



Third-Party Sender Case Studies: ODFI Best Practices to Close the Gap

An ACH Risk Management White Paper

This ACH risk management white paper examines three case studies related to Third-Party Sender Risk. These case studies address ODFI challenges related to: 1) on-boarding a new Third-Party Sender, 2) monitoring the Third-Party Sender relationship on an ongoing basis, and 3) terminating a Third-Party Sender relationship. Also included are ODFI best practices to manage Third-Party Sender risk.

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Executive Summary

“Failure to implement appropriate controls [for ACH activities] is an unsafe and unsound practice and can result in increased credit, compliance, reputation, strategic, and transactions risks, and in some cases, deterioration in the bank’s condition.”

~OCC Bulletin 2006-39 ACH Risk Management Guidance

Originating Depository Financial Institutions (ODFIs) face unique challenges and potential risks in Third-Party Sender relationships. To mitigate risk, it is critical that ODFIs fully understand their responsibilities and inherent risks in third party relationships.

This ACH risk management white paper illustrates potential risks to ODFIs in Third-Party Sender relationships using three case studies. These studies address: 1) on-boarding a new Third-Party Sender, 2) ongoing monitoring of Third-Party Sender relationships, and 3) termination of a Third-Party Sender relationship. Each case study includes an analysis of gaps in practices. This paper also includes best practices and solutions to help ODFIs mitigate risk and ensure compliance with the *NACHA Operating Rules (Rules)*.

ACH Participant Roles

Originator

Any individual or organization that initiates Automated Clearing House debit or credit entries according to authorization from a Receiver.

Originating Depository Financial Institution (ODFI)

A participating financial institution that receives ACH entries from Originators or Third-Party Senders and delivers ACH entries directly (or indirectly through a Third-Party Service Provider) to the ACH Operator.

Receiver

An individual, corporation, or other entity that has authorized an Originator to initiate a credit or debit entry to a transaction account held at an RDFI.

Receiving Depository Financial Institution (RDFI)

The financial institution that receives ACH entries directly (or indirectly through a Third-Party Service Provider) from the ACH Operator and posts the ACH entries to Receivers.

ACH Operators

ACH Operators are central clearing facilities through which financial institutions transmit or receive ACH entries.

Third-Party Service Providers (TPSP)

A Third-Party Service Provider is an entity other than the Originator, ODFI, or RDFI that performs any function on behalf of the Originator, ODFI, or RDFI with respect to the processing of ACH entries (Figure A).

Third-Party Sender (TPS)

A Third-Party Sender is a type of Third-Party Service Provider, which Originators or ODFIs use for outsourcing their payment services. The ODFI has an agreement with the Third-Party Sender, but the ODFI does not have any direct agreements with the Originators behind the Third-Party Sender. The Third-Party Sender is an intermediary between the Originator and the ODFI (Figure B).

Figure A — Third-Party Service Provider Model

The model below involves one Third-Party Service Provider in the ACH origination process. The Originator has an agreement with the ODFI and the Third-Party Service Provider. The ODFI also has an agreement with the Third-Party Service Provider.

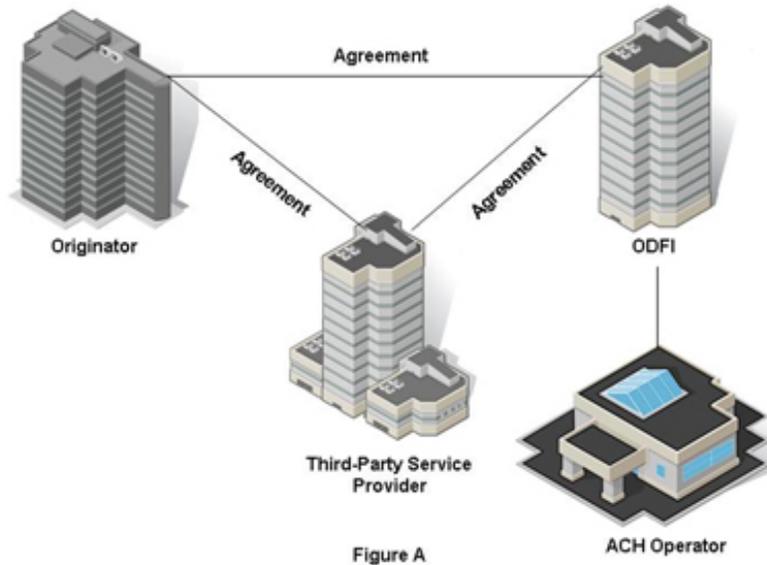
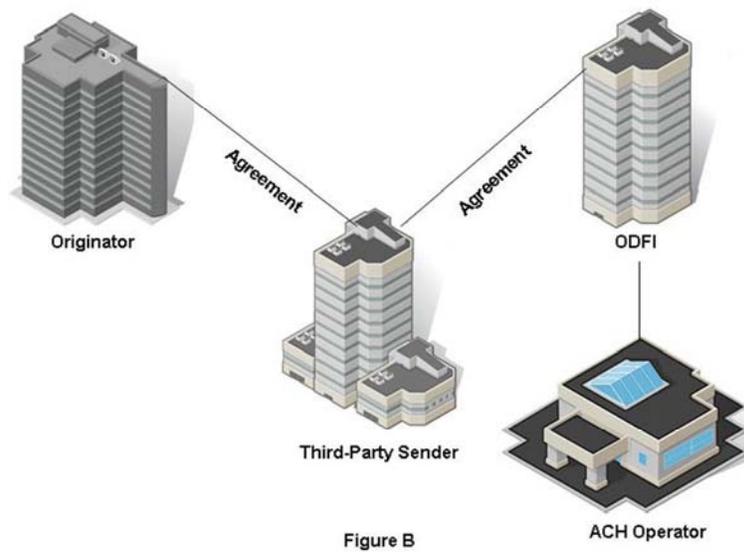


Figure B — Third-Party Sender Model

This model involves one Third-Party Sender in the ACH origination process. The Originator has an agreement with the Third-Party Sender and the Third-Party Sender has an agreement with the ODFI. However, the Originator and the ODFI do not have an agreement.



Introduction

In December 2004, changes to the *NACHA Operating Rules (Rules)* recognized the specific role of Third-Party Senders. At that time, it was increasingly common for an ODFI and Originator to establish an agreement with an intermediary, a Third-Party Sender, instead of direct agreements with each other. This rule amendment established a legal framework to address this business practice, outlining additional obligations and processing requirements for Third-Party Senders.

The changes reflected in this amendment included specific responsibilities for the ODFI and their Third-Party Sender. For example, the ODFI must have an agreement with the Third-Party Sender that provides assurance that the Third-Party Sender is legally able to perform certain obligations of the ODFI under the *Rules*. Also, the ODFI is required to set and monitor exposure limits for the Third-Party Sender, and the ODFI and Third-Party Sender are jointly liable for providing copies of documents that need to be obtained from the downstream Originator. A Third-Party Sender is required to provide the ODFI with information necessary to identify the Originators that the Third-Party Sender processes on behalf of within two banking days of the ODFI's request. Additionally, the Third-Party Sender warrants to the ODFI that their Originators have agreed to the *Rules*.

Effective June 18, 2010, an amendment to the *Rules* addresses aspects of the ODFI's risk mitigation practices with their Third-Party Sender. These practices include requiring ODFIs to include in their agreements with Third-Party Senders (when entered into, renewed or extended after the effective date) any restrictions on the types of ACH transactions that may be originated, and the right of the ODFI to suspend or terminate their processing for the Third-Party Sender or any Originator on whose behalf the Third-Party Sender transmits ACH transactions. The ODFI needs to perform due diligence to ensure that it has a reasonable belief that the Third-Party Sender is complying with its obligations under the *Rules*, and must assess the nature of the ACH activity of the Third-Party Sender. This amendment also provides explicitly for the ODFI's right to audit the Third-Party Sender or any of its downstream Originators to ensure compliance with the *Rules*.

To help ODFIs better mitigate risk and remain in compliance with the *Rules*, three case studies below highlight common risks to ODFIs in Third-Party Sender relationships. Each case study concludes with an analysis of gaps in practice. In addition, recommended ODFI best practices to close the gaps are included.

Case Studies

Case Study #1 — New Third-Party Sender Client Risk

Mountain Bank, a small financial institution with \$166 million in assets, entered into an agreement with a Third-Party Sender, Mega Processing, Inc., to act as its ODFI. Mega Processing solicited origination business and entered into agreements with Originators. Mountain Bank took a passive stance to the onboarding of new Originators, allowing Mega Processing to handle all of the details.

Mega Processing entered into an agreement with one particular Originator, Profit Services. Shortly after signing the agreement, Profit Services created its first ACH file containing more than 50,000 entries.

- Every entry in the file was for the same amount — \$29.99
- Every Receiver name in the file was the same — Joe Cool

Mountain Bank released the outgoing file to the ACH Operator. Mountain Bank later discovered that Profit Services purchased a marketing list of account numbers, albeit outdated. The majority of the entries were returned as invalid within one week of the settlement date. Mountain Bank froze the settlement credit to Mega Processing and sufficient funds were available to fund all returns.

Mountain Bank informed Mega Processing it would no longer process transactions for its Originator, Profit Services. Mountain Bank also revised its agreement with Mega Processing to ensure the Bank would play active role in the on-boarding process for new Originators processing through Mega Processing.

Case Study #1 — Gap Analysis

GAP#1: PROPER DUE DILIGENCE BEFORE ACCEPTING A NEW CLIENT

The ODFI failed to actively participate in the due diligence process during on-boarding of Originators behind the Third-Party Sender. Operating in this manner, the ODFI did not know their customer's customer. The ODFI should have requested a list of the Originators behind the Third-Party Sender. Because the ODFI warrants and is liable for every transaction it transmits to the ACH Operator on behalf of the Third-Party Sender, it is in the institution's best interest to verify that the Third-Party Sender's Originators are operating legitimate businesses. The ODFI should ensure that its contract with the Third-Party Sender provides for the ODFI's right of refusal to process for any Originator behind the Third-Party Sender.

GAP #2: MONITORING NEW ORIGINATOR FILE TRANSMISSIONS

The ODFI should have had procedures in place to suspend, review, and release origination activity for new Originators behind Third-Party Senders.

Based on an understanding of the Third-Party Sender's Originators, the ODFI should check for red flags in ACH files including:

- a) every entry being for the same dollar amount
- b) every entry containing the same Receiver name
- c) a large volume of entries being transmitted to the same routing numbers – in this case, there were instances where 500 or more entries were transmitted to the same routing number

GAP #3: DETERMINING WHETHER THIRD-PARTY SENDERS FIT INTO THE FINANCIAL INSTITUTION'S CULTURE

Third-Party Sender relationships may not be right for every financial institution. A financial institution must assess whether Third-Party Sender relationships fit into the financial institution's payments strategy and culture and whether the financial institution has both people and processes in place to manage the risk of Third-Party Senders appropriately. A Third-Party Sender relationship may add too much risk or require too many additional processes and oversight for some financial institutions.

Case Study #2 – ODFI Originates for High Risk Third Parties

Rock Bank, a large regional financial institution with more than \$4 billion in assets, originated for several third parties. This case study focuses on five of those third parties. These five third parties used a combination of remotely created checks and ACH debits to support the operations of domestic and foreign marketing and telemarketing schemes.

Each of the five third parties were cited by law enforcement for violating state and/or federal law, and most were ordered to pay some amount of restitution.

- 1) We Debit You, Inc. did extensive debit processing as a Third-Party Sender for Canadian companies. Telemarketers called consumers and pitched products ranging from credit repair, ID theft protection,

prescription drug discounts, and credit card offers, which they often misrepresented. Consumers gave their account numbers to the telemarketers who captured the information and sent it to We Debit You Inc. We Debit You, Inc. created and sent ACH debits and demand drafts through Rock Bank. We Debit You, Inc. deducted its processing fees before crediting the telemarketing company for the entries sent. Despite an 80 percent return rate, We Debit You Inc. continued to process for the telemarketers.

In 2003, an executive at Rock Bank recommended closure of We Debit You Inc.'s account due to improper withdrawals from consumer accounts. However, that same year, another executive at Rock Bank credited We Debit You Inc. for increasing Rock Bank's annual revenue projection.

- 2) Debit 'em Fast, LLC was a company that sold magazines and magazine packages to consumers. After some research, it was determined that Debit 'em Fast, LLC misled or failed to disclose to consumers the cost of magazine packages and individual magazines. Additionally, Debit 'em Fast failed to advise consumers that by making a purchase they were automatically enrolled in a buying club unless they called within 30 days to cancel.
- 3) Take Their Money, Inc. was a payment processing company involved in marketing schemes, including telemarketers.
- 4) Passing the Buck, Inc. engaged in unfair acts and practices in connection with processing debits to consumer bank accounts on behalf of their client merchants.
- 5) Quality Telemarketing, Inc. was a telemarketer that used "negative option marketing." In other words, if the consumer said "yes," but did not cancel within a specified amount of time (a period of time not clearly explained to the consumer), the company would debit the person's account, using the account number that was obtained through the deceptive sales pitch.

Case Study #2 – Gap Analysis

GAP #1: PROPER DUE DILIGENCE BEFORE ACCEPTING A NEW CLIENT

The ODFI has an obligation to perform adequate due diligence to understand the third parties' business activities as they relate to the origination of ACH entries.

The Office of the Comptroller of the Currency's Bulletin 2008-12, *Risk Management Guidance on Payment Processors* states, "Due diligence, underwriting, and account monitoring are especially important for banks in which processors deposit RCCs and through which processors initiate ACH transactions for their merchant clients. Banks should be alert to processors' merchant clients that obtain personal bank information inappropriately. The merchant may have misused the customer information to facilitate the creation of an unauthorized remotely-created checks or ACH debit file by the processor."

GAP #2: ONGOING MONITORING AND REVIEW OF ORIGINATOR RELATIONSHIPS

The ODFI should continually monitor return rates, account balances, rate of flow through the accounts, and Standard Entry Class (SEC) Code usage for each third party, along with underlying Originator relationships.

Return rate monitoring is an ongoing necessity. The ODFI needs to monitor the return rates for the third party and its customers on an ongoing basis in order to notice and investigate high return rates that may indicate serious problems. As a best practice, a financial institution's board of directors, or a committee thereof, should receive periodic reports allowing them to determine whether ACH activities are within board-established risk parameters and are achieving expected financial results.

The *Rules* do not require ODFIs to monitor return rates. However, the *Rules*, do require ODFIs to provide NACHA with information regarding returns of authorized entries upon request. Article Two, Section 2.18,

ODFI Reporting Requirements, states, "Upon receipt of a written request [from NACHA], each ODFI must report the actual return rate for unauthorized entries, in total and by SEC Code, for the Originator or Third-Party Sender;" among other pieces of information. Because the need to report is a possibility for all ODFIs, it is another reason for an ODFI to monitor return rates in order to be prepared to fulfill a request from NACHA. In addition, the OCC's Bulletin 2008-12 states, "With respect to account monitoring, a bank should not accept high levels of returns on the basis that the processor has provided collateral or other security to the bank."

ODFIs should investigate high rates of unauthorized returns to determine if these returns indicate poor authorization practices. A rule amendment effective March 2010 will address situations in which consumers claim the ACH debits to their accounts were unauthorized because the authorization was not clear and readily understandable, while Originators claim to have signed authorizations. Subsection 2.1.2 of the *Rules*, Receiver Authorization and Agreement, will include the following language: "Any purported authorization that is not clear and readily understandable as to its terms (including the amount or timing of debits) or that is otherwise invalid under applicable law, does not satisfy the requirements of subsection 2.1.2."

ODFIs should ensure that the Third-Party Sender's downstream Originators have obtained the authorization of the Receiver for ACH entries and that a copy of the authorization can be provided if necessary. This is critical because of the ODFI's warranty that such transactions are properly authorized. ODFIs should understand that the warranty language is broad and does not limit itself to the period of time in which an RDFI can recover funds through the return of entries through the ACH Network. The ODFI's potential liability for a breach of warranty is limited only by the statute of limitations for breach of contract claims under the applicable state law; this warranty may exist for up to seven years in some states.

GAP #3: TERMINATING THE RELATIONSHIP

ODFIs should be cognizant when third parties are cited by law enforcement and should ensure that all third-party contracts allow for immediate termination, especially under these circumstances.

Case Study #3 – Terminating a Relationship with a Third-Party Sender

Background

High Street Bank, a mid-size financial institution with \$500 million in assets, had been processing for several third parties that resulted in high levels of unauthorized returns. High Street Bank decided to terminate its relationship with a particular Third-Party Sender, Quick Dollar Processing, who is the focus of this case study.

The Third-Party Sender

Quick Dollar Processing processes ACH payments for payroll companies, rental companies, tuition processing companies, and other Originators. In many cases, these Originators are downstream from Quick Dollar Processing, with two or more additional third party service providers nested between the Originators and Quick Dollar Processing.

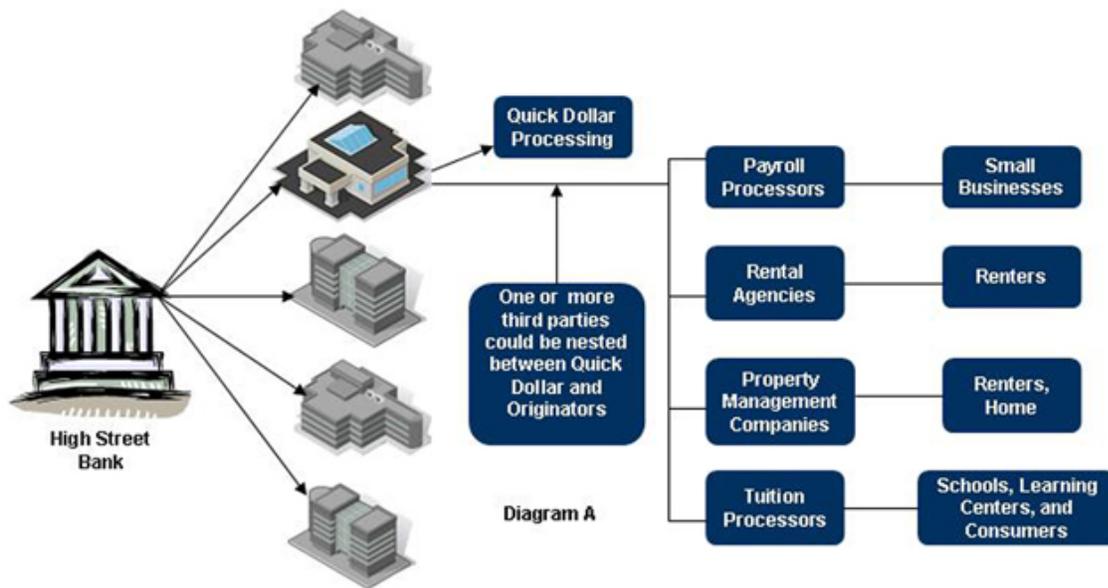


Diagram A shows that Quick Dollar Processing reached a varied group of Originators, often through layers of other third parties.

For many years, Quick Dollar Processing was responsible for transactions that resulted in high rates of returns for unauthorized reasons behind multiple ODFIs. Diagram B shows some of Quick Dollar Processing's (referred in the diagram as 'QDP') history in ACH processing.

Quick Dollar's ACH Processing History

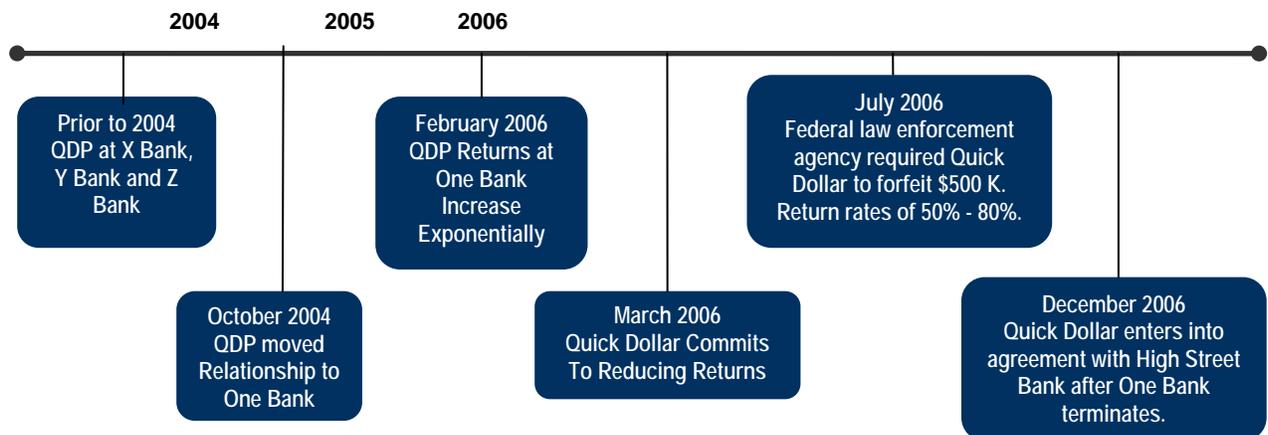


Diagram B

High Street Bank chose to terminate its relationship with Quick Dollar Processing on a day it thought would minimally disrupt and affect Quick Dollar's Originators and Receivers. High Street Bank froze the balance of Quick Dollar Processing's account, and declined to process any credits from the account. In addition, High Street Bank provided a blank indemnity form to Quick Dollar Processing to allow certain late returns. High Street Bank later discovered that this form was used by Quick Dollar Processing to

provide many Originators with permission to return debits that that High Street Bank had not agreed to accept.

The way in which High Street Bank handled the termination affected ACH participants in the following ways:

- **Third-Party Service Providers** — Many payroll providers under contract with Quick Dollar Processing had concern regarding client companies whose payroll credits did not reach their employees. Of equal concern was the number of tax credits that were not disbursed to taxing authorities. Payroll providers did not know how to advise their client companies regarding whether they could challenge authorized debits for payroll and taxes because the corresponding credits did not post.
- **Originators** - Companies that contracted directly with Quick Dollar Processing to debit their customers for services, such as an electric power or property management, were concerned about how long High Street Bank could hold their funds and whether the funds would be released to them. Some of these businesses were in distress since the frozen funds represented critical operating funds. In addition, these Originators did not know how to assist their customers who had authorized debits collected but whose corresponding credit transactions were not received by the businesses.
- **RDFIs** - Financial institutions whose customers had been debited by Quick Dollar Processing were handling customers who wanted to return debits as unauthorized, and payroll companies requesting that their institutions ask the ODFI to “reverse” the settlement debits because the credit payments were never made. These RDFIs were cautiously trying to accommodate their corporate and consumer customers, while remaining in compliance with the *Rules*.

Case Study #3 – Gap Analysis

GAP #1: PROPER DUE DILIGENCE BEFORE ACCEPTING A NEW THIRD PARTY CLIENT

The ODFI should carefully review the validity and creditworthiness of the Third-Party Sender. The ODFI’s due diligence should include:

- 1) Obtaining more information from the Third-Party Sender regarding current or prior ODFI relationships
- 2) Reviewing the Third-Party Sender’s creditworthiness including: (1) reviewing their financial audit, (2) ensuring that they have sufficient capitalization in relation to ACH volume, (3) obtaining historical ACH return rates, and (4) researching consumer complaints on the Better Business Bureau or similar sites.
- 3) Open source research to discover if there have been judgments, etc, related to the Third-Party Sender.

GAP #2: COVERAGE AND ENFORCEMENT OF THIRD-PARTY SENDER AGREEMENT

- 1) The ODFI needs to enforce aspects of their Third-Party Sender agreement to mitigate the impact of terminating a relationship. This includes provisions related to settlement, rejects, returns, over limit situations, account reconciliation, security, compliance, et al.
- 2) The ODFI’s legal counsel should periodically review the agreement with the Third-Party Sender, particularly if there are any changes, such as new *Rules* provisions or changes to the scope of the relationship.
- 3) The ODFI needs to ensure that their Third-Party Sender has an agreement with their Originators. In this scenario, many Originators indicated that they did not know where their agreement with their Third-Party Sender was located nor were they aware of their obligations under the *Rules* as dictated

by that agreement. An ODFI has the right to request information on the Third-Party Sender's Originators, and should ensure that the Third-Party Sender is not only providing requested information on Originators to it, but is also educating their Originators on the *Rules* requirements on a continual basis.

GAP #3: CAREFUL PLANNING FOR RELATIONSHIP TERMINATION DATE

- 1) The ODFI should consider the impact to all ACH participants when determining the date of termination of a relationship with a Third-Party Sender. The ODFI should plan to minimize the impact on ACH participants by carefully considering the transition including, for example, ways to pro-rate the distribution of funds. It is critical to work within the *parameters of the Rules*.
- 2) The ODFI should not provide a blank indemnity form to the Third-Party Sender ever, especially after the termination of the relationship. Even if the ODFI does this in good faith, the fact that the relationship with the Third-Party Sender was terminated should result in precautions related to their ongoing communications with the Third-Party Sender.

GAP #4: KNOW YOUR CUSTOMER'S CUSTOMERS

Properly evaluate the third party's client base, especially if the Third-Party Sender originates debits and credits for a variety of Originators. The ODFI retains responsibility for both the Third-Party Sender's and their Originator's compliance with the *Rules*. As OCC Bulletin 2008-12 states, "Banks that do not have the appropriate controls to address the risks in these relationships may be viewed as facilitating a processor's or its merchant client's fraud or unlawful activity." The ODFI retains responsibility for the Third-Party Sender's downstream Originators having a proper authorization from the Receiver for ACH transactions. It is important for the ODFI to know the Third-Party Sender's downstream Originators so they are able to get a copy of the authorization if necessary.

The importance of an ODFI being able to effectively suspend or terminate an individual Originator behind a Third-Party Sender is emphasized in a rule amendment that will be effective June 18, 2010. In Article Two, Subsection 2.1.1, *Originator Authorization and Agreement*, it will specify that agreements between the ODFI and Third-Party Sender must expressly address "the right of the ODFI to terminate or suspend the agreement, or any Originator processed by the Third-Party Sender, for breach of these rules in a manner that permits the ODFI to comply with these rules; and the right of the ODFI to audit the Third-Party Senders and its Originator's compliance with the agreement and these rules."

GAP #5: THIRD-PARTIES THAT ORIGINATE FOR OTHER THIRD-PARTIES

ODFIs need to be aware that Third-Party Senders may choose to originate ACH transactions for other Third-Party Service Providers in addition to Originators. This "nesting" of third-party relationships adds complexity and additional risk to the ODFI who needs to understand who the Third-Party Senders' customers are and ensure that both the third-parties and the ultimate Originators are in compliance with the *Rules*.

Best Practices for ODFIs with Third-Party Sender Relationships

The ODFI should establish credit and operating policies with regard to the types of businesses, client segments, and clients that they will process for in order to remain within the ODFI's targeted risk profile. The best practices below will help the ODFI remain within the parameters established in its policies.

Before signing contracts or agreeing to process ACH transactions for any third party, and particularly Third-Party Senders, the ODFI should conduct the necessary due diligence to confirm the third party's business model.

Best Practice #1: Verify basic facts about the Third-Party Sender

ODFIs should begin their evaluation of a potential Third-Party Sender by requesting and verifying basic facts about the third party including:

- Name and all “doing business as (dba)” names
- Address
- Phone number
- Type of business or principal business activity
- Tax ID number
- Principal’s names
- Principal’s phone numbers
- Web site address
- Sales history
- Length of time in business

Best Practice #2: Conduct due diligence on the Third-Party Sender

The level of due diligence should include, at a minimum, such practices used for commercial loan underwriting, as:

- Review the third party’s Web site, advertising, marketing, scripts, products, and services.
- Determine whether the third party supports high-risk businesses or businesses prohibited by the ODFI. The ODFI has to define this list in its risk policies. The risk policies should, at a minimum, address businesses that may be considered high risk such as, but not limited to, credit repair, advance-fee loans or credit cards, telemarketing based outside of the U.S., discount membership clubs, government grants and adult entertainment.
- Visit the third party’s physical location if reasonably practicable.
- Beware of third parties that use a Post Office Box.
- Request and verify business references.
- Perform credit analysis.
- Review actual samples of products (if appropriate).
- Identify the third party’s past and current ODFIs (if using more than one ODFI) and reasons for changing or adding an ODFI.
- Consult such resources as Better Business Bureau and Dun & Bradstreet for complaint history, etc.
- Perform open source research on the Internet for consumer and other complaints.
- Validate tax ID numbers through tax filings, incorporation documents, business papers and bank account information.
- Review the third party’s sales history.
- Review the third party’s refund policies.
- Verify the existence of a toll-free customer service number.
- Conduct a search to determine if the third party or any of its Originators has been the subject of a civil, criminal and/or regulatory action.
- Obtain historical return rates for the third party and each of its Originators for at least the following Return Reason categories.
 - Unauthorized (R05, R07, R10, R29, R51)
 - Invalid (aka Administrative) (R03, R04)
 - Account Closed (R02)
 - Stop Payment (R08)
 - NSF/Uncollected (R01, R09)
- Determine the remedial plans if the third party or any of its Originators have a high return rate.

Best Practice #3: Ensure ODFI's agreement with the Third-Party Sender includes all necessary provisions.

Address these issues within the ODFI Agreement with their Third-Party Sender:

- Specify that the Third-Party Sender assumes all responsibilities of their Originators for being in compliance with the *Rules*.
- Stipulate that the Third-Party Sender must have a contract with each Originator that has the necessary provisions to ensure compliance with the *Rules* and termination provisions.
- Identify which SEC Codes the ODFI will originate on behalf of the Third-Party Sender.
- Require that the Third-Party Sender use a unique company identifier in their ACH transactions.
- Specify that the company name used in the ACH transactions that the Third-Party Sender originates must identify the company to the consumer (limiting the use of acronyms and abbreviations, no telephone numbers).
- Define third party termination policies and procedures. Consider whether the agreement should include immediate termination for:
 - Providing false or inaccurate information
 - Failure to notify of new Originators
 - Engaging in activity prohibited by the ODFI, or state or federal law
 - Switching ACH activity to paper draft activity once notified of an issue
 - Switching ACH activity to paper drafts simply to avoid scrutiny
- Include in the agreement a statement that the Third-Party Sender and their downstream Originators can not transact in a business prohibited by the ODFI.
- Identify in the agreement or via a prescribed process how the ODFI will be notified of all Originators for which the Third-Party Sender processes ACH transactions
- Consider whether the agreement should identify which details about an Originator need to be provided to the Third-Party Sender. Consider the following details in the discussion of the agreement and/or procedures:
 - Name and dba name(s)
 - Address
 - Phone number
 - Type of business or principal business activity
 - Tax ID number
 - Principal's name(s)
 - Principal's phone number(s)
 - Web site address
 - Sales history
- Stipulate that the Third-Party Sender must adhere to the *Rules* and all state and federal laws.
- Require the Third-Party Sender to provide the ODFI a copy of either their SAS-70 or other independent audit annually.

Best Practice #4: The ODFI should perform the following procedures on a regular basis.

- Perform an annual review of the financial condition and credit reports of the principal(s).
- Take a risk-based monitoring approach to Third-Party Sender activities (as a whole) and individual Originator's activities.
- Review the Originator list provided by the third party
- Review company names and types of businesses
- Perform background checks on random sample of Originators
- Monitor the Third-Party Sender's Originators' activities
 - Look for red flags such as more than one Originator debiting the same consumer accounts
 - Review incoming and outgoing wires associated with ACH settlement

- Review SEC Code use and compare to agreement
- Monitor return rates by SEC Code and by Return Reason category and by all Return Reason Codes
- Ask for copies of authorizations, phone recordings (if TEL-based), screen shots (if WEB-based), and any other customer forward forms to ensure they are clear and understandable.
- Report to the board of directors (or a committee thereof) at a minimum the following
 - Data analysis and trends of third party's volume, returns and any variances
 - Return rates by the third party and each Originator
 - Any potential or actual rules violation notices from NACHA
- Investigate complaints and assess the validity of concerns or warnings made by other financial institutions or peer organizations concerning the third party or any of its Originators.

Conclusion

ODFIs can appropriately mitigate risk associated with transmitting on behalf of Third-Party Senders. This White Paper provides many best practices for ODFIs to follow related to these relationships. These practices cover all aspects of the ODFIs relationship with a Third-Party Sender from on-boarding, ongoing monitoring, and termination of the relationship, when appropriate. ODFIs should consider best practices and carefully review their obligations and liabilities under the *Rules* for Third-Party Senders so that their agreements appropriately reflect these issues as they bring on a new Third-Party Sender relationship.

NACHA — The Electronic Payments Association supports the growth of the ACH Network by managing its development, administration, and governance. The ACH Network facilitates global commerce by serving as a safe, efficient, ubiquitous, and high-quality electronic payment system. More than 15,000 depository financial institutions originated and received 18.2 billion ACH payments in 2008. NACHA represents nearly 11,000 financial institutions through 18 regional payments associations and direct membership. Through its industry councils and forums, NACHA brings together payments system stakeholder organizations to encourage the efficient utilization of the ACH Network and develop new ways to use the Network to benefit its diverse set of participants. To learn more, visit www.nacha.org, www.electronicpayments.org and www.payitgreen.org.

The Risk Management Advisory Group is dedicated to establishing best practices for risk management, developing rules necessary to assure ongoing strength and stability, and improving quality in the ACH Network. This Group's achievements include significant contributions to the NACHA rules process and to Network education around the changing face of ACH payments risk. The Risk Management Advisory Group advises the NACHA Board and works with staff to guide and implement the risk management strategy. This Group plays a vital role in developing and promulgating a comprehensive approach to Network risk management, working with NACHA staff and key industry stakeholders to produce best practices and rules recommendations, and to share findings with payments professionals across payments channels.