



ACH Reference Guide



Automated Clearing House (ACH) Rules for ACH Originators

The following Quick Reference Guide provides a brief overview of the important information you should be aware of as an originator of ACH transactions. This guide is not intended to be a replacement or substitution for the Nacha Rules and Guidelines. Nacha Rules are subject to change. Any changes to Nacha Rules that pertain to your organization will be communicated to you annually.

ACH Basic Facts

- An ACH originator is any entity or person who creates an ACH transaction.
- ACH entries are received by most financial institutions and credit unions.
- ACH is capable of crediting or debiting checking or savings accounts.
- ACH entries are categorized as “consumer” or “corporate”.
- ACH is a batch system (not real time).
- Once sent to the ACH Operator, entries are final. The Bank does not have access to change or revoke any entry.

ACH Governing Rules and Agreements

You are required to abide by multiple rules and agreements including, but not limited to, the following when initiating ACH entries:

- Nacha Operating Rules (www.nacha.org)
- Regulation E (for consumer entries)
 - A Federal Reserve regulation which outlines rules and procedures for electronic funds transfer (EFTs)
- UCC4 (for corporate credits)
 - Governs commercial transactions within the United States
- Deposit Agreement and Terms and Conditions
- Treasury Management Services Agreement
- Bank and Corporate Agreements
- Authorizations from employees, customers, etc.

Your Responsibilities as an ACH Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for two years past revocation (See “Consumer Debit Authorizations”)
- If requested by Bank, provide a copy of the authorization. Bank may request to see your authorizations from time to time as part of an annual audit.
- Send entries on the proper date to meet settlement deadlines.
- Give appropriate notice to debtor if changing amount or date.
- Cease subsequent entries when notified.
- Make necessary changes to payee account information within six (6) banking days upon receipt of a Notification of Change before another entry is sent.
- Protect the banking information received to originate transactions.
- Ensure your computer and organization/entity is protected as outlined in the Treasury Management Services Agreement.
- Select the appropriate Standard Entry Class (SEC) code based on category “corporate” or “consumer”.
- Company Entry Description should describe the purpose of the entry to the receiver, i.e. - PAYROLL, dividend, etc. This description will print on the receiver’s bank statement.

ACH Summary

The two most common types of Standard Entry Class (SEC) codes for ACH transactions originated through our business online banking system are PPD and CCD. PPD transactions are Consumer (person) involved transactions, whereas CCD are Corporate (company) involved transactions.

Direct Deposit Payroll Authorizations (Consumer)

- Use a direct deposit authorization form to collect employee account information. This form should allow the ACH Originator to make credit and debit entries in the event a payroll adjustment is necessary (a sample of this form is available in this packet).
- Obtain a voided check from the employee (if possible).
- The most common SEC code for direct deposit payroll is PPD.
- Any compensation related payments must be identified as PAYROLL in the Company Entry Description field.

Consumer Debit Authorizations

- Authorization to debit an account must be in writing or “similarly authenticated”.
- The SEC code for consumer debits is PPD.
- Authorizations for consumer debits must be maintained in a physically secure location for 2 years after the authorization is terminated or revoked. After the retention period, secure destruction of the authorization is required.

Corporate Authorizations

- There must be an agreement between the Originator and company for these types of transactions. While the Nacha Rules do not define an “agreement”, it is recommended you have the company complete an authorization form (a sample of this form is available in this packet).
- The most common SEC code for corporate transactions is CCD. Both debits and credits may be used for this type of origination.
- CCD transactions allow limited remittance detail to be provided electronically.
- Originator must have the ability to provide proof of authorization or originator contact information for entries to non-consumer account (corporate) if requested.

Changing Date or Amount of Debits

- ACH Rules require you to notify your debtors of any changes in date or amount debited under the following circumstances:
 - Seven (7) calendar days’ notice for a change of date (consumer or corporate).
 - Ten (10) calendar days’ notice for a change in amount (consumer only).
- Sending the notice via U.S. Mail or electronically is acceptable.

Prenotifications (Pre-notes)

- Pre-notes are zero-dollar entries which precede a live entry. The purpose of a pre-note is to verify account information.
- Pre-notes are optional. If sent, pre-note rules must be followed and the live entry must be dated at least three (3) banking days after the pre-note is settled.
- The Receiving Bank is not required to validate the name of the payee on the pre-note; they are only required to verify the routing and account number.

Notice of Change

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting the future entries contain correct information.
 - The notice will be sent to you electronically.
- When an NOC is received, the original transaction has processed, however, ACH Rules require you to make the change within six (6) banking days of receiving the information or before another entry is sent.
- The Receiving Bank warrants the information they provide to you is correct.
- Any fines received based upon your non-compliance may be passed along to you.

Returns

- Returns must be processed by the Receiving Bank within 24 hours of settlement. Returns that are unauthorized beyond the 24 hours are the company's liability and any disputes may have to be settled outside of the banking network. It is recommended you view your account activity daily.
- An exception to the 24-hour rule is Consumer Unauthorized Returns, which may be returned within 60 days of posting.
- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules. Using the correct SEC Code ensures your company complies with the ACH rules established by Nacha, the electronic payments association.
- Do not mix Consumer (PPD) and Corporate (CCD) entries within the same batch.
- If PPD is selected, only entries intended for consumers can be included within the batch. Likewise, if CCD is selected, only entries intended for corporate (non-consumers) can be included within the batch.
- The Batch Type PPD or CCD will determine the permitted return timeframe. If a corporate entry is included in a PPD Batch, the receiver will be allowed to return the item as Unauthorized for up to 60 days rather than the 24-hour CCD rule. Since consumers are protected, if a consumer entry is included in a CCD Batch, the receiving institution can return the item as an Unauthorized Debit to a Consumer account for up to 60 days.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank may obtain a signed Written Statement of Unauthorized Debit from the account holder. You may request a copy of the statement by contacting us.
- The ACH Rules require Originators to cease the origination of any ACH debit transactions when a previous ACH debit is returned as unauthorized, or authorization revoked by the Receiver. The Originator must obtain a new Authorization prior to re-originating any future transaction.
- Originating Depository Financial Institutions (ODFI) will pay a fee for each ACH debit returned as unauthorized (return reason codes R05, R07, R10, R11, R29, and R51.) Nacha has set the preliminary fee at \$4.50 per unauthorized return. The fee may be passed on to the Originator of the ACH debit transaction.
- You may re-initiate a debit entry within 180 days up to two times if you receive a return entry of "NSF or Uncollected Funds." This gives the Originator a total of three attempts at debiting an account. Re-initiated entries must contain identical content in the Company Name, Company ID, and Amount field. Modifications can only be made to the extent necessary to correct an error or facilitate processing of entry. Re-initiated entries must contain "RETRY PYMT" in the Company Description Field.
- A "Stop Payment" return may be re-initiated only if you receive authorization from the payee to re-send the entry.
- The Bank will monitor return rates and may require corrective action in the event of excess return rates. In the event we are fined by a Receiver's financial institution ("RDFI") for a return of your Entry, we may charge the amount of the fine to you.

Reversals

- **If a reversing entry must be made, please contact your Treasury Management Team for instructions.**
- Reversals may only be made to correct an erroneous entry such as:
 - Wrong dollar amount
 - Wrong account number
 - Incorrect payment date
 - Duplicate transaction
- When initiating a reversal, the reversing entry must be for the full amount, must be sent within five (5) banking days of original entry and must be sent within 24 hours of discovering the error.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the payee's account or if the payee's account is closed.
- A payee must be notified if the reversing entry debits his or her account. However, a payee does not need to authorize the reversing debit.
- The word REVERSAL (all caps) must be used as the Company Entry Description.

Exposure Limits

The Bank establishes a daily ACH exposure limit. This exposure limit represents the total dollar amount allowed to settle on a single Effective Entry Date. ACH exposure limits are reviewed annually and maybe adjusted at the Bank's discretion without prior notice. Please contact us if you have a file above your established limit for exception processing.

ACH Fraud Risks

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. Operational Risk can arise from a technology failure, human or technical errors in financial models and reporting, or other internal control system deficiencies. This type of fraud may arise from fraud perpetrated by employees or external sources.

Recommendations:

- Not using temporary employees for ACH functions
- Thorough screening of potential full-time employees
- Segregation of duties
- Changing or rotating work assignments
- Personal security/controlled access to department
- Internal audits of controls
- Periodic risk assessments

Fraud Threats may be perpetuated through cyber-attacks, email compromise, account takeover, social engineering and even vendor impersonation fraud.

- Do not open any suspicious emails or emails from unknown parties.
 - If you do open an email, avoid any links, attachments, photos or graphics you cannot verify.
 - Verify all change requests. If a vendor or payee requests a change in account information via email or fax, call the phone number listed on your system (not the number on the form received) and verbally verify the information with the requestor.
 - Block the ability to auto-forward emails outside of the organization. This would prevent an attacker from forwarding emails to an alternate email account.
 - Test your employees - send a phishing (fake malicious) email to see if there are any employees who open it.
 - Educate employees on the risks of fraud threats.
 - Disable the end user's administrative rights to their computers to minimize introduction of viruses, malware, etc.
 - Keep virus protection and operating systems up-to-date.
 - Protect account numbers by rendering them unreadable when stored electronically.
- **Required for ACH originators with volume exceeding 2 million annual entries.

Controls

The Bank is committed to being your partner in combating fraudulent transactions. The following fraud detection protocols are in place or recommended:

- Deployment of multi-factor authentication - tokenization of entry into the online system and tokenization at the time of transmission.
- Dual Control is recommended when originating any type of payment from the business online banking system.
- “Out of Band” authentication is in place through a service which provides out of band authentication for unusual activity.
- Daily ACH exposure limits are established for all Originators.

Same Day ACH

Same Day ACH allows payments to be processed within the same business day. This moves money in the ACH network in the same way, only faster.

- Same Day ACH entries must be authorized (and approved) before 11:00 am CT.
- There is a \$1,000,000 limit per originated transaction.
 - If a file contains an entry over \$1,000,000, the payment will be sent as a next-day transaction.
- **If you submit a Pass-Thru file with a current date in the Effective Entry Date before 11:00 am CT, the file will automatically be processed as a Same Day ACH File. Please note, stale, or invalid dates in the Effective Entry Date field will be processed in the next available window, which could be same-day or next-day.**
- Same Day ACH may be originated for credit or debit files.
- Access to Same Day ACH origination may be restricted by user within Business Online Banking.
- Any account which receives ACH transactions can receive Same Day ACH entries.
- Receiving Banks are required to make funds available to the receiver by 5:00 pm local time.
- Same Day ACH Additional Fees will be applicable. See a Treasury Management Representative for more pricing details.

Standard Entry Class (SEC) Codes

Each ACH transaction is identified and recognized by a specific Standard Entry Class (SEC) Code, which appears in the ACH record format. The SEC Code also identifies the specific record layout used to process the payment and payment-related information.

| Code | Application Title | Application Description | Consumer/Business | Debit/Credit |
|------------|-------------------------------------|--|-------------------------------|---------------------------------------|
| ARC | Accounts Receivable Check | Converted Checks received via the US mail or at a drop box location | Consumer accounts only | Single debit only |
| BOC | Back Office Conversion | Converted Checks received by merchant at the point-of-purchase or manned bill payment locations, and processed during back office operations | Consumer accounts only | Single debit only |
| CCD | Corporate Credit or Debit | Transfer of funds between business accounts or to consolidate funds from several accounts of the same business | Business accounts only | Debit or Credit |
| CIE | Customer Initiated Entry | Credit entry initiated by an individual (usually through a bill payment service) used to pay some sort of obligation | Consumer or Business accounts | Credit only |
| CTX | Corporate Trade Exchange | Payment or collection of obligations between separate businesses. | Business accounts only | Debit or Credit |
| DNE | Death Notification Entry | Notice initiated by an agency of the Federal government to advise an RDFI of the death of an individual (includes addenda record details) | Consumer accounts only | Credit only (non dollar amount entry) |
| ENR | Automated Enrollment Entry | Entry submitted by Financial Institutions to enroll client in direct deposit of Federal government benefit payment | Consumer accounts only | Credit only (non dollar amount entry) |
| IAT | International ACH Transaction | Transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States | Consumer or Business Accounts | Debit or Credit |
| POP | Point-of-Purchase Entry | Converted checks received by merchant at the point-of-sale | Consumer accounts only | Single debit only |
| POS | Point-of-Sale Entry | Entry initiated by individual at the merchant location using a merchant-issued card for payment of goods or services | Consumer accounts only | Single debit only |
| PPD | Pearranged payment or deposit entry | Recurring entry for direct deposit of payroll, pension, etc., or for direct payment of recurring bills such as utilities, loans, insurance, etc. | Consumer accounts only | Debit or credit |
| RCK | Represented Check Entry | Merchant collection of checks that had been returned as NSF or Uncollected Funds | Consumer accounts only | Single Entry debit |
| TEL | Telephone Authorized Entry | Single or recurring entry submitted pursuant to an oral authorization obtained solely via the telephone | Consumer accounts only | Debit only |
| WEB | Internet Initiated Entry | Entry submitted pursuant to an authorization obtained via the Internet or a wireless network | Consumer accounts only | Debit only |
| XCK | Destroyed Check Entry | Replacement entry for check that is lost or damaged, or for check image that is unreadable or cannot be processed | Consumer or Business accounts | Single debit only |

Transaction Codes

| Transaction Codes | Return/NOC | Origination Entry | Pre-note |
|--------------------------|------------|-------------------|----------|
| Checking Account Credit | 21 | 22 | 23 |
| Checking Account Debit | 26 | 27 | 28 |
| Savings Account Credit | 31 | 32 | 33 |
| Savings Account Debit | 36 | 37 | 38 |
| FI General Ledger Credit | 41 | 42 | 43 |
| FI General Ledger Debit | 46 | 47 | 48 |
| Loan Account Credit | 51 | 52 | 53 |

Transaction codes are used internally within financial institutions and their processing partners. These transaction codes will be within your accounting software to map transactions and are used in NOC and Return Item communication

Notification of Change

Standard notification of change reason codes are listed below.

| Code | Reason | Description |
|------|--|---|
| C01 | Incorrect Bank account number | Bank account number incorrect or formatted incorrectly |
| C02 | Incorrect transit/routing number | Once valid transit/routing number must be changed |
| C03 | Incorrect transit/routing number and bank account number | Once valid transit/routing number must be changed and causes a change to bank account number structure |
| C04 | Bank account name change | Customer has changed name or ODFI submitted name incorrectly |
| C05 | Incorrect payment code | Entry posted to demand account should contain savings payment codes or vice versa |
| C06 | Incorrect bank account number and transit code | Bank account number must be changed and payment code should indicate posting to another account type (demand/savings) |
| C07 | Incorrect transit/routing number, bank account number and payment code | Changes required in three fields indicated |
| C09 | Incorrect individual ID number | Individual's ID number is incorrect |
| C10 | Incorrect company name | Company name is no longer valid and should be changed |
| C11 | Incorrect company identification | Company ID is no longer valid and should be changed |
| C12 | Incorrect company name and company ID | Both the company name and company ID are no longer valid and must be changed |

Return Reason Codes

Standard return reason codes are listed below

| Return Code | Reason/Description | Action by Originator | Return Deadline |
|-------------|--|--|---|
| R01 | Insufficient Funds – Available balance is not sufficient to cover the dollar amount of the debit entry. | May initiate a new ACH entry within 180 days of original Settlement date. | 24 Hours |
| R02 | Account Closed – A previously open account is now closed. | Must Stop initiation of entries. Obtain new authorization from Receiver for another account. | 24 Hours |
| R03 | No Account/Unable to Locate – The account number does not correspond to the individual identified in the entry or a valid account. | Must Stop initiation of entries and contact the Receiver for correct account information. | 24 Hours |
| R04 | Invalid Account Number – The account number fails the check digit validation or may contain an incorrect number of digits. | Must stop initiation of entries until account number/structure is corrected. | 24 Hours |
| R05 | Unauthorized Debit to Consumer Account using Corporate SEC Code – A business (corporate) debit entry was transmitted to a client's consumer account and the client had not authorized the entry. | Must stop initiation of entries. | 60 days – Written Statement of Authorized ACH debit |
| R06 | Returned per ODFI's Request – The ODFI has requested that the RDFI return the entry. | Must accept requested return. | Not applicable |
| R07 | Authorization Revoked – Client who previously authorized an entry has revoked authorization with the Originator. | Must stop initiation of entries until new consumer authorization is obtained. | 60 days – Written Statement of Authorized ACH debit |
| R08 | Payment Stopped – Client had previously requested s stop payment of a single or recurring entry. | Must contact Receiver to identify the reason for the Stop Payment and obtain authorization before reinitiating the entry. | 24 Hours |
| R09 | Uncollected Funds – Available balance is sufficient, but collected balance is not sufficient to cover the entry. | May initiate a new ACH entry within 180 days or original settlement date. | 24 Hours |
| R10 | Client advises not authorized, notice not provided, improper source document, or amount of entry not accurately obtained from source document. | Must stop origination of entries. | 60 days – Written Statement of Authorized ACH debit |
| R11 | Client advises entry not in accordance with the terms of the authorization. – The receiver has a relationship with the Originator, but there is an error in the debit entry that does not conform to the terms of the authorization. | Must stop origination of entries. | 60 days – Written Statement of Authorized ACH debit |
| R12 | Account Sold to Another DFI – A financial institution received an Entry to an account that was sold to another financial institution. | Must stop initiation of entries and obtain correct routing information for initiation of subsequent entries. | 24 Hours |
| R14 | Representative Payee Deceased – Representative payee is deceased or unable to continue in that capacity, beneficiary is not deceased. | Must stop origination of entries. | 24 Hours |
| R15 | Beneficiary or Account Holder Deceased. | Must stop origination of entries. | 24 Hours |
| R16 | Account Frozen – Access to account is restricted due to specific action taken by the RDFI or by legal action. | Must stop origination of entries. | 24 Hours |
| R17 | File Edit Record Criteria – Field(s) cannot be processed by RDFI. | Must identify and correct errors prior to initiation of further entries. | 24 Hours |
| R20 | Non-Transaction Account – Policies or regulations (such as Regulation D) prohibit or limit activity to the account indicated. | Must stop origination of entries. | 24 Hours |
| R23 | Credit Entry Refused by Receiver – Any credit Entry that is refused by the Receiver may be returned by the RDFI. | Must obtain Receiver authorization prior to reinitiating the entry. | 24 Hours |
| R24 | Duplicate Entry – The RDFI has received what appears to be a duplicate Entry, i.e. the trace number, date, dollar amount and/or other data matches another transaction. | Should accept the return. If the entry has already been reversed, Originator should contact RDFI to determine a solution. | 24 Hours |
| R29 | Corporate Entry Unauthorized – RDFI has been notified by business account holder that a specific transaction is unauthorized. | Must stop initiation of entries until subsequent authorization has been obtained. | 24 Hours |
| R31 | Permissible Return Entry – ODFI agrees to accept a return of an unauthorized corporate entry after the 24 hour deadline. | Must accept return as agreed upon with the RDFI. If the Originator or ODFI has not given permission for the untimely return, the return may be dishonored. | 24 Hours |

ACH return entries may be dishonored when they are untimely, when they contain incorrect information or have been misrouted.

Direct Deposit Authorization Form - SAMPLE

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate credit entries to my (our) account indicated below and the financial institution named below, hereinafter called DEPOSITORY, to credit the same to such account. I (we), also, authorize the COMPANY and the DEPOSITORY to initiate debit entries to my (our) account indicated below to reverse any credits made to such account in error. This authority is to remain in full force and effect until COMPANY has received written notification from me (or either of us) of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law.

Please print and complete ALL the information below.

Name: _____
Address: _____
City, State, Zip: _____

The diagram shows a sample check with the following fields and labels:

- Payor Information:** John Jones, 124 Main Street, Anywhere, MA 02345
- Date:** _____
- Pay to the order of:** _____
- Amount:** \$ _____ Dollars
- Routing Number:** 123456789 (labeled "9 digit Routing Number")
- Account Number:** 1234567891011 (labeled "Account Number (1-17 digits)")
- Check Number:** 0259 (labeled "Check Number (do not include)")

The word "EXAMPLE" is written across the center of the check.

Name of Bank: _____
Account Number: _____
9-Digit Routing Number: _____

Amount: ☐ \$ _____ ☐ _____% or ☐ Entire Paycheck

Type of Account: ☐ Checking ☐ Savings

Please attach a voided check for each bank account to which funds should be deposited.

**Do not use deposit ticket routing number for direct deposit as it may be different.*

I am an authorized signer, or otherwise have authority to act on the account identified in this statement. I attest that the above account information is correct and agree to enter into the direct deposit on behalf of said company, and that the signature below is my own proper signature.

Signature: _____ Date: _____

***Retain form for no less than two years after cancellation date.**

Authorization Agreement for Direct Debit (Payment) - SAMPLE

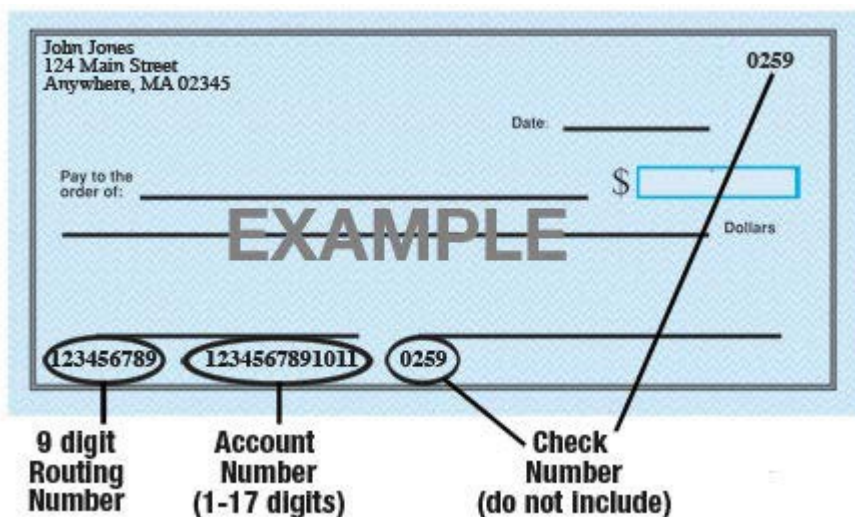
I (we) hereby authorize _____, hereinafter called COMPANY, to initiate debit entries to my (our) Account. Account indicated below at the financial institution named below, hereinafter called DEPOSITORY, and to debit the same to such account. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law. This authorization is to remain in full force and effect until COMPANY has received written notification from me (or either of us) of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it.

TYPE OF BANK ACCOUNT:

- ☐ Checking account ☐ Savings account
☐ Business Account (Check this box only if the checking or savings account is a business account)
☐ I have a Debit Filter or Debit Block on this account. Please contact me with the Company ID that I can provide to my bank to allow this debit to process as authorized.

BANKING INFORMATION:

Financial Institution Name (Please Print) _____
Financial Institution City, State and Zip Code _____
Name on Account _____
Account Number _____
9-Digit Routing Number _____
Effective Date of Transfer _____ Frequency of Transfer _____ Amount \$ _____



Please attach a voided check for each bank account to which funds should be deposited.

**Do not use deposit ticket routing number for direct deposit as it may be different.*

- If monthly payment amount varies, the company must send the customer written notification of the payment amount 10 calendar days prior to the scheduled payment date (PPD debits only).
- If the company changes the date on a recurring payment the company must send the customer written notification at least 7 calendar days prior to the scheduled payment date (PPD debits only).

I am an authorized signer, or otherwise have authority to act on the account identified in this statement. I attest that the above account information is correct and agree to enter into the ACH debit on behalf of said company, and that the signature below is my own proper signature.

Signature _____ Date _____

***Retain form for no less than two years after cancellation date.**