

ARC & Check 21

Converting Checks for Electronic Deposit

Donations, gifts, acquisitions, renewals, orders and any transaction received with a check may be eligible for electronic depositing by the receiving organization rather than physically depositing the checks at a bank. While the rules for electronic check conversion are extensive, this document provides a concise review for US-based transactions.

Definitions and Resources

ACH	Automated Clearing House, the ACH Network is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the NACHA operating rules which provide for the interbank clearing of electronic payments for participating depository financial institutions. The Federal Reserve and Electronic Payments Network act as ACH Operators, central clearing facilities through which financial institutions transmit or receive ACH entries.
ARC	Accounts Receivable Check Conversion
Check	A consumer check (also known as a "source document") drawn on a bank, credit union, or any other US financial institution and used by a consumer to make a donation, or, to pay for goods/ services.
Check 21	Check Truncation Act for the 21st Century
Cheque 21[®] System	Like-Type transactions are imaged once. Cheque 21 [®] System replaces long OCR scan lines or barcodes with a Shrinkcode™ and optional Constituent ID. Available check data output is electronically available for ARC depositing, and/or data and image output for Check 21, or, endorsed checks can go to your bank.
ECCHO	Electronic Check Clearing House Organization, ECCHO is a national provider of Electronic Check Presentment (ECP) and image exchange rules. Website is www.eccho.org .
NACHA	National Automated Clearing House Association or The Electronic Payments Association represents over 12,000 financial institutions and a network of regional payment associations. NACHA develops operating rules and business practices for the ACH Network and for electronic payments in the areas of Internet commerce, electronic bill and invoice presentment and payment, financial electronic data interchange (EDI), and electronic benefits transfer (EBT). Website is www.nacha.org .
Originator	Non-profits and organizations send a solicitation or issue an invoice/statement to their donor/constituent.
TAWPI Great Lakes Chapter	The TAWPI Great Lakes Chapter covers IL, WI, OH, MI, IN, MN and Ontario with a membership focused on check, payment, caging and lockbox issues. The Chapter cooperates with regional counterparts for electronic payment transactions, imaging and financial/accounting. The Chapter recognizes and endorses the missions of ECCHO and the Federal Reserve Banks. Website is www.TAWPIGreatLakesChapter.org or GLC@TAWPIchapters.org .

ARC Notification Language

The ARC process requires the Originator to provide notice to the donor/constituent, prior to receipt of his/her check, that receipt of his/her check will be authorization for the check to be used as a source document for an ACH transaction to the donor/constituent's account at his/her financial institution. The provision of the notice by the Originator to the donor/constituent and receipt of the check by the Originator together constitute authorization for the ARC entry.

The NACHA operating rules do not prescribe specific notification language for the Originator; each notification must comply with the NACHA operating rules which require:

- No notice shall be smaller than the smallest font used on the Originator's document to their donor/constituent.
- Clearly states that receipt of their check authorizes an ACH transaction to their account in accordance with the check's terms.

Accounts Receivable Check Conversion versus Check 21

	ARC	Check 21
What happens to the paper check?	The paper check is converted into an electronic debit. The MICR line on the bottom of the paper check is scanned, the paper check is imaged, and the dollar amount and organization name is added to the data record. The data record is transmitted through the ACH network.	The paper check is imaged and presented as a substitute check. The original check is captured and converted to a digital image. The image is transmitted between financial institutions and the Federal Reserve Bank.
Image Copy	A reproducible, legible copy of the front of the original check is required, and, is retained for 2 years.	The image of the check is retained for 7 years.

	ARC	Check 21
Original Check Destruction	The original paper check document must be destroyed within 14 days.	Same rule.
Eligible Checks	Personal checks only under \$25,000.	All checks drawn on US banks in US dollars.
Can a consumer get a copy of the check?	An image or copy of the original check can be obtained from the Organization or may be obtained from the donor/constituent's bank.	An image or copy can be obtained from the donor/constituent's bank.
Can a consumer "opt-out"?	Yes. A donor/constituent can "opt-out" by contacting the Organization and requesting an "opt-out".	No "opt-out" provision.
Available when?	Available since March 2002.	Enacted October 28, 2004, availability varies by financial institution.
How can a donor/constituent prove a payment?	The donor/constituent can use their statement from their financial institution as proof of payment. The financial institution's statement will list the date; amounts paid, organization paid, and, check number.	The donor/constituent can use their statement from their financial institution as proof of payment or they can use an image of the substitute check as proof of payment.
Is Authorization Required?	The Organization notifies the donor/constituent that a check being sent as payment authorizes the Organization to convert the check. The donor/constituent automatically authorizes check conversion by then sending a check as payment.	No notification or authorization is required by the receiving organization or by the receiving bank.
What laws and regulations apply?	Electronic banking law, regulations and rules cover bill payment check conversion. The applicable law, regulations and rules are: Electronic Fund Transfer Act of 1978, Regulation E, ACH Operating Rules, and the Federal Reserve Operating Circular.	Check presentment under Check 21 is governed by the Check Clearing for the 21 st Century Act, Regulation C, Regulation CC, Clearing House Rules, and Federal Reserve Operating Circular.

ARC Sample Notices

The NACHA sample notice for ARC Entries:

"By sending your check, please be aware that you are authorizing <insert Organization name> to make a one-time electronic debit from your account at the financial institution indicated on your check. This electronic debit will be for the amount of your check; no additional amount will be added to the amount."

Variations on the NACHA sample notice:

"We reserve the right to process checks electronically, at first presentment and any re-presentments, by transmitting the amount of the check, routing number, account number and check serial number to your financial institution. Your checking account may be debited as soon as the same day we receive your payment."

Source: American Express Bank, Ft. Lauderdale, Florida

"When you donate (or make a payment) to our organization by check, you authorize us to electronically process your check using the information on your check. If we electronically process your check instead of depositing your check, the electronic debit to your checking account may be on the same day we receive the check by transmitting the amount of the check, routing and transit number and check number to your bank. Electronically processing your check makes us better stewards."

Suggested Notification for Non-Profit Organization

"We may steward your resources by converting your check into an electronic deposit."

Suggested Shrunked Notification for Non-Profit Organization

Cheque 21[®] System Financial Institutions:

ARC: Bank of America, City National Bank, JPMorgan Chase, SunTrust and Wells Fargo.

Check 21: Bank of America, FedForward™ compliant banks, iStream Imaging (www.istreamimaging.com).

ARC and Check 21 Futures:

Business check eligibility for ARC is under review.

Cheque 21[®] processing for Canadian checks enacted for deployment in 2008 by the Canadian Payments Association.