

VISA POS CHECK PROGRAM

Acquirer Processor and Third Party Authorizing Agent Service Description

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ADVANCED Payment Processing

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1 Introduction

1.1 About *ECHO*

ECHO (Electronic Clearing House, Inc.) is an electronic payment processor, providing credit card processing, check guarantee, check verification, check conversion, check collection and/or inventory tracking to over 100,000 retail merchants across the nation. *ECHO* is a public company based in Agoura Hills, Ca and has been involved with the Visa POS program since its inception. *ECHO* can function in two major roles for the POS Check service: Third Party Authorizer and/or Acquirer Processor.

The Third Party Authorizer's role is to authorize POS check transactions for non-participating banks, and create ACH items that are sent to a ODFI (Originating Depository Financial Institution).

The Acquirer Processor's role is to drive terminals and route transactions to Visa. *ECHO* owns and operates the National Check Network (NCN), which functions as the gateway to Visa and the authorization database for non-participating transactions. The NCN database is composed of 130 million positive records with account history and 20 million negative records updated 300 times a day. NCN provides a rich suite of risk management tools including access to ancillary databases such as SCAN, Direct Chek and Star Chek.

1.2 Scope and Audience

More and more retailers across the nation have discovered the benefits of using electronic check conversion (ECC) – the process of converting paper checks to electronic items at the point of sale.

Now with the VISA POS Check Service and with *ECHO* as your Third Party Authorizing Agent, you can offer your merchants a fast, efficient method to process checks and receive payment electronically. This powerful solution offered by *ECHO* and VISA will greatly reduce the costs, time, and risks associated with check acceptance at the point of sale.

This guide outlines the options available to VISA POS Check Service participants who have selected *ECHO* to be their Third Party Authorizing Agent for non-participating transactions.

2 Service Description

2.1 Overview of Electronic Check Conversion for Non-Participating Transactions

ECHO will process all non-participating transactions via the Federal Reserve's ACH system according to standard NACHA guidelines for POP (Point of Purchase) transactions.

The combined power of the National Check Network for authorization and *ECHO*'s sophisticated second-generation ACH settlement engine deliver the most cost effective transaction processing available. These systems incorporate many features to better serve Acquirers and merchants, and to increase the efficiency and effectiveness of the ACH process.

- In addition to the NCN database, transactions are processed via internal systems that validate and, if necessary, translate ABA and account numbers before presenting to the ACH system.
- The *ECHO* settlement engine provides a wide variety of flexible settings and optional services described more fully in the following sections.
- *ECHO* supports all three-service options defined in the VISA POS Check Service (Conversion Only, Verification with Conversion and Guarantee with Conversion). The point of sale terminal can specify the service level based upon preset amount thresholds.

2.2 Description of Features

2.2.1 NCN System

The NCN (National Check Network) database contains over 130 million records on check writers nationwide. One of the nation's largest, most up-to-date databases, it provides merchants with the information they need to make sound decisions on accepting checks. It features:

- Extensive risk management settings to reduce check writer fraud.
- Rapid authorization responses.
- Declines issued by the NCN system for VISA POS Check transactions include *ECHO*'s name, address and phone number, as stipulated by the VISA Third Party Requirements. Detailed referral information can also print on receipts at the acquirer's choice.
- Dial or direct connection (frame relay, Internet or Vsat)
- Access to multiple risk management databases
- Extensive contribution base including 90% of the Visa Acquiring Banks

2.2.2 Timing of Initial Presentation

ECHO offers Acquirers the ability to select a custom processing cutoff time for daily processing of items. The same cutoff time applies to all merchants processing through a single Acquirer.

In addition, *ECHO* offers a *check writer float* feature whereby timings for initial ACH presentations can be delayed on a merchant-by-merchant basis for merchants who want a program that will mimic the timing of a paper check.

2.2.3 Automatic Re-Initiation

The *ECHO* system provides the flexibility to select the number of times to re-initiate returned transactions. This can be set either per merchant or per a group of merchants. Re-initiation options include, zero, one or two times.

2.2.4 Timing of First and Second Re-initiations

Timing of item re-initiation can be customized. Options include:

- Immediate re-initiation;
- Re-initiation timed to coincide with paydays of choice (i.e. 1st and 16th); or
- Re-initiation on specific days of the month

2.2.5 Returned Check Service Charges (Collection Fees)

ECHO's system offers the ability to automatically initiate a "Returned Check Service Charge." This is a fee that is assessed via the ACH system to the check writer if an item returns NSF (non-sufficient funds) or UCF (uncollected funds) and is subsequently re-initiated.

The Acquirer has the ability to select how distribution of funds will be made for any Returned Check Service Charge successfully collected for Conversion Only and Verification with Conversion transactions.

Many options are available regarding Returned Check Service Charges, including:

- Amount of Returned Check Service Charge can be set to be a fixed flat rate, or it can be set to follow our system-maintained State Allowed Fee Table;
- Returned Check Service Charge can be presented as a separate item on the same day as re-initiation, or presented a set number of days after the re-initiation;
- If Returned Check Service Charge is returned, it may be re-initiated. Timing for re-initiation can be specified.

2.2.6 Paper Drafts

Some checks cannot be processed through the ACH system due to limitations of the check writer's financial institution. In such cases, *ECHO* will create a paper draft and submit it through the conventional Federal Reserve System.

2.2.7 Choice of ODFI

ECHO has established ACH agreements and is currently processing with multiple ODFI's. Alternatively, *ECHO* can initiate transactions on behalf of the Acquirer's ODFI.

2.2.8 Settlement of Funds

The *ECHO* system can settle either directly to individual merchant bank accounts, or to an Acquirer-owned "Master Merchant Account."

2.2.9 Merchant Float during Re-Initiations

ECHO offers a feature whereby returned ACH items from non-guaranteed transactions can be covered by a separate, Acquirer-owned "floater" bank account during the re-initiation process. This feature keeps the "Master Merchant Account" (or merchant account) funded until the item can no longer be presented electronically through the ACH system.

2.2.10 Reporting Options

ECHO offers a variety of reporting solutions for a merchant and an Acquirer. For a merchant, *ECHO* can provide access to detailed transaction reporting online or statements can be emailed, faxed or mailed.

For an Acquirer who chooses to create their own merchant statements, a standard suite of machine-readable reports is available for import. In addition to machine-readable reports, *ECHO* can also provide human-readable reports for account reconciliation and management.

Report options are listed below:

Machine Readable Reporting Options

- **Detailed Transaction Log** – Contains original input data of all non-participating transactions from POS including voids.
- **ACH Extraction Log** – Contains original input data with duplicates, voids and batch totals included.
- **Rejected Transaction Report** – Identifies all transactions rejected by the *ECHO* ACH Processing System that must be corrected before processing can be successful.
- **Returns Report** – Identifies all returned transactions. The report shows the next action - which could be research, reinitiated, or disposal.

- **Research Returns Report** – Identifies all transactions returned from internal research. It also shows the next action to be performed.
- **Disposal Report** – Identifies all unsuccessful transactions the *ECHO* ACH Processing System can no longer process (i.e., the return code is such that the transaction can not be re-initiated or the client has not instructed the system to re-initiate the transaction an additional time).
- **Exception Report** – The exception report identifies any exceptional condition. Returns of adjusted items are one example of this report. This class of return frequently results in a significant amount of research or labor to correct.
- **Posting Report** – The Posting Report documents all financial activity against a client's virtual account including transaction postings, settlement postings, billing postings, service fee postings, memo postings, etc. The posting amount can be a fraction of the originating transaction amount (e.g., a fee distribution posting from a merchant's account to their ISO). This report is typically used by acquirers who want to generate summarized client activity statements or consolidated billing statements.

Management/Reconciliation Report Options

- **Reconciliation Report** - The Reconciliation Report is a summary of fund movement activity of the Clearing Account (ODFI account).
- **Payable/Receivable Report** - The Payable/Receivable Report is designed to show all future debits/credits that are scheduled to be posted against a specified account, which is typically either a Clearing Account, Floater Account, or a Guarantor Account that is specified by the Acquirer.
- **Cash-basis Summary Statement** - The Cash-basis Summary Statement is used by the designated Acquirer/ ISO User to track processing fees that are paid to *ECHO*.

ECHO is continually exploring additional reporting options and can also address custom requests for reporting, merchant statements and/or online reporting. Examples and demonstrations are available upon request.

2.2.11 Customer Support

ECHO is able to provide 7x24x365 telephone support services for:

- Customers
- Merchants
- Acquirer/ISO's

2.2.12 Merchant Fee Assessment and Distribution Service

A wide variety of fees and commissions can be assessed and distributed based on specified parameters. Fees and commissions may be charged on a per-transaction or percentage basis. Payments may be timed in a variety of ways,

(i.e. monies may be collected daily, but paid out monthly). Fee types available include, but are not limited to:

- Transaction Fee
- Percentage Fee
- Return and Re-Initiation Fee
- Draft Submission Fee
- Merchant Setup Fee
- Miscellaneous Fees

2.2.13 Image Repository

ECHO provides an Image Repository System. Images are available for viewing online via an Internet browser on an unlimited 7x24 basis. Access requires a secure ID and pass code combination. An online demo of *ECHO*'s Image Repository can be viewed at <http://www.xpresschex.com> by clicking the "Check Imaging" button on the left-hand side.

2.2.14 Traditional Collections

ECHO offers a traditional collections service for merchants to collect items that cannot be collected electronically.

The *ECHO* collection department lists the check with the NCN database, reports the check writer to all three credit bureaus, and initiates telephone and written contact with check writers in order to collect checks. The department can also proceed to legal action when necessary.

2.2.15 Checkwriter Fraud Protection Features

The authorization system provides 91 optional store-specific risk management parameters.

The *ECHO* ACH system provides additional optional fraud protection features. Each merchant can be set up with threshold amounts for:

- Maximum dollar amount per check that the merchant is allowed to process
- Total dollar volume allowed per day
- Total number of checks allowed per day

2.2.16 Administrative Return Research

ECHO provides an optional service for researching administrative returns. If this service is selected, *ECHO* analysts will research such items, correct and re-submit them for electronic initiation. This feature requires the use of an imager.

For programs without imaging capability, *ECHO* is in the process of developing a feature whereby a system-generated paper draft will be attempted in the event of an administrative return.

2.2.17 Dishonored Returns

The system automatically scans for invalid returns, and, upon finding them, returns them to the check writer's bank as "dishonored." Depending on the ODFI, this process may be manual or automated. Typical reasons for dishonored returns include, but are not limited to:

- Returns for which an original was never sent;
- Duplicate returns;
- Returns received outside the valid time window for the type of return
- Invalid return type for the original transaction.

2.2.18 Guarantee with Conversion Program

ECHO will work with each Acquirer to develop mutually agreeable terms for its Guarantee with Conversion Program. These terms will include the following items listed below, as well as detailed terms and conditions

Eligible Merchant List

- This list will be developed with Acquirer based on its target merchant base for the VISA POS Check Service.
- The list will reflect timing of guarantee product deployment by MCC Risk category.
- Merchant types that are not mutually acceptable to both Acquirer and *ECHO* will be ineligible for participation in guarantee.

1. Discount Fee Pricing, which will be based on:

- Merchant Category Code (MCC)
- Guarantee Limit Per Check
- Terminal threshold settings
- Imager requirement (there may be some types of merchants for which an imager is required for guarantee)

2. Returned Check Service Charge – for returned guarantee items, *ECHO* retains this fee and/or any other fines or penalties allowed by law as part of its compensation.

2.3 Description of Setup Procedures

ECHO offers a variety of flexible options in setting up the VISA POS Check Program for the Acquirer and for merchants and *ECHO* will be there every step of the way.

2.3.1 ODFI Setup Procedures

If an Acquirer or a Bank chooses to be set up as an ODFI with *ECHO* as their Third Party Authorizing Agent, the below steps are followed. A guide to this setup process will be provided to the Acquirer if this decision has been made.

- An implementation schedule will be established
- Connectivity for file transfer is implemented
- Creation of ACH and Return transaction files for testing to include:
 - Sending and receiving valid ACH and return transaction files
 - Receiving return files that include returns that do not belong to *ECHO*
 - Receiving return files that include dishonors
- Test entire process: send, return, dishonor, contest
- Put into production with a probationary period

2.3.2 Program Setup Procedures

The implementation of the program is managed by expert team leaders from VISA and *ECHO* Program Management with detailed project schedules and weekly meetings that define every parameter.

2.3.3 Merchant Setup Procedures

ECHO will work with an Acquirer and Merchant to define the best and most efficient merchant implementation process that works for that program. *ECHO* Merchant Applications are easily understood and setup forms that are used to set up the merchant in the *ECHO* system can be sent via mail, fax, email, or XML. In the near future, *ECHO* will offer an Internet interface for merchant setup.