

Knowing Your ACH Program

The ACH Network, which provides for the interbank clearing of electronic payments, is governed by *The NACHA Operating Rules and Guidelines (Rules)*. The *Rules* apply to all entries and entry data transmitted through the ACH Network. As an ACH Originator, you must comply with and are bound by the *Rules*.

First Federal Bank and Trust (FFBT) provides this document as a summary of ACH facts and ACH Originator Responsibilities. It is not a replacement or substitution for the *Rules*, which are subject to change.

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 RULES** Annually, you may purchase copy of the updated NACHA Operating Rules & Guidelines by visiting www.nacha.org or you may obtain free limited access to the basic NAHA Operating Rules in read-only format by visiting <https://www.nachaoperatingrulesonline.org/>
- Bank Deposit Agreement and Terms and Conditions
- Bank Online Banking Agreement
- Authorizations from employees, customers, etc.

ACH Facts

- ACH entries are categorized as “consumer” or “corporate.”
- ACH is capable of crediting or debiting checking or savings 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 do not have an expiration date

Definitions of ACH Participants

- **Originator** – The Originator is the entity or company that agrees to initiate ACH entries into the payment system according to an arrangement with a Receiver. The Originator is usually a company directing a transfer of funds to or from a consumer or another company’s account.
- **Originating Depository Financial Institution (ODFI)** – The ODFI is the financial institution that receives the payment instructions from Originators and forwards the entries to the ACH Operator.
- **Automated Clearing House Operator** – An ACH Operator is the central clearing facility operated by a private organization or the Federal Reserve Bank on behalf of Depository Financial Institutions.
- **Receiving Depository Financial Institution (RDFI)** – The RDFI is the Depository Financial Institution that receives ACH entries from the ACH Operator and posts the entries to the accounts of its depositors (Receivers).
- **Receiver** – A receiver is a person or an organization that has authorized an Originator to initiate an ACH entry to the Receiver’s account with the RDFI. A Receiver may be either a company or a consumer, depending on the type of transaction.

How Does the ACH Network Function?

As the Originator, your company must first obtain authorization to initiate a transaction to the Receiver’s account or provide notice to the Receiver that a transaction will be initiated to their account. Your company (Originator) then creates a file of ACH transactions assigning a company name that is easily recognized by the Receiver. The file is then sent to your Originating Depository Financial Institution (ODFI), First Federal Bank & Trust. The ODFI collects ACH files from Originator with which it has contractual relationships, verifies the validity of these files and at specified times, transmits these files to the ACH Operator. The ACH Operator receives ACH files from the ODFI, edits the file to make sure they are formatted properly and distributes files of entries to the Receiving Depository Financial Institution (RDFI).

The RDFI receives files of entries from the ACH Operator for its account holders. Entries are posted based upon the Settlement Date and account Number. Periodic statements are provided to the Receiver with descriptive information about the ACH transaction, including the date of the transaction, dollar amount, payee (Originator) name, transaction description (i.e., payroll, rent,).

How Are ACH Funds Settled?

Settlement is the actual transfer of funds between financial institutions to complete the payment instructions of an ACH entry. The Federal Reserve Bank provides settlement services for ACH entries. The timing of settlement is based upon the Effective Entry Date indicated on the ACH file and the time of its delivery to the ACH Operator. Your company as the Originator will determine the Effective Entry Date of the file you send to your ODFI. This is the date your company intends the entries to post to the accounts of the Receivers (employees or customers). When the ACH Operator processes an ACH file, the Effective Entry Date is read and entries are settled based upon that date, known as the Settlement Date. The Effective Entry Date in most cases is the same as the Settlement Date, but it is possible that the Settlement Date could be after the Effective Entry Date. For example, if the ACH Operator cannot settle on the Effective Entry Date due to untimely file delivery, a stale date, weekend or holiday, the ACH Operator will apply a Settlement Date of the next business day.

PREFUNDING - All ACH batches are pre-funded. This means we will not approve an ACH batch unless you have enough funds in your account to cover the batch. We place a hold on the funds when we approve the batch.

Your Responsibilities as an Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for two years past revocation.
- If requested by the Bank, provide a copy of the authorization. The Bank 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.
- Ensure your computer and you are protected as outlined in the Security Assessment.
- Ensure the Originator is clearly identified as the source of the ACH transaction. Specifically, populate the Company Name Field of the NACHA formatted file with a name known to and readily recognized by the Receiver of the entry.
- Establish and implement risk-based processes and procedures:
 - Relevant to the role the Originator plays in the authorization or transmission of entries
 - Reasonably intended to identify entries that are suspected of being unauthorized or authorized under false pretenses
 - Review at least annually and make appropriate updates

Direct Deposit Payroll Authorizations

- Use a direct deposit authorization form that collects employee account information. This form should allow the company to make credit and debit entries in the event a payroll adjustment is necessary.
- Obtain a voided check from the employee (if possible).
- The word "PAYROLL" must be placed in the Company Batch Header Field.
- 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.
- There’s no standardized format for an ACH authorization form, but each one requires a set of mandatory elements. At a minimum, the form must:
 - Request permission from the payer for all future debits. This authorization is required for a business to collect ACH payments and should include the amount and frequency to be debited.
 - Explain to the customer how they can revoke their authorization, including the required notice period (which minimizes the chances of a misunderstanding)
 - The necessary banking details to collect include:
 - Payer's name
 - Payer’s email address (*for online transactions*)
 - Bank Name
 - Account number
 - Routing number
 - Frequency (*for recurring payments*)
 - Start date (*for recurring payments*)
 - Once a customer has returned a completed paper authorization form to you, you’ll need to give them a copy of it and retain the original form as proof of authorization (**until two years after the authorization has been terminated**)

Changing Date or Amounts of Debits or Amounts of Debits

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

Corporate Authorizations

- For companies, there must be a record of an agreement between the two parties.
- Debit authorization forms for a non-consumer Receiver must include the Receiver’s agreement to be bound by the Nacha Rules.
- The most common SEC codes for corporate transactions are CCD or CTX, depending upon addenda origination. It is used for debits and credits.

Prenotifications (Prenotes)

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify account information.
- **PRENOTE** must be placed in the Company Batch Header Field
- 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 (NOC)

- NOC is created by the Receiver’s financial institution to notify the originator (via the Bank) that:
 1. Previously valid information in an ACH entry (Direct Deposit/Direct Payment) is now outdated and needs to be changed.
 2. Information in an ACH entry (Direct Deposit/Direct Payment) is erroneous and needs to be corrected.
- The Bank will notify you of any NOCs received on your behalf.
- ACH Rules require the originator to make changes or corrections within six (6) banking days of receiving the information from the Bank or before another entry is sent.

- The subsequent live dollar entry may be initiated as soon as the third banking day following the prenotes settlement date, provided that no return or NOC is received by First Federal by the opening of business on the second banking day following the settlement date of the prenote.
- The Receiving Bank warrants that the Information they provide to you is correct.
- The Bank may pass along any fines received based upon your non-compliance.

Reversals

- Reversals may only be made for the following three conditions:
 1. wrong dollar amount
 2. wrong account number
 3. 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. However, a payee does not need to authorize the reversing debit.
- The word "REVERSAL" must be placed in the Company Batch Header Field and if the file is reversing an erroneous file, then a correcting file must be initiated with the reversing file
- If a reversing entry must be made, please contact the Cash Management Officer for further instructions of needed.

What are the Fraud Risks for ACH?

ACH Origination fraud is a challenge for Financial Institutions and ACH Originators like your company.

Due to the risk of fraud, it is essential that all computer equipment used by your company to operate FFBT's ACH Origination program is regularly updated and patched for security vulnerabilities (including the use of and updating of firewall, virus protection, anti-malware protection, anti-spam protection.)

The appropriate steps should be taken within your company to ensure that all User ID's, Passwords, Authentication Methods, and any other applicable security procedures issued to your employees are protected and kept confidential. All staff should be aware of the need for proper user security, password controls and separation of duties.

As ACH Origination is a higher risk commercial banking function, we suggest that your company perform your own internal risk assessment and controls evaluation periodically to be sure you are considering all available security options.

What types of controls are in place to help combat ACH Origination fraud?

The Bank's ACH Origination system requires Dual Control for all ACH batches > \$25,000.

First Federal Bank & Trust strongly encourages companies to have separation of duties for ACH processing, in which one employee generates the ACH batch and the system requires a secondary employee to log in and approve the ACH batch. Dual-approval procedures such as this go a long way in preventing ACH origination fraud. If you don't currently have the Dual-approval security feature in place, you can request to enable it by contacting Bank's Cash Management Department to discuss the options available.

ACH transaction rights are limited to personnel with appropriate business need for functionality.

It is also very important for your company to make it a practice of monitoring your accounts online daily. Reviewing both the balances and the account transaction daily within the Cash Management system will ensure that you are aware of all transactions, even when they have not yet posted to your account. The sooner account or ACH fraud can be detected, the more successful the bank will be in assisting to recover your company's potentially lost funds.

FFBT has security alerts available for you to enroll in to send notifications when your password has been changed, or when an outgoing ACH transaction has been generated.

Please keep in mind that we will never email you requesting your Online Banking password. We may on occasion call to verify other information regarding your online activity should we see something of concern in your login patterns.

What happens if a Security Breach occurs? Immediately contact the bank if you suspect an ACH data breach. As an ACH Originator, you are required to immediately report the breach to FFBT who must report it to NACHA.

Right to Audit / NACHA Enforcement Authority

Upon written request, FFBT shall have the right to examine your ACH Operations to ensure that ACH data is being processed correctly and that processing is adequate to meet the terms of our agreement and all NACHA Operating Rules. FFBT may voluntarily provide to NACHA, information such as return data that may be indicative of a potential Rules violation by any of our customers. If you have any questions relating to ACH Origination Rules, please contact FFBT's Cash Management Department at 307-675-4011

Should you have any questions or concerns about your current ACH program, please feel free to contact Cash Management 307-675-4005, 406-606-4005, cashmanagement@efirstfederal.com