

ACH Reference Guide

Automated Clearing House (ACH) Rules for ACH Originators

To ensure compliance with current regulations, all ACH Originators may obtain a current copy of the National Automated Clearing House Association (NACHA) Operating Rules (Rules) and Guidelines this is published annually. A copy of the Rules book may be accessed at <https://www.nachaoperatingrulesonline.org>.

This Quick Reference Guide provides a summary of ACH facts and ACH Originator Responsibilities. It 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 any entity or person that creates an ACH transaction.
- ACH entries are categorized as consumer-PPD or corporate-CCD.
- ACH is 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 stop payments no longer have an expiration date, as of March 2010.

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 (for corporate entries)
- Dieterich Bank Deposit Agreement and Terms and Conditions
- Dieterich Bank Online Agreement and ODFI-Originator Agreement
- Authorizations from employees, customers, etc.
- Bank and corporate agreements

Your Responsibilities as an Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for two years past revocation.
- In regard to standing authorizations, the minimum standards for a consumer debit authorization may be met through a combination of the standing authorization and the Receiver's action to initiate a subsequent entry.
- A standing authorization is an advance authorization by a Receiver of future entries to Receiver's consumer account that requires further action by the Receiver to initiate future entries.

- If requested by the Bank, provide a copy of the authorization to the bank within five days. Dieterich Bank may request to see your authorizations from time to time as part of an annual audit.
- Send entries on the proper date.
- Give appropriate notice to customer 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 Notice of Correction (NOC) or before another entry is sent.
- Protect the banking information received to originate transactions.
- Ensure your computer is protected as outlined in the Dieterich Bank's Master Agreement.
- Implement procedures to address e-mail fraud. Perform a callback to an established phone number to verify information on new authorization forms received by e-mail. Verify the authenticity of an e-mail invoice for a "rush" order requesting payment by same day ach or wire transfer.
- Originators whose origination or transmission volume exceeds two million entries annually will need to implement procedures to protect account numbers by rendering them unreadable when stored electronically.
- Restrict transactions to individuals or companies who appear on the governmental Office of Foreign Assets (OFAC) list.
- Failure to comply with the NACHA Rules can lead to termination of services and/or fines imposed by NACHA. The Bank may contact your company periodically to verify your internal ACH procedures and policies.

Consumer Authorizations

Dieterich Bank will provide sample authorization forms, but your company can customize the authorization to fit your specific application needs, but it must be readily identifiable as a payment authorization, and at a minimum, include the following:

- Acknowledgement that entries must comply with laws of the United States
- Statement authorizing Originator to initiate credit or debit entries
- Account number and routing number of account
- Identification of account type (checking, savings, loan, etc.)
- Provisions for termination of the authorization, including any policies for automatic termination in case of excessive returns or member abuse or termination of loan payment debits when the loan has been paid in full
- Individual identification number if applicable
- Date and signature

Corporate Authorizations

- For corporations, there must be an agreement between the two parties. While the NACHA Rules do not define an agreement, Dieterich Bank recommends that you have the company complete an authorization form.

File Header Setup

- The SEC code of PPD is used to disburse/collect funds from consumers. In the Entry Description field of the batch header file, enter payroll or direct deposit when paying employees. If collecting payments from consumer customers, enter billing or collect payment in the Entry Description field.
- The SEC code of CCD is used to disburse/collect funds between corporate accounts. In the Entry Description field of the batch header file, enter a description that describes the purpose of the file – example transfer, payment, billing, etc.

Changing Date or Amounts of Debits

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

Prenotifications (Prenotes)

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify account information.
- Prenotes are optional for you to send. However, if sent, prenote rules must be followed and a prenote 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 prenote, although many do; they are only required to check the account number.

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. **ACH Rules require you to make the change within six (6) banking days of receiving the information from Dieterich Bank or before another entry is sent.**
- The Receiving Bank warrants the information they provide to you is correct.
- Dieterich Bank will notify you of any NOCs received on your behalf.
- Dieterich Bank may pass along any fines received based upon your non-compliance.

Returns

- Returns must be processed by the Receiving Bank within 24 hours of settlement. Returns that are unauthorized beyond 24 hours are the company's liability and any disputes may have to be settled outside of the banking network. Dieterich Bank recommends that you review your account activity daily.
- Any 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.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must obtain a signed Written Statement of Unauthorized Debt from the account holder. You may obtain a copy of the statement by requesting a copy through Dieterich Bank.
- You may re-initiate a debit entry 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. The Entry Description field must contain the word Retry Pymt when re-initiating a batch.
- 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 Deletion/Edit

- ACH batches should be reviewed carefully before submitting them to the bank. If you have submitted an ACH and realize there is an error, you may be able to delete or edit the batch depending on whether it has been processed by the bank.
- Files are picked up for processing at 10:00 a.m., 2:30 p.m., and 4:00 p.m. Once a file is in a “Processing” status, edits can no longer be made to the file.
- Once a file is processed, the only option to make changes is to do a reversal.

Reversals

- If a reversing entry must be made, please contact Customer Care at 800.699.9766 for instructions.
- Reversals may only be made for the following three conditions:
 - Wrong dollar amount
 - Wrong account number
 - Duplicate transaction
- When initiating a reversal, the reversing entry must be for the full amount, must be sent within five (5) banking days of the original entry, must be sent within 24 hours of discovering the error, and contain the words Reversal in the file header information.
- 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 or her account. However, a payee does not need to authorize the reversing debit.

Micro-Entries

- Micro-entries are used to verify a Receiver's account or an individual's access to an account by sending a credit and offsetting debit entry or a credit entry of less than \$1.00.
- The company entry description must be ACCTVERIFY when sending a micro-entry file.
- The Company Name must be recognizable to the Receiver.

Same Day ACH

- The NACHA rules provide the option to send same day ACH transactions to accounts at any Receiving Depository Financial Institution (RDFI). All RDFI's must receive same day ACH transactions.
- ACH transactions submitted to the Bank by the posted cutoff time, meeting the eligible items requirement and having a same day (today's date) as the Effective Entry Date will be processed as a Same Day Entry. Same Day entry fees will apply.
- The current Same Day dollar limit per payment is \$1,000,000.00.
- Please note: ACH transactions submitted to the Bank with stale or invalid Effective Entry Dates will be settled at the earliest opportunity, which could be the same day. The Bank recommends all effective dates be reviewed prior to submitting the ACH file.

Holiday and Weekend Processing

"Business days" refer to days the U.S. banking system is open for business. ACH file transfers and other online funds transfers will not be processed on days the Bank is closed; therefore, it is important that the Originator ensures that settlement dates are not set for days the Bank is closed. The Bank observes all federal holidays. Federal Holidays are listed below.

- New Year's Day
- Martin Luther King, Jr. Day
- Presidents' Day
- Memorial Day
- Juneteenth Day
- Independence Day
- Labor Day
- Columbus Day
- Veteran's Day
- Thanksgiving Day
- Christmas Day

If there are changes in processing days or times, you will be notified in advance.

Security Requirements

- Each Non-Consumer Originator, Participating DFI, and Third-Party Service Provider must establish, implement, and update, as appropriate, policies, procedures, and systems with respect to initiation, processing, and storage of Entries that are designed to:
 - a) Protect the confidentiality and integrity of Protected Information until its destruction.
 - b) Protect against anticipated threats or hazards to the security or integrity of Protected Information until its destruction; and
 - c) Protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.
- Such policies, procedures, and systems must include controls that comply with applicable regulatory guideline on access to all systems used by such Non-Consumer Originator, Participating DFI, or Third-Party Service Provider to initiate, process, and store Entries.

Secure Transmission of ACH Information Via Unsecured Electronic Network

- Banking information related to an Entry that is transmitted via an Unsecured Electronic Network must, at all times from the point of data entry and through the Transmission of such banking information, be either encrypted or Transmitted via a secure session, in either case using a technology that provides a commercially reasonable level of security that complies with applicable regulatory requirements. Banking information includes any Entry, routing number, account number, PIN or other identification symbol. This section applies to transmissions between:
 - a) A Receiver and an Originator.
 - b) An Originator and an ODFI
 - c) An ODFI and an ACH Operator
 - d) An ACH Operator and a RDFI; and
 - e) An Originator, ODFI, RDFI, or ACH Operator and a Third-Party Service Provider.
- Transmissions of banking information over an Unsecured Electronic Network by means of voice or keypad inputs from a wireline or wireless telephone to a live operator or voice response unit are not subject to this section.

Chart of ACH Codes

Standard Entry Class (SEC) Codes

CCD – Corporate Credit or Debit - Transfer of funds between business accounts or to consolidate funds from several accounts of the same business. Only used for Business accounts. CCD entries can be debits or credits.

PPD – Prearranged Payment and Deposit Entry – Recurring entry for direct deposit of payroll, pension, etc., or for direct payment of recurring bills such as utilities, loans, insurance, etc. Only used for Consumer accounts. PPD entries can be debits or credits.

Chart of ACH Codes

Transaction Codes – Section 1

Transaction Codes	Return/NOC	Normal Forward Entry	Prenote
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

Notification of Change (NOC) Codes – Section 2

Change Code	Field Needing Correction
C01	Account Number
C02	Routing/Transit Number
C03	Account Number and Routing/Transit Number
C05	Transaction Code
C06	Account Number and Transaction Code
C07	Account Number and Routing/Transit Number and Transaction Code

Return Entry Codes – Section 3

Return Code	Reason/Description	Available SEC Codes	Return Deadline
R01	Insufficient Funds-Available balance is not sufficient to cover the dollar amount of the debit entry	ALL	24 Hours
R02	Account Closed – A previously open account is now closed	ALL	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	ALL	24 Hours

R04	Invalid Account Number- The Account number fails the check digit validation or may contain an incorrect number of digits	ALL	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.	CCD, CTX	60 Days -Written Statement of Unauthorized Debit (WSUD)
R06	Returned per ODFI’s Request – The ODFI has requested that the RDFI return entry	ALL	Not Applicable
R07	Authorization Revoked – Client who previously authorized an entry has revoked authorization with the Originator	PPD, TEL, WEB	60 Days – Written Statement of Unauthorized Debit (WSUD)
R08	Payment Stopped – Client had previously requested a stop payment of a single or recurring entry	ALL	24 Hours
R09	Uncollected Funds – Available balance is sufficient, but collected balance is not sufficient to cover the entry	ALL	24 Hours
R10	Client advises not authorized	ARC, BOC, POP, PPD, TEL, WEB	60 Days –WSUD
R11	Client advises entry not in accordance with the terms of the authorization	ARC, BOC, POP, PPD, TEL, WEB	60 Days – WSUD
R14	Representative Payee Deceased – Representative payee is deceased or unable to continue in that capacity, beneficiary is not deceased	All Except CCD & CTX	24 Hours
R15	Beneficiary or Account Holder Deceased	All Except CCD & CTX	24 Hours
R16	Account Frozen – Access to account is restricted due to specific action taken by the RDFI or legal action	ALL	24 Hours
R17	Invalid account information and RDFI believes entry was initiated under questionable circumstances	ALL	24 Hours
R20	Non-Transaction Account – Policies or regulations such as Regulation D	ALL	24 Hours

	prohibit or limit activity to the account indicated		
R29	Corporate Entry Unauthorized – RDFI has been notified by business account holder that a specific transaction is unauthorized	CCD & CTX	24 Hours
R31	Permissible Return Entry – ODFI agrees to accept a return of an unauthorized corporate entry after the 24-hour deadline	CCD & CTX	24 Hours
R37	Source Document Presented for Payment – Check used for an ARC, BOC, or POP entry has also been presented for payment	ARC, BOC, POP	60 Days – WSUD
R38	Stop Payment on Source Document – A Stop Payment has been placed on a check used for an ARC entry	ARC, BOC	60 Days
R39	Improper Source Document Presented for Payment – RDFI determines that the source document (check) used for an ARC, BOC, or POP entry is not eligible for conversion – or the check has already been paid as a normal check posting	ARC, BOC, POP	24 Hours

*Written Statement of Unauthorized Debit is abbreviated as WSUD