Payment Processing Enhancement
Fee Netting

**Issue:** NMLS collects and disburses a range of state agency fees, including application and renewal fees and state generated invoices. When licensees make state agency payments through NMLS, the system holds the funds for five business days (and therefore typically eight calendar days) before disbursing to the state agency. Many state agencies have indicated that the current five day hold is a problem as it may unnecessarily hold up action being taken on the application/license update until the state actually receives the funds. Several state agencies expressed the desire to receive their funds sooner.

**Background:** SRR is looking to make a number of enhancements to NMLS payment processing and disbursements over the next 12 to 24 months to allow next day disbursement, suspend system access when a payment has failed, invoicing for credit card dispute, etc. In the first phase, SRR is working to disburse funds to your state agency the next business day after a payment is submitted.

When payment processing was initially built in NMLS, SRR was not able to build out a full processing system that could automate the management of failed payments. Given the fact that once funds were released to the state, they could only be “returned” due to failed payments by a manual process, SRR held state funds for five business days, which is the timeframe that the vast majority of payments fail, before releasing to the state agency.

Given that the funds stay under SRR’s control, NMLS can provide automatic invoicing for payments failing within that timeframe, which allows the licensee to make payment again through NMLS without any manual invoicing by SRR or the state agency. NMLS maintains a “Returned ACH” deficiency in the system to alert agencies to the fact the payment had failed.

Approximately 2% of all ACH payments made in the system fail. The vast majority of these fail within five business days. If a payment fails within five days, the “Returned ACH” deficiency is placed on the company, branch or individual license. For payments failing outside the five day window, SRR must manually invoice the entity and notify the state regulator outside NMLS of this failed payment. If an entity does not satisfy the failed payment within a reasonable period of time, SRR may suspend the entity’s system access. This manual process is time consuming since it is handled outside NMLS. In order to streamline this function, SRR would like to implement the same procedures for failed payments that occur within five days to those that occur outside this window. More information about these policies can be found on the NMLS Resource Center.

In order to disburse state agency funds the day after payment is made, SRR proposes to address the problem of failed payments by “netting” fees paid to your state agency on a future disbursement. Note that this does not involve recapture of funds by going into a state’s account. Rather, SRR would disburse funds, and if a failure occurs, we would net out a future disbursement. SRR will provide your agency complete details about the transaction including return date, failed payment amount, NMLS ID for company, branch or individual and original transaction confirmation number for the instances in question.
For example, a company requests renewal on November 9th and pays the state agency renewal fee through NMLS. SRR would disburse funds to your agency on November 10th. If NMLS was notified on November 13th that the company’s payment failed, the dollar amount of the failed funds would be deducted from the state agency’s November 14th disbursement.

To support this proposal, SRR is reviewing how system set payment related license items function and considering the possibility of adding an ACH payment indicator. These enhancements are being discussed internally and with a group of state regulators dedicated to working on this project. Recommended changes will be vetted with all states during the normal development process.

SRR has informally run this by several states and this appears to be a common approach in accounting. We believe the proposed enhancements will satisfy the needs of your agency’s accounting departments and provide your agency with the following benefits:

- Next day receipt of state funds, rather than the typical eight calendar day wait currently;
- Allow agencies who need to wait to act on a filing until funds are received to act quicker (which could speed up processing of 98% of your filings);
- Allow for more of the accounting and invoicing to be managed through and captured in NMLS, since manual processing of failed payments will be eliminated;
- Allow your agency more flexibility when dealing with payments submitted via ACH.

SRR will conduct a formal survey on this topic to receive input from states and discuss the results with all states.

Questions:

Does your agency’s accounting/treasurer’s department have any objections to the fee netting approach? If yes, please indicate the reason and any changes that could be made to the approach to make it acceptable.

Does your agency’s legal department have any objections to the fee netting approach? If yes, please indicate the reason and any changes that could be made to the approach to make it acceptable.

Does your agency’s licensing department have any objections to the fee netting approach? If yes, please indicate the objections and any changes that could be made to the approach to make it acceptable.

What information would you like on the failed transaction report to help your agency track these failures?

Does your agency have any other questions or comments related to these enhancements?