ACH TRAINING GUIDE – v1.2016

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ACH NETWORK

The Automated Clearing House (ACH) Network is an electronic payments network used by individuals, businesses, financial institutions and government organizations. The Network functions as an efficient, electronic alternative to paper checks. It allows funds to be electronically debited or credited to a checking or savings account.

NACHA is a not-for-profit association that represents more than 11,000 financial institutions through direct memberships and a network of Regional Payment Associations. NACHA develops and governs the operating rules and business practices in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), electronic check conversions (e-checks), financial electronic data interchange (FEDI), international payments and electronic benefits (EBS).

ACH PARTICIPANTS

Originator – A company, consumer, or other types of organizations (Federal, state, or local government agencies) that has been authorized to initiate ACH entries into the payment system according to an arrangement with a Receiver.
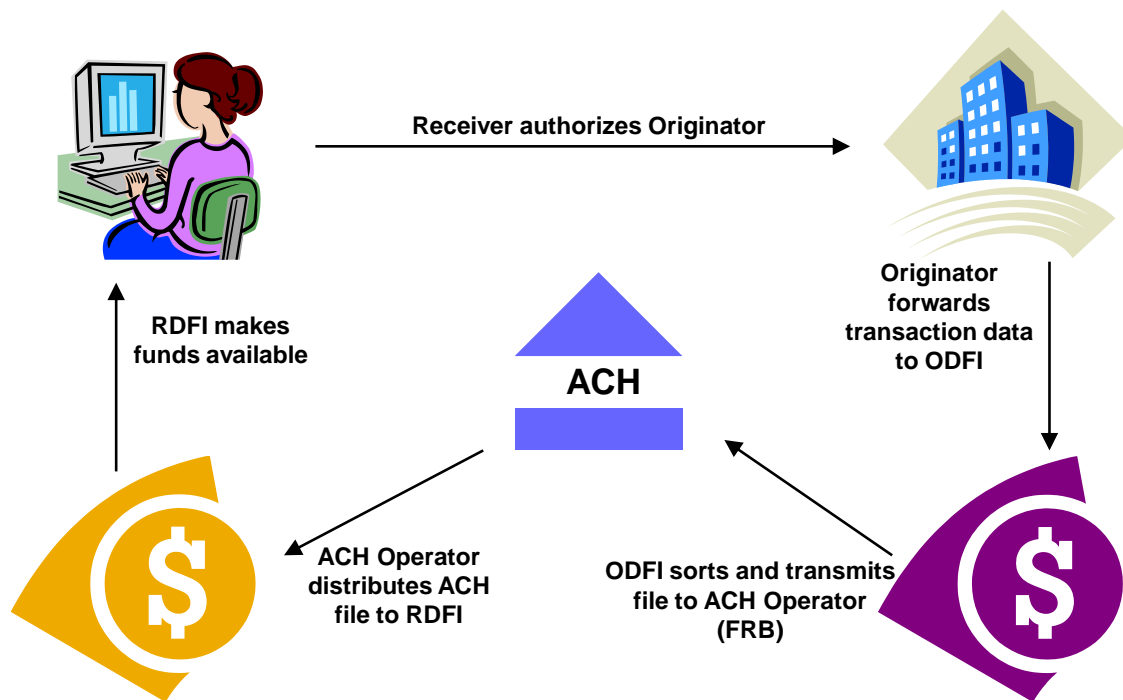
Originating Depository Financial Institution (ODFI) – is the institution that receives payment instructions from Originators and forwards the entries to the ACH Operator.

ACH Operator – is the central clearing facility operated by a private organization or a Federal Reserve Bank (FRB) on behalf of DFIs, to or from which Participating DFIs transmit or receive ACH entries.

Receiving Depository Financial Institution (RDFI) – is the DFI that receives ACH entries from the ACH Operator and posts the entries to the accounts of its depositors (Receivers).

Receiver – The person or organization which has authorized an Originator to initiate an ACH entry to the Receiver's accounts with the RDFI. A receiver may be either a company or a consumer.

HOW DOES ACH WORK?

Receiver authorizes Originator

RDFI makes funds available

ACH

Originator forwards transaction data to ODFI

ACH Operator distributes ACH file to RDFI

ODFI sorts and transmits file to ACH Operator (FRB)

ACH ENTRIES

ACH Credits – Entries that an Originator initiates to move funds into a Receivers account. ACH credit transactions involve both consumer and corporate with separate rules and regulations for each. The most typical consumer ACH application is Direct Deposit of payroll. Some of the more common credits processed through the ACH Network:

- Annuities
- Dividends
- Interest payments
- Payrolls- private and government
- Pensions- private and government
- Social Security payments
- Tax Payments
- Government vendor payments
- Corporate-to-Corporate payments
- Customer-initiated entries

ACH Debits – The Originator of a preauthorized debit is the company to which the money is owed. ACH debit transactions involve both consumer and corporate payments with separate rules and regulations for each. The most typical consumer ACH application is Direct Payment. Some of the more common debits processed through the ACH network:

- Association/club dues
- Distributor/dealer payments
- Holiday or vacation club payments
- Safe deposit box rentals
- Contributions to Individual Retirement Accounts
- Corporate-to-corporate payments

PAYMENT APPLICATIONS

The ACH network supports a variety of payment applications

An Originator initiating entries into the system will code the entries in such a manner as to indicate the type of payment, such as a debit or credit and whether the entry is for a consumer or corporate in nature.

Each ACH application is identified and recognized by a specific 3 digit code, known as a Standard Entry Class code (SEC Code), which appears in the ACH record format.

The SEC code identifies the specific record format that will be used to carry the payment and payment-related information relevant to the application.

Exposure Limits

For security purposes, a daily exposure limit has been established for your company. This exposure limit represents the total amount of files you can process over a given settlement date.

If your ACH file exceeds your established exposure limit, please notify Treasury Management to obtain approval prior to submission.

ACH Processing Schedule

Delivery Method	Business Day Cut Off	Required Submission Date
Debit and Credit Files	3:30 p.m.	1 business day prior to the effective date

Note: ACH files must be submitted by 3:30 p.m. to be processed on the same business day. This deadline allows us time to review your files for accuracy and contact you if there are any issues or concerns. Files submitted after the 3:30 p.m. cut off time will be processed on the next business day. If you are experiencing problems that will prevent you from meeting the deadline, please contact Treasury Management before the deadline. We will make every effort to accommodate your needs. This service is not guaranteed and is offered as an emergency resolution and cannot be extended on a regular basis.

** Please refer to http://www.frbservices.org/homepage/Holidays.html for Federal Reserve Bank calendar.

*For holidays falling on Saturday, Federal Reserve Banks and branches will be open the preceding Friday. For holidays falling on Sunday, all Federal Reserve offices will be closed the following Monday.

CCD [CORPORATE CREDIT OR DEBIT]

A credit or debit entry initiated by an organization to consolidate or fund accounts of that organization from its branches, franchises, or agents.

It is also used as a business-to-business transfer for payment of goods or services.

This application can serve as a stand-alone funds transfer, or it can support one addenda record, making this a CCD+ transaction.

Prior to the origination of a CCD entry to the customer's account, the customer must have authorized the Originator to initiate the entry to such an account.

The authorization must be in writing and signed or similarly authenticated by the customer, and the customer must be provided with a copy of the authorization.

The authorization must be readily identifiable as an authorization, its terms must be clear and understandable, and indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization.

The authorization may be included within a trading partner agreement that defines the responsibilities of each party under the agreement.

Authorization must be retained by the company for **two years** following the termination of authorization.

CTX [CORPORATE TRADE EXCHANGE]

A credit or debit entry used to collect or disburse funds and information between businesses.

This application can serve as a stand-alone funds transfer, or it can support multiple addenda records.

Prior to the origination of a CTX entry to the customer's account, the customer must have authorized the Originator to initiate the entry to such an account.

The authorization must be in writing and signed or similarly authenticated by the customer, and the customer must be provided with a copy of the authorization.

The authorization must be readily identifiable as an authorization, its terms must be clear and understandable, and indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization.

The authorization may be included within a trading partner agreement that defines the responsibilities of each party under the agreement.

Authorization must be retained by the company for **two years** following the termination of authorization.

PPD [PRE-AUTHORIZED PAYMENT AND DEPOSIT ENTRY]

A credit or debit entry initiated by an organization (business) pursuant to a standing or single entry authorization from a Receiver to effect a transfer of funds to or from a consumer account of the Receiver.

Prior to the origination of a PPD entry to the consumer's account, the consumer must have authorized the Originator to initiate the entry to such an account.

The authorization must be in writing and signed or similarly authenticated by the consumer, and the consumer must be provided with a copy of the authorization.

The authorization must be readily identifiable as an authorization, its terms must be clear and understandable, and indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization.

The authorized amount must be stated on the authorization form for debit entries.

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 (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 new date on which the entry will be debited (debits only).

Copy of authorization must be accurately reproduced and available to an ODFI or Receiver if requested, within 5 calendar days.

Authorization must be retained by the company for **two years** following the termination of authorization.

TEL [TELEPHONE-INITIATED ENTRIES]

A TEL Entry is a debit initiated by an Originator in response to a consumer's oral authorization, which includes the consumer's banking information, captured via telephone to transmit a debit entry for collection of goods and services. This type of entry cannot be used to debit a corporate account.

Credit Entries
Originators may NOT utilize the TEL SEC Code to transmit credit entries, with the exception of reversals, to the consumer's account.

Relationship Requirements
A TEL entry may be transmitted only in circumstances in which (1) there is an existing relationship between the Originator and the Consumer, or (2) there is not an existing relationship between the Originator and the Consumer, but the Consumer has initiated the telephone call to the Originator.

A TEL entry may not be used by an Originator when there is no existing relationship between the Originator and Consumer, and the Company has initiated the telephone call. The Originator and the Consumer are considered to have an existing relationship when either (1) there is a written agreement in place between the Originator and the Consumer for the provision of goods or services, or (2) the Consumer has purchased goods or services form the Originator within the past two years.

Authorization Criteria
Originators of TEL entries are obligated either to tape record the consumer's oral authorization **or** to provide, in advance of the Settlement Date of the entry, written notice to the consumer that confirms the oral authorization.
With either option the Receiver must be provided, and must acknowledge, the following terms of the transaction:

- the date on or after which the consumer's account will be debited, for recurring Entries, the timing, including the start day, number and frequency
- the amount of the transaction or, if recurring, the amount of the recurring transactions or a reference to the method of determining the amount of the recurring transaction.
- the consumer's name
- the account to be debited
- a telephone number that is available to the consumer and answered during normal business hours
- the date of the consumer's oral authorization
- for recurring Entries, the method by which the Consumer can revoke the authorization
- a statement by the Originator that the authorization obtained from the Receiver will be used to originate an ACH debit entry to the consumer's account.

Originators must obtain a separate oral or written authorization from the consumer for each entry to the consumer's account.

Retention
The Originator must retain either the original or a duplicate tape recording of the consumer's oral authorization or a copy of the written notice confirming the consumer's oral authorization for **two years** from the date of the authorization.

Verification of Identity of Receiver
Originators are required to utilize commercially reasonable procedures to verify the identity of the consumer.

Verification of Routing Numbers
Originators that initiate TEL entries must employ commercially reasonable procedures to verify that routing numbers are valid.

Record Retention
Records must be retained for a period of 2 years and promptly provide a copy of such authorization to the Bank upon request.

WEB [INTERNET-INITIATED TRANSACTIONS]

A debit entry to a consumer account initiated by an Originator pursuant to an authorization that is obtained from the Receiver via the Internet. This type of entry cannot be used to debit a corporate account.

An authorization that was obtained from the Receiver in person, through the mail, or over the telephone in order to effect an Internet payment is NOT to be initiated as a WEB transaction. These transactions should use the appropriate SEC Code as defined by the NACHA Operating Rules.

Credit Entries
Originators may NOT utilize the WEB SEC Code to transmit credit entries, with the exception of reversals, to the consumer's account.

Single-Entry Payment
A one-time transfer of funds initiated by an Originator in accordance with the Receiver's authorization for a single ACH debit to the Receiver's account.

Recurring Payment
An entry that has been set up to occur, based on the Receiver's authorization obtained via the Internet, at regular intervals without any additional intervention of the consumer; OR multiple entries, based on an authorization provided by the consumer establishing a relationship with the Originator for a specific type of activity, that are originated each time upon specific instructions of the consumer.

Authorization Requirements
Originators of WEB entries must obtain the consumer's authorization prior to initiating a debit entry. The authorization must conform to the requirements of the NACHA Operating Rules, which require that the authorization (1) be in a writing that is signed or similarly authenticated by the Receiver, (2) be readily identifiable as an ACH debit

authorization, (3) express its terms in a clear and readily understandable manner, (4) must (for recurring payments only) provide the Receiver with a method to revoke their authorization by notifying the Originator in the manner prescribed.

The consumer must be able to read the authorization language displayed on a computer screen or other visual display. The Originator should prompt the consumer to print the authorization and retain a copy for their records. The Originator must be able to provide the consumer with a hard copy of the authorization if requested to do so.

Retention
Originator must obtain a copy of the authorization and a record of the authentication for a period of **two years** following the termination or revocation of the authorization and promptly provide a copy of such authorization to the Bank upon request.

Record Format
Refer to the NACHA Operating Rules for specific requirements regarding WEB entries.

Authentication
Originators are required to employ an authentication method that is commercially reasonable to verify the identity of the Receiver before accepting ACH debit authorizations online. Such authentication methods may include-shared secrets such as a PIN, password, or previous transaction history, or asking for several forms of identifying information and checking that information against databases, asking challenge questions, or sending the consumer a piece of information (either online or offline) and then asking the customer to verify the information. Assigning a password as the sole method of authenticating the Receiver is not considered commercially reasonable.
The authentication method must also demonstrate the consumer's assent to the authorization.

Fraudulent Detection System
Company is required to deploy a fraudulent transaction detection system to screen each entry.

Verification of Routing Numbers
Originators that initiate WEB entries must employ commercially reasonable procedures to verify that routing numbers are valid. Verification can be accomplished by a component of a fraudulent transaction detection system, through the use of a database or directory (either commercial or proprietary), or through other methods devised by the Originator.

Security of Internet Session
Customer has established a secure Internet session with each Receiver utilizing a commercially reasonable security technology providing a level of security that, at a minimum, is equivalent to 128-bit encryption technology prior to the Receiver's key entry and through transmission to the Originator of any banking information, including, but not limited to, the Receiver's routing number, account number, and PIN number or other identification symbol.

Annual Security Audit
Company shall conduct or have conducted annual audits to ensure that the financial information it obtains from Receivers is protected by security practices and procedures that include, at a minimum, adequate levels of (1) physical security to protect against theft, tampering, or damage, (2) personnel and access controls to protect against unauthorized access and use, and (3) network security to ensure secure capture, storage, and distribution. Audit should be submitted annually to the Bank.

PRENOTES

Are non-dollar entries used by Originators to ensure ACH entries contain accurate identification of the receiving institution and individual's account. Prenotes are optional.

Originators that choose to send prenotes are required to do so **three** banking days before the first live entry.

ACH TRANCODES

Demand Credits
21 Automated Return or NOC
22 Demand Credit
23 Prenote

Demand Debits
26 Automated Return or NOC
27 Demand Debit
28 Prenote

Savings Credits
31 Automated Return or NOC
32 Savings Credit
33 Prenote

Savings Debits
36 Automated Return or NOC
37 Savings Debit
38 Prenote

RETURN REASON CODES

Return Code Description
R01   Insufficient funds
R02 Account closed
R03 No account found
R04 Invalid account number
R05 Unauthorized debit using corporate SEC
R06 Returned/ODFI's request
R07 Authorization revoked by customer (non-POP, TEL, or WEB with **PTC**=S)
R08 Payment stopped (non-RCK)
R09 Uncollected funds
R10 Customer advises not authorized (non-RCK)
R11 Check safekeeping entry return
R12 Account sold to another DFI
R13 Invalid ACH routing number

R14 Representative Payee deceased or unable to continue in capacity

R15 Beneficiary or account holder (other than representative payee deceased)

R16 Account is frozen

R17 File record edit criteria

R20 Non-transaction account

R21 Invalid company identification

R22 Invalid individual ID number

R23 Credit entry refused by receiver

R24 Duplicate entry

R29 Corporate customer advises not authorized

R31 Permissible return entry

R33 Return of XCK entry

R37 Source document presented for payment (ARC, BOC, and POP)

R38 Stop payment - source doc (ARC and BOC)

R39 Improper source document (ARC, BOC, and POP)

R50 State law affects RCK acceptance

R51 RCK item is ineligible

R52 RCK stop payment

R53 Item and ACH entry presented for payment (RCK only)

R80 Cross-border payment coding error

R82 Invalid foreign receiving DFI ID

R83 Foreign receiving DFI unable to settle

R84 Entry not processed by Gateway Operator

*Note: This is not a complete listing of return codes. For more codes, please refer to your NACHA ACH Rules book.

RETURNED ITEMS

Returned entries may not be reinitiated unless the entry was returned for insufficient funds (R01) or uncollected funds (R09) and are limited in number to two and must be initiated within 180 days of the original entry date. An entry returned for stop payment (R08), or an authorization issue may only be reinitiated if the Originator has received appropriate authorization to reinitiate the payment.

When reinitiating a returned item, the words "**RETRY PYMT**" in all capitalized letters is required in the Company Entry Description field. **Identical content is required** in the following fields: Company Name, Company ID, and Amount. Modifications to other fields are permitted but only to those necessary to correct an administrative error made during processing of an entry.

Bank will report Return information to Originators within 2 banking days from the settlement date (see FedEDI Services).

NOTIFICATION OF CHANGE

A non-dollar entry sent to the Originating Depository Financial Institution (ODFI) by the Receiving Depository Financial Institution (RDFI) that contains information for the correction of erroneous information contained within an ACH entry.

Bank will report NOC information to Originators within 2 banking days from the settlement date (see FedEDI Services).

Originators must make the specified changes within 6 banking days of receipt of the NOC information or prior to initiating another entry to the Receiver's account, whichever is later.

NOTIFICATION OF CHANGE CODES

C01 Incorrect DFI Account #
C02 Incorrect Routing #
C03 Incorrect Routing # and Incorrect DFI Account #
C04 Incorrect Individual Name/Receiving Company Name
C05 Incorrect Transaction Code
C06 Incorrect DFI Account # and Incorrect Transaction Code
C07 Incorrect Routing #, Incorrect DFI Account #, and Incorrect Transaction Code
C08 Incorrect Foreign Receiving DFI Identification
C09 Incorrect Individual ID #
C13 Addenda Format Error

FedEDI Services

The Bank utilizes FedEDI Services to deliver Remittance Information, Notification of Returned Entries, and Notification of Changes (NOCs) to you. Email notifications are generated to alert designated recipients that reports are available for retrieval at an Internet browser-based portal.

Please contact the Bank to enroll for Remittance Information.

If you are an ACH Originator, you will be enrolled upon completion of Schedule D of the ACH Origination Agreement for Returns and Notification of Changes.

Once set up is complete by the Bank you will start to receive email notifications of reports available. The notification emails have a domain name of **encryptedmail.achedi.com.** Ensure that this domain is not blocked by your company email policy or your Internet Service Provider, or that you do not have spam filters in place that will prohibit receipt of the notifications.

The email notification will direct you to a link to the password protected Internet portal- located at https://achedi.com.

The first time the portal is accessed, you will need to complete a one-time registration process to establish a password and confirm control of the email address.

Upon registration, an account confirmation will be sent to the designated email address with instructions on how to activate the account.

After registration and activation are complete, you will return to the Internet portal at https://achedi.com. Enter your email address and password and click the **Sign In** button.

Click on the **Inbox** tab and select the report- click on the link to download.

Click on Attachments: reports.zip

Select **Open** or **Save**. After the download is complete, click on the file to extract the reports from the zip format. (Reports are in a compressed format to reduce storage space and transfer time. Most operating systems include the ability to unzip files).

Reports are retained in the portal for 60 calendar days and then automatically deleted. The user can also manually delete reports. If reports need to be retained longer than 60 days, they will need to be downloaded and saved to your computer. **For security purposes, Bank highly recommends that you access the portal directly every day to check for reports, rather than relying on the email notifications.**

Ongoing maintenance associated with the portal is self-service by the owner of the email address. Links to perform the following can be found on the main portal page:
- Establish a new password
- Password Reminder
- Change your password- **Bank recommends changing on a monthly basis**
- Unlocking your account- exceeding the allowed number of failed login attempts

REVERSALS

If an Originator creates erroneous ACH entries or files, corrections may be made by initiating reversing entries or files.

An erroneous entry or file is defined as:
- is a duplicate of an entry previously initiated by the Originator or ODFI
- orders payment to or from receiver not intended to be credited or debited
- orders payment in a dollar amount different then was intended

Must be originated within **5** banking days following settlement date of the erroneous entry.

Enter **REVERSAL (must be in all capitalized letters)** in the description field of the Company Batch Header Record.
- Will need to build a new Batch Record
- Change the transaction codes to offset entries (i.e., debits reverse credits)
- The Effective Date should be the same date as the original entry/file date for future dated files

Notify the Receiver of the reversal by the settlement date.

In the case of an erroneous file, transmit a correcting file with the reversing file.

Note: Bank recommends that Originators use an authorization agreement (credits) with their Receivers that states they are authorized to debit/reverse any entries made in error. This is good business practice and will help with any disputes in the future. (See Direct Deposit sample in Appendix).

Direct Deposit Sample Authorization Agreement

Direct Deposit
Authorization Form

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 to initiate debit entries to my (our) account indicated below and the DEPOSITORY 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) by mail to _____ (address for notice) at least three (3) days prior to the proposed effective date of termination of authorization.

Date	Name (Print)	Financial Institution Name
Employee Number/SS#	Account Number	Financial Institution Number

Signature

_____

CHECK ONE:

I am not currently participating in the Direct Deposit Program

[ ] ADD - Deposit my pay to the account shown.*

I am currently participating in the Direct Deposit Program

[ ] CHANGE - Change financial institutions and/or account number*

[ ] CANCEL - Stop my participation in the program

Due to the time required for COMPANY and bank processing, allow one or two pay periods for processing.

You will receive a regular paycheck until the change can be processed.

IMPORTANT! CHECK TYPE OF ACCOUNT: [ ] CHECKING [ ] SAVINGS

.

TAPE YOUR VOIDED CHECK HERE

Direct Debit Sample Authorization Agreement
AUTHORIZATION AGREEMENT FOR DIRECT PAYMENTS (ACH DEBITS)

Company Name_____

Company ID Number_____

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate debit entries to my (our) Account indicated below at the depository 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.

Depository
Name_____   *Authorized Amount_____

City_____   State_____ Zip_____

Routing
Number_____   Account
Number_____

Type of Account   [   ] Checking [   ] Savings

This authority is to remain in full force and effect until COMPANY has received written notification from me (or either of us) by mail to _____ (address for notice) at least three (3) days prior to the proposed effective date of termination of authorization.

Name(s) _____   ID Number_____

Date_____ Signature _____

NOTE: ALL WRITTEN DEBIT AUTHORIZATIONS MUST PROVIDE THAT THE RECEIVER MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.

TAPE YOUR VOIDED CHECK HERE