This guide provides a brief overview of the ACH Rules as they apply to your company as the "Originator".

The ACH Network is a nationwide electronic payments system that allows funds to be processed quickly. Companies are able to create direct deposits for company payroll, pay vendors or collect from customers and other transfers using ACH.

The NACHA Operating Rules and Guidelines apply to all such entries and entry data transmitted through the ACH Network. Therefore, an ACH Originator must comply with the Rules and Guidelines for the creation, submission and processing of these entries.

Franklin Mint Federal Credit Union (FMFCU) provides specific ACH Origination Rule requirements in this document. The NACHA Operating Rules and Guidelines are updated with changes, additions, and deletions on an annual basis. FMFCU ensures that annually it communicates the Rules changes so that our ACH Originators are educated on these Rules and make any necessary changes to their role as an Originatoras a result of these Rule changes.

For more information about the NACHA Operating Rules and Guidelines please refer towww.nacha.org/rules.

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Key Terms

ACH Network – The Automated Clearing House Network is a batch processing system that provides for the processing and settling of Electronic Entries for Financial Institutions.

ACH Operator – Currently there are 2 ACH Operators within the United States. The Federal Reserve and The Clearing House (privately owned). The ACH Operators accept files from Originating Depository Financial Institutions (ODFIs) and distribute them to the appropriate Receiving DepositoryFinancial Institutions (RDFIs).

CCD – A debit or credit initiated to an Organization or Company

NACHA – The National Automated Clearing House Association that creates and manages the Rules and Guidelines for the ACH Network.

NACHA Operating Rules and Guidelines – The Rules and Guidelines that govern the ACH Network. All ACH Originators must comply with these Rules. Violations of the Rules could incur fines.

Originator – An Originator is typically a company or business that creates transactions within the ACH Network. Some examples might be payroll or dues.

Originating Depository Financial Institution (ODFI) – The Financial Institution (bank or credit union) with whom the Originator has an agreement to submit ACH transactions to an ACH Operator on their behalf.

PPD – A debit or credit initiated to a Consumer account.

Receiving Depository Financial Institution (RDFI) – The Financial Institution where your customer, employee etc. has an account.

Receiver – The person or company that ultimately receives the ACH debit or credit. This could be your employee, customer etc. They are also the person or company that has authorized an Originator to send the credit or debit to their account.
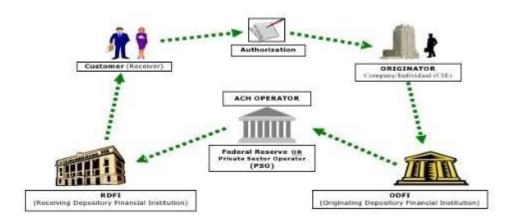
TEL – A debit initiated to a Consumer account when the Originator obtains the Receiver's authorization for the debit entry orally via the telephone.

WEB – A debit to a Consumer account based on an authorization that is communicated, *other than by an oral communication via a telephone call*, from the Receiver to the Originator via the Internet or a Wireless Network. It includes debit entries authorized under any form of authorization when the instruction for the *initiation* of the debit is provided to the Originator, *other than by oral communication via a telephone call*, over a Wireless Network.

The ACH Flow

An Originator (Business Member) sends an ACH File to FMFCU, it is sent to the ACH Operator and then to a customer or employee's account at their Financial Institution.

How long must you keep a copy of the Authorization?

Authorization Retention: An Originator must retain the original or a copy of each written authorization from a Receiver, or a readily and accurately reproducible record evidencing any other form of authorization. These must be retained for two years from the termination or revocation of the authorization.

At the request of the ODFI or (FMFCU), the Originator must provide the original, copy or other accurate record of the Receiver's authorization to FMFCU for its use or for the use of the RDFI requesting the information. The Originator must provide this in such time and manner as to enable FMFCU to deliver the authorization to the RDFI within ten (10) banking days of the RDFI's request.

Authorization Requirements for Consumer Entries: For consumer debit entries (those entries hitting a consumer account and not a corporate account), *Authorization of a <u>credit entry</u> to a consumer account is not required in writing, however it is a best practice*.

Consumers <u>must</u> provide authorization in writing that is signed or similarly authenticated method for an *<u>ACH debit</u>*.

Originators should ensure that the authorization language is <u>clear and readily understandable</u> by the account holder/receiver in order to be a valid authorization. It should be readily identifiable as an authorization.

The authorization at a minimum:
- o   Must identify the Company authorized to debit the account
- o   Must include a validated account number and routing number, for the account that will be debited
  - o Example of validation – A copy of the account holder's voided check stapled to the authorization
- It must clearly state the Receiver's name or identify
- Must include the Bank name for the account to be debited
- The consumer must date and <u>either sign or similarly authenticate</u> (must prove that you had the account holder's authorization to debit the account)
- Must include what type of account is being debited and/or credited (demand deposit account, savings account).
- The amount of the debit(s)
- The Originator must obtain authorization for both consumer credit (to correct errors) and debit entries for this authorization.
- Language regarding whether the authorization is for a Single Entry, multiple entries or Recurring Entries
- Date (s) including the start date and /or frequency of debit(s)
- Must provide that the Receiver may revoke the authorization only by notifying the Originator in the time and manner state in the authorization.
  - o   For a Single Entry (one time entry) authorized in advance, any such revocation right shall afford the Originator a reasonable opportunity to act on the revocation prior to the initiation of the entry.
- Must provide each Receiver with an Electronic or hard copy of the authorization

> *There are additional requirements for Telephone Initiated Entries (TEL) and Internet Initiated/Mobile   Entries (WEB) Entries.*
> *There are other considerations for Non-Consumer authorizations.*

Sample Authorization Forms can be provided to Assist Your Business

Will my Entry be returned?

Originators can expect the return of consumer entries that were not properly authorized. This can occur when the authorization requirements have not been followed in accordance with the NACHAOperating Rules

Examples of an unauthorized debit entry:
(1) The Originator is not known to the Receiver or authorized to debit the account
(2) A transaction was initiated in an amount different than that authorized by the Receiver;
(3) A transaction was initiated for settlement earlier than authorized by the Receiver.
(4) Authorization has been revoked by the Receiver

In general, consumer debit entries must be returned in such time and manner that the return is made available to the ODFI (FMFCU) no later than the opening of business on the banking day following the sixtieth (60) calendar day following the settlement date of the original entry. This return deadline also applies to the return of debit entries for which the consumer Receiver had previously revoked his authorization.

In addition, account numbers that were not validated may be returned as erroneous.

Clearly identifying your Company Name

Company Name Identification: The Originator is required under the Rules to ensure there is clear identification of the source of an ACH transaction. Specifically, the Rules require the Originator to populate the Company Name Field with the name by which it is known to and readily recognized by the Receiver of the entry. As this company name appears on the account holder's statement, it should be easily recognized by the account holder/receiver of the debit/credit. The clear identification of the Company Name also reduces the number of unrecognized entries resulting in returns.

The Debit amount or the Date of Debit is changing. What must you do?

Notice of Change in Amount/Change in Debiting Date for Recurring Debits: For recurring debits, when the debit amount differs, the Rules require the Originator to notify the account holder/receiver at least ten (10) calendar days before the scheduled transfer date. An exception qualifies if the Originator and the Receiver have previously agreed to only receive such notice if the amount falls outside a specified range.

If an Originator changes the date in which it debits the account holder/receiver, it must notify the account holder/receiver in writing of the new date of the entry at least seven (7) calendar days before the first such entry is scheduled to be debited to the Receiver's account.

The role of Pre-Notes – How they can help you stay compliant

Prenotifications: Prenotifications are non-monetary entries generated by an Originator to the RDFI prior to the initiation of the first credit or debit to the Receiver's account, to validate the account held at the RDFI. It is required that an Originator must warranty that each entry contains accurate information including the correct account number. Prenotification is an approved method to meet the requirement of account verification.

An Originator that has originated a Prenotification Entry may initiate live dollar entries to the Receiver's account as soon as the third Banking Day following the Settlement Date of the

Prenotification Entry, <u>provided that FMFCU has not received a Return or a Notification of Change</u> related to the Prenotification. If such has been received then the Originator must not transmit further entries to the Receiver's account until it has corrected the Receiver's information.

When your employee/customer's bank sends corrected Information

Notifications of Change: Notifications of Change (NOC) are non-monetary entries sent by the RDFI to FMFCU to alert the Originator that a change to any transaction should be made. Under the NACHA Operating Rules, the Originator is required to change its information (the information requested to be changed by the RDFI within 6 banking days of receipt of the NOC or the next time the transaction is generated, whichever is later.

What if your Transaction is returned by the other Financial Institution?

Receiving ACH Returns and Re-initiation of Entries: Under the NACHA Operating Rules, a returned entry may not be reinitiated unless (1) the entry has been returned for insufficient or uncollected funds; (2) the entry has been returned for stopped payment and re-initiation has been authorized by the consumer after the Originator receives the return, or (3) the ODFI (FMFCU) has taken corrective action to remedy the reason for the return.

An Originator must reinitiate an entry within 180 days after the settlement date of the original entry. And must not reinitiate an entry returned for insufficient funds or uncollected funds more than 2 times following the return of the original entry.

How to properly handle a Stop Payment

Stop Payments Made by Consumer: This affects Originators, as a stop payment may be placed on the RDFI's system for one entry or for all future entries specific to the Originator. Thus Originators need to train internal staff to ensure they understand that there may be multiple stop payments returned. These should not be reinitiated into the Originator's system until the reason for the stop has been resolved with the Receiver.

There was an Error in Your File or Entry (<u>Must Contact FMFCU before proceeding</u>)

Reversing an ACH File: The Originator or FMFCU may initiate a reversing file to reverse all entries of an erroneous file. The word "REVERSAL" must be placed in the Company/Batch Header Record in the Company Entry Description Field. The Originator must initiate a correcting file with the reversing file unless the Erroneous File was a duplicate.

The reversing file and when appropriate, the corresponding correcting file must be transmitted to the ACH Operator within 5 banking days after the settlement date of the erroneous file and within 24 hours of the discovery of the erroneous file.

Any debit entry within the reversing file must not contain an effective entry date that is earlier than the effective entry date of the credit entry to which it relates.

Reversing an ACH Entry: An Originator may reverse an entry if the entry is erroneous or a duplicate entry. Only an Originator may reverse an entry. The Originator must make a reasonable attempt to notify the account holder/receiver of the reversing entry and reason of

the reversing entry no later than the Settlement Date of the reversing entry.

Definition of an Erroneous Entry: An entry that (1) is a duplicate of an entry previously initiated by the Originator or ODFI; (2) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; (3) orders payment in an amount different than was intended by the Originator; (4) orders payment of a debit Entry on a date earlier than the Receiver was intended to be debited by the Originator, or payment of a credit Entry on a date later than the Receiver was intended to be credited by the Originator; or (5) is a PPD credit entry satisfying each of the following requirements: (i) the PPD credit entry is for funds related to a Receiver's employment; (ii) the value of the PPD credit is fully included in the amount of a check delivered to the same Receiver at or prior to the Receiver's separation from employment; and (iii) the PPD credit entry was transmitted by the Originator prior to the delivery of the check to the Receiver.

For a credit PPD entry satisfying the criteria above (5), the Originator must notify the Receiver of the reversing entry at the time the check is delivered to the Receiver.

Office of Foreign Assets Control (OFAC)

Laws Regarding the Office of Foreign Asset Control (OFAC): Originators should be aware that they and any financial institution that is under U.S. jurisdiction initiating transactions on their behalf, are subject to applicable U.S. law, this includes OFAC-enforced sanctions, when initiating ACH entries. Originators should be aware that they will be held to an obligation to originate only lawful ACH transactions. Originators are required to comply with OFAC obligations, and the penalties for ignoring those obligations can be both criminal and civil and include both jail time and substantial monetary fines.

Audits and Restrictions

Risk Management and Assessment Requirements
All Participating Depository Financial Institutions (DFI's) are given requirements in regard to risk assessment. In addition, NACHA Operating Rules have further requirements for ODFI's. These include:
- performing due diligence to form a reasonable belief that an Originator has the ability to perform their obligations in compliance with the NACHA Rules
- assess the nature of the Originator's activity and the potential risks involved
- establish and implement procedures to monitor the origination and return activity of the Originator, across multiple settlement dates
- enforce restrictions on the types of ACH transactions that may be originated
- enforce exposure limit

FMFCU as an ODFI may establish additional risk management procedures such as requiring that an audit of its Originators activity be performed and it may also limit the types of standard entry class codes which can be originated using FMFCU's routing number.