

ACH Origination

User Guide *for Business*

Version 1.0



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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 disburse funds to vendors, create direct deposits for their business payroll, and collect funds for consumer payments. ACH can also be utilized for annuities, business to business payments, dividends, interest payments, pensions, association dues, loan payments, and contributions to IRAs and 401(k)s.

As an ACH Originator, there are rules and guidelines that must be followed for the creation, submission, and processing of electronic files. These 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 the NACHA Rules can lead to termination of services and/or fines imposed by NACHA. Verve may contact your business periodically to verify your internal ACH procedures and policies.

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 (the “Verve”).

How it Works

Originator > ODFI > ACH Operator > RDFI > Receiver

Originator

The Originator is the business that processes the transaction – either a deposit to a Receiver’s account (credit) or a payment from a Receiver’s account (debit). The Originator - Administrator and its Users, are responsible for maintaining the authorization for the transaction and is required to provide that authorization upon request. Since it initiates the transaction, the Originator is liable for total amount it processes through the ACH network and is therefore typically evaluated for its credit worthiness.

ODFI

The Originating Depository Financial Institution (ODFI), Verve, accepts and processes the ACH transactions on behalf the Originator. Verve is also 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, exception handling and liability issues. 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 appropriate RDFIs 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 on to the Receiver’s account by the

required date, and, in accordance with the Rules, handles exceptions such as notifications of change, nonsufficient funds, unauthorized or fraudulent transactions in a timely manner. Failure to comply with its responsibilities under the Rules could result in the RDFI to be assessed fines or lose 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 requires both the employee’s signature and financial institution/account information.

Creating a Safer ACH Process

Verve’s processing system incorporates vital fraud protection and analytics behind your business’s ACH transactions. With electronic payment fraud on the rise, Verve has a variety of tools to help your business safely process ACH transactions. Many of these options can be used together to suit your specific needs.

- Dual control within our online banking system helps originators maintain separation of duties for conducting your ACH activity.
- Minimize the amount of funds at risk by setting ACH transaction limits on users and accounts.
- Review your ACH transactions easily by accessing online banking from your computer, tablet, or smartphone.

Originator Responsibilities

As an ACH Originator with Verve, there is a contractual responsibility to follow Verve and NACHA rules. These responsibilities include:

- Obtain and maintain proper authorizations
- Comply with processing deadlines set by Verve and NACHA
- Provide authorization to Verve within the timeframes set forth by NACHA
- Safeguard banking information received
- Make necessary changes, as instructed from a Notification of Change (NOC), prior to the next ACH origination
- Cease subsequent entries, when appropriate
- Restrict transactions to individuals or companies who appear on the governmental Office of Foreign Assets (OFAC) list
- Ensure protection of the Originator and processing computer 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, a CU uses the following four types of SEC codes as a part of our ACH Origination processing:

Consumer Payments	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
- 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 that will be used for the benefit of you and Verve. Based on this information, Verve uses daily limits and availability limits on the amounts and/or number of deposits that can be processed for your Account(s) using the Services and to modify those limits. Verve may from time to time request information from you in order to evaluate a continuation of the ACH Origination to be provided by Verve hereunder and/or adjustment of any limits.

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 Receiving Depository Financial Institution (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. Verve recommends all effective dates are reviewed prior to submitting your ACH file.

ACH Edit / Deletion

ACH batches should 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 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 offsetting 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, the 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 & accounts and compare individuals & 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 www.treas.gov/offices/enforcement/OFAC.

Notifications of Change (NOC)

A Notification of Change is a non-monetary transaction by which an RDFI (Receiving Depository Financial Institution) notifies an ODFI (Originating Depository Financial Institution) 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 – Return Entries.

Return Entries

A return entry occurs when the RDFI (Receiving Depository Financial Institution) 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 reinitiating 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 / Debit Entry form from the receiving party.

Deadlines + Cutoff Times

Transactions must be submitted by the cutoff time to be processed timely.

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

“Business days” refer to days the U.S. banking system is open for business. ACH file transfers and other online funds transfers will not be processed on days Verve is closed; therefore, it is important that the Originator ensures that settlement dates are not set for days Verve is closed. Verve observes all federal holidays will be closed on the following standard holidays observed by the Federal Reserve Bank. Verve will not accept files for processing on the following days, as well as all Saturdays and Sundays. Likewise, entries should not be effective dated for these days. For further updates & information, please visit [federalreserve.gov](https://www.federalreserve.gov) for the ‘Holidays Observed - K.8’.

Resources

To obtain a copy of *ACH Rules* for the current year or for other helpful information about ACH processing, visit the NACHA web site at www.nacha.org.

Purchasing a copy of *ACH Rules* entitles your business to access the rules via the Internet at www.achrulesonline.org. 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 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.