

## **ACH, Return Rates, and the Case for Transparency**

Devon Marsh

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Originators have begun thinking about the ACH rule amendment on return rate levels that will become effective in September. Most Originators that look at their own return rates to see where they stand will see that their rates for unauthorized, administrative, and overall returns fall below the percentages specified in the new rule. However a few will discover—or may already know—that their rates are higher than the rates NACHA has defined. These Originators must examine their debit origination activity closely and decide how to address their return rates.

The lowest rate in the new rule is actually the easiest one to achieve. In order to maintain a return rate for unauthorized transactions below 0.5%, an Originator must obtain a proper authorization for every debit entry. The other return rate categories—administrative and overall debit returns—have multiple causes and therefore multiple remedies. That's why each of these is defined as a return rate *level* rather than a hard-and-fast *threshold*. Nevertheless, an Originator must strive to achieve these levels, and be prepared to present a rational case for exceeding the level in the event of an inquiry and review.

The possibility of an inquiry should not intimidate an Originator or an ODFI. An Originator with an overall debit return rate of greater than 15% should not shift its collection method to an instrument such as remotely created checks to avoid exceeding the ACH return rate level. A high ACH return rate raises a flag that is readily visible in a way that a high return rate for remotely created checks is not. A high return rate is not desirable, but a convenient flag is. ACH provides a practical way for an Originator to demonstrate the legitimacy of its collection activity even when its rate exceeds the desired level. Instead of shifting to RCCs in response to a high overall return rate, the best course of action for an Originator is to show that it maintains the lowest administrative and overall return rates it can achieve in light of its

business model and choice of collection method, that its rates do not result from negligence or complacency, and that they do not result from other rule violations such as excessive reinitiation.

A critical component of the origination of entries that stand a high risk of return is transparency of origination practices. At a time of increasing variety in payment methods, the legitimacy of financial transactions and the business practices that create them are of real concern. An Originator must be able to provide a clear view to its transactions, their underlying sources, and the business practices behind them. Proper use of the ACH network affords this kind of transparency.