

QUICK GUIDE

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. A copy of the Rules book may be purchased at www.nacha.org.

This Quick Guide provides a brief 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 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 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)
- Vista Bank Online Banking Services Terms and Conditions
- Vista Bank ACH Origination Services Terms and Conditions
- Authorizations from employees, customers, etc.
- Bank and Corporate agreements

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. Vista 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.
- Check payees against OFAC compliance checklists.
- Protect the banking information received to originate transactions.

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Direct Deposit Payroll Authorizations (Consumer)

- 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 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. While the NACHA Rules do not define an “agreement,” Vista Bank 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 three (3) 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 Vista Bank 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. Vista Bank 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.

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Returns *(continued)*

- 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 Vista 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 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 Treasury Management Support at 877.936.2467 for instructions.
- Reversals may only be made for the following conditions:
 - wrong dollar amount
 - wrong account number
 - duplicate transaction
 - payment date earlier than intended (ACH debit only)
 - payment date later than intended (ACH credit only)
- 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.

OFAC (Office of Foreign Asset Control)

- You are required to check payees against OFAC compliance checklists.
- OFAC lists countries, groups and individuals with which U.S. Companies are not permitted to send or receive funds.
- The Bank must protect itself by informing every client that it is against the law to send debit or credit entries to OFAC-blocked entities.
- You may check the OFAC SDN list at: <http://sdnsearch.ofac.treas.gov>.

Retry Payments

- Retry Payment: A reinitiated ACH debit entry after a return due to R01 (insufficient funds) or R09 (uncollected funds).
- Reinitiation Limit: A maximum of two retries after the original entry (three total attempts; original + 2 retries).
- RETRY PYMT: The “Company Entry Description” (template description) must include “RETRY PYMT” for reinitiated entries.
- Reinitiation must occur within 180 days of the original (same account, amount, SEC Code).
- Altering account numbers or amount to bypass retry limits is prohibited.

CHART OF ACH CODES

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	CorporateCreditorDebit	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 imitated 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 (Nondollar 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 your Treasury Management Representative regarding the origination of certain SEC codes listed above.

CHART OF ACH CODES *(continued)*

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

Notification of Change

(NOC)Codes–Section 3

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	Available 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 client's consumer account and the client had not authorized the entry	CCD, CTX	60Days–WrittenStatementofUnauthorizedACH 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	60Days –WrittenStatementofUnauthorized Debit
R08	Payment Stopped – Client had previously requested s 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 – WrittenStatementofUnauthorized 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	ALLEXCEPT 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 9such 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	60Days – WrittenStatementofUnauthorized 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