



Automated Clearing House (ACH) Rules for ACH Originators

To ensure compliance with current regulations, all ACH Originators must obtain a current copy of the National Automated Clearing House Association (NACHA) Operating Rules (Rules) and Guidelines that is published annually. The Rulesbook may be purchased at www.nacha.org. Books are published and available from NACHA in January of each year.

This Quick Guide provides a summary of ACH facts and ACH Originator Responsibilities. It is not intended to be a replacement or substitution for the NACHA Rules and Guidelines. NACHA Rules are subject to change.

ACH Facts

- An ACH Originator is any entity or person that creates an ACH transaction.
- ACH entries are categorized as “consumer” or “corporate.”
- ACH is capable of crediting or debiting checking, savings or general ledger accounts.
- ACH entries are received by most financial institutions.
- ACH is a batch system (not real time).
- ACH entries are irrevocable once they have been sent for processing.
- ACH stop payments no longer have an expiration date, as of March 2010.

ACH Legal Framework

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

- NACHA Operating Rules (www.nacha.org)
- Regulation E (for consumer entries)
- UCC4 (for corporate credits)
- Authorizations for employees, customers, vendors etc.

Your Responsibilities as an Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for two years past revocation (See “Consumer Debit Authorizations”).
- If requested by the Bank, provide a copy of the authorization. Northern Bank & Trust may request to see your authorizations from time to time as part of an annual audit.
- Send entries on the proper date.
- Give appropriate notice to debtor if changing amount or date.
- Cease subsequent entries when notified.
- Make necessary changes to payee account information within six (6) banking days upon receipt of a Notice of Correction or before another entry is sent.
- Protect the banking information received to originate transactions.



Consumer Credit Authorizations

- Use a direct deposit authorization form that collects employee or client account information. This form should allow the company to make credit and debit entries in the event a payroll or pension adjustment is necessary.
- Obtain a voided check or deposit ticket 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 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. An authorization to debit an account must be in writing or “similarly authenticated”. While the NACHA Rules do not define an “agreement” to credit an account Northern Bank & Trust recommends that you have the company complete an authorization form.
- The most common SEC codes for corporate transactions are CCD or CTX, depending upon addenda origination. It is used for debits and credits.

Changing Date or Amounts of Debits

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

Prenotifications (Prenotes)

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify account information.
- Prenotes are optional for you to send. However, if sent, prenote rules must be followed and a prenote must precede the first live entry by at least six (6) banking days.
- The Receiving Bank is not required to validate the name of the payee on the prenote, although many do; they are only required to check the account number.

Notice of Change

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting that future entries contain correct information. ACH Rules require you to make the change within six (6) banking days of receiving the information from the Federal Reserve or before another entry is sent.
- The Receiving Bank warrants that the information they provide to you is correct.



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 of the banking network. Northern Bank & Trust recommends that you view your account activity daily.
- Any exception to the 24-hour rule is consumer unauthorized returns, which may be returned within 60 days of posting.
- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must get a signed Written Statement of Unauthorized Debit from the account holder. You may obtain a copy of that statement by requesting a copy through NorthernBank&Trust.
- 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 NACHA Rules to re-initiate the debit entry if a return is received for any other reason.

Reversals

- If a reversing entry must be made, please contact Northern Bank & Trust for instructions.
- Reversals may only be made for the following three conditions:
 - wrong dollar amount
 - wrong account number
 - duplicate transaction
- When initiating a reversal, the reversing entry must be for the full amount, must be sent within five (5) banking days of original entry and must be sent within 24 hours of discovering the error.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the payee's account or if the payee's account is closed.
- A payee must be notified if a reversing entry debits his or her account and authorize the reversing debit.



Standard Entry Class (SEC) Codes – Section 1

| 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 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 details) | Consumer accounts only | Credit only (Non-dollar amount entry) |
| ENR | Automated Enrollment Entry | Entry submitted by Financial Institution to enroll client 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 |

Please check with Northern Bank & Trust for which SEC codes are currently available for use.



Transaction Codes

Section 2

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

Notification of Change (NOC) Codes

Section 3

| Change Code | Field(s) Needing Correction |
|-------------|--|
| C01 | Account Number |
| C02 | Routing/Transmit 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 | Available SEC Codes | Return Deadlines |
|-------------|--|------------------------------|---|
| R01 | Insufficient Funds – Available balance is not sufficient to cover the dollar amount of the debit entry | ALL | 24 HOURS |
| R02 | Account Closed – A previously open account is now closed | ALL | 24 HOURS |
| R03 | No Account/Unable to Locate – The account number does not correspond to the individual identified in the entry or a valid account | ALL | 24 HOURS |
| R04 | Invalid Account Number – The account number fails the check digit validation or may contain an incorrect number of digits | ALL | 24 HOURS |
| R05 | Unauthorized Debit to Consumer Account using Corporate SEC Code – A business (corporate) debit entry was transmitted to a client’s consumer account and the client had not authorized the entry | CCD, CTX | 60 Days – Written Statement of Unauthorized ACH Debit |
| R06 | Returned per ODFI’s Request – The ODFI has requested that the RDFI return the entry | ALL | Not Applicable |
| R07 | Authorization Revoked – Client who previously authorized an entry has revoked authorization with the Originator | PPD, TEL, WEB | 60 Days – Written Statement of Unauthorized Debit |
| R08 | Payment Stopped – Client had previously requested stop payment of a single or recurring entry | ALL | 24 HOURS |
| R09 | Uncollected Funds – Available balance is sufficient, but collected balance is not sufficient to cover the entry | ALL | 24 HOURS |
| R10 | Client advises not authorized, notice not provided, improper source document, or amount of entry not accurately obtained from source document | ARC, BOC, POP, PPD, TEL, WEB | 60 Days – Written Statement of Unauthorized Debit |
| R14 | Representative Payee Deceased – Representative payee is deceased or unable to continue in that capacity, beneficiary is not deceased | ALL EXCEPT CCD & CTX | 24 HOURS |
| R15 | Beneficiary or Account Holder Deceased | ALL EXCEPT CCD & CTX | 24 HOURS |
| R16 | Account Frozen – Access to account is restricted due to specific action taken by the RDFI or by legal action | ALL | 24 HOURS |
| R20 | Non-Transaction Account – Policies or regulations such as Regulation D) prohibit or limit activity to the account indicated | ALL | 24 HOURS |
| R29 | Corporate Entry Unauthorized – RDFI has been notified by business account holder that a specific transaction is unauthorized | CCD & CTX | 24 HOURS |
| R31 | Permissible Return Entry – ODFI agrees to accept a return of an unauthorized corporate entry after the 24-hour deadline | CCD & CTX | 24 HOURS |
| R37 | Source Document Presented for Payment – Check used for an ARC, BOC, or POP entry has also been presented for payment | ARC, BOC, POP | 60 Days – Written Statement of Unauthorized Debit |
| R38 | Stop Payment on Source Document - A Stop Payment has been placed on a check used for an ARC entry | ARC, BOC | 60 DAYS |
| R39 | Improper Source Document Presented for Payment - RDFI determines that the source document (check) used for an ARC, BOC, or POP entry is not eligible for conversion – or the check has already been paid as a normal check posting | ARC, BOC, POP | 24 HOURS |



File Requirements (Standard NACHA Format)

A standard format for an ACH file contains at least 5 lines of data, one of each for each of the following record types:

| Record Type | Record Name | Required/Optional | Description |
|---------------|-----------------------------|-------------------|-------------------------------|
| Record Type 1 | File Header Record | Required | One per file |
| Record Type 5 | Company/Batch Header Record | Required | One per batch |
| Record Type 6 | Detail Record | Required | One per debit or credit entry |
| Record Type 7 | Addenda Record | Optional | |
| Record Type 8 | Batch Control Record | Required | One per batch |
| Record Type 9 | File Control Record | Required | One per file |

- Entries MUST be in the sequence listed above. (Repeat 5-8 for multiple batches.)
- The first character of each line identifies the record type code.
- Each line in an ACH file is exactly 94 characters long.
- The composition of the 94 characters varies based on the record type code.
- Individual elements of each record type code must adhere to the NACHA requirements as outlined below:

ALL ENTRIES COMPANY/BATCH HEADER RECORD (EXCEPT CBR & PBR)

| FIELD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|-----------------------------|------------------|--------------------|--------------|----------------------------|------------------------|---------------------------|---------------------------|--------------------------|----------------------|--------------------------|------------------------|--------------------------------|
| DATA ELEMENT NAME | RECORD TYPE CODE | SERVICE CLASS CODE | COMPANY NAME | COMPANY DISCRETIONARY DATA | COMPANY IDENTIFICATION | STANDARD ENTRY CLASS CODE | COMPANY ENTRY DESCRIPTION | COMPANY DESCRIPTIVE DATE | EFFECTIVE ENTRY DATE | SETTLEMENT DATE (JULIAN) | ORIGINATOR STATUS CODE | ORIGINATING DFI IDENTIFICATION |
| Field Inclusion Requirement | M | M | M | O | M | M | M | O | R | Inserted by ACH Operator | M | M |
| Contents | '5' | Numeric | Alphameric | Alphameric | Alphameric | Alphameric | Alphameric | Alphameric | YYMMDD | Numeric | Alphameric | TTTTAAA |
| Length | 1 | 3 | 16 | 20 | 10 | 3 | 10 | 6 | 6 | 3 | 1 | 8 |
| Position | 01-01 | 02-04 | 05-20 | 21-40 | 41-50 | 51-53 | 54-63 | 64-69 | 70-75 | 76-78 | 79-79 | 80-87 |