



This quick reference guide has been developed to provide an overview of important information that you should be aware of as an originator of ACH transactions. This information is presented to complement the guidelines under the NACHA Operating Rules and is not intended to provide the complete and necessary knowledge required for ACH Originators. For full details, we encourage that you read and become familiar with the ACH Rules book.

ACH QUICK REFERENCE GUIDE For ACH Originators

What is ACH?

The Automated Clearing House, or ACH, is an electronic network for financial transactions. ACH transactions and the parties involved: (banks, ACH operators, consumers & businesses) must follow strict rules that have been detailed in the NACHA (National Automated Clearing House Associations') Operating Rules & Guidelines (referred to as the "Rules"). To ensure Compliance with the current regulations, all ACH Originators have access to a free online version of the NACHA Operating Rules & Guidelines.

The Rules are published annually and can be accessed at www.achrulesonline.org. A copy of the rule book can also be purchased from NACHA by accessing the NACHA eStore at www.nacha.org/estore/home.

Common examples of ACH transactions are payroll or government benefit direct deposits (credits) and automated loan or other payments (debits).

ACH transactions are separated by "consumer" and "business" types and corresponding Standard Entry Classes, each with its own requirements under the Rules. The type of transaction is determined by the type of account where the deposit or payment is posted and the method by which a transaction is authorized. Transactions may be posted to a checking account, savings account or a loan (credits only), and can only be posted to a bank located within the U.S. (valid routing/transit number required).

ACH entries must be authorized by the owner of the account that is being debited or credited, though the type of authorization varies. The bank reserves the right to restrict Standard Entry Class (SEC) types available for processing and generally allows only consumer ("PPD") and business ("CCD") transactions.

Once received by the bank, ACH entries are generally not revocable, though there are processes in place to correct duplicate or erroneous entries.

ACH Participants:

Receiver

All ACH transactions begin with an authorization by the person/company on whose behalf the deposit or payment is processed (called the “Receiver” – regardless of the type of transaction – credit or debit). Authorizations for payments (debits) are most often required in writing, though certain transaction types require authorization by other methods. Authorizations for deposits (credits) are not required but are typically obtained. For example, many companies require their employees to complete and sign a “direct deposit authorization form” which requires both the employee’s signature and bank/account information.

Originator

The Originator is the company that processes the transaction – either a deposit to a Receiver’s account (credit) or a payment from a Receiver’s account (debit). The Originator is responsible for maintaining the authorization for the transaction and is required to provide that authorization upon request. Since it initiates the transaction, the Originator is liable for the total amount it processes through the ACH network and is therefore typically evaluated for its credit worthiness.

ODFI

The Originating Depository Financial Institution (ODFI) is the bank that accepts and processes the ACH transactions on behalf of its customer, the Originator. The ODFI is also liable for the total amount it processes through the ACH network, and therefore requires a contract or agreement with each of its Originators to address processing requirements, exception handling and liability issues. It is not unusual for the ODFI to require credit underwriting, lending approval or collateral requirements for its Originators in order to protect against fraud or monetary loss. If an ODFI fails to comply with its responsibilities under the Rules, it could be assessed fines or lose its good standing in its payment network.

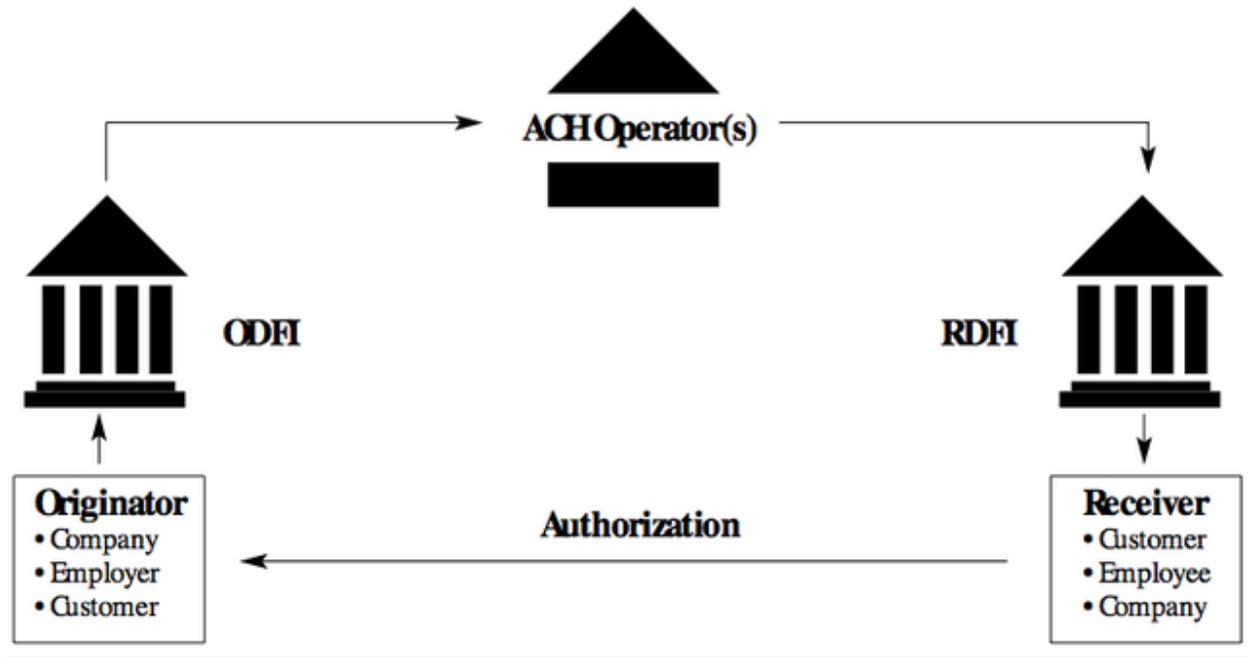
ACH Operator

The ACH Operator is a central clearing facility that receives entries from ODFIs, distributes the entries to the appropriate RDFIs and performs the settlement functions for the financial institutions.

RDFI

The Receiving Depository Financial Institution (RDFI) is the bank where the Receiver holds its accounts. The RDFI is responsible for passing the ACH transaction on to the Receiver’s account by the required date, and, in accordance with the Rules. The RDFI handles exceptions such as notifications of change, non-sufficient funds, unauthorized or fraudulent transactions in a timely manner. Failure to comply with its responsibilities under the Rules could result in the RDFI to be assessed fines or lose its good standing in its payment network.

(see flow chart on next page)



Your Responsibilities

As an ACH Originator, you have responsibilities under the Rules and the contractual agreement with the Bank:

- Obtain and maintain proper authorizations.
- Comply with file processing deadlines to ensure that entries are posted in a timely manner and as prescribed by the Rules.
- Make changes as indicated on a Notification of Change (NOC) within six business days or prior to the next live date, whichever comes first.
- Provide copy of an authorization if requested by the Bank.
- Cease subsequent entries when appropriate.
- Restrict transactions to individuals or companies that appear on the government OFAC lists.
- Protect access to your login credentials, computer, and confidential information.
- Perform an annual ACH audit and make available upon request.
- Establish, implement and maintain policies and procedures pertaining to the initiation, processing and storage of entries.

Limits

An ACH Limit is assigned to you and restricts the total amount of ACH Entries that you can initiate per banking day. This limit is determined by several factors, including your ACH needs and your credit worthiness, and may be adjusted from time to time by the bank.

ACH Files or Fund Transfers initiated above your ACH Limit may not be processed.

File Format

ACH entries must be provided to the bank in a specified file format referred to as a NACHA formatted file. In order to create a file in NACHA format, the Originator must have Business Online with ACH Manager access:

- **ACH Manager.** ACH Manager is a software program available from within the business online banking system that generates an encrypted and proprietary NACHA formatted file that is compatible with the bank's ACH remittance system. It includes functions to create a variety of Standard Entry Class (SEC) Codes and file import capability (to convert a text file to a NACHA file, for example).

The bank requires that ACH files are “balanced,” meaning the total debits and credits in the file must be equal.

Authorizations

The type of Authorization agreement entered into 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 and 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. ¹Lincoln 1st Bank recommends that you have the Receiver complete an authorization form.
- The most common SEC code for corporate transactions is **CCD** and is used for debit or credit entries.
- Originators must obtain all consents and authorizations required under the Rules and shall retain such consents and authorizations **for two years after they expire**. At the request of the ODFI an Originator must provide a copy of the authorization to the RDFI within ten Banking days of the request.

Pre-Notifications (PRENOTES)

Prenotifications, or “prenotes”, are zero-dollar transactions sent ahead of a live transaction to permit the RDFI to verify the accuracy of the account information. While not required, they are recommended whenever possible and should be remitted before originating entries that are time-sensitive (e.g. payroll direct deposit).

In general:

- Prenotes use a unique Tran Code specific to the account type (checking, savings).
- Prenotes must precede the first live entry by at least three business days.
- The RDFI is not required to validate the name of the payee on the Prenote (although some do); they are only required to validate the account number.
- If a prenote is returned by the RDFI, the originator must not originate a live entry to that customer account until any necessary corrections have been made.

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:

- If the **amount** of a debit entry changes, notification must be sent to the Receiver in writing, at least **ten (10) calendar days** prior to the date on which the entry is scheduled to be initiated. (consumer and corporate)
- If a scheduled **date** changes, notification must be given to the Receiver in writing at least **seven (7) calendar days** before the first such entry is scheduled to be debited to the Receiver’s account. (consumer only)

Sending the notice via U.S. Mail is acceptable

Notification of Change

A Notification of Change (“NOC”) is sent by the RDFI upon discovery of an error in the ACH entry.

In general:

- NOCs are received by the RDFI and forwarded to the Originator upon receipt.
- NOCs must be addressed by the Originator and corrected within six (6) business days or prior to remitting the next live entry, whichever comes first.
- Failure to respond to NOCs may result in fines as prescribed in the Rules.

Returns

ACH entries (debits and credits) may be returned by the RDFI for various reasons, including non-sufficient funds (“NSF”), uncollected funds (“UCF”), stop payment, account closed, or unauthorized.

- The allowable time frame for returns is determined by the reason and the Standard Entry Class.

In general:

- CCD entries must be returned by the beginning of the second business day following the settlement date (i.e. the following business day).
 - PPD entries that are returned NSF, UCF, stop payment or account closed must be returned by the beginning of the second business date following the settlement date (i.e. the following business date).
 - PPD entries that are returned unauthorized can be returned up to 60 days after the settlement date.
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- Advices of returned items are sent to the originator upon receipt by the bank.
 - Debit entries returned “NSF” or “UCF” may be re-originated up to two (2) additional times for a total of three (3) attempts. After that, no additional attempts may be made.
 - Debit entries returned for “stop payment” may only be re-originated upon approval from the receiver.
 - Re-originating ineligible returns is a violation of ACH Rules and may result in loss of ACH Origination services.

Unauthorized Entries

If a receiver claims that an entry was not authorized, he/she may dispute the transaction by completing a Written Statement of Unauthorized Debit with the RDFI.

- Upon receipt of this statement, the RDFI will return the entry as “Authorization Revoked” (R07) or “Unauthorized” (R10) for consumer entries or “Corporate Advises Not Authorized” (R29) for corporate entries.
- The returned entry will automatically post to the Originator’s account when received by the ODFI.
- The Originator has the right to request a copy of the Written Statement of Unauthorized Debit by contacting the RDFI.
- The Originator must provide a copy of the Receiver’s Authorization if requested by the ODFI.

Reference

OFAC

The U.S. Treasury Department's Office of Foreign Asset Control (OFAC) administers economic sanctions and embargo programs and maintains a list of countries, groups and individuals that U.S. companies are restricted from doing business with, including sending or receiving funds. While the Bank and/or the ACH Operator monitor transactions & accounts and compare individuals & businesses contained in the Files against these blocked parties, all ACH Participants (including Originators) may be held accountable for violations of OFAC sanctions. The list of these blocked parties can be obtained at www.treas.gov/offices/enforcement/OFAC.

ACH File Fields

ACH Files are formatted using a strict file layout set forth under the Rules. A File is made up of one or more Batches, and includes several pieces of information, including:

- Effective Date: *The date the transaction should post to the receiver's account.*
- Receiver's Name: *Name of the person/company on whose behalf the transaction is processed.*
- Receiver's Account Information: *Includes the account number and the bank's Routing/Transit number.*
- Transaction Code: *2-digit code used to determine both the account type (e.g. checking, savings) and the transaction type (e.g. credit, debit).*
- Standard Entry Class: *3-character code used to determine the transaction type (e.g. 'PPD' – Prearranged Payments and Deposits; 'CCD' – Corporate Credit or Debit).*
- Company Name: *The name of the Originator.*
- File Header Information: *Includes the file creation date/time, file specs and the ODFI/ACH Operator codes.*
- Batch Header Information: *Includes the Originator name, Standard Entry Class and the entry description.*
- Batch/File Control Record: *Includes item counts, batch/file amount totals and control totals.*
- Addenda Record: *Includes additional information about the transaction (optional).*
- Transaction Record: *Includes the Receiver's name, account information, and transaction code.*

Minimum Required Fields

- Receiver's name
- Receiver's bank's 9-digit transit-routing number
- Receiver's bank account number
- Amount
- Bank account type (e.g. checking, savings)
- Effective date

Reference (continued)

Common ACH Abbreviations

ACH Automated Clearing House
ODFI Originating Depository Financial Institution
RDFI Receiving Depository Financial Institution
NOC Notification of Change
SEC Standard Entry Class

Common Standard Entry Classes

PPD Prearranged Payment or Deposit-electronic payment or deposit to consumer account
CCD Corporate Credit or Debit - electronic payments or deposits to a business account
TEL Telephone Initiated Entry – RESTRICTED – DO NOT USE
WEB Internet Initiated Entry – RESTRICTED – DO NOT USE

Common Notification of Change Codes

C01 Incorrect Account Number
C02 Incorrect Routing Number
C03 Incorrect Routing Number and DFI Account Number
C05 Incorrect Transaction Code

Common Return Reason Codes

R01 Insufficient Funds
R02 Account Closed
R03 Unable to locate/No Account on File
R04 Invalid Account Number
R07 Authorization Revoked (Consumer Only)
R08 Payment Stopped
R10 Consumer Advises Not Authorized
R16 Account Frozen
R29 Corporate Advises Not Authorized

Appendix A | Sample Credit Authorization

AUTHORIZATION AGREEMENT FOR DIRECT DEPOSITS (ACH CREDITS)	
Company Name _____	
I (we) hereby authorize _____, hereinafter called COMPANY, to initiate credit entries to my (our) <input type="checkbox"/> Checking Account/ <input type="checkbox"/> Savings Account (select one) indicate below at the depository financial institution named below, hereafter called DEPOSITORY, and to credit 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 _____	Branch _____
City _____	State _____ Zip _____
Routing Number _____	Account Number _____
This authorization is to remain in full force and effect until COMPANY has received notification from me (or either of us) of its termination in such times and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. The undersigned Receiver agrees to be bound by the NACHA Operating Rules, as amended and in effect from time to time.	
Name(s) _____	Address _____
(Please Print)	
Signature _____	Date _____
NOTE: WRITTEN CREDIT AUTHORIZATIONS <u>MUST</u> PROVIDE THAT THE RECEIVER MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.	

Appendix B | Sample Debit Authorization

AUTHORIZATION AGREEMENT FOR PAYMENTS (ACH DEBITS)

Company Name _____

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate debit entries to my (our) Checking Account/ Savings Account (select one) indicate below at the depository financial institution named below, hereafter 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 _____ Branch _____

City _____ State _____ Zip _____
Routing Account
Number _____ Number _____

This authorization is to remain in full force and effect until COMPANY has received notification from me (or either of us) of its termination in such times and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. The undersigned Debtor agrees to be bound by the NACHA Operation Rules, as amended and in effect from time to time.

Names(s) _____ Address _____
(Please Print)

Signature _____ Date _____

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

ACH Receiving and Origination Times

Note: All times are estimated (approximate) times.

ACH Receiving Run Schedule (Inbound Files) (Monday thru Friday):

12:30 a.m. ET. Inbound ACH file received from the Fed and file(s) from other ACH operators.

4:30 p.m. ET. Inbound ACH file received from the Fed and file(s) from other ACH operators.

11:30 p.m. ET. (except Friday or the night before a holiday) Inbound ACH file received from the Fed and file(s) received from other ACH operators.

6:00 a.m. ET. Inbound ACH file received from the Fed and file(s) received from other ACH operators.

Note: The only receiving runs that can contain Same Day transactions are the 12:30 a.m. run and the 4:30 p.m. run.

ACH Origination Run Schedule (Outbound Files) (Monday thru Friday):

- Batch origination: **900 a.m. ET** (this could include Same Day items)
- Returns and one-time originations: 12:15 p.m. CT (this is the only run for Same Day ACH one-time originations)
- Batch origination: **1:30 p.m. ET** (this could include Same Day items)
- Returns and one-time originations: 2:15 p.m. CT (this run is too late for Same Day ACH one-time originations)
- Batch origination: **5:00 p.m. ET**
- Remaining returns and one-time originations that were not sent earlier in the day: **6:30 p.m. ET**
- Batch origination: **730 p.m. ET**
- Batch origination: **8:30 p.m. ET**

For more information or assistance please contact Lincoln 1st Bank's Operations Department via phone at (973) 694-0330 or via email at DepositOperations@myLincoln1st.com