

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 nonprofit and charitable 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, data-only, 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. Website is www.nacha.org .
ARC	Accounts Receivable Check Conversions are processed through the ACH Network
Check or Cheque	Known as a “source document” drawn on a bank, credit union, or any other financial institution and used to make a gift, donation, or, to pay for goods / services.
Check 21	Check Truncation Act for the 21 st Century
Cheque 21 [®]	Describes the Aqubanc [®] electronic check depositing adhering to US and future Canadian rules.
Cheque 21 [®] System	The Cheque 21 System images Like-Type™ transactions to capture the Motivation, Finder File, Donor ID, Source, Solicitor, Fund, Appeal, check and other organization specific details. The captured donor and gift data with images are posted into fundraising software, while eligible checks have their data formatted for ARC or data with images formatted Cheque 21 [®] depositing per your bank’s Check 21 rules. Checks / Cheques ineligible for electronic deposit submission are physically delivered to your bank.
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	Nonprofit and charitable organizations send a solicitation or issue an invoice to their donor or prospect.

ARC Notification Language and Sample ARC Notices

The ARC process requires the Originator to provide notice to their donor/prospect, prior to receipt of their check, that receipt of their check will be authorization for the check to be used as a source document for an ACH transaction to the donor’s account at their financial institution. The provision of the notice by the Originator to the donor/prospect and receipt of the check by the Originator together constitute authorization for the ARC entry and conversion of their check. While the NACHA operating rules do not prescribe specific notification language for the Originator; there are two notice requirements:

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

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 notice:

American Express Bank, Ft. Lauderdale: *“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.”*

Suggested Notifications for Nonprofit and Charitable Originations: *“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.”* Or the Shrinked version of this same notice:

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

Key Setup Differences

ARC is a data only exchange while Check 21 requires both the delivery of images and data. ARC setup and exchange with your bank is a relatively fast process when compared to Check 21. Depending on your bank’s capability and infrastructure, setup through full exchange production can take from 3 weeks to 6 months. Once in production, ARC or Check 21 changes are usually rare.

ARC Accounts Receivable Check versus Check 21 Conversions

	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 captured; the paper check is imaged and archived by the nonprofit organization; 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 with MICR line and other exchange data to your bank in your bank’s required format for exchange to the Federal Reserve Bank. The check image is archived by the nonprofit organization.
Image Copy	A reproducible, legible copy of the front of the original check is required, and, is retained for 2 years.	The front and back image of the check is retained for 7 years.
Original Check Destruction	The original paper check document must be destroyed within 14 days.	Check destruction is optional. Aqubanc recommends destruction within 2 weeks of making the Cheque 21 [®] deposit.
Eligible Checks	Personal checks under \$25,000 only.	All checks drawn on US banks in US dollars.
Ineligible Checks	All non-personal checks such as business, money orders, bank/official, treasury; or personal over \$25,000.	Savings bonds, foreign checks or combined front and back check image file > 260KB.
Can a consumer get a check copy?	A check image is obtained from the nonprofit organization or may be obtained from the donor’s bank.	Same
Can a consumer “opt-out”	Yes. A donor/prospect can “opt-out” by contacting the Organization and requesting an “opt-out”.	No “opt-out” provision. All eligible checks are eligible for Check 21 depositing.
Available when?	Available since March 2002.	Enacted October 28, 2004, availability varies by financial institution.
How can a donor/prospect prove a payment?	The donor/prospect 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/prospect 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/prospect that a check being sent as payment authorizes the Organization to convert the check. The donor/prospect automatically authorizes check conversion by then sending a check as payment, unless the donor/prospect opts-out.	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.
Cheque 21 [®] compatible institutions	Bank of America, JPMorgan Chase, Key Bank, Wachovia, Wells Fargo.	Wachovia, JPMorgan Chase, Key Bank, Wells Fargo, Comerica, iStream Financial Services, SunTrust, TD Financial and FedForward™ compliant banks.
Cheque 21 [®] System	Custom quoted.	Fully compliant.

Canadian Cheque 21[®]

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