

ACH

**Obligations
of
Originators
2022**

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WHAT IS THE ACH NETWORK?

The Automated Clearing House (ACH) Network is an electronic payments network used by individuals, businesses, financial institutions and government organizations. It allows funds to be electronically debited or credited to a checking account, savings account, financial institution general ledger account or credited to a loan account.

The ACH Network is the backbone for the electronic movement of money and other related data, providing a safe, secure, reliable network for direct consumer, business and government payments. Large and small financial institutions of all kinds jointly govern and utilize the ACH Network, facilitating billions of payments such as

Direct Deposit via ACH and Direct Payment via ACH.

The ACH Network is a batch processing, store-and-forward system. Transactions are stored by financial institutions throughout the day and processed at specified times in a batch mode.

The ACH Network exchanges funds and payment-related information throughout the United States, its territories and internationally.

WHO ARE THE ACH PARTICIPANTS?

There are five key participants to initiate an ACH transaction.

Originator: The Originator is the entity initiates ACH entries into the payment system according to an arrangement with a Receiver.

Originating Depository Financial Institution: The Originating Depository Financial Institution (ODFI) is the institution that receives the payment instructions from Originators and forwards the entries to the ACH Operator.

Automated Clearing House Operator: An Automated Clearing House (ACH) *Operator* is the central clearing facility, operated by a Federal Reserve Bank (FRB) or a private organization, that receives entries from ODFIs, distributes the entries to appropriate RDFIs, and performs the settlement functions for the affected financial institutions.

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

Receiver: A Receiver is a natural person or an organization that has authorized an Originator to initiate an ACH entry to the Receiver's account with the Receiving DFI.

There are two other participants that may be involved in the flow of transactions, **Third-Party Service Providers** and **Third-Party Senders**.

Third-Party Service Provider is an entity which performs an ACH processing function on behalf of the Originator, ODFI or RDFI. A payroll processor is a common example of a Third-Party Service Provider used by Originators.

A subset of Third-Party Service Providers sending or receiving ACH files on behalf of a financial institution are known as **Third-Party Sending Points** and **Third-Party Receiving Points**, respectively. These entities can be correspondent banks, corporate credit unions or processors.

A **Third-Party Sender (TPS)** is an entity that has a contractual relationship with an ODFI to transmit debits or credits to the account of a Receiver on behalf of the Originator. More specifically, a Third-Party Service Provider is a Third-Party Sender when there is a contractual relationship between the Originator and the Third-Party and there is NOT an agreement between the Originator and the ODFI.

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ACH RULES AND REGULATIONS

There are many rules and regulations that govern the transmission of ACH entries.

ACH Operating Rules- NACHA

- A series of contract law that is made binding by agreements.

Regulation E and Electronic Fund Transfer Act (EFTA)

- Carries out the purpose of the Electronic Fund Transfer Act which establishes the basic rights, liabilities and responsibilities of consumers.

Office of Foreign Asset Control (OFAC)

- U.S. Department of the Treasury, Office of Foreign Assets Control, administers embargo sanctions and embargo programs. They also maintains a list of Specially Designated Nationals and Blocked Persons (SDN List) to assist Financial Institutions in identifying blocked countries, nationals, companies and individuals.

State law

- Some state laws are more restrictive and provide greater consumer protection for ACH transactions than the ACH Rules.

Title 31 Code of Federal Regulation Part 210 (31 CFR Part 210 – The Green Book

- Provides the regulatory foundation for use of the ACH Network by Federal Government Agencies.

USA Patriot Act

- Providing appropriate tools required to intercept and obstruct international terrorism.

Uniform Commercial Code Article 4A (UCC4A)

- Deals with certain funds transfers not subject to Regulation E or the Electronic Funds Transfer Act. Includes Wholesale Credits.

TRANSACTION CODES

A Transaction Code identifies an entry as a debit or credit and indicates the type of account to which the transaction is intended for. Here is a list of common Transaction Codes:

Demand Credit

- 21 Automated Return or NOC for Demand Credit
- 22 Demand Credit
- 23 Prenote for a Demand Credit
- 24 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Demand Debit

- 26 Automated Return or NOC for Demand Debit
- 27 Demand Debit
- 28 Prenote for a Demand Debit
- 29 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Savings Account Credit

- 31 Automated Return or NOC for Savings Credit
- 32 Savings Credit
- 33 Prenote for a Savings Credit
- 34 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Savings Account Debit

- 36 Automated Return or NOC for Savings Debit
- 37 Savings Debit
- 38 Prenote for a Savings Debit
- 39 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Financial Institution General Ledger (GL) Credit

- 41 Automated Return or NOC
- 42 GL Credit
- 43 Prenote for GL Credit
- 44 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Financial Institution General Ledger (GL) Debit

- 45 Automated Return or NOC
- 46 GL Debit
- 47 Prenote for a GL Debit
- 48 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Loan Account Credit

- 51 Automated Return or NOC
- 52 Loan Account Deposit
- 53 Prenote for a Loan Account
- 54 Zero Dollar Entry with Remittance Data (for CCD and CTX Entries Only)

Loan Account Debit

- 55 Loan Account Debit (Reversal Only)
- 56 Automated Return or NOC

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TYPES OF ACH TRANSACTIONS

There are two types of ACH transactions:

- **Commercial:** Entries originated by the private sector including state and local government entities
- **Government:** Entries originated by the federal government agencies

There are three common applications of commercial payments:

- **Direct Deposit:** payroll, bonus and reimbursement
- **Direct Payment:** rent, insurance payments, monthly dues or recurring bills
- **Corporate entries:** vendor, disbursements, cash concentrations

SECURE TRANSMISSION

Files must be transmitted through a secure connection to ensure the data is encrypted. Data Transmission with encryption or authentication is considered the most “commercially reasonable” method for exchanging data. Files can be submitted through BusinessLink or Direct Send.

Transmission or exchange of banking information over an Unsecured Electronic Network means of voice or keypad inputs from a wire line or wireless telephone to a live operator or voice response unit are not subject to the requirement.

Commercially reasonable level of security must comply with current, applicable regulatory guidelines.

COMPANY NAME IDENTIFICATION

The Rules specifically 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.

- This name could be your “doing business as”

ACH AUDIT

All ACH participating financial institutions and Third-Party Service Providers must conduct an audit of *ACH Rules* compliance annually, by December 31, in accordance with the *ACH Rules*. This includes both ODFIs and RDFIs and their Third-Party Service Providers (Third-Party Sender, Sending/Receiving Point). The audit may be performed externally or internally under the direction of an audit committee, audit manager or senior level officer of the participating Depository Financial Institution or the Third-Party Service Provider.

RISK MANAGEMENT AND SECURITY FRAMEWORK

Risk Management

The NACHA Rules provide that each ODFI has the right to:

- Terminate or suspend for breach of the Rules
- To audit to ensure compliance with the agreements and the Rules.
- Assess the nature of ACH activity and the risks it presents.
- Monitor origination and return activity
 - Multiple settlement dates
 - Enforce exposure limits

Security Framework

Establishes minimum data security obligations for ACH Network participants to protect ACH data throughout its lifecycle.

- Protection of Sensitive Data and Access Controls
 - Non-consumer Originators, Participating DFIs, Third Party Service Providers and Third Party Senders will be required to establish, implement, and as appropriate, update security policies, procedures and systems related to initiation, processing and storage of entries.
 - (1) Protect the confidentiality and integrity of Protected Information

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- Types of transactions that may be originated.
- Data Passing Rule
 - 1- prohibits an ODFI from disclosing the Receiver's account number or routing number to any Third Party for such Third Party's use, directly or indirectly, for initiating debit entries not covered by the original authorization
 - 2-requires an ODFI to ensure that the Originator and any Third Party Service Provider acting on behalf of the Originator or ODFI not to disclose the Receiver's account number, or routing number to any Third Party for such Third Party's use, directly or indirectly, in initiating a debit Entry that is not covered by the original authorization
- (2) Protect against anticipated threats or hazards to the security of integrity of Protected Information
- (3) Protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.
 - Originators and Third-Parties with annual ACH volumes greater than 2 million the prior year must protect account numbers by rendering them unreadable when stored electronically.
- Self-Assessment - Requires each Participating DFI, Third-Party Service Provider and Third Party Sender to verify that it has established, implemented, and updated the data security policies, procedures, and systems required by the ACH Security Framework.
- Verification of Third-Party Senders and Originators - Requires that an ODFI use a commercially reasonable method to determine the identity of each non-consumer Originator or Third-Party Sender with which the ODFI enters into an Origination Agreement.

COMMERCIAL AND FEDERAL GOVERNMENT RECLAMATION ENTRIES

Commercial Reclamations

The *ACH Rules* include provisions for Originators to reclaim commercial (non-federal government) benefit payments such as pensions and annuities that are made after the death or legal incapacity of the Receiver. Originators may make a reclamation request either in writing or by sending an ACH debit entry. Reclamations will require special handling by the institution. The RDFI must honor commercial reclamations to the extent of its liability. The amount of a reclamation entry may be less than the amount of the original benefit payment since the *ACH Rules* allow "partial reclamation" entries. A reclamation entry cannot have an Effective Entry Date that is earlier than the Effective Entry Date for the credit the Originator is seeking to reclaim.

Federal Government Reclamations

Death Notification Entries (DNEs) are used by federal government agencies (e.g., Social Security Administration, Veteran's Affairs) to provide notification of the death of benefit recipients. The addenda record, which accompanies this non-dollar entry, specifies the recipient's date of death, Social Security number and the amount of the next scheduled benefit payment.

HEALTHCARE PAYMENTS

Healthcare payments requires Originators to populate the Company Entry Description field of the CCD Entry with the value "HCCLAIMPMT". RDFI'S will be able to identify a CCD entry as a Health Care EFT Transaction and must provide or make available all information contained within the Payment Related Information field of the Addenda Record transmitted with the Health Care EFT Transaction. The Originator is required to ensure that the CCD entry complies with the following formatting requirements, to provide clear identification of the source and purpose of the payment.

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CORPORATE ACCOUNT TAKEOVER RULE

An RDFI that reasonably suspects that a credit entry is unauthorized is exempt from the requirement of making the credit available to the Receiver for withdrawal no later than the settlement Date of the Entry.

RDFI has additional time to investigate a Suspicious credit prior to making funds available to Receiver if suspect credit is not authorized.

- RDFI must promptly notify ODFI if suspect credit not made available to Receiver

REINITIATION OF ACH ENTRIES

An Originator may reinitiate an Entry that was previously returned only if:

- Entry was returned for insufficient or uncollected funds
- Entry was returned for stopped payment and reinitiation has been separately authorized by the Receiver afar the Originator receives the return entry; or
- Originator has taken corrective action to remedy the reason for the return.

An Originator may reinitiate an RCK Entry that was previously returned if:

- Entry was returned for insufficient or uncollected funds; and
- The item to which the RCK Entry relates has been presented no more than one time through the check collection process and no more than one time as an RCK Entry.

The Entry may be reinitiated up to two times and must be reinitiated within 180 days after the Settlement Date of the original entry and must contain identical information (Company Name, Company ID and Amount) of the original entry. The Company Entry Description field in the Batch Header Record must contain RETRY PYMT.

Entries not eligible for reinitiation include:

- Debit entry is one in a series of preauthorized, recurring debits and is not contingent upon whether an earlier debit Entry in the recurring series has been returned;
- Originator receives a new authorization for the debit Entry after it receives the original returned Entry;
- Entries returned as R03 and R04 are not eligible for reinitiation
- Entries returned as R11 where the error in the previous entry has been corrected to conform to the terms of the original authorization.

FUNDS AVAILABILITY

The *ACH Rules* require RDFIs to provide funds availability to account holders by 9 a.m. RDFI's local time when non-Same Day credits are made available to the RDFI from the ACH Operator by 5 p.m. local time on the day prior to settlement. All other non-Same Day credits must be available on the Settlement Date. For Same Day credits processed in the first same-day processing window, funds must be available to withdraw by 1:30 p.m. RDFI's local time. Funds associated with Same Day credits processed in the second same-day processing window must be available to withdraw by 5 p.m. RDFI's local time. Settlement day finality for credits allows RDFIs to post credit transactions on the Settlement Date without the risk of the entries being pulled back.

ACH TRANSACTION

FUNDS AVAILABILITY FOR WITHDRAWAL

Not a Same-Day transaction

By 9:00 AM local time of the RDFI on Settlement Date

Same-Day transaction by 8:30 AM

By 1:30 PM local time of the RDFI

Same-Day transaction by 12:00 PM

By 5:30 PM local time of the RDFI

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Same-Day transaction by 3:00 PM

By end of process day for the RDFI

STANDARD ENTRY CLASS (SEC) CODES & REQUIREMENTS

SEC Code	SEC Code Description	Entry Type	Purpose	Authorization Requirement
ARC	Accounts Receivable Entry	Debit	The Accounts Receivable (ARC) Entry provides billers the opportunity to initiate single-entry ACH debits to customer accounts by converting checks at the point of receipt through the U.S. mail, at a drop box location or in-person for payment of a bill at a manned location.	Notification is required prior to acceptance of the check.
BOC	Back Office Conversion	Debit	Back Office Conversion (BOC) allows retailers/billers to electronically convert checks received at the point-of-purchase as well as at a manned bill payment location into a single-entry ACH debit. The decision to process the check item as an ACH debit will be made in the "back office" instead of at the point-of-purchase.	Notification is required prior to acceptance of the check.
CCD	Corporate Credit or Debit	Debit/ Credit	The Corporate Credit or Debit (CCD) application provides a way for companies to receive cash rapidly, manage funds and control cash disbursements. Companies that operate several branches or sales outlets may consolidate funds quickly and eliminate the difficulties associated with transferring funds to a central corporate account. This application enhances the ability to predict funds availability and improve a company's total cash management capability. The CCD application can also be used to transfer funds among corporate entities in payment of goods or services, and can support a limited amount of payment-related data (e.g., invoice number, discounts taken, purchase order number, etc.) with the funds transfer.	Agreement required for transfers between companies; written authorization implied
CIE	Customer Initiated Entry	Credit	The Corporate Trade Exchange (CTX) application provides the ability to collect and disburse funds and information between companies. Generally it is used by businesses paying one another for goods or services. These payments replace checks with an electronic process of debiting and crediting invoices between the financial institutions of participating companies.	Presumed agreement between consumer and company or payment agent
CTX	Corporate Trade Exchange	Debit/ Credit	The Corporate Trade Exchange (CTX) application provides the ability to collect and disburse funds and information between companies. Generally it is used by businesses paying one another for goods or services. These payments replace checks with an electronic process of debiting and crediting invoices between the financial institutions of participating companies.	Agreement required for transfers between companies; written authorization implied.
IAT	International ACH Transaction	Debit/ Credit	An IAT entry is a credit or debit ACH entry that is part of a payment transaction involving a financial agency's office (i.e., depository financial institution or business issuing money orders) that is not located in the territorial jurisdiction of the United States. IAT entries can be made to or from a corporate or consumer account and must be accompanied by seven (7) mandatory addenda records	Agreement required for transfers between companies; credit entries to consumer accounts require authorization be provided orally or by non-written means; debit entries to consumer accounts require a written, signed or

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			identifying the name and physical address of the Originator, name and physical address of the Receiver, Receiver's account number, Receiver's bank identity and reason for the payment.	Similarly Authenticated* authorization.
POP	Point-of-Purchase Entry	Debit	The Point-of-Purchase (POP) application provides businesses the opportunity to create a debit entry to a Receiver's account for a purchase made in-person at the point-of-sale or a manned bill payment location. After providing the proper notice, the Originator (merchant/retailer) accepts a source document, a paper check/sharedraft, from the Receiver, which is then inserted into a check-reading device to capture the account information (routing number, account number and check serial number) from the MICR line of the check. The dollar amount of the transaction is manually key-entered by the sales clerk. The check/ sharedraft is then voided and returned to the Receiver along with an authorization form. The Receiver then authorizes the Originator to convert it into a one-time electronic debit to the Receiver's account.	Notification prior to acceptance of the check and written authorization required.
POS	Point-of-Sale	Debit	Point-of-Sale Entries (POS) are ACH debit entries typically initiated by the use of a merchant-issued plastic card to pay an obligation at the point-of-sale. Much like a financial institution issued debit card, the merchant-issued debit card is swiped at the point-of-sale and approved for use; however, the authorization only verifies the card is open, active and within the card's limits—it does not verify the Receiver's account balance or debit the account at the time of the purchase. Settlement of the transaction moves from the card network to the ACH Network through the creation of a POS entry by the card issuer to debit the Receiver's account.	Card provided at the time of payment
PPD	Prearranged Payment and Deposit	Debit/ Credit	Prearranged Payments and Deposits (PPDs) can be either credit or debit entries and represent either single or recurring payments. PPD transactions are more widely known as Direct Deposit and Direct Payment. The Direct Deposit application provides the ability to disburse funds to consumer accounts. The Direct Payment application provides the ability to collect funds from consumer accounts.	Credit: Authorization required. Oral or non-written means (i.e., voided check) accepted. Debit: Authorization required. Written, signed or Similarly Authenticated. <i>Written authorization must be kept by the Originator for two years after termination.</i>
RCK	Re-presented Check Entry	Debit	The Re-presented Check (RCK) Entry provides businesses the ability to collect funds from paper checks that have been processed through the check collection system and returned NSF or UCF. A consumer's paper check that has been returned insufficient or uncollected funds may be submitted as an ACH debit entry through the ACH Network, as long as the proper notice is provided.	Notification is required prior to acceptance of the check.
TEL	Telephone-Initiated Entry	Debit	The Telephone-Initiated (TEL) Entry provides businesses the opportunity to initiate ACH debits to consumer accounts for the purchase of goods and services pursuant to an oral authorization obtained over the telephone. TEL entries can be either set up for one specific payment	For Single Entry, recorded oral authorization or written notice provided to the consumer confirming the oral authorization. For Recurring, a copy of the

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			(Single-Entry) or to occur at regular intervals (Recurring). 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.	authorization must be provided to the consumer.
WEB	Internet-Initiated/ Mobile Entry	Debit/ Credit	The Internet-Initiated/Mobile (WEB) Entry can be either a debit or credit entry and represents either single or recurring payments. A WEB debit entry provides companies the opportunity to initiate a debit entry to consumer accounts for the purchase of goods or services pursuant to an authorization obtained over the Internet or a Wireless Network. A WEB credit entry is initiated on behalf of a consumer to pay another person or to transfer monies from a consumer's account at one financial institution to his/her account at another institution. The payment instructions may be communicated via the Internet, Wireless Network or in-person at the financial institution.	Debit: Similarly Authenticated authorization required due to the nature of the Internet. Credits: No Authorization Required
XCK	Destroyed Check Entry	Debit	Destroyed Check Entries (XCK) are debit entries originated by an ODFI for collection of certain checks contained in a lost or destroyed cash letter shipment or that cannot be processed through image exchange.	No authorization required.

INTERNATIONAL ACH TRANSACTIONS (IAT)

International ACH Transactions are ACH entries that are part of a payment transaction involving a financial agency's office (i.e., depository financial institution or business issuing money orders) that is not located in the territorial jurisdiction of the United States. IAT entries can be debit or credit entries to corporate and consumer accounts. Each IAT entry must be accompanied by seven mandatory addenda records identifying the name and physical address of the Originator, name and physical address of the Receiver, Receiver's account number, Receiver's routing number and reason for the payment. Additionally, up to five optional addenda records may come with an IAT entry that convey remittance data and identify foreign correspondent banks.

RDFIs processing inbound IAT entries must review each IAT entry received along with all parties to that transaction, including the Originator, foreign originating bank, foreign correspondent banks and the Receiver against the most current Specially Designated Nationals and Blocked Persons (SDN) List. Additionally, any remittance information with the transaction must be screened to ensure it is not in violation of OFAC sanctions. OFAC screening must be performed prior to posting an IAT entry and can be done through the use of software tools or a Third-Party Service Provider (i.e., correspondent bank, corporate credit union, or processor). If using a Third-Party Service Provider to do the OFAC review of transactions, be aware the financial institution may not contract away its liability.

NATIONAL SYSTEM OF FINES

RULES VIOLATIONS

All participating financial institutions agree to comply with the applicable ACH Rules and agree that those rules shall govern financial institutions and other parties involved. A process has been established to address non-compliance with the ACH Rules that includes enforcement, compensation and arbitration.

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The ACH Rules enforcement and fines process establishes procedures investigation of alleged violations of the ACH Rules. A participating financial institution or ACH Operator that is a party to the transaction in question may complete a Report of Possible ACH Rules Violation for any alleged violation. A party to the transaction has 90 days from the occurrence of the ACH Rules violation(s) being asserted to submit a report.

The Report of Possible ACH Rules Violation must be signed by an officer and submitted with copies of supporting documentation necessary to support the claim of the ACH Rules violation to NACHA for investigation. If it appears that a violation may have occurred, a Notice of Possible ACH Rules Violation will be sent to the participant against which the report was filed. This participant will be asked to respond by:

- (1) acknowledging and correcting the problem, or
- (2) refuting the allegation.

A participant that fails to respond appropriately may be assessed a fine by the ACH Rules Enforcement Panel.

ACH Rules violations are categorized based on the severity of the issue and fines are imposed accordingly:

CLASS 1 RULES VIOLATION — up to \$5,000 per violation

CLASS 2 RULES VIOLATION — up to \$100,000 per violation per month

CLASS 3 RULES VIOLATION — up to \$500,000 per violation per month

Your Payments Association is always available to assist you in handling issues of non-compliance.

The compensation process is used to ensure that one financial institution is not unjustly enriched or injured as a result of an error made by another financial institution. A claim for compensation may be filed if the loss incurred is at least \$250. Most common uses for compensation are failure to transmit an ACH payment, payment transmitted in error or incorrect Receiver.

The arbitration procedures within the ACH Rules include three dispute levels, which are determined according to the dollar amount of the damages and the complexity of the issue. Disputes under Procedure A and Procedure B may be submitted by only one party; however, both parties must agree to arbitration under the rules for Procedure C.

- Arbitration Procedure A addresses damages of at least \$250 but less than \$10,000,
- Arbitration Procedure B addresses damages of at least \$10,000 but less than \$50,000 and
- Arbitration Procedure C addresses damages of \$50,000 or more.

Claimed damages are not limited to the dollar amount of the entry or entries involved and may also include the cost of handling the problems involved with the entry. The timeframe for submitting an arbitration claim is two years from the date of the alleged violation.

The ACH Rules Enforcement Panel is able to determine whether a violation is egregious, and to classify whether an egregious violation is a Class 2 or Class 3 rules violation. The rule expressly authorizes NACHA to report Class 3 rules violations to the ACH Operators and to federal and state banking, consumer protection, and other appropriate regulators and agencies. An egregious violation is defined as:

1. A willful or reckless action by a Participating DFI, Originator, Third-Party Service Provider, or Third-Party Sender, and
2. One that involves at least 500 entries or involves multiple entries in the aggregate amount of at least \$500,000.

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RETURN, ACH OPERATOR REJECTS, DISHONORED RETURNS & CONTESTED DISHONORED RETURNS

Returns

ACH entries can be returned to an originator for any valid reason. A return entry is used when the RDFI is unable to post an ACH transaction or when an entry is being disputed. The ACH Rules allow an RDFI to return any entry for which there is a valid Return Reason Code. In general, returns must be transmitted so that the return entry will be made available to the ODFI no later than the opening of business on the second banking day following the settlement date of the original entry.

Extended return entries for disputed transactions may be returned up to 60 calendar days from Settlement. These entries require a Written Statement of Unauthorized Debit to be completed prior to the entry being returned.

Returned entries may be reinitiated if the entry was returned for insufficient funds or uncollected funds and can only be reinitiated one time within 180 days of the original entry. An entry returned for stop payment, or an authorized issue, may only be reinitiated if the Originator has received appropriate authorization from the Receiver to do so. Reinitiated entries contain "RETRY PYMT" in the Company Entry Description field of the Company/Batch Header record.

ACH Operator Rejects

The ACH Operator may reject entries that are submitted with errors. A rejected entry can occur from either an origination file or return item file. When a return entry is rejected at the ACH Operator level, the entry does not go any further in the process and is not passed along to the ODFI.

Dishonored Returns

A dishonored return is an ACH return transmitted by an ODFI in response to a returned ACH entry that was mishandled by the RDFI for one of the following reasons:

1. Untimely return of an ACH entry
2. Misrouting of a return to the wrong ODFI
3. The return contained incorrect or incomplete information as required by the *ACH Rules*

An ODFI dishonors a returned entry in an attempt to either dispute the return for inappropriate handling or to advise the RDFI that an error in information prevents the entry from being identified. Special Return Reason Codes identify the ODFI's reason for dishonoring a return. The addenda record of a Dishonored Return carries information that identifies the Return Reason Code and details the reason the entry was dishonored. A dishonored return must be transmitted by the ODFI within five banking days from the Settlement Date of the return entry.

Contested Dishonored Returns

The proper action required by the financial institution varies, depending on whether the dishonored return was disputed or represents a need for a correction. An RDFI may:

1. Contest a dishonored return based on a dispute of timeliness, or
2. Correct a dishonored return for the purpose of correcting return information related to the original entry (e.g., account number, transaction code, etc.)

In either case, the RDFI must respond within two banking days of the Settlement Date of the dishonored return. If the RDFI properly contests a dishonored return (i.e., on time and without error), the ODFI must accept the entry and resolve further disputes outside of the ACH Network.

RETURN REASON CODES

R01—Insufficient Funds—Available balance is not sufficient to cover the dollar value of the debit entry.

R02—Account Closed—Previously active account has been closed by customer or RDFI.

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R03—No Account/Unable to Locate Account—Account number structure is valid and passes editing process, but does not correspond to individual identified in entry or is not an open account. *(Note: This Return Reason Code may not be used to return ARC, BOC or POP entries solely because they do not contain an Individual Name.)*

R04—Invalid Account Number—Account number structure not valid; entry failed check digit validation or may contain an incorrect number of digits.

R05—Unauthorized Debit to Consumer Account Using Corporate SEC Code—A CCD or CTX debit entry was transmitted to a Consumer Account of the Receiver and was not authorized by the Receiver. Written Statement required.

R06—Returned per ODFI's Request—ODFI has requested RDFI to return the ACH entry (optional to RDFI); ODFI indemnifies RDFI.

R07—Authorization Revoked by Customer—Consumer, who previously authorized ACH payment, has revoked authorization from Originator. Must be returned no later than 60 days from Settlement Date and the RDFI must obtain a Written Statement. Prohibited use for ARC, BOC, POP and RCK.

R08—Payment Stopped—Receiver of a debit transaction has stopped payment on a specific ACH debit. (For consumer accounts, RDFI should verify whether the Receiver's intent is to stop one payment or all future payments.)

R09—Uncollected Funds—Sufficient book or ledger balance exists to satisfy dollar value of the transaction, but the dollar value of transactions in process of collection (i.e., uncollected checks) brings available or cash reserve balance below dollar value of the debit entry.

R10—Customer Advises Entry is Unauthorized, Improper, Ineligible or Part of an Incomplete Transaction—Receiver has advised RDFI that Originator of transaction is not authorized to debit account, did not provide notice, used an improper source document, did not accurately obtain the amount of the entry from the source document, is part of an incomplete transaction or exceeded allowed reinitiation attempts. *(Effective April 1, 2020 R10 - Customer Advises Not Authorized - Receiver advises that an entry is not authorized.)* RDFI must obtain a Written Statement and return the entry no later than 60 days from Settlement Date.

R11—Customer Advises Entry Not in Accordance with Terms of the Authorization—*(Effective April 1, 2020)*—Authorization obtained, but error in payment (e.g., wrong amount; debit date before authorized; incomplete transaction; improper source document or exceeds reinitiation attempts).

R12—Account Sold to Another DFI—Financial institution may continue to receive entries destined for an account that has been sold to another financial institution.

R14—Representative Payee Deceased or Unable to Continue in that Capacity—The representative payee authorized to accept entries on behalf of a beneficiary is either deceased or unable to continue in that capacity.

R15—Beneficiary or Account Holder (Other than Representative Payee) Deceased—(1) The beneficiary entitled to payments is deceased; or (2) the account holder other than a representative payee is deceased.

R16—Account Frozen/Entry Returned per OFAC Instruction—Access to account is restricted due to specific action taken by the RDFI or by legal action; or OFAC has instructed the RDFI to return the entry.

R17—File Record Edit Criteria/(Effective June 21, 2019 Entry with Invalid Account Number Initiated Under Questionable Circumstances)—Fields not edited by the ACH Operator are edited by the RDFI and cannot be processed; field(s) causing processing error (or 'QUESTIONABLE' effective June 21, 2019) must be identified in the Addenda Information field of the Addenda Record of return.

R20—Non-Transaction Account—ACH entry is destined for a non-transaction account (i.e., an account against which transactions are prohibited or limited).

R21—Invalid Company Identification—Identification number used in the Company ID field is not valid. This return reason code is normally used for CIE entries.

R22—Invalid Individual ID Number—In a CIE or MTE entry, the Individual ID Number is used by the Receiver to identify the account; Receiver has indicated to RDFI that the number identified by the Originator is not correct.

R23—Credit Declined by Receiver—Receiver declines credit entry because of one of the following conditions: (1) minimum amount required by Receiver has not been remitted, (2) exact amount required has not been remitted, (3) account subject to litigation and Receiver will not accept transaction, (4) acceptance of transaction results in overpayment, (5) Originator is not known by Receiver or (6) Receiver has not authorized the credit entry.

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R24—Duplicate Entry—RDFI has received what appears to be a duplicate entry (i.e., trace number, date, dollar amount and/or other data matches another transaction). This code should be used with extreme care as the Originator may have originated a reversal transaction to handle the situation.

R29—Corporate Customer Advises Not Authorized—RDFI has been notified by Receiver (non-consumer) that entry was not authorized.

R31—Permissible Return Entry (CCD and CTX Only)—RDFI has been notified by ODFI that ODFI agrees to accept a return entry beyond normal return deadline.

R33—Return of XCK Entry—RDFI, at its discretion, returns an XCK entry (code only used for XCK returns). XCK entries may be returned up to 60 days after Settlement Date.

RETURN REASON CODES FOR ARC, BOC or POP ENTRIES

RETURN REASON

R37—Source Document Presented for Payment (Adjustment Entry)—The source document to which an ARC, BOC or POP entry relates has been presented for payment. RDFI must obtain a Written Statement and return the entry within 60 days following Settlement Date.

R38—Stop Payment on Source Document (Adjustment Entry)—A stop payment has been placed on the source document to which the ARC or BOC entry relates. RDFI must return no later than 60 days following Settlement Date. No Written Statement is required as the original stop payment form covers the return.

R39—Improper Source Document—The RDFI has determined the source document used for the ARC, BOC or POP entry to its Receiver's account is improper.

RETURN REASON CODES FOR RCK ENTRIES

RETURN REASON

R50—State Law Affecting RCK Acceptance—RDFI is located in a state that has not adopted Revised Article 4 of the UCC or the RDFI is located in a state that requires all canceled checks to be returned within the periodic statement.

R51—Item Related to RCK Entry is Ineligible or RCK Entry is Improper—The item to which the RCK entry relates was not eligible, Originator did not provide notice of the RCK policy, signature on the item was not genuine, the item has been altered or amount of the entry was not accurately obtained from the item. RDFI must obtain a Written Statement and return the entry within 60 days following Settlement Date.

R52—Stop Payment on Item (Adjustment Entry)—A stop payment has been placed on the item to which the RCK entry relates. RDFI must return no later than 60 days following Settlement Date. No Written Statement is required as the original stop payment form covers the return.

R53—Item and RCK Entry Presented for Payment (Adjustment Entry)—Both the RCK entry and check have been presented for payment. RDFI must obtain a Written Statement and return the entry within 60 days following Settlement Date.

RETURN REASON CODES FOR IAT ENTRIES

RETURN REASON

R80—IAT Entry Coding Error—The IAT entry is being returned due to one or more of the following conditions: invalid DFI/Bank Branch Country Code, invalid DFI/Bank Identification Number Qualifier, invalid Foreign Exchange Indicator, invalid ISO Originating Currency Code, invalid ISO Destination Currency Code, invalid ISO Destination Country Code or invalid Transaction Type Code.

R81—Non-Participant in IAT Program—The Gateway does not have an agreement with the ODFI to process IAT entries.

R82—Invalid Foreign Receiving DFI Identification—The reference used to identify the foreign receiving DFI is invalid.

R83—Foreign Receiving DFI Unable to Settle—The IAT entry is being returned due to settlement problems in the foreign payment system.

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R84—Entry Not Processed by Gateway—The outbound IAT entry has not been processed and is being returned at the Gateway’s discretion because either (1) the processing may expose the Gateway to excessive risk or (2) the foreign payment system does not support the functions needed to process the transaction.

R85—Incorrectly Coded Outbound International Payment—The Gateway has identified the entry as an outbound international payment and is returning the entry because it does not bear the IAT SEC code.

RETURN REASON CODES FOR ACH OPERATOR REJECTS

RETURN REASON

R13—Invalid ACH Routing Number—Entry contains a Receiving DFI Identification or Gateway Identification that is not a valid ACH routing number.

R18—Improper Effective Entry Date—Effective date of the ACH entry is outside of the processing window of either a credit or debit entry (beyond two days for a credit entry or beyond one day for a debit entry).

R19—Amount Field Error—The amount field is: (1) non-numeric, (2) not zero in a Prenotification, DNE, ENR or NOC (3) a zero amount in an ACH “valued” transaction format or (4) the amount is greater than \$25,000 for ARC, BOC and POP entries.

R25—Addenda Error—An error exists in the addenda record in regards to application of codes, values, content or required formatting standards.

R26—Mandatory Field Error—An error exists in a field which is required for ACH processing and is subject to edits by the ACH Operator.

R27—Trace Number Error—Original Entry Trace Number is either not present in the addenda record of an automated return or Notification of Change entry or disagrees with the preceding Entry Detail Record.

R28—Routing Number Check Digit Error—The check digit for a routing number is invalid.

R30—RDFI Not Participant In Check Truncation Program—Non-participating RDFI or routing number is incorrect.

R32—RDFI Non-Settlement—RDFI is not able to settle the entry.

R34—Limited Participation DFI—The RDFI’s participation has been limited by a federal or state supervisor.

R35—Return of Improper Debit Entry—ACH debit not permitted for use with the CIE Standard Entry Class Code or ACH debit not permitted to loan accounts (except for reversals).

R36—Return of Improper Credit Entry—ACH credit not permitted for use with ARC, BOC, POP, RCK, TEL, WEB or XCK which are limited to debits to demand accounts (except for reversals).

RETURN REASON CODES FOR DISHONORED RETURNS

RETURN REASON

R61—Misrouted Return—RDFI of the original entry has placed the incorrect routing number in the Receiving DFI Identification field.

R62—Return of Erroneous or Reversing Debit—Usage is limited to reversal scenarios in which the Receiver is unintentionally credited.

R67—Duplicate Return—ODFI has received more than one return for the same entry.

R68—Untimely Return—Return was not sent within the time frame established by the *ACH Rules*.

R69—Field Error(s)—One or more of the following fields—DFI Account Number, Original Entry Trace Number, Amount, Individual Identification Number/Identification Number, Company Identification, Transaction Code and/or Effective Entry Date—are incorrect. The ODFI must insert the appropriate code(s) from the list below, separated by an asterisk (*), within the Addenda Information Field of the Addenda Record Format for Automated Dishonored Returns to indicate the field(s) in which the error(s) occurred:

01—Return contains incorrect DFI Account Number

02—Return contains incorrect Original Entry Trace Number

03—Return contains incorrect Dollar Amount

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04—Return contains incorrect Individual Identification Number/Identification Number

05—Return contains incorrect Transaction Code

06—Return contains incorrect Company Identification Number

07—Return contains invalid Effective Entry Date

R70—Permissible Return Entry Not Accepted/Return Not Requested By ODFI—ODFI has received a return identified as being returned with the permission of the ODFI (Return Reason Code R31), but the ODFI has not agreed to accept the entry or ODFI has received a return entry (Return Reason Code R06) which they did not request.

RETURN REASON CODES FOR CONTESTED DISHONORED RETURNS

RETURN REASON

R71—Misrouted Dishonored Return—ODFI has placed the incorrect routing number in the RDFI Identification field.

R72—Untimely Dishonored Return—Dishonored return was not sent within five banking days of the Settlement Date of the return entry.

R73—Timely Original Return—RDFI certifies that the original return was sent within the time frame designated in the *ACH Rules*. This code may be used by the RDFI to contest an entry dishonored by the ODFI using Return Reason Code R68—Untimely Returns.

R74—Corrected Return—RDFI is correcting a previous return that was dishonored because it contained incomplete or incorrect information. This code may be used by the RDFI to contest an entry dishonored by the ODFI using Return Reason Code R69—Field Error(s).

R75—Original Return Not a Duplicate—The original return entry was not a duplicate of an entry previously returned by the RDFI. This code may be used by the RDFI to contest an entry dishonored by the ODFI using Return Reason Code R67—Duplicate Return.

R76—No Errors Found—The original return entry did not contain the errors indicated by the ODFI in the Dishonored Return Entry bearing Return Reason Code R69—Field Error(s).

R77—Non-Acceptance of R62 Dishonored Return—RDFI returned both the erroneous entry and related reversing entry; or the funds related to the R62 are not recoverable from the Receiver.

NOTIFICATION OF CHANGE (NOC)

Financial Institution will receive an ACH entry that contains incorrect information (i.e., account number, account name, etc.). While it may be able to identify the intended account holder, the error may cause the item to reject. In these instances, the RDFI may send an NOC or return the entry. The NOC application allows the RDFI to send a message requesting the correction of information without returning the value of the entry. However, the institution does warrant that the information contained in an NOC is correct. By initiating an NOC, By initiating an NOC, the RDFI warrants the information sent in the NOC is correct.

If an RDFI chooses to send an NOC, it must do so within two banking days from the Settlement Date of the original entry. ODFIs must report NOC information to Originators within two banking days from the Settlement Date of the NOC. **Originators of Recurring entries must make the specified changes within six banking days of receipt of the NOC information or prior to initiating another entry to the Receiver's account, whichever is later.**

Originators of Single-Entry payments are not required to make the specified changes.

Most of the information necessary to complete an NOC is found on the Return Report. It is important to complete every field of information that has been provided with the original entry. This ensures that the Originator can identify the entry to make the requested changes.

NOC REASON CODES

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C01—Incorrect DFI Account Number—Account number is incorrect or is formatted incorrectly. Correct DFI Account Number appears in the first (left justification) 17 positions of the Corrected Data Field.

C02—Incorrect Routing Number—Due to a merger or consolidation, a once valid routing number must be changed. Correct Routing Number (including check digit) appears in first 9 positions of the Corrected Data Field.

C03—Incorrect Routing Number and Incorrect DFI Account Number—Due to a merger or consolidation, a once valid routing number must be changed, and this change will cause a change to the account number structure. Correct routing number should be entered in Change Field 1 and correct account number should be entered in Change Field 2. *(Note: This code is not available for use with IAT.)*

C05—Incorrect Transaction Code—An item which the RDFI determines should be posted to a different account type. The correct Transaction Code should be placed in Change Field 1.

C06—Incorrect DFI Account Number and Incorrect Transaction Code—Correct account number appears in the first (left justification) 17 positions of the Addenda Information Field; correct Transaction Code appears in positions 21 and 22 of the same field with spaces in positions 18 through 20. *(Note: This code is not available for use with IAT.)*

C07—Incorrect Routing Number, Incorrect DFI Account Number and Incorrect Transaction Code—Correct routing number appears in the first 9 positions of the Addenda Information Field; correct account number appears in positions 10 through 26 of the same field and correct Transaction Code appears in positions 27 and 28 of the same field. *(Note: This code is not available for use with IAT.)*

C08—Incorrect Foreign Receiving DFI Identification (IAT Only)—The correct Foreign Receiving DFI identification appears in the first (left justification) 11 positions of the Corrected Data Field.

C09—Incorrect Individual ID Number/Incorrect Receiver Identification Number—Individual's ID number is incorrect. This correction applies to transactions initiated by the customer, which may require a PIN number for identification.

C13—Addenda Format Error—Information in the Entry Detail Record was correct and the entry was able to be posted by the RDFI, but information in the addenda record was unclear or formatted incorrectly. For example, a CCD entry addenda record does not contain ANSI X12.

C14—Incorrect SEC Code for Outbound International Payment (Effective March 15, 2013)—The Gateway has identified the entry as an outbound international payment and is requesting future entries be identified as IAT. *(Note: This code is to be used by the Gateway only.)*

REFUSED NOTIFICATION OF CHANGE (NOC) CODES

NOC REASON

C61—Misrouted Notification of Change—NOC was sent to wrong ODFI due to error in routing number.

C62—Incorrect Trace Number—Trace number could not be identified.

C63—Incorrect Company Identification Number—Company Identification Number could not be identified. The ODFI cannot identify the originating company.

C64—Incorrect Individual Identification Number—Individual Identification Number could not be identified. Identification number can be identified, but individual can't be identified because of incorrect identification number.

C65—Incorrectly Formatted Corrected Data—Information in addenda record of the NOC could not be processed.

C66—Incorrect Discretionary Data—Discretionary data was not included or contained errors.

C67—Routing Number Not from Original Entry Detail Record—Routing number did not match data in original entry.

C68—DFI Account Number Not from Original Entry Detail Record—DFI Account Number did not match data in original entry.

C69—Incorrect Transaction Code—Transaction Code does not match with the Transaction Code of the original entry.

REVERSAL FILES

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A customer may reverse a file or an individual item to correct an error if initiated to the ACH Operator in time to be received for posting no later than five days from the original posting date. The reversal must be for the original amount of the file or transaction.

PRENOTIFICATIONS

Prenotifications (prenotes) are non-dollar entries used by Originators to ensure ACH entries contain accurate identification of the receiving financial institution and individual's account. The transaction codes 23, 28, 33 and 38 and zeros appearing in the amount field on the Daily Activity Report identify prenotes or an RDFI may have a separate report for prenotes.

The use of prenotes by the Originator is optional for all commercial ACH applications. The RDFI must honor both corporate and consumer transactions received without prenotes. Originators that choose to send prenotes may transmit the initial valued transaction as soon as the third banking day following the Settlement Date of the prenote, provided the ODFI has not received a Notification of Change or return of the prenote.

COLLECTION OF RETURN FEES

To enable Receivers to identify Return Fee Entries, the Originators are required to include the exact words "RETURN FEE" in all capital letters in the Company Entry Description field of the Company Batch Header Record. Originator will be required to identify itself in the Company Name field using the identical name that was used in the underlying ACH debit. If the underlying transaction is a check, the Originator must identify itself with the name by which it is known and recognized by the Receiver. Also must carry the check serial number (ARC, BOC, POP, RCK) in the Individual Identification Number field of the Return Fee Entry. A Return Entry Fee that is authorized by notice **MUST** have a settlement date that is no later the 45 days after the settlement date of the ACH Return Entry or the receipt of the return of a check.

ACCOUNT VALIDATION

The Supplementing Fraud Detection Standards for WEB debits requires the Originator to perform a "commercially reasonable fraudulent transaction detection" verifying the account information. The customer will need to validate the account number for any new WEB debits or changes to any existing account information.

Effective September 16, 2022: To improve the effectiveness of Micro-Entries as a means of account validation, Micro-Entries will be defined as an ACH credit of less than \$1 and any offsetting debits, for account validation. Credit amounts must be equal to, or greater than, debit amounts, and must be transmitted to settle at the same time. The Originator must use "ACCTVERIFY" in the company entry description field and the Company name must be easily recognizable to Receivers and the same or similar to what will be used in subsequent entries.

Effective March 17, 2023: Originators must use "commercially reasonable fraudulent transaction detection" for monitoring forward and return Micro-Entry volumes.

THIRD PARTY SENDER ROLES & RESPONSIBILITIES
