

ACH Origination

User Guide for Business



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The Automated Clearing House (ACH) system allows funds to be processed quickly through an electronic network for financial institutions. ACH transfers can be from one account to another or between multiple accounts. Through the ACH network companies can, for example: disburse funds to vendors, create direct deposits for their business payroll, collect funds for consumer payments, annuities, business to business payments, dividends, interest payments, pensions, association dues, loan payments, contributions to IRAs and 401(k)s.

ACH Originators must adhere to certain rules and guidelines regarding the creation, submission, and processing of electronic files. These rules and guidelines are set by the National Automated Clearing House Association (NACHA), an organization which manages the development, administration, and governance of the ACH Network. The NACHA Operating Rules and Guidelines (the “Rules”) can be accessed online at www.nacha.org. Failure to comply with NACHA Rules can lead to termination of ACH services and/or fines imposed by NACHA. Verve may contact your business periodically to verify your internal ACH procedures and policies are in place.

This guide provides an overview of important ACH Rules as they apply to your business (the “Originator”) as a member of Verve, a Credit Union (“Verve”).

How it Works

Originator > ODFI > ACH Operator > RDFI > Receiver

Originator

The Originator is the business that processes the transaction, either a deposit to the Receiver's account (credit) or a payment from a Receiver's account (debit). In order to originate a file, the Originator must designate at least one Administrator. Administrator(s) shall be responsible for designating users authorized to transact. The Administrator and authorized users are responsible for maintaining the transaction authorization and are required to provide that authorization upon request. As the initiator, the Originator is liable for the total amount processed through the ACH network and is regularly evaluated for credit worthiness.

ODFI

The Originating Depository Financial Institution (ODFI), Verve, accepts and processes ACH transactions on behalf the Originator. Verve is liable for the total amount it processes through the ACH network and therefore requires an ACH Origination Agreement with each of its Originators to address processing requirements, exceptions, and liability issues with transactions. Verve may require credit underwriting, lending approval, or collateral requirements for its Originators in order to protect against fraud or monetary loss.

ACH Operator

The ACH Operator is a central clearing facility that receives entries from Verve, distributes the entries to the appropriate Receiving Depository Financial Institution (RDFI), and performs the settlement functions for the financial institutions.

RDFI

The Receiving Depository Financial Institution (RDFI) is the financial institution where the Receiver holds its accounts. The RDFI is responsible for passing the ACH transaction to the Receiver's account by the required date and in accordance with the rules, and handles exceptions such as notifications of change, nonsufficient funds, and unauthorized or fraudulent transactions in a timely manner. Failure to comply with its responsibilities under the rules could result in the RDFI being assessed fines or losing its good standing in its payment network.

Receiver

All ACH transactions begin with an authorization by the person/business on whose behalf the deposit or payment is processed (called the "Receiver" regardless of the type of transaction (credit or debit). Authorizations for payments (debits) are most often required in writing, though certain transaction types require authorization by other methods. Authorizations for deposits (credits) are not required but are typically obtained. For example, many companies require their employees to complete and sign a "direct deposit authorization form" which must include both the employee's signature and financial institution/account information.

Creating a Safer ACH Process

Verve offers a variety of tools to process ACH transactions safely. Within online banking, you can:

- Designate permissions by user to maintain separation of duties or employ dual control.
- Limit the amount of funds at risk by setting ACH transaction limits on users and accounts.
- Review ACH transactions easily via web browser or mobile app.

Originator Responsibilities

An ACH Originator with Verve has a contractual responsibility to follow Verve and NACHA rules. These responsibilities include:

- Obtain and maintain proper authorizations
- Comply with processing deadlines
- Provide authorization within the required timeframe
- Safeguard banking information received
- Make necessary changes as instructed by a Notification of Change (NOC) prior to the next ACH origination
- Cease subsequent entries when appropriate
- Prohibit transactions to individuals or companies who appear on the governmental Office of Foreign Assets (OFAC) list
- Ensure protection of the Originator and equipment by following the guidelines listed in the Business Online Banking Agreement and the ACH Origination Agreement, including protecting system credentials

Standard Entry Class (SEC) Codes

Each ACH transaction must be accompanied by a three-character identifier referred to as a standard entry class (SEC) code. An SEC code defines how authorization for the transaction was obtained. Some SEC codes may only be used for transactions sent to a consumer account; others may only be used for transactions sent to a business/corporate account. Some codes may be used for transactions sent to both types of accounts.

NOTE: SEC codes must be used appropriately and in accordance with the NACHA Rules. Verve uses the following four types of SEC codes for ACH Origination processing:

Payroll	PPD, Credits	Used to credit consumer accounts for payroll direct deposit, bonuses, refunds, and more.
Consumer Collections	PPD, Debits	Debit consumer accounts for goods and services.
Business Payments	CCD, Credits	Credit businesses for services and distribute or consolidate funds between businesses.
Business Collections	WEB, Debits	Debit business accounts for goods and services.

Authorization

Your business must obtain authorization from the Receiver to originate one or more entries to the Receiver's account. The type of required authorization varies by the type of transaction and the Receiver. Authorizations must be retained for at least two (2) years following the termination of the authorization. As an Originator, Proof of Authorization (POA) must be provided within five (5) business days of a request. Authorization may be customized to fit your specific application needs, but it must be readily identifiable as a payment authorization and at a minimum include the following:

- Acknowledgement that entries must comply with laws of the United States
- Statement authorizing the Originator to initiate credit or debit entries
- Account number and routing number of accounts involved in the transaction
- Identification of account type (checking, savings, loan, etc.)
- Provisions for termination of the authorization, including any policies for automatic termination in the case of excessive returns, member abuse, or termination of loan payment debits when the loan has been paid in full
- Individual identification number
- Printed name, title, date and signature

Sample authorization forms and information about how the authorization rules apply to your transactions can be found in the NACHA Rules.

Prenotification (Prenote) Process

The prenotification process can help ensure the data contained in files is accurate prior to sending live dollars. Use of the prenote process is optional; however, when an Originator initiates a prenote to a Receiver, they must do so at least three (3) business days before initiating the first live dollar electronic transaction to that Receiver.

If a response is not received by the end of the third day, live transactions may be initiated. If a Return or Notification of Change (NOC) is returned, the record(s) must be corrected prior to initiating live dollar transactions. Another prenote file may be submitted after making your corrections; however, this is not required.

The prenote transaction codes differ from other entry codes. The chart below includes common transaction codes by account and transaction type. Please refer to the NACHA Rules for more information on the prenotification process.

Account + Transaction Type	Return / NOC	Normal 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
General Ledger Credit	41	42	43
General Ledger Debit	46	47	48
Loan Account Credit	51	52	53
Loan Account Debit	56	55	NA

ACH File Limits

Information is gathered by Verve to establish processing trends, evaluate continuation of ACH origination provided, and set daily and availability limits—along with adjustments of any limits—on the amounts and/or number of deposits that can be processed for your account(s).

ACH Prefunding

Based on the ACH Originator risk assessment, prefunding may be required. The purpose of ACH prefunding is to ensure that adequate funds are available for requested payments. Verve will debit the offset account for the full amount of the batch. Prefunding is used only when the ACH Originator is processing credits (ex. Payroll).

Same-Day ACH

The NACHA Rules provide the option to send same-day ACH transactions to accounts at any RDFI. All RDFIs must receive same-day ACH transactions.

ACH transactions submitted to Verve by the same-day cutoff time, having a same-day effective date, will be processed same-day. Batches must meet the required same-day criteria. Same-day entry fees may apply.

NOTE: ACH transactions submitted to Verve with stale or invalid effective entry dates will be settled at the earliest opportunity, which could be same day. Effective dates should be reviewed carefully prior to submitting your ACH file.

ACH Edit + Deletion

ACH batches must be reviewed carefully before submission. If an ACH has been submitted and an error is discovered, it may be possible to delete or modify the batch if it has not yet been processed by Verve. If the batch does not have a 'Submitted' status within online banking, it may be modified or deleted. Files are processed several times throughout the day. Once a file has a "Submitted" status within online banking, a reversal may be processed to correct the error/edit if the error/edit meets the reversal criteria. If reversal criteria are not met, corrections may be managed outside of the ACH network by working with the RDFI and/or Receiver.

ACH Reversal

ACH Originators may determine that an entry needs to be reversed after the transaction has been processed. Reversals may only be requested for the following errors: wrong dollar amount, wrong account number, or duplicate transaction. Transactions can be reversed at the batch or payee level. The word "REVERSAL" must be in the Business Entry Description Field of the Batch Header Record.

NOTE: A reversal does not delete the initial transaction, it submits a second transaction that offsets the original transaction. Reversals do not guarantee the return of funds to the Originator. It is imperative that credit Originators take care to ensure that no transactions are sent to unintended Receivers. A reversal can only be executed within five (5) business days after the settlement date.

When the reversal of a transaction is requested, NACHA Rules require the payee of the reversing entry be notified and the reason for the reversal be provided. Please contact Verve for assistance in processing these requests.

OFAC

The U.S. Treasury Department's Office of Foreign Asset Control (OFAC) administers economic sanctions and embargo programs and maintains a list of countries, groups, and individuals that U.S. companies are restricted from doing business with, including sending or receiving funds. While Verve and/or the ACH Operator monitor transactions and accounts, and compare individuals and businesses contained in the files against these blocked parties, all ACH participants (including Originators) may be held accountable for violations of OFAC sanctions. The list of these blocked parties can be obtained at <https://ofac.treasury.gov/>.

Notification of Change (NOC)

A Notification of Change is a non-monetary transaction by which an RDFI notifies an ODFI that information contained in an entry received and posted by the RDFI has become outdated or that information contained in a prenote is incorrect.

The entry must be transmitted to the ODFI within two (2) business days of the settlement date of the entry. The Originator must make the changes specified in the NOC within six (6) business days of receipt of the NOC information or prior to initiating another entry to the Receiver's account, whichever comes first.

NOTE: Non-compliance could result in NACHA Rules violations and associated fines.

The most common NOC reasons are:

Code	Description
C01	Incorrect DFI Account Number
C02	Incorrect Routing Number
C03	Incorrect Routing Number and Incorrect Account Number
C05	Incorrect Transaction Code
C13	Addenda Format Error

A full listing can be found in the NACHA Rules – Notices of Change.

Return Entries

A return entry occurs when the RDFI or Receiver rejects an originated transaction. Most returns are received within three to five (3-5) business days after the transaction's original settlement date and create a reversing entry to the Originator's account. Consumers may return unauthorized transactions up to sixty (60) days from the statement date.

The most common Return reasons are listed below:

Code	Description
R01	Insufficient Funds
R02	Account Closed
R03	No Account / Unable to Locate Account
R04	Invalid Account Number
R06	Returned Per ODFI Request
R07	Authorization Revoked by Customer
R08	Payment Stopped
R09	Uncollected Funds
R10	Customer Advises Not Authorized, Improper, or Ineligible
R29	Corporate Customer Advises Not Authorized

A full listing can be found in the NACHA Rules – Return Entries.

ACH rules apply to initiating returned transactions. To review these rules, refer to the NACHA Rules.

To maintain the integrity of the ACH Payments Network, NACHA enforces termination of services and levies substantial fines for continued violations of rules associated with returns.

ACH Returns Reporting

If your ACH file is returned, notification will be sent to you through the use of online banking, email, or mail. It will include an attached return report outlining the reason for the returned file, including the code and description of the reason. Before originating future payments or collections, you must verify and update payee information by collecting an Authorization for Credit or Debit Entry form from the receiving party.

Deadlines + Cutoff Times

Transactions must be submitted by the cutoff time to ensure timely processing.

Transactions submitted after the cutoff time will be processed in the next processing window. When possible, files should be submitted two (2) days prior to the settlement date. Cutoff times are as follows:

- ACH credit and debit files should be submitted before 4:00 p.m. (CST) and at least two (2) days before the effective date of the file.
- Transactions intended for same-day settlement must be submitted by 1:00 p.m. (CST).
- ACH reversal requests must be submitted no later than 4:00 p.m. (CST) within five (5) business days of the settlement date.

Holiday + Weekend Processing

ACH file transfers can only be processed on days Verve is open for business. Verve will not process ACH file transfers on Saturdays, Sundays, or on any standard holiday observed by the Federal Reserve Bank. For the complete list of standard holidays, please visit [federalreserve.gov](https://www.federalreserve.gov).

Resources

To obtain a copy of the ACH Rules for the current year or for other helpful information about ACH processing, visit the NACHA website at www.nacha.org. Purchasing a copy of ACH Rules entitles your business to access the rules online. The search features of the online edition can be helpful, especially to those who are unfamiliar with the rules.

Feedback

This is a living document and is updated as needed. Please contact Verve at businesscontactcenter@verveacu.com or 800.448.9228 with your feedback.

To ensure that feedback is adequately addressed, please include:

- Document name and version
- Section name
- Suggested feedback

The materials available in this guide are for general informational purposes only and not for the purpose of providing specific instruction or legal advice. You are solely responsible for compliance with, and interpretation of, all NACHA rules and should contact your attorney to obtain advice with respect to any issue or problem. You are also reminded that you are solely responsible for compliance with any agreements with Verve, including but not limited to, the ACH ORIGINATION AGREEMENT.