



# But First We Verify! The Proper Use of Micro-Entries and Prenotes

Presented by:

**Macha/PAR – Everything Payments - Everywhere**

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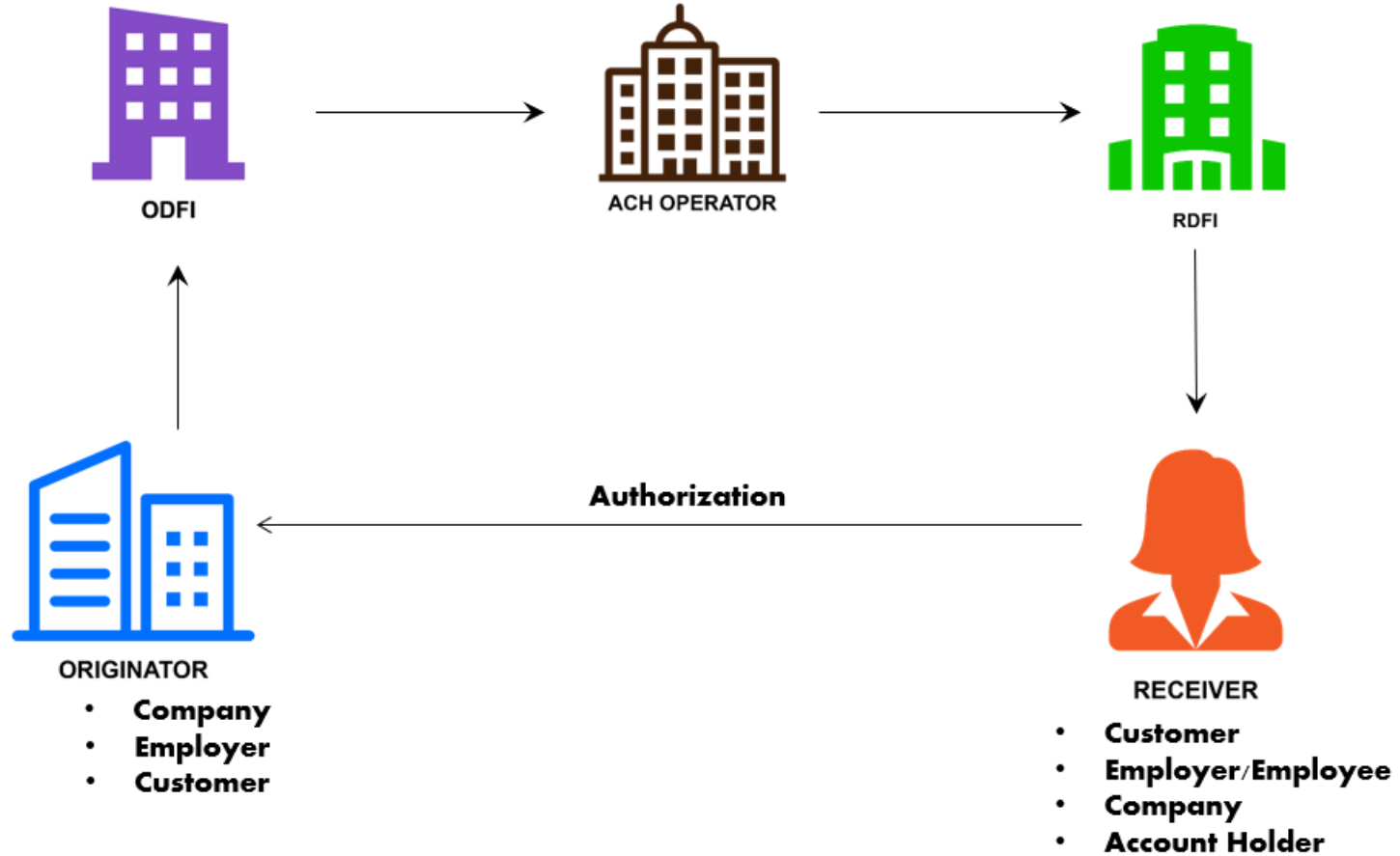
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# ACH Participants

- **Originator:** Individual, company or Government agency who obtains the Receiver's authorization and initiates the entry
- **Originating Depository Financial Institution (ODFI):** Maintains an Origination Agreement with Originator and transmits entries to the ACH Operator; Carries the warranty for all entries it originates
- **ACH Operator:** Central clearing facility for ACH Entries; inserts Settlement Date
- **Receiving Depository Financial Institution (RDFI):** Receives ACH Entries from the ACH Operator and posts to Receiver's account
- **Receiver:** Maintains an account with the RDFI and authorizes the ACH Entry

# ACH Transaction Flow



# ODFI Obligations

Maintain  
agreement with  
Originators

Establish Credit  
Exposure Limits

Provide Returns  
and NOCs to  
Originators

Maintain ACH  
records for 6  
years

Audit once  
every year

Risk  
Assessment

**Full warranty  
for all entries!**

# Originator Obligations

Maintain agreement with ODFI

Comply with applicable rules

Obtain authorization from Receiver

Maintain consumer authorizations for 2 years from termination

Respond to returned entries and NOCs

# ODFI Warranties

- Entry is authorized
- Authorization has not been revoked
- Authorization has not been terminated by operation of law
- Entry contains required information
- Entry is not transmitted on behalf of a suspended Originator or Third-Party Sender
- Entry complies with the Rules
- Credit entry is timely
- Secure transmission of banking information
- Debit entry satisfies an obligation, corrects an error, or reclaims an amount received after death or legal incapacity

# Origination Agreement - Requirements

- Authorize the ODFI to originate entries
- **Bind Originator to the Rules**
- No entries that violate US law
- **Restrictions on types of entries that can be originated**
- Right of the ODFI to suspend or terminate agreement
- Right of the ODFI to audit the Originator's compliance with the Rules
- Restrictions on Nested Third-Party Senders
- TPS will enter into an agreement with all Originators and Nested TPS
- Nested TPS will enter an agreement with all Originators



# Origination Agreement - Recommendations

- Processing requirements
- Processing schedule
- Same-Day ACH
- Liability and accountability
- **Account validation**
  - **Prenotes/Micro-Entries**
- Settlement
  - Pre-funding
- Authorization requirements
- Secure transmission of data
- **Returns/NOCs**
- Security procedures
- Record retention
- Authorized individuals
- **Originator education**

# Internet Payments

As the web grows, so does the ACH Network.

As more and more payments are made online, internet transactions have become the ACH Network's fastest growing segment.



# Supplementing Fraud Detection Standards for WEB Debits

ACH Originators of WEB debits are required to use a “commercially reasonable fraudulent transaction detection system” to screen WEB debits for fraud.

On March 19, 2021, the existing requirement was supplemented to make it explicit that “account validation” is part of a “commercially reasonable fraudulent transaction detection system.”

The new requirement applies to the first use of an account number, or changes to the account number that is to be debited.

Enforcement period began in March 2022.

Account validation by means of Prenote or Micro-Entry does **NOT** excuse an ODFI from their Regulation E obligations to their consumer **NOR** does it void the ODFI's authorization warranty.





# Is Prenote the Way To Go?

- Prenotification Entry (Prenote): a Non-Monetary Entry (non-value or zero dollar) initiated by an Originator to an RDFI prior to the initiation of the first credit or debit Entry to a Receiver's account with the RDFI. A Prenotification notifies that RDFI that the Originator intends to initiate one or more credit or debit Entries to a Receiver's account with that RDFI in accordance with the Receiver's authorization. (2022 Nacha Operating Rules & Guidelines, Section 8.79)
- A Prenote conveys the same information that will be carried on subsequent entries, except for the dollar amount, transaction code, and any addenda records.
- Prenotes can be received in any ACH file on any day with live entries or non-monetary entries.



# Identifying a Prenote

- Prenotification Transaction Codes:
  - 23 Prenotification for DDA Credit
  - 28 Prenotification for DDA Debit
  - 33 Prenotification for Savings Credit
  - 38 Prenotification for Savings Debit
  - 43 Prenotification for General Ledger Credit
  - 48 Prenotification for General Ledger Debit
  - 53 Prenotification for Loan Account Credit

Use of the prenotification process by an Originator is optional for all Standard Entry Class Codes and an Originator may initiate a Prenote for any ACH transaction.



# Prenotes for ODFI's

- The Prenotification process provides some protection to the ODFI and Originator against a breach of warranty, in that it places the responsibility of verifying account data on the RDFI.
- An ODFI may choose to include in their Origination Agreement that Originators that choose not to send prenotes are responsible for entries that are misrouted to incorrect accounts.
  - Prenotification responsibilities should be clearly outlined in any agreement between the ODFI and Originator and in and supporting training material provided to the Originator by the ODFI.



An Originator that has originated a Prenotification Entry to a Receiver's account may initiate subsequent Entries to the Receiver's account as soon as the third Banking Day following the Settlement Date of the Prenotification Entry, provided the ODFI has not received a Return, or a Notification of Change (COR) related to the Prenotification.



# Prenotes for OFDI's

If a Return or NOC is received, the Originator must not transmit subsequent Entries until it has remedied the reason for the Return or made the correction requested by the NOC.

If an NOC is received untimely, the Originator must make the requested changes within 6 banking days of receiving the NOC or prior to transmitting the next entry, whichever is later.

# Prenotes for OFDI's

**AND YES  
THIS MEANS  
YOU!**

- An ODFI must ensure:
  - Its receiving software recognizes responses to prenotifications (returns and NOCs)
  - All pertinent data regarding prenote returns and NOCs is forwarded to the Originator in a timely manner
  - Its Originators are aware of their responsibilities in handling these entries

# Prenotes for RDFI's

- An RDFI must verify that the account number contained in the Prenotification is for a valid account. If it does not, or is otherwise erroneous or unprocessable, then the RDFI must Transmit either (a) a Return Entry, or (b) a Notification of Change.
- An RDFI that receives a prenotification entry is obligated only to verify the validity of the Receiver's account number; it may choose to verify additional contents of the prenotification (i.e. Receiver's name), but it has no obligation to do so.
- The RDFI can process a prenote immediately upon receipt and does not need to warehouse the entry.
- Exception items must not be suspended at the RDFI; they must be posted on a timely basis or returned in the proper time frame.
  - Accept if correct-no further action required
  - Manually post
  - Manually post and initiate an NOC
  - Return the entry

# Why Would You Return That?

R02- Account Closed

R03- No Account/Unable to Locate Account

R04- Invalid Account Number Structure

R12- Account Sold to Another DFI

R20- Non-Transaction Account

# Micro-Entries

- Micro-Entries are a generally accepted method in the marketplace for an ACH Originator to test the validity of a Receiver's account.
- Often referred to as “test transactions” or “test deposits,” even though they are actual ACH Entries resulting in the movement of money.
- Due to several incidents of mis-use of Micro-Entries, Nacha issued two ACH Operations Bulletins in 2021 on Risk Management and Monitoring of Micro-Entries. (May 18 and Sept. 7, 2021)
- Nacha's new Rule is intended to improve the effectiveness of Micro-Entries as a method of account validation and improve the quality of Micro-Entries in the ACH Network.

ODFI warranties apply to these Entries, including the warranties that they are authorized and contain accurate information.



# Micro-Entries

- The new Rule defines and standardizes practices and formatting of Micro-Entries, which are used by some ACH Originators as a method of account validation.
- Phase 1 Effective Date: September 16, 2022
  - The term Micro-Entry will be defined, and Originators will be required to use the standard Company Entry Description and follow other origination practices.
- Phase 2 Effective Date: March 17, 2023
  - Originators of Micro-Entries will be required to use commercially reasonable fraud detection, including the monitoring of Micro-Entry forward and return volumes.



# Micro-Entry Defined

- “A credit or debit Entry used by an Originator for the purpose of verifying a Receiver’s account or an individual's access to an account.”
- A credit Micro-Entry must be in an amount of less than \$1.00.
- One or more debit Micro-Entries must not exceed, in total, the amount of the corresponding credit Micro-Entries.

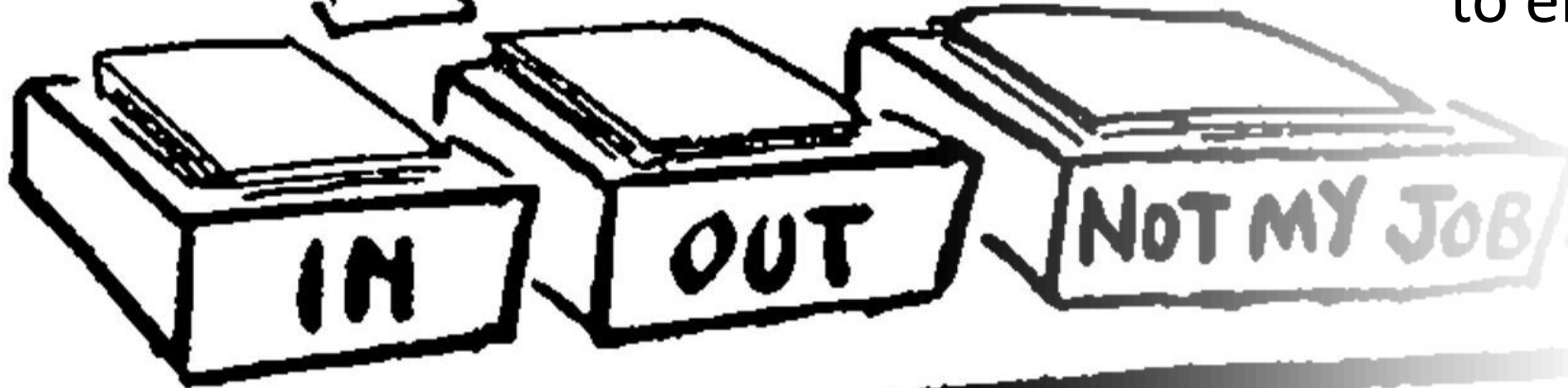
# Micro-Entry Standardized

- The Company Entry Description field must contain “ACCTVERIFY”
  - A standard description will make Micro-Entries more easily identifiable, and better enable ODFIs to apply any desired processing routines or other controls
- The Company Name must be readily recognizable to the Receiver and be the same or similar to the Company Name that will be used in future Entries.

# Micro-Entry Origination Requirements

- Credit Micro-Entries and the corresponding debit Micro-Entry offsets (if used) must be simultaneously sent for settlement at the same time.
- The total amount of the credit Micro-Entry(ies) must equal to or greater than the value of the debit Micro-Entry(ies).
  - The aggregate total of the debits and credits cannot result in a net debit to the Receiver's account.
- An Originator using Micro-Entries may initiate future Entries to the Receiver's account as soon as the Originator's process for validating the amounts of the Micro-Entries has been completed.

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ODFIs are not required to review or inspect files to enforce compliance.

# Micro-Entry Risk Management

- An Originator of Micro-Entries must conduct commercially reasonable fraud detection on its use of Micro-Entries, including monitoring of forward and return volumes of Micro-Entries.

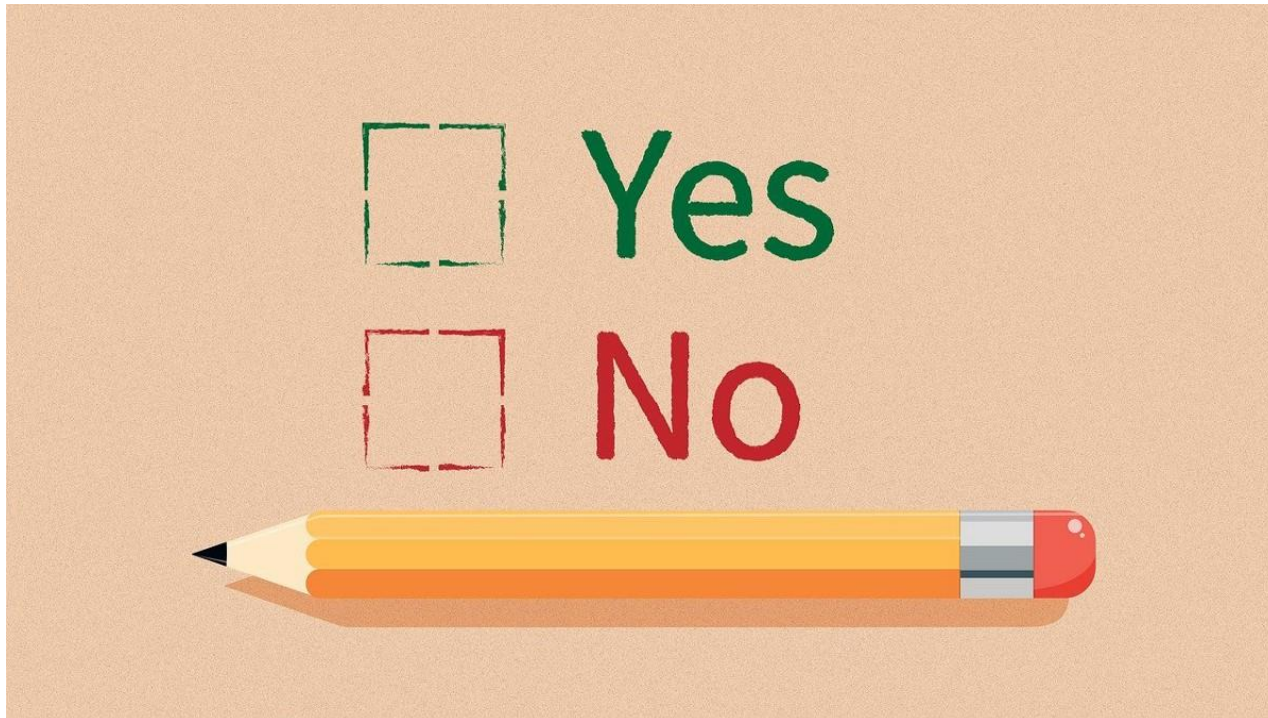


# Micro-Entry Risk Management

- The use of commercially reasonable fraud detection is intended to minimize the incidence of fraud schemes that make use of Micro-Entries.
- Monitoring forward and return volumes, at a minimum, establishes a baseline of normal activity.
- Establishing a baseline of normal activity allows for the detection of anomalous activity.

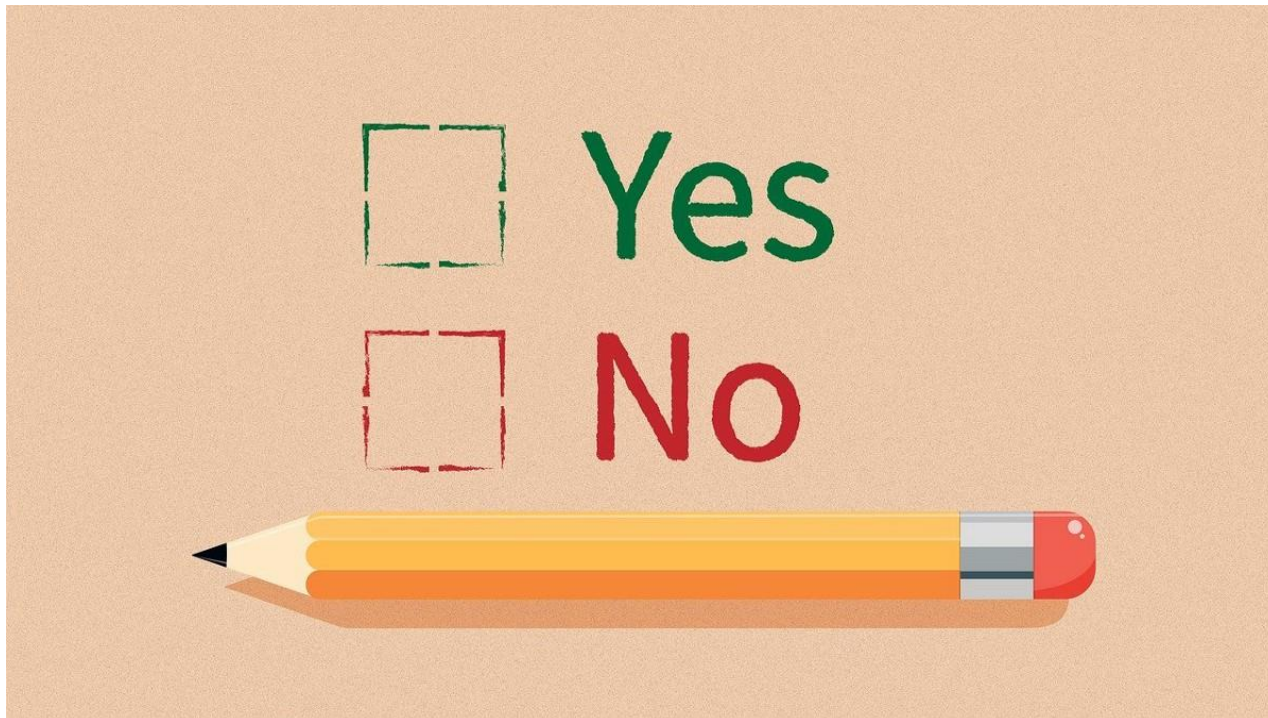
Time for a Quiz

A credit  
micro-entry  
for \$0.75



Time for a Quiz

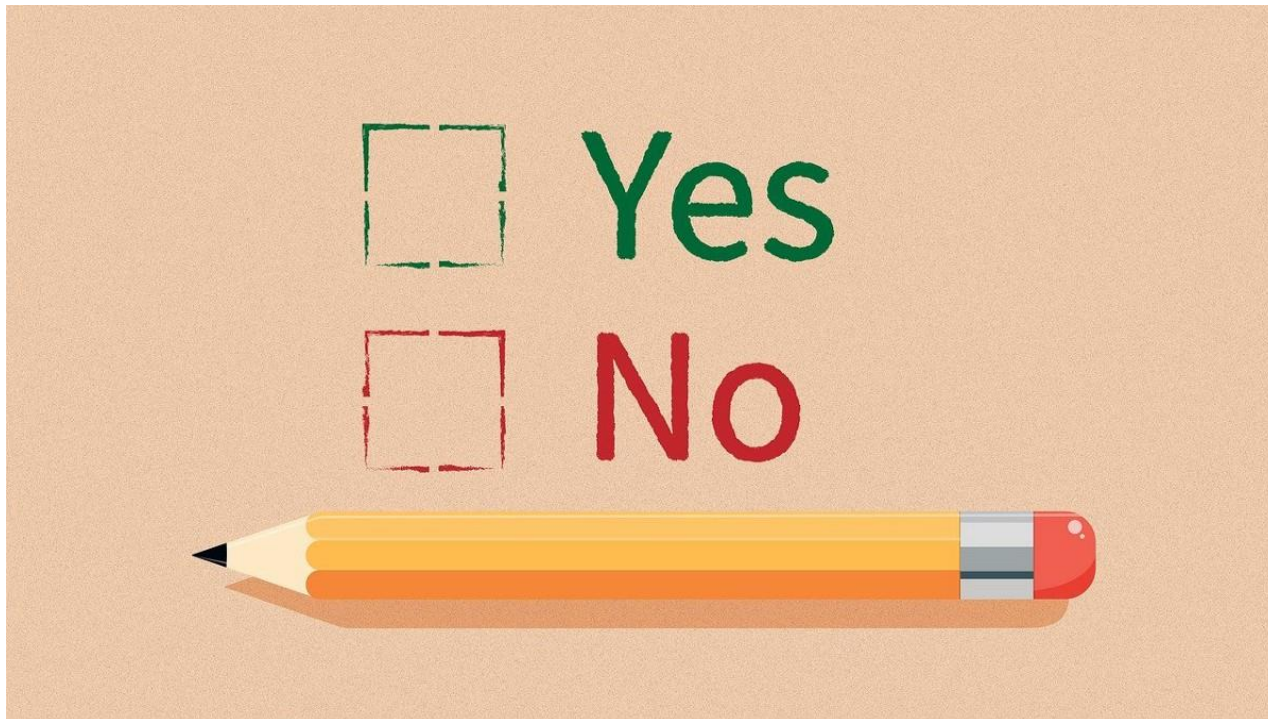
A credit micro-entry for \$0.80 and 2 off-setting debit entries for \$0.50 each





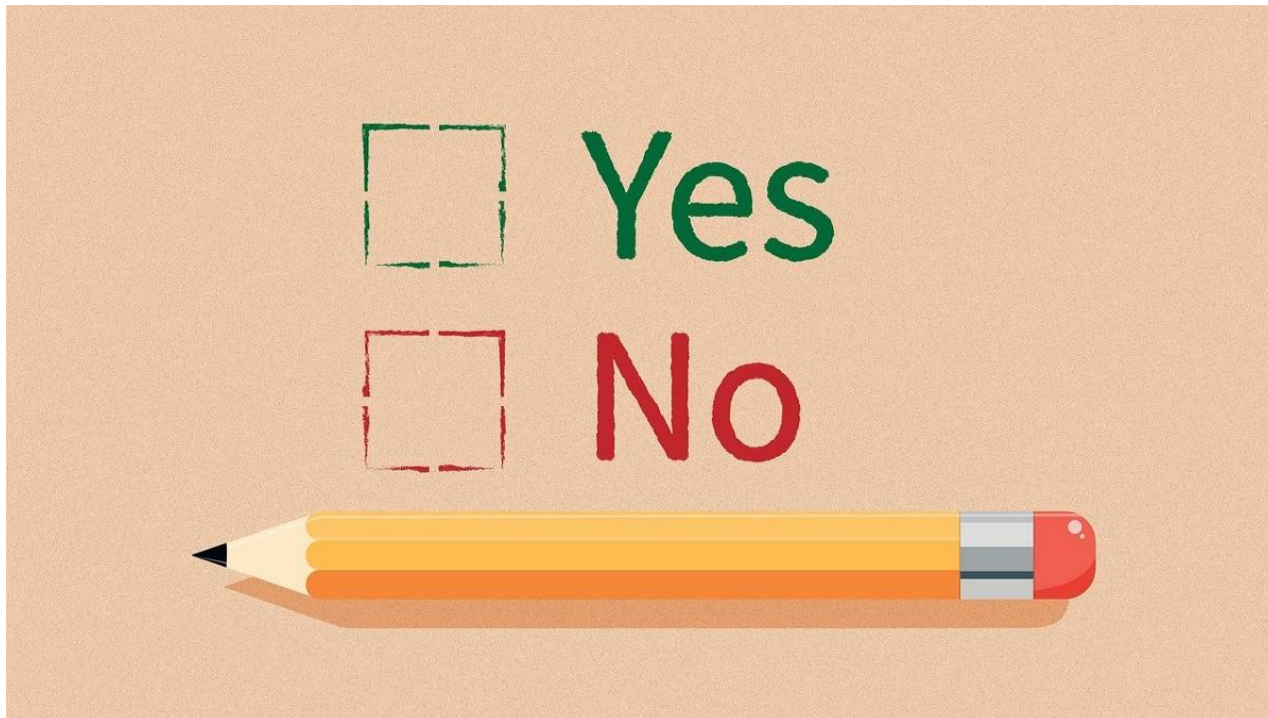
Time for a Quiz

A credit  
micro-entry  
for \$1.10



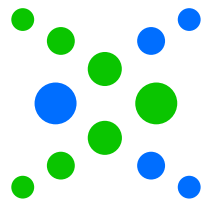
Time for a Quiz

A credit micro-entry for \$0.90 and 2 off-setting debit entries for \$0.45 each



# Questions





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But First We Verify!  
The Proper Use of Micro-Entries and  
Prenotes

May 2023

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