

ACH Origination Guide for Originators

NACHA, The National Automated Clearing House Associations' Operating Rules and Guidelines (the Rules) serve as the definitive sources of information governing the exchange and settlement of electronic funds transfers through the ACH network. As an ACH Originator, you must comply with and are bound by the Rules. To ensure Compliance with the current regulations, all ACH Originators must have access to the NACHA Operating Rules and Guidelines.

This reference guide provides a brief summary of ACH Facts and ACH Originator Responsibilities. This guide is not intended to be a replacement or substitution for the NACHA Rules and Guidelines. NACHA Rules are subject to change.

ACH FACTS

- An ACH Originator is an entity or person that creates an ACH transaction.
- ACH entries are categorized as "consumer" or "corporate".
- ACH can be capable of crediting or debiting checking or savings accounts.
- ACH entries are received by most financial institutions.
- ACH is a batch system (not real time).
- ACH entries are irrevocable once they have been sent for processing.

ACH Legal Framework

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

- NACHA Operating Rules (www.nacha.org)
- Regulation E (for consumer entries)
- UCC4
- Online Business Banking Terms and Conditions
- Authorizations for employees, customers and vendors etc.
- Automated Clearing House Origination Agreement (ACH Agreement)

Originator Responsibilities

- Originator must obtain authorization from the Receiver to originate one or more Entries to the Receiver's account.
- Originator must retain the authorization from the receiver for two years from the date of termination or revocation of the authorization.
- Originator must provide a copy of the authorization if requested by the bank. Bank may request to review authorizations from time to time.

ACH Origination Guide for Originators

- Originator must protect sensitive banking information received and control access to this date.
- Originators must use proper use of the Standard Entry Class (SEC) codes.
 - CCD: Corporate Credit or Debit Entry
 - PPD: Consumer Prearranged Payment or Deposit Entry
 - CTX: Credit or Debit Entry – Depending on addenda origination
- Originator must make the changes specified in a Notification of Change (NOC) within six (6) banking days of receipt of the NOC information or prior to initiating another entry to the receiver's account, whichever is later.
- Originators must send Entries on the proper date; an effective date is the date specified by the Originator on which it intends a batch of entries to be settled.

Authorizations- The type of Authorization agreement entered between the Receiver and the Originator depends on the type of transfer that is being initiated. The Rules require the use of the appropriate Standard Entry Class Code (SEC) for such entries.

Direct Deposit Payroll Authorization

- Use a direct deposit authorization form that collects employee account information. This form should allow the company to make credit or debit entries in the event a payroll adjustment is necessary.
- Obtain a voided check from the employee (if possible).
- The most common SEC code for direct deposit is **PPD**.

Consumer Debit Authorizations

- For consumers, an authorization to debit an account must be in writing and signed or similarly authenticated.
- The most common SEC code for consumer debits is **PPD**.

Consumer Credit Authorizations

- Consumers may provide authorizations for credit entries in writing, or they may be provided orally. The most common SEC code for consumer credits is PPD.

Corporate Authorizations

- As with consumer entries, corporate receivers must authorize all ACH Credits and Debits to its account. Plains Commerce Bank recommends that you have the Receiver complete an authorization form and maintain a record of an agreement between the two parties.
- The most common SEC code for corporate transactions are **CCD or CTX**, depending upon addenda origination. It is used for debit and credit entries.

ACH Origination Guide for Originators

Pre-Notifications (Prenotes)

- Pre-notes are zero-dollar entries that precede the first live entry. The purpose of the pre-note is to verify account information is correct.
- Pre-notes are optional. However, if sent, the pre-note rules must be followed, and a pre-note must precede the first live entry by at least three (3) banking days.
- The Receiving Bank is not required to validate the name of the payee on the pre-note, although some do, they are only required to verify the account is valid.

Changing Amount or Date of Debit Entries

ACH rules require Originators to notify a Receiver of any changes in the amount or date of a debit entry.

1. Seven (7) calendar days' notice for a change of date (consumer or corporate)
2. Ten (10) calendar days' notice for a change in the amount (consumer only).

Sending the notice via U.S. Mail is acceptable

Notice of Change

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting that future entries contain correct information. The ACH Rules require an Originator to make the change within six (6) banking days of receiving the information from Plains Commerce Bank or before another entry is sent.
- The Receiving Bank warrants that the information they provide is correct.
- Plains Commerce Bank will notify you of any NOCs received on your behalf via secure email or phone call or other method agreed by you and Plains Commerce Bank.

Returns

- Returns are to be processed by the Receiving Financial Institution within 24 hours of settlement, for corporate (CCD) entries. 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. Review your account activity daily.
- An exception to the 24-hour rule is consumer unauthorized returns, which may be returned within 60 days of the settlement date.
- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules.
- The ACH Rules require that Originators must 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.
- A "Stop Payment" return may be re-initiated only if you receive approval from the payee to re-send the item.
- It is a violation of NACHA Rules to re-initiate the debit entry if a return is received for any other reason.

ACH Origination Guide for Originators

Returns (cont.)

- Originators must maintain a return rate below .5% for entries returned as unauthorized.
- Originators can have no more than 3% of your total debit entries returned in a 60-day period due to administrative or account data errors.
- Originators can have no more than 15% of your total debit entries in a 60-day period returned for any return reason.

Reversals

- If a reversing entry must be made, please contact the bank for instructions.
- Reversals may only be made for the following three conditions:
 - 1) Wrong dollar amount, 2) Wrong account, or 3) Duplicate transaction. If reversing an entry due to an incorrect amount or incorrect account, a correcting entry must also be sent.
- 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 a reversing entry debits his/her account. However, a payee does not need to authorize the reversing debit.

OFAC

- You are required to check payees against the OFAC SDN list at <https://sanctionssearch.ofac.treas.gov/>
- Additional OFAC information is available at www.treas.gov/offices/enforcement/OFAC
- The Office of Foreign Asset Control (OFAC) lists countries, groups and individuals that U.S. companies are not allowed to send funds to or receive funds
- Plains Commerce Bank must protect itself by informing every customer that it is against the law to send debit or credit entries to OFAC blocked entities

More Information

The Better Business Bureau offers training specifically for small businesses on how to simplify the requirements of ACH data security. Visit www.bbb.org/data-security to get further information.

An electronic version of the ACH rules may be viewed online by registering at <http://achrulesonline.org/>.

Feel free to visit Federal Trade Commission - Protecting Personal Information: A Guide for Business - <https://www.ftc.gov/tips-advice/business-center/guidance/protecting-personal-information-guide-business>