

ADDENDUM – TECHNOLOGY - ACH - EFT & NACHA

An important ongoing revolution is taking place. It started over 50 years ago when banks established certain standards for the automation of check processing and created an alternative to cash transactions. Money orders, cashier checks, credit cards, gift cards and debit cards have been added to the mix and have allowed business and consumers even more options for purchasing goods and services.

In 1958, the American Bankers Association (ABA) adopted E13B font as the MICR (Magnetic Ink Character Recognition) standard for negotiable documents in the United States. It was applied to checks and money orders and provided the means to identify key information on the check including the originating bank, (transit and routing), the account number of that bank, amount of the check and optionally the check number. Prior to the development of the MICR font and the high speed bank equipment that could read and sort the checks check processing was a very slow manual operation.

In the early 1970's while managing a group of analysts and programmers at a local bank I saw the arrival of the beginning of the Social Security Administrations (SSA) Direct Deposit operations. The deposit data arrived on tapes readable by mainframe computers. The deposits were then processed along with the checks and money orders being processed that night.

SSA established a means for its recipients to receive their benefits with a safer, quicker, and less expensive method of disbursing SSA payments via Direct Deposit or Electronic Funds Transfer (EFT). The Direct Deposit became a standard within the government, big business and in more recent times some inroads are taking place with small business and consumers. With so many players using EFT a need to standardize and regulate the rules and procedures for Electronic Funds Transfers became a necessity. Currently about 85 million recipients receive benefits via Direct Deposit EFT. Of special note is that SSA has finally ended in 2015 the creation of SSA checks. All SSA recipients are now Direct Deposit recipients.

An Automated Clearing House (ACH) Network was created with NACHA (National Automated Clearing House Association) assuming the role of creating and maintaining the rules for over 11,000 financial institutions who are members of NACHA. It is also worth noting however, even though NACHA creates the standards for ACH formats and processing it seems apparent that some financial institutions have the ability to modify the standards for special operations. See below.*

The Automated Clearing House (commonly, but incorrectly referred to as "Automatic Check Handling") was first established in California in 1972, by a joint effort between banks and the regional Federal Reserve to facilitate paperless check transactions. As news of the success of this first association spread, more ACH associations were established, with agreements made between the associations and their corresponding regional Federal Reserve Banks to operate regional ACH networks.

The National Automated Clearing House Association (NACHA) was established in 1974 to coordinate efforts to develop a nationwide ACH network, ultimately succeeding in 1978, when all ACH networks nationwide were electronically linked. In 1980, the ACH

Network was changed slightly by the passage of the Monetary Control Act, which allowed for private sector ACH Operators to compete with the Federal Reserve Bank. There are now three recognized private sector ACH Operators: American Clearing House Association, the New York Automated Clearing House, and VisaNet ACH Services. It's expected that more private sector clearing houses will emerge in the near future. Currently, the FED ACH Operator (Federal Reserve) handles more than 85% of ACH transactions.

The ACH Network is what is responsible for allowing such services as online bill pay, direct deposit, and direct debiting, and has proven to be a viable, faster and more cost effective alternative to paper check processing. It consists of more than 12,000 financial institutions, 650 industry councils, and a network of regional ACH associations, and is governed by NACHA - The Electronic Payments Association in Herndon, Virginia.

The variety of institutions and individuals who use the ACH Network may be of interest. The Network includes:

- Mortgage Lenders
- Insurance Companies (Home, Life, Auto)
- Auto Lenders
- Mutual Funds and Investment Companies
- Newspapers/Magazines (for subscriptions)
- Utilities
- Long Distance Providers
- Cellular Service Providers
- Internet Service Providers
- Cable/Satellite TV Providers
- Health Clubs
- Credit Card Companies
- Non-Profits and Fundraisers
- Zoos and Museums (membership fees)
- Online Payment Services (BillPoint, PayPal)
- Employers (for Direct Deposit)
- The IRS (for Direct Deposit of refunds or automatic payment of taxes owed)
- State Departments of Taxation
- State Bureaus of Motor Vehicles
- State Attorneys General (for payment of liens owed the state)
- State Highway Patrols (speeding on the Turnpike is hazardous to your bank account!)
- County Courts (for payments of fines, liens, fees)
- Child Support Enforcement Agencies
- The US Social Security Administration
- Consumer Collection Agencies (so you may pay your obligation quickly)

It might surprise you to know that many websites which require membership for viewing also use the ACH system, as do "check by phone" companies, and as indicated in our earlier writing an increasing number of property management companies and owner / operator landlords will accept rent payments via ACH.

ACH is perhaps best known for Direct Deposit. According to the Mid-America Payment Exchange, ACH is used for Direct Deposit now by 100% of all Social Security benefit

recipients, 46% of the U.S. workforce, and 96% of all Federal Government employees. The workforce and Federal Government numbers most likely also increased since the numbers were originally reported.

Direct Deposit saves time and money for both employers and employees, making it one of the fastest increasing services of the ACH Network. Some financial institutions will also waive your account fees if you use Direct Deposit!

All of the above payment methods, (with the exception of Gift Cards), are in play in varying degrees within the property management industry with checks, money orders and in some cases cash still being the prevalent method. What is new is a growing interest by property managers, owner / operators and even tenants in seeking new alternatives to reduce labor costs, shorten processing times and provide higher levels of service for owners and tenants.

Traditional check processing is labor and equipment intensive for the banks. It is also labor intensive for property management operations. The processing of checks electronically is significantly less so.

The creation of a traditional check, its disbursement, distribution, deposit / cashing and reconciliation entail significant elements of time and cost through out the complete process. ACH payments provide benefits for the payer and payee but are not for every one. Payers, (tenants, and HOA homeowners) who do not have bank accounts, regular or adequate earnings are not candidates for ACH payments. Payees who do not have a bank account, (owners, vendors, tenants), also will require a non ACH payment.

Another payment alternative which promises to be an extended interim solution is Point of Sale, (POS), which is a combination of a Check Reader / Imager /Credit Card Reader device which can convert the checks to an ACH transaction usually via the Internet. It is also used to enter the check information to the appropriate tenant record within the property management system. In that case it replaces the traditional data entry (by keyboard), processing of checks by the management company, and still provides the option of implementing the non-check ACH transaction in the future. An additional benefit of this technology is that a copy of the scanned check is created and stored in a designated file on an available hard drive. One property management system we work with attaches the scanned check image to the associated tenant record.

In either case however, once ACH receipts are initiated an immediate payback should be apparent based on reduced labor and processing costs. ACH payables will provide an increased level of service for owners while at the same time reducing the time and costs of printing, distributing and reconciling owner and vendor checks. It is imperative that the property management company also coordinate their efforts with their bank(s) in order to minimize confusion and delays.

* We are aware that some banks have deviated from NACHA standards in their file formats which has created special problems where multiple bank accounts are in use. One very large well known bank uses a modified ACH format that according to a bank representative provides additional security. Not a problem for most companies which only use one bank account for receipts and expenses or where one account is only used for ACH transactions.

The implementation of ACH/EFT transactions within a property management company does introduce a competitive edge factor into their operations which will continue to provide improved benefits as the percentage of ACH/ EFT transactions increase. Management companies should introduce the concept to their tenants, homeowners, vendors and property owners before implementation is initiated. Initial responses and prospective authorizations will provide an idea of the magnitude of this type of change and set the table for a faster, and simpler conversion.

ACH / EFT capabilities are appearing in two different mediums. They are being provided as a module specifically designed and programmed to integrate with a given property management system. They are also available as an ASP (Application Service Provider) Internet based System (or subsystem) which in some cases can be used as a stand alone operation mostly focused on ACH Tenant / Homeowner rent / fees receipts.

An option is also available which allows integration of the ASP system with some PC based property management programs once export / import routines are added In both mediums identified above there are additional receipt payment options include recurring payments, one time payments or e-checks, credit card payments, debit card and check reader / scanner ACH conversions. The Check Reader/ Scanner / Credit Card Reader payment alternative above promises to be an extended interim solution.

Point of Sale, (POS). which is a combination of a Check Reader / Imager /Credit Card Reader device used currently in retail stores, will be a likely alternative for tenants not willing to commit to specific receipt processing schedules based on variations of pay days and income.. It would have the most immediate result in replacing the traditional receipt processing of checks by many management companies and owner/ operators, and still provides the option of implementing other e non-check ACH transactions in the future

Another significant capability that has lagged somewhat in smaller business operations is the ACH / EFT Payables function. This is also found in both mediums but still developing in its availability and in its operation. We are aware of its inclusion in some ASP routines but its operation is basically the same as paying bills with an on-line banking system which in conjunction with most property management systems would entail redundant invoice data entry. The PC based ACH payable function however still requires invoice data entry (and possibly Work Order conversion) but then provides the conversion of volume owner/ vendor ACH transactions in lieu of the traditional owner/ vendor checks.

We have observed owner ACH operations are generally more prevalent in property management systems then vendor ACH operations. This can be explained by the number of small business vendors lacking the interest and technology in accepting ACH / EFT payments.

This technology is of special interest and value to many property managers in that it significantly reduces the many and varied costs of traditional check processing including the bank processing costs. It is worthwhile noting that converting checks (receipts and payments) to ACH transactions is also a stated goal of the banking industry in order to reduce the costs and overhead of traditional check processing.

It should also be understood that ACH is not an instant solution. ACH information (bank account information and approval must be obtained and entered into the system before any processing can take place and this will potentially entail a number of specific efforts by property managers before the information and approval is available in any volume. It will also be necessary to establish additional security precautions and procedures to properly secure the confidentiality of this new information.

It is also important that ACH/EFT operations in some states require state mandated compliance elements not necessary in other states. California maintains a number of ACH/EFT compliance issues required by the Department of Real Estate. Transactions must be completed within 3 days. Only 2 bank accounts are allowed in the transaction. They are the bank account of the resident directing the payment to the property management company's bank account. The same requirement applies to the management company's payment to the property owner or vendor servicing the company.

In the past and possibly still present in some states the ACH/EFT service associated with the property management company used a system with an interim bank account during the transfer of funds. It also required on occasion up to 5 days to complete the transfer.

Note: This White Paper is an updated version of a technology addendum in my 2016 published book "Property Management Systems – From A To Z" -

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