

May 16, 2008

Debbie Barr
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NACHA-The Electronic Payments Association
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Dear Debbie,

We have reviewed the final text for Supplement #3 to the 2008 *NACHA Rules*, and we have serious concerns with Example #2 in the new *Operations Guide* Section II, Chapter I, Subsection M.2 titled Company Name Identification. Our concerns are two-fold:

Issue 1: Example #2 introduces a change that requires substantial reprogramming for our ACH system, but the implementation date of June 20, 2008, does not allow for adequate time to make those changes and is off the *NACHA Rules* cycle for changes requiring software modification.

Issue 2: Example #2 contains a poorly conceived solution that misuses fields and violates the letter and the spirit of the *NACHA Rules*.

Regarding Issue 1, consider the following points:

1. Even though NACHA historically collects industry comments in advance of substantive changes, the scenario described in Example #2 was not discussed prior to the supplement's release and has not been vetted by the payments community.
2. Unlike most supplemental changes, the revisions defined in Example #2 will require substantial modifications to ACH software by financial institutions and vendors.
 - a. ACH systems pull much of the information needed for each transaction from predefined participant profiles. A user would, for example, create a profile for an originator that contained the originator's name, address, processing preferences, etc. Storing this information in an originator profile eliminates the need for the user to re-enter it as a part of each transaction.
 - b. Since *every type of ACH transaction in use today places the originating company's name in the Company Name field*, ACH software vendors pull that data from the profile instead of requiring the user to enter it separately for each transaction or batch.
3. Modifying ACH processing systems to let users define a unique Company Name value for every transaction is no small task. This new requirement was introduced in Supplement #3 published on April 30, 2008. The work involved is certainly too large a project to be identified, designed, developed, tested, and deployed during the *61 days* between April 30th and June 20th. In order to meet this deadline, Goldleaf would be forced to suspend work on other, more pressing projects, like next year's implementation of the new IAT SEC code.

4. “Best of breed” ACH software providers *must* remain in compliance with all NACHA rule changes in order to remain competitive. Goldleaf could incur substantial loss if its customers became aware that our software was not compliant with this last-minute element of the supplemental rule change.

In addition to the above concerns about the method and timing of the changes required by Example #2, we believe the solution itself is highly flawed. Supplement #3 contains changes to the *Operating Guidelines* wherein NACHA attempts to more fully define Supplement #2. (Supplement #2 contained a rule change designed to resolve a perceived conflict with Regulation E by mandating that originators place more accurate information in the Company Name field. This field is crucial for non-commercial recipients because it is one of the few transaction elements that must appear on a consumer’s bank statement.) Goldleaf applauds these efforts, and we wholly support the changes in Supplement #2 and in Supplement #3, except for those elements contained in Example #2.

The scenario given in Example #2 is that of a routine person-to-person payment facilitated by a financial institution or a bill payment provider. In order to ensure the receiving person knows who the sending person is, NACHA is mandating that the sending person’s name be placed in the Company Name field in lieu of the name of the originating company.

We believe this proposed solution violates existing NACHA rules and is also inappropriate for the following reasons.

1. A consumer who initiates a person-to-person transaction is not the originator of the transaction. They do not meet any of the standard tests for originator status:
 - a. They are not a party to the ACH system and are not bound by its rules.
 - b. The ODFI is not required to establish an origination contract with them.
 - c. The ODFI is not required to assign them a Company ID. (The NACHA solution, in fact, requires the transaction’s batch header to contain the pairing of the name of the *customer* with the Company ID of the *financial institution or bill payment provider*. That, in itself, represents an absurd condition not found in any other type of ACH transaction.)
 - d. The ODFI is not required to perform credit analysis for them.
 - e. The ODFI is not required to perform periodic audits of their ACH practices.
 - f. Since they are not the originator of the transaction, it is inappropriate to place the consumer’s name in a field designed to hold the originator’s name.
2. The proposed solution actually results in the removal of the real originator’s name from the transaction! If implemented, the effect of the rule will be the opposite of what was intended. While Lisa’s mother, to use the parties established in Example #2, will be more informed about who initiated the transaction, all other parties in the system will be *less* informed. Consider the following scenario, which also uses the names provided in Example #2:
 - a. When Industrial Bank receives the payment intended for Lisa’s mother, it finds that, due to a data entry error made by Lisa, the account number does not match any of its existing accounts.
 - b. Being a service-oriented institution, Industrial Bank contacts MegaBank in an attempt to gain contact information for the transaction’s originator so that they may speak with them and confirm the identity of the intended recipient.
 - c. When Industrial Bank asks MegaBank for information about their originator, Lisa Roberts, MegaBank searches their files and finds no such originator. (Keep in mind that there is nothing in the structure or content of the PPD transaction involved that would alert either the ODFI or the RDFI to the fact that the transaction is a person-to-person payment and the name in the Company Name field is not that of the originating company.)
 - d. Since their attempts to contact the originator failed, Industrial Bank returns the payment.

3. Example #2 implies that there is a problem with the way originators are identifying themselves when they use PPDs to send person-to-person payments, but the real problem is that *the NACHA Rules do not provide any way to facilitate person-to-person payments.*
 - a. Example #2 implies that a PPD transaction is the appropriate vehicle for a person-to-person payment, but *NACHA Rules* Section 14.1.50 states that a PPD transaction must be initiated by “an organization.”
 - b. PPDs are inherently designed for transactions from a business to a consumer; hence the field in question is called *Company Name*.
 - c. The logical choice for a consumer-initiated entry would be a *CIE* transaction, but language in Section III, Chapter VI, Subsection B of the *Operating Guidelines* clearly defines a CIE transaction as a customer-initiated “transfer of funds owed to a *company*.”
 - d. In an attempt to circumvent the lack of a true vehicle for person-to-person payments, NACHA has proposed a solution that “shoehorns” personal data into a field that is designed for company data and is crucial for the identification of the transaction’s true originator.
 - e. Since person-to-person payments are rising dramatically, NACHA will soon be forced to create a vehicle better suited to handle them.
 - f. Since a real solution to the person-to-person payments problem will not be long in coming, all of the effort on the part of ACH software vendors, originators, and ODFIs to implement the short-term solution proposed in Example #2 would be an extremely expensive waste of time where methods would be created that would, no doubt, be reversed and subsequently outlawed shortly after being implemented.

We strongly encourage NACHA to remove Example #2 from the *Operating Guidelines* changes defined in Supplement #3. We also suggest that you begin the evaluation process to determine how the rules must be modified to address person-to-person payments. Until this root issue is resolved, no viable solution will exist for the problem posed in Example #2 of the supplement. We would welcome the opportunity to discuss the possible alternatives and assist in devising a solution.

Please consider the information above, then contact me and let me know how you plan to proceed. We appreciate your organization’s history of incorporating industry feedback into its decision-making process, and we are confident you will hear our voice on this issue.

Sincerely,



David L. Peterson
Executive Vice President
Goldleaf Financial Solutions, Inc.