



Independence BANK

ACH Originator Quick Reference Guide

The following information has been provided so that you can become familiar with the ACH Operating Rules. As an ACH Originator there are some rules you should be aware of. Here is some information to give you an overview of those rules.

GENERAL

- ACH entries are categorized as “consumer” or “corporate”
- ACH is a batch system (not real time)
- Once sent to the ACH Operator, entries are irrevocable
- ACH is capable of crediting or debiting checking or savings accounts, loans and general ledgers
- Most banks and credit unions receive ACH entries
- An ACH Originator is an entity or person that creates an ACH transaction
- As of March 2010, ACH stop payments no longer have expiration dates

GOVERNING RULES AND AGREEMENTS

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

- NACHA Operating Rules (www.nacha.org)
- Regulation E (for consumer entries)
- UCC4A (for corporate credits)
- Independence Bank Deposit Account Agreement
- Independence Bank ACH Agreement
- Bank/Corporate Agreements
- Customer Authorizations

ORIGINATOR RESPONSIBILITIES

- Obtain the proper authorizations – dependent on transaction type – and retain authorizations for two years past revocation
- Provide authorizations to the bank within 5 days if requested
- Protect the banking information received
- Send entries on the proper date
- Cease subsequent entries when appropriate
- Ensure your computer and you are protected by following the guidelines in the Independence Bank ACH Agreement
- Give appropriate notice to debtor if changing amount or date.

DIRECT DEPOSIT PAYROLL AUTHORIZATIONS (CONSUMERS)

- Neither ACH rules, nor Regulation E, require an authorization for ACH credits or reversals.
- The Bank recommends you use direct deposit authorization forms that allow the company to debit the employee’s account for adjustments. The forms may also be used to collect the proper employee account information.
- The most common SEC code for direct deposit is PPD

CONSUMER DEBIT AUTHORIZATIONS

- For consumers, an authorization to debit his/her account must be in writing or “similarly authenticated”
- The most common SEC code for consumer debits is PPD

CORPORATE AUTHORIZATIONS

- For companies, there must be an agreement between the two parties, but rules do not define what business practices constitute agreements. Independence Bank recommends that you have the company complete an authorization form.
- The most common SEC code for corporate entries is CCD (debit and credit)

CHANGING DATE OR AMOUNT OF DEBITS

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

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. However, if sent, the prenote must precede the first live entry by at least three 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. Understand there is still a risk if the subsequent entry debits or credits the wrong account (this is true for all originations, not just prenotes).

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 requires you to make the change within six banking days of receiving the information or before the next entry is sent.
- The Receiving Bank warrants that the information they provide is correct
- Independence Bank will notify you of any NOCs received on your behalf
- If the changes are not completed before the next entry is sent, the receiving bank has the right to return the ACH entry.
- Independence 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 the 24 hours are the company’s liability and any disputes may have to be settled outside the banking network. The Bank recommends that you view your account activity daily.
- An 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 applicable ACH return rules.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must get a signed Written Statement of Unauthorized Debit from the Account holder. You may obtain a copy of that statement by requesting through Independence 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.
- 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 ACH Rules to re-initiate the debit entry if a return is received for any other reason.

REVERSALS

- Reversals may only be made for the following conditions: 1) wrong dollar amount, 2) wrong account, 3) duplicate transaction, or 4) wrong date.
 - Wrong date is further defined as 1) the reversal of a debit Entry that was for a date earlier than intended by the Originator, or 2) a credit Entry that was for a date later than intended by the Originator.
- If a reversing entry must be made, please contact Independence Bank for instructions.
- The reversing entry must be for the full amount, must be sent within five banking days of original entry and within 24 hours of discovering the error.
- For wrong amount or wrong account reversing entries, a correcting entry must also be sent.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the payee’s account or if the payee’s account is closed.
- A payee must be notified if a reversing entry debits his/her account. However, a payee does not need to authorize the reversing debit.

OFAC

- You are required to check payees against the OFAC SDN list at www.treas.gov/offices/enforcement/OFAC
- The Office of Foreign Asset Control (OFAC) lists countries, groups and individuals that U.S. companies are not permitted to send or receive funds.
- Independence Bank must inform every customer that it is against the law to send debit or credit entries to OFAC blocked entities.

ACH SECURITY FRAMEWORK

This new rule establishes the minimum data security obligations for ACH Originators to protect sensitive data and access controls.

KEY REQUIREMENTS

- Protection of sensitive data and access control (both the ACH Originator and Independence Bank must have policies and procedures)
- Self-Assessment (bank only)
- Verification of Third-Party Senders and Originators (bank only)
- If you are an Originator, Third-Party Sender, or Third Party Service Provider it is your responsibility to determine if existing policies, procedures, and systems are sufficient to comply with the ACH Security Framework Rules. If you do not have such policies, procedures and systems in place, you will need to establish and/or update policies, procedures, and systems to ensure compliance. Additionally, if you are a Third-Party Sender or Third-Party Service Provider, you will need to add such verification to your annual Rules Compliance Audit.
- www.nacha.org

Code	Application Title	Application Description	Consumer / Business	Debit / Credit
ARC	Accounts Receivable Check	Converted checks received via the US mail or at a drop box location	Consumer accounts only	Single debit only
BOC	Back Office Conversion	Converted checks received by merchant at the point-of-purchase or at manned bill payment locations, and processed during back office operations	Consumer accounts only	Single debit only
CCD	Corporate Credit or Debit	Transfer of funds between business accounts or to consolidate funds from several accounts of the same business	Business accounts only	Debit or credit
CIE	Customer Initiated Entry	Credit entry initiated by an individual (usually through a bill payment service) used to pay some sort of obligation	Consumer or business accounts	Credit only
CTX	Corporate Trade Exchange	Payment or collection of obligations between separate businesses	Business accounts only	Debit or credit
DNE	Death Notification Entry	Notice initiated by an agency of the Federal government to advise an RDFI of the death of an individual (Includes addenda record with details)	Consumer accounts only	Credit only (Non dollar amount entry)
ENR	Automated Enrollment Entry	Entry submitted by Financial Institution to enroll member in direct deposit of Federal government benefit payment	Consumer accounts only	Credit only (Non dollar amount entry)
IAT	International ACH Transaction	Transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States	Consumer or business accounts	Debit or credit
POP	Point-of-Purchase Entry	Converted checks received by merchant at the point-of-sale	Consumer accounts only	Single debit only
POS	Point-of-Sale Entry	Entry initiated by individual at a merchant location using a merchant-issued card for payment of goods or services	Consumer accounts only	Single debit only
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.	Consumer accounts only	Debit or credit
RCK	Represented Check Entry	Merchant collection of checks that had been returned as NSF or Uncollected Funds	Consumer accounts only	Single debit only
TEL	Telephone Authorized Entry	Single or recurring entry submitted pursuant to an oral authorization obtained solely via the telephone	Consumer accounts only	Debit only
WEB	Internet Authorized Entry	Entry submitted pursuant to an authorization obtained solely via the Internet or a wireless network	Consumer accounts only	Debit only
XCK	Destroyed Check Entry	Replacement entry for check that is lost or destroyed, or for check image that is unreadable or cannot be processed	Consumer or business accounts	Single debit only

Notification of Change (NOC) Codes – Section 3

Transaction Codes – Section 2

Transaction Codes	Return/NOC	Normal Forward Entry	Prenotification
Checking Account Credit	21	22	23
Checking Account Debit	26	27	28
Savings Account Credit	31	32	33
Savings Account Debit	36	37	38
Financial Institution General Ledger Credit	41	42	43
Financial Institution General Ledger Debit	46	47	48
Loan Account Credit	51	52	53

Change Code	Field(s) 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 4

Return Code	Reason / Description	Applicable 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 member's consumer account, and the member had not authorized the entry	CCD, CTX	60 Days – WRITTEN STATEMENT OF UNAUTHORIZED ACH DEBIT