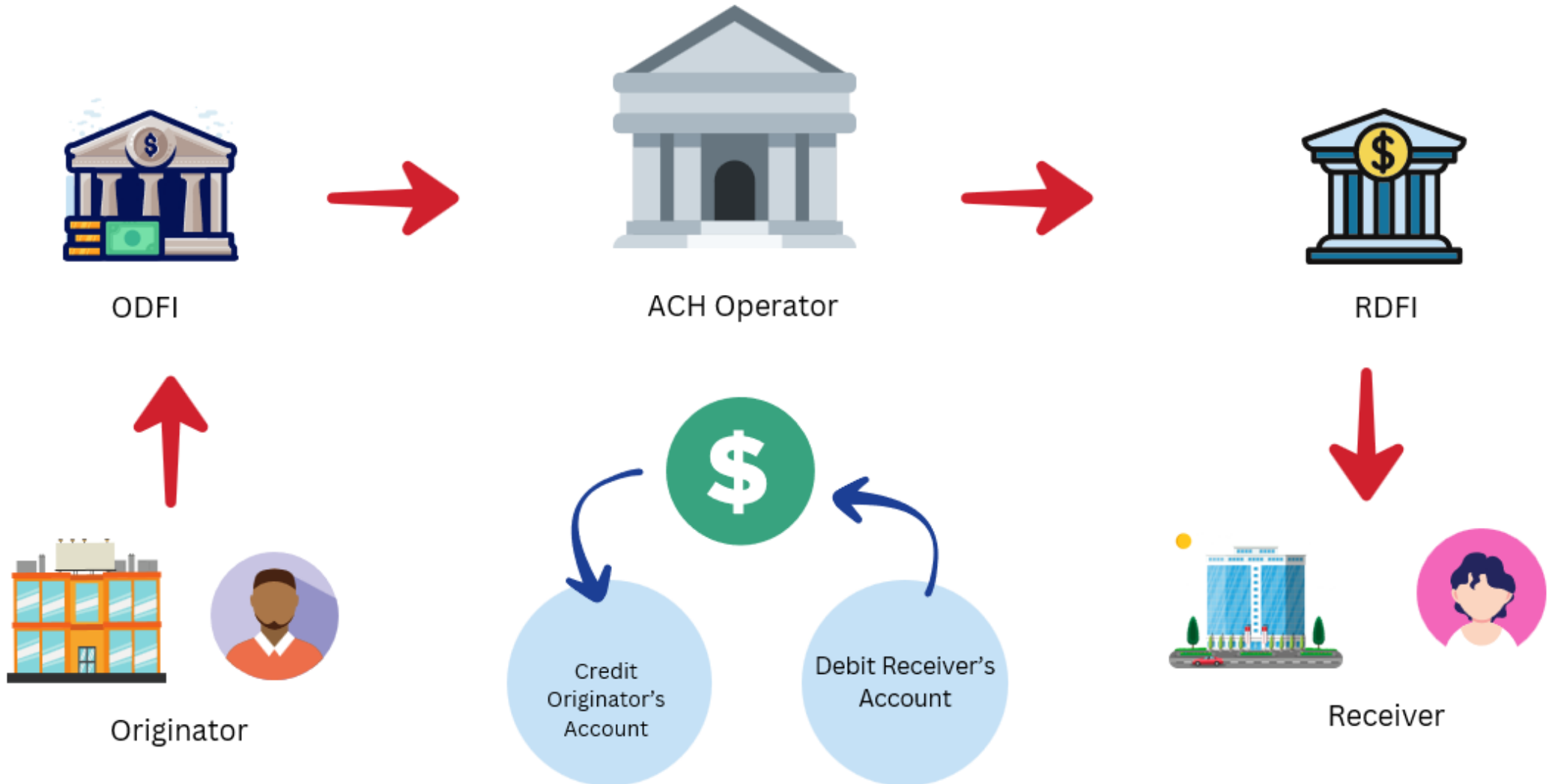
ACH Participants

- **Originator** – the party that originates an ACH Entry to a Person or Company.
 - Power Company, Your Employer, the IRS, Friends and Neighbors
- **Originating Depository Financial Institutions (ODFI)** – the **ODFI** is the Originator's financial institution
 - The **ODFI** is responsible for every entry it forwards to the **ACH Operator**
- **ACH Operator** - a central clearing facility that receives entries from the **ODFI**, sends the entries to the **Receiving Depository Financial Institution (RDFI)**, and performs the settlement functions
 - Federal Reserve Bank and The Clearing House – EPN
- **Receiving Depository Financial Institution (RDFI)** – the **RDFI** receives the ACH Information from the **ACH Operator** and posts it to the **Receiver's** account. The **RDFI** is the **Receiver's** financial institution
- **Receiver** – the **Receiver's** account at the RDFI is credited or debited based on a relationship with the **Originator**. The difference between an ACH Credit and an ACH Debit is determined by the way it affects the **Receiver's** account

ACH Credit Transaction Flow



ACH Debit Transaction Flow



Settlement of ACH

- **Definition:** Settlement is the transfer of funds between financial institutions to complete ACH payment instructions.
- **Federal Reserve Role:** Provides settlement services and calculates net credit/debit positions for financial institutions.
- **Participants:**
 - **ODFI (Originating Depository Financial Institution):**
 - Processes according to the effective entry date.
 - Adjusts for non-banking days, stale, or invalid dates.
 - Governed by agreements with the Originator.
 - **ACH Operator:**
 - Calculates settlement totals.
 - Provides information to participants.
 - Settles entries using Federal Reserve accounts or private arrangements.
 - **RDFI (Receiving Depository Financial Institution):**
 - Settlement follows Nacha Operating Rules and Federal Reserve schedules.
 - Balances settlement totals daily and resolves rejects.
 - Monitors large-dollar entries for corporate transactions.

Posting of ACH

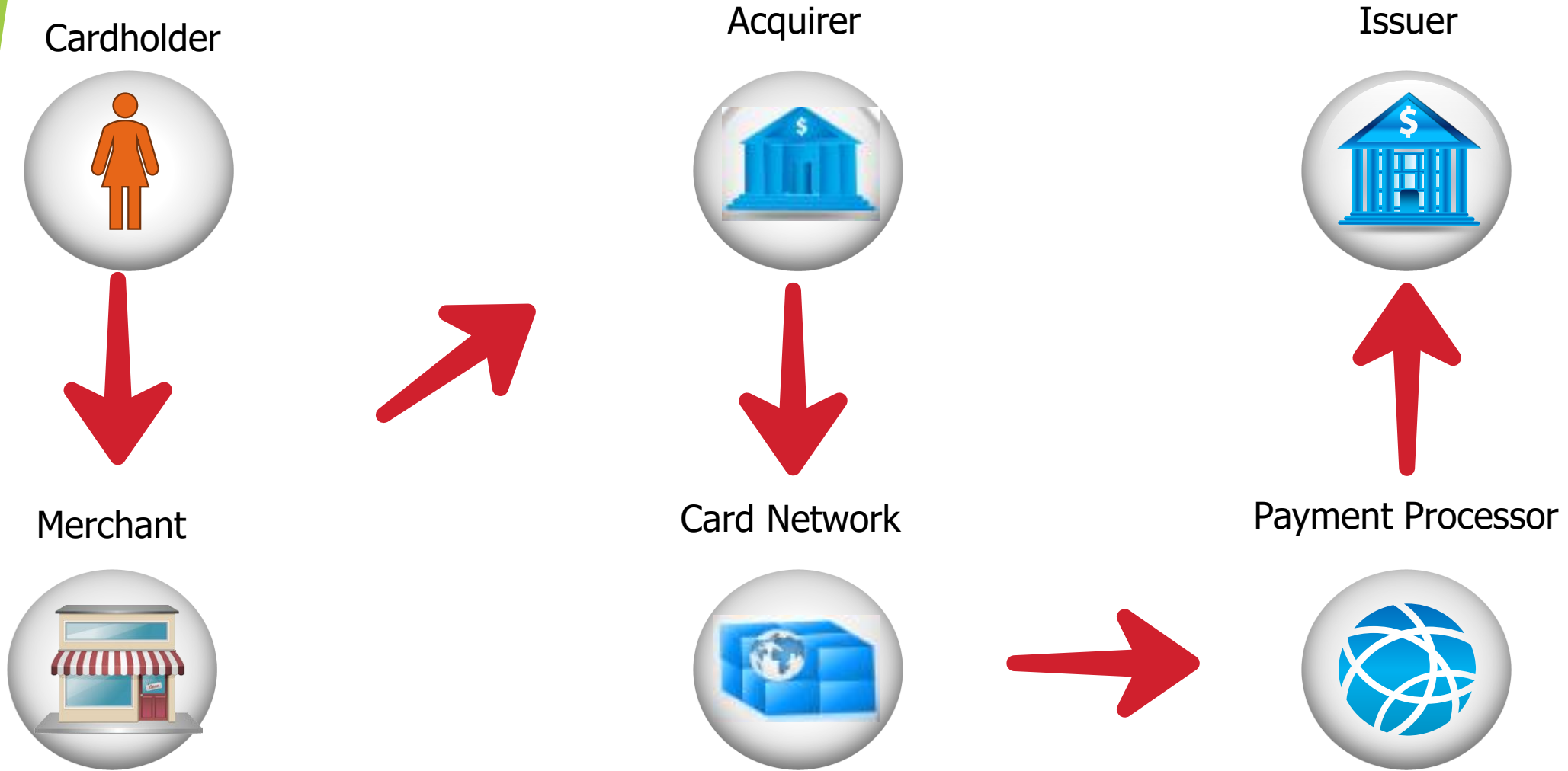
- **RDFI Responsibilities:**

- Posts entries and provides funds availability based on Settlement Date.
- **Standard Processing:**
 - ACH debits delivered no earlier than one banking day before the Settlement Date.
 - ACH credits delivered no earlier than two banking days before the Settlement Date.
 - Funds must be available by 9:00 a.m. on the Settlement Date.
- **Same-Day Processing:**
 - Debits and credits delivered on the Settlement Date.
 - Funds availability by 1:30 p.m. or 5:00 p.m. depending on the processing window.
 - Funds for third-window credits must be available by the end of the processing day.

Card Transaction Participants

- **Cardholder** – the individual with the credit or debit card and initiates the transaction by using the card to purchase goods or services
- **Merchant** – the business or individual that sells goods or services and accepts card payments from the **Cardholder**
- **Acquirer** – the financial institution that processes credit or debit card payments on behalf of the merchant. The **Acquirer** provides the **Merchant** with a card reader and other necessary tools to accept payments
- **Card Network** – companies like Visa / MasterCard / American Express / Discover that facilitate the transaction process by routing information between the **Acquirer** and the **Issuer**
- **Issuer** – the financial institution that issued the card to the **Cardholder**. The **Issuer** is responsible for authorizing the transaction and providing funds to the **Merchant's FI**.
- **Payment Processor** – a company that manages the card transaction process by handling the communication between the **Merchant**, the **Card Network**, the **Acquirer**, and the **Issuer**

Card Transaction Flow



Settlement of Card Transactions

- **Definition:** Settlement in card transactions involves transferring funds from the cardholder's FI to the merchant's FI after a transaction is processed.
- **Participants:**
 - **Acquirer:**
 - Receives transaction details from the merchant.
 - Initiates the settlement process by requesting funds from the issuer.
 - **Card Networks (e.g., Visa, MasterCard):**
 - Facilitate communication between acquirer and issuer.
 - Ensure transaction details are correctly processed and funds are transferred securely.
 - **Issuer:**
 - Verifies funds availability.
 - Transfers funds to the acquirer to complete the transaction.
- **Process:**
 - Transactions are batched and submitted for settlement at the end of the business day.
 - Banks calculate the net positions and transfer funds accordingly.
 - Settlement usually completes within one to two business days.

Posting of Card Transactions

- **Definition:** Posting refers to recording the transaction on the cardholder's and merchant's accounts once the settlement is completed.
- **Cardholder Posting:**
 - The transaction appears on the cardholder's account, typically as a pending transaction initially.
 - After settlement, the transaction is fully posted, and funds are deducted.
- **Merchant Posting:**
 - Funds are credited to the merchant's account once the settlement is finalized.
 - The merchant's acquirer reconciles the transactions and posts them to the merchant's account.
- **Timing:**
 - The posting process may take a few days, depending on the FI's processing schedules and the type of transaction.

Check Participants

Drawer/Payor



William C. or Mary K. Smith
12345 North Main Street
Anytown, UT 44444
222/222-2222

101

05/13/2025 00-00/000 Date

Pay to the Order of **National Gas & Electric** \$ 323.58

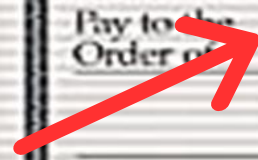
**Three hundred, twenty-three & Dollars

6/7 Financial *****

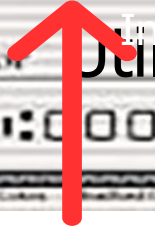
Utility Bill – April 2025 **Mary K. Smith**

⑆000000000⑆ 1234567890⑆

Payee



6/7 Financial



Drawee/Payor's FI



Drawer/Payor

What is a Check?

William C. or Mary K. Smith
12345 North Main Street
Anytown, UT 44444
222/222-2222

101
4
00-00/000
05/13/2025 Date

Pay to the Order of National Gas & Electric \$ 323.58

*Three hundred, twenty-three &
58/100*****

6/7 Financial Institution

For Utility Bill – April 2025 Mary K. Smith

⑆000000000⑆ 1234567890⑆

1. Payable to bearer or to order

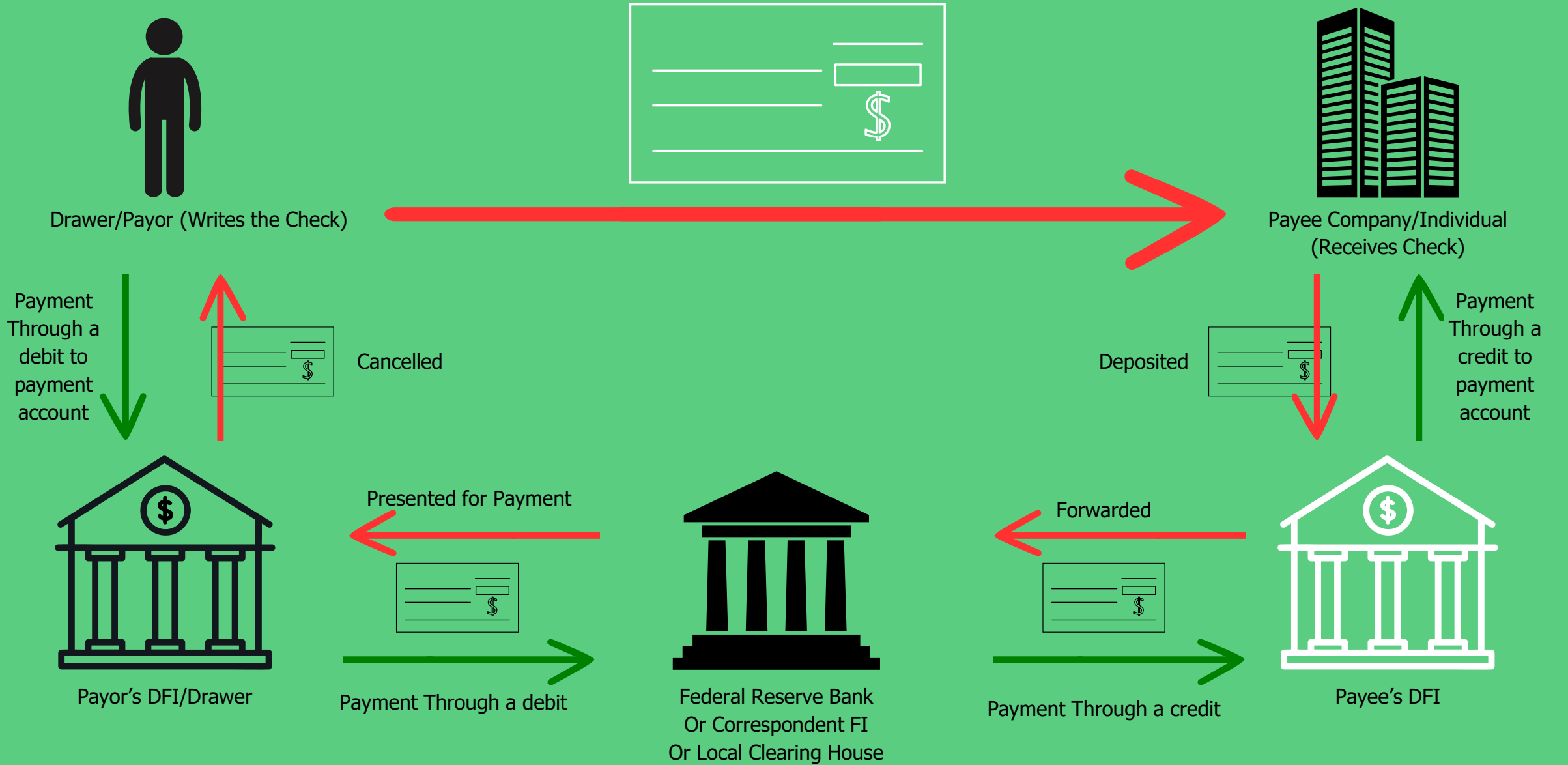
2. Unconditional Order to Pay

3. Fixed Amount of Money

4. Payable on Demand or at a definite time

5. Written and Signed by Drawer

Participants in Check Processing



Settlement of Check

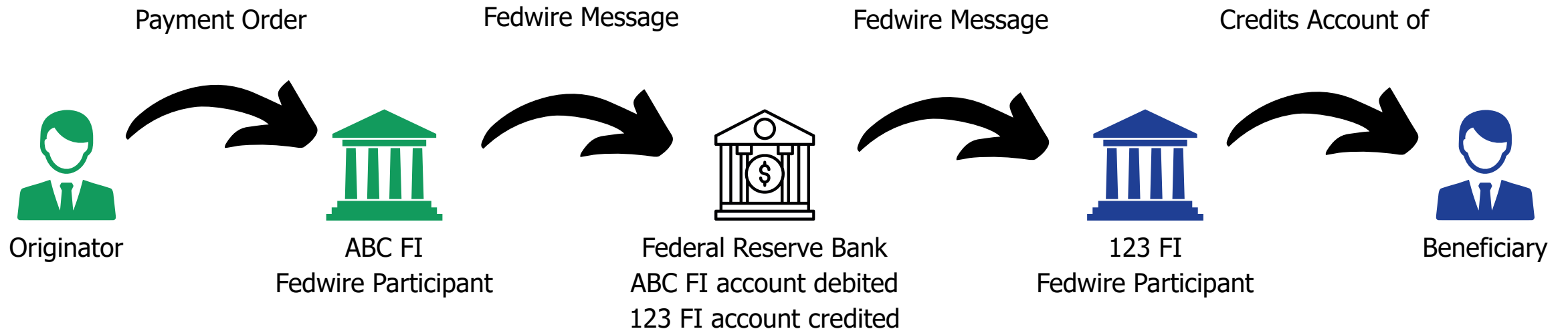
- **Definition:** Settlement refers to the process where funds are transferred from the payer's FI (**Drawee**) to the payee's FI (**Payee**) to complete a check transaction.
- **Participants:**
 - **Payee's FI:** Deposits the check and initiates the request for funds from the payer's bank.
 - **Clearinghouse:** Facilitates the exchange of checks between banks, ensuring that checks are processed and settled.
 - **Payer's FI (Drawee):** Verifies the check and releases funds to the payee's bank.
- **Process:**
 - Checks are collected and sent for clearing, typically through a clearinghouse.
 - The clearinghouse calculates net positions for FIs involved and facilitates fund transfers.
 - Settlement usually occurs within one to two business days, depending on the FIs and clearinghouse.

Posting of Check

- **Definition:** Posting involves recording the check transaction in both the payer's and payee's bank accounts once settlement is complete.
- **Payee's Bank Posting:**
 - Credits the payee's account once funds are received.
 - Ensures funds availability to the payee according to bank policies and regulations.
- **Payer's Bank Posting:**
 - Debits the payer's account for the check amount once verified and settled.
 - May place a hold on the account if necessary, pending verification.
- **Timing:**
 - Posting can be immediate upon settlement but often depends on bank policies and hold periods.
 - Holds on funds may occur, especially for large amounts or out-of-state checks, to ensure funds availability.

Wire Participants

- **Sender** – the individual or business entity initiating the wire transfer by providing instructions to their FI to send funds to the **Beneficiary**
- **Sender's FI** – also known as the originating FI – the FI that processes the **Sender's** request and initiates the transfer of funds
- **Correspondent / Intermediary / Clearinghouse** – an organization like Fedwire that provides the infrastructure for secure and efficient processing of wire transfers, or acts as an intermediary between the **Sender's FI** and the **Beneficiary's FI**
- **Beneficiary's FI** – the FI that receives the wire transfer on behalf of the beneficiary and ensures that the funds are credited to the correct account
- **Beneficiary** – the individual or business entity that receives the funds from the wire transfer



*Customer to customer transfers at two different financial institutions

Settlement of Wire Transfers

- **Definition:** Settlement in wire transfers is the process where funds are moved from the sender's bank to the recipient's bank, typically in real-time or on the same day.
- **Participants:**
 - **Sender's Bank:** Initiates the transfer of funds by debiting the sender's account.
 - **Receiving Bank:** Receives the funds and credits the recipient's account.
 - **Intermediary Banks:** May be involved in routing the funds, especially in international transfers.
 - **Clearing and Settlement Systems:** Systems like Fedwire or SWIFT that facilitate the real-time transfer of funds between banks.
- **Process:**
 - Wire transfers are often settled in real-time using systems like Fedwire for domestic transfers or SWIFT for international transfers.
 - Funds are immediately transferred to the receiving bank once the sending bank initiates the transfer.
 - Settlement typically occurs on the same day, depending on the banks' operating hours and any intermediary banks involved.

Posting of Wire Transfers

- **Definition:** Posting refers to recording the wire transfer in both the sender's and recipient's bank accounts once settlement is complete.
- **Sender's Bank Posting:**
 - The sender's account is debited as soon as the wire transfer is initiated.
 - The transaction is recorded in the sender's account statement.
- **Recipient's Bank Posting:**
 - The recipient's account is credited once the funds are received from the sender's bank.
 - Posting is typically immediate, allowing the recipient to access funds as soon as the transfer is completed.
- **Timing:**
 - Posting often occurs in real-time alongside settlement, allowing for quick access to transferred funds.
 - Delays can occur if there are issues with the information provided or if intermediary banks are involved, especially in international transfers.

Payment Method	Recognition Features	Category
ACH Credits	Electronic transfer initiated by originator to credit the receiver	Electronic Payment
ACH Debits	Electronic transfer initiated by originator to debit the receiver	Electronic Payment
Card Payments	Involves credit or debit card, processed via card networks	Electronic Payment
Checks	Paper-based; involves a physical check written by payer	Paper Payment
Wire Transfers	Real-time electronic transfer, often involves SWIFT or Fedwire	Electronic Payment

Payment Type	Distinctive Features	Purpose	Common Use Cases
ACH Credits	Electronic transfer initiated by the originator to credit receiver	Efficient fund transfers	Payroll deposits, tax refunds, vendor payments
ACH Debits	Electronic transfer initiated by the originator to debit receiver	Automatic payments	Utility bills, subscription services, mortgage payments
Card Payments	Involves credit or debit cards processed via card networks	Quick consumer payments	Retail purchases, online shopping, point-of-sale transactions
Checks	Paper-based, physical checks	Traditional payment method	Rent payments, business transactions, personal gifts
Wire Transfers	Real-time electronic transfer	Secure and fast transfer of large sums	Real estate transactions, international trade, emergency funds

Managing Stop Payment Requests

- Identify Eligible Transactions
 - Types:
 - Stop Payments can typically be requested for checks and ACH Debits
 - Eligibility:
 - Ensure that the item has not been paid
 - According to UCC 4-403, a customer may stop payment on any item drawn on their account by notifying the FI in a timely manner that affords the FI a reasonable opportunity to act on it.

Managing Stop Payment Requests

- Verify Customer Information
 - Identity Verification:
 - Confirm the identity of the customer using standard FI verification processes, such as checking identification or using security questions
 - Details Requires:
 - Obtain specific details of the transaction, including check number, amount, date, and payee.
 - The Uniform Commercial Code does not specify exact details required, but accurate information is crucial for processing

Managing Stop Payment Requests

- Process the Request
 - System Entry: Promptly enter the stop payment order into the bank's system. An oral stop payment order is effective for 14 days unless confirmed in writing, in which case it is valid for six months (UCC Section 4-403).
 - Fee Notification: Inform the customer of any fees associated with processing the stop payment, as specified in the bank's fee schedule.
 - Confirmation: Provide the customer with a confirmation number or receipt for the stop payment order.

Managing Stop Payment Requests

- Compliance with FI Policies and Timelines
 - Policy Adherence: Follow the bank's policies regarding stop payment requests. Ensure that staff understand these policies and the timelines involved.
 - Time Limits: Submit stop payment orders within the allowed timeframe, and renew them as needed before they expire. Stop payment orders can be renewed for additional six-month periods by providing a record to the bank.
 - Notification: Advise customers on the duration for which the stop payment is valid and any necessary actions to renew it.

UCC 4-403 – Customer's Right to Stop Payment; Burden of Proof of Loss

- (a) A customer or any person authorized to draw on the account if there is more than one person may stop payment of any item drawn on the customer's account or close the account by an order to the bank describing the item or account with reasonable certainty received at a time and in a manner that affords the bank a reasonable opportunity to act on it before any action by the bank with respect to the item described in Section 4-303. If the signature of more than one person is required to draw on an account, any of these persons may stop payment or close the account.

UCC 4-403 – Customer's Right to Stop Payment; Burden of Proof of Loss

- (b) A stop-payment order is effective for six months, but it lapses after 14 calendar days if the original order was oral and was not confirmed in a record within that period. A stop-payment order may be renewed for additional six-month periods by a record given to the bank within a period during which the stop-payment order is effective.

UCC 4-403 – Customer's Right to Stop Payment; Burden of Proof of Loss

- (c) The burden of establishing the fact and amount of loss resulting from the payment of an item contrary to a stop-payment order or order to close an account is on the customer . The loss from payment of an item contrary to a stop-payment order may include damages for dishonor of subsequent items under Section 4-402 .

Strategies for Minimizing Errors for Stop Payment Orders

- **Double-Check Information:**
 - Always verify the details provided by the customer, such as check number, amount, and payee, to ensure accuracy.
 - Use technology, like automated systems, to cross-check information against existing records.
- **Standardized Forms:**
 - Implement standardized forms for customers to fill out when requesting a stop payment to ensure all necessary information is collected.
 - Provide internal guidance on how to complete the form to minimize mistakes.

Strategies for Minimizing Errors for Stop Payment Orders

- **Clear Communication:**
 - Clearly explain the process and potential fees involved in a stop payment request to manage customer expectations.
 - Ensure the customer understands the duration and limitations of a stop payment order.
- **Training and Education:**
 - Regularly train staff on the bank's policies and procedures for handling stop payment requests.
 - Include updates on regulatory changes or new compliance requirements in training sessions.

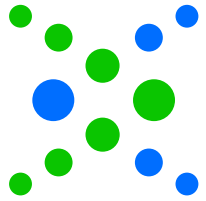
Strategies for Minimizing Errors for Stop Payment Orders

- **Use Checklists:**
 - Develop and utilize checklists or procedural guides to ensure all steps in the stop payment process are followed consistently.
 - Checklists can help staff remember every necessary step and reduce oversight.
- **Automated Systems:**
 - Leverage automated banking systems to process stop payment requests efficiently and accurately.
 - Automation reduces human error and ensures timely data entry and processing.

Strategies for Minimizing Errors for Stop Payment Orders

- **Regular Audits and Feedback:**
 - Conduct regular audits of stop payment requests to identify common errors and areas for improvement.
 - Gather feedback from staff and customers to refine processes and address any recurring issues.
- **Compliance and Policy Review:**
 - Regularly review compliance with bank policies and regulatory requirements, such as those outlined in the Uniform Commercial Code (UCC).
 - Adjust processes as necessary to align with best practices and regulatory standards.

QUESTIONS



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May 2025

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