



ACH ORIGINATION SERVICE GUIDELINES

Treasury Member Care

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About The ACH Origination Service Guide

The Automated Clearing House (ACH) Network is at the center of commerce in the U.S., moving money and information from one financial institution account to another through Direct Deposit and Direct Payment via ACH transactions, including ACH credit and debit transactions; recurring and one-time payments; government, consumer, and business-to-business transactions; and payments plus payment-related information. The ACH Network is now one of the largest, safest, and most reliable payment systems in the world, creating value and enabling innovation for all participants.

As an ACH Originator with TowneBank, your company must follow the rules and guidelines for the creation, submission, and processing of ACH entries and files. NACHA, The National Automated Clearing House Associations' Operating Rules and Guidelines (the Rules) serve as the definitive sources of information governing the exchange and settlement of electronic funds transfers through the ACH network. To ensure Compliance with the current regulations, all ACH Originators have access to a free online version of the NACHA Operating Rules & Guidelines.

The Rules are published annually and can be accessed at www.nachaoperatingrulesonline.org. A copy of the rule book can also be purchased from NACHA by accessing the NACHA eStore at www.nacha.org/estore/home.

This ACH Origination Service Guide provides a brief overview of some important sections of the Rules as they apply to your company (the "Originator") and is designed to serve as a guide to understanding essential rules regarding the processing of ACH transactions. Although this ACH Origination Services Guide covers important topics, it is not intended to be a replacement or a substitute for the referencing and compliance with the Rules. To ensure compliance with current regulations, all Originators must stay abreast of annual rule changes.

Please note that failure to comply with the Rules can lead to termination of services and/or fines imposed by NACHA. TowneBank may contact your company periodically to verify your internal ACH procedures and policies.

ACH Facts

- ACH entries are categorized as "consumer or corporate".
- ACH is a batch system (not real time).
- Once sent to the ACH Operator, entries are irrevocable.
- ACH is capable of crediting or debiting checking or savings accounts.
- An ACH Originator is any entity or person that creates an ACH transaction.
- ACH stop payments for consumers may not have an expiration date.

ACH Legal Framework

You are required to abide by multiple rules and agreements including, but not limited to, the following when submitting ACH transactions. TowneBank may ask for access to your premises and records to confirm compliance with the Rules.

- NACHA Rules
- Regulation E (for consumer entries)
- UCC4A (for corporate credits)
- Deposit Agreements with TowneBank
- Business Online Banking Master Agreement with TowneBank
- Customer Authorizations

As an ACH Originator, Your Company is responsible for:

- Obtaining proper authorizations, dependent upon the transaction type, and retaining evidence of such authorizations for two years from the termination or revocation of the authorization. An Originator must retain the original or a copy of each written authorization of a Receiver, or a readily and accurately reproducible record evidencing any other form of authorization.
- Providing a copy of the authorization(s) as outlined by the Rules, if requested by TowneBank to resolve a dispute, or as part of an audit.
- Giving prompt and appropriate notice to the Receivers if changing amount or date of any ACH debit entries.
- Stopping subsequent entries when notified by the Receiver that the entry was unauthorized, or the authorization was revoked.
- Making necessary changes to payee account information within three (3) business days upon receipt of a Notification of Change or before another entry is sent.
- Check payees against OFAC compliance checklists. (This information may be obtained directly from the OFAC Compliance Hotline at 800-540-OFAC or from the OFAC's home page site at www.ustreas.gov/ofac.)

You shall obtain all authorizations necessary to enable TowneBank to process the ACH Debit Entries and shall furnish TowneBank with copies of such authorizations if requested. A Receiving Depository Financial Institution (RDFI) may request, in writing, proof of authorization for all entries. For consumer entries, your company must provide a copy of the authorization. For corporate entries, you are required to provide TowneBank with either a copy of the authorization or contact information, including a contact name and phone number or email address for inquiries.

TowneBank must be able to provide proof of authorization for all entries to the RDFI within 10 banking days of the RDFI's request. Your company, as the Originator, must provide the original, copy or other accurate Record in such time and manner as to enable TowneBank to deliver the authorization to a requesting RDFI within ten (10) Banking Days of the RDFI's request.

Direct Deposit Payroll Authorizations (Consumers)

- Neither the Rules, nor Regulation E, require a written authorization for ACH credits or reversals.
- TowneBank recommends you use direct deposit authorization forms that allow the company to debit the employee's account for adjustments. The forms may also be used to collect the proper employee account information.
- Obtain a voided check, not a deposit slip, from the employee.
- The most common code for direct deposit is PPD.

Consumer Debit Authorizations

- For consumers, an authorization to the account must be in writing or orally.
- The most common SEC code is PPD (used for debits and credits).
- For debit entries, you must provide the customer with evidence of the authorization and information regarding the manner in which the authorization can be revoked.
- Retain authorizations for a period of two years from the termination or revocation of the authorization. No entries can be initiated after termination or revocation of the customer's authorization.

Corporate Authorizations

- For companies, there must be an agreement between the two parties, but the Rules do not define what business practices constitute agreements.
- The most common SEC code is CCD (used for debits and credits).

Copies of Consumer or Corporate Authorizations

- Upon request, you must provide a copy of the receiver's authorization to TowneBank within five (5) banking days.
- At any time, TowneBank may test your ability to provide a copy of an authorization.

Changing Date or Amount of Debits

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

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. The Rules requires you to make the change within six banking days of receiving the information from TowneBank.
- The Receiving Bank warrants that the information they provide is correct.
- TowneBank will notify you of any NOCs received on your behalf.
- TowneBank may pass any fines received to you for non-compliance.

OFAC

- You are required to check payees against OFAC compliance checklists.
- The Office of Foreign Asset Control (OFAC) lists countries, groups, and individuals that U.S. companies are not allowed to send funds to or receive funds from.
- The Bank must protect itself by informing every customer that it is against the law to send debit or credit entries to OFAC blocked entities.
- You may check the OFAC SDN list at: www.ustreas.gov/ofac.

Originators of Web Debits

Originators of WEB debit must use a "commercially reasonable fraudulent transaction detection system" to screen WEB debits for fraud including "account validation".

Prenotes

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify the account information.

- Prenotes are optional for you to send. However, if sent, prenote Rules must be followed. A prenote must precede the first live entry by at least three banking days.
- If a Return or a Notification of Change related to the prenote is received timely, you must not transmit subsequent entries to the receiver's account until you have remedied the reason for the return entry or made the correction requested by the Notification of Change.
- 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. You must understand there is still a risk if the subsequent entry debits or credits the wrong account (this is true for all originations, not just prenotes).

Phishing

Phishing is when an attacker attempts to acquire information by masquerading as a trustworthy entity in an electronic communication. Phishing messages often direct the recipient to a spoof website. Phishing attacks are typically carried out through email, instant messaging, telephone calls, and text messages (SMS).

Prevention Tips

- Delete email and text messages that ask you to confirm or provide sensitive information. Legitimate companies don't ask for sensitive information through email or text messages.
- Beware of visiting website addresses sent to you in an unsolicited message.
- Even if you feel the message is legitimate, type web addresses into your browser or use bookmarks instead of clicking links contained in messages.
- Try to independently verify any details given in the message directly with the company.
- Utilize anti-phishing features available in your email client and/or web browser.

Receipt of Return Entries

- 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 the banking network. The Bank recommends that you view your account activity daily.
- An exception to the 24-hour rule is consumer unauthorized returns, which may be returned sixty (60) days of posting.
- The use of consumer (PPD) or corporate (CCD) entry codes determines 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 for the account holder. You may obtain a copy of that statement by requesting a copy through TowneBank.
- The Rules established an Unauthorized Entry Fee that is designed to improve the ACH Network quality by reducing the number of ACH debits that are returned as unauthorized. The Originating Bank will be required to pay a fee to the Receiving Bank for any ACH debit returned due to a reason of unauthorized (return reason codes R05, R07, R10, R11, R29, and R51).
- Upon the receipt of an R05, R07, R10, R11, R29, or R51, we may request a copy of the associated authorization.

Return Rate Reporting Requirements

- TowneBank is required to track the types and volume of incoming return entries for each originating customer.
- For customers that originate debit entries, TowneBank is required to also track return percentages for various return categories which include:

- Unauthorized Returns cannot exceed a return rate threshold of 0.5%, which include debit entries returned as R05, R07, R10, R11, R29, and R51.
- Administrative Returns cannot exceed a return rate level of 3.0%, which include debit entries returned as R02, R03, and R04
- Overall Returns cannot exceed a return rate level of 15%, which include all debit entries returned for any reason (excluding RCK entries).
- If any of the above listed return rate threshold/levels are exceeded, TowneBank may contact you and request additional information to determine the reason for the high levels of debit entries being returned.

Re-initiation of Returned Entries

- Re-initiation is the method permitted in the Rules by which a Returned Entry may be resubmitted. You may re-initiate a debit entry that was previously returned, only if:
 - The entry was returned as R01-Insufficient Funds or R09-Uncollected Funds,
 - You must not reinitiate an entry that was returned as R01-Insufficient Funds or R09-Uncollected Funds more than two times following the return of the original entry. This gives the Originator a total of three attempts at debiting an account.
 - The entry was returned as R08-Payment Stopped and you received approval from the payee to re-send the entry, or corrective action has been taken to remedy the reason for the return.
 - The re-initiation must occur within 180 days of the date of the original entry.
 - Re-initiated entries must be submitted as a separate batch that contains the words “RETRY PYMT” in the Company Entry Description field of the Company/Batch Header Record. The use of this description in the field notifies the payee that the entry relates to a previously returned entry.
 - The contents of the Company Name, Company Identification, and Amount fields must be identical to the contents of the original entry. The contents of other fields should be modified only as necessary to correct an error or facilitate proper processing of the re-initiated entry.
 - It is a violation of the Rules to re-initiate the debit entry if a return is received for any other reason.
 - You are prohibited to re-initiate a transaction that was returned as unauthorized. A new authorization must be obtained.

Reversals (can only be made under certain conditions)

- If a reversing entry must be made, please contact TowneBank for instructions.
- Reversals may only be made for the following three conditions: (1) incorrect dollar amount, (2) incorrect account, or (3) duplicate transaction(s).
- When initiating a reversal, the reversing entry must be for the full amount and must be sent within five (5) banking days of original entry.
- If processing a reversal for an incorrect amount or account and a correcting entry will be sent, the correcting entry must be processed within 24 hours of the reversal file.
- 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 of a reversing entry and the reason, no later than the effective date of the reversing entry to his or her account. However, a payee does not need to authorize the reversing entry.

Website Spoofing

Website spoofing is the act of creating a fake website to mislead individuals into sharing sensitive information. Spoof websites are typically made to look exactly like a legitimate website published by a trusted organization.

- **Prevention Tips:**

- Pay attention to the web address (URL) of websites. A website may look legitimate, but the URL may have a variation in spelling or use a different domain.
- If you are suspicious of a website, close it and contact the company directly.
- Do not click links on social networking sites, pop-up windows, or non-trusted websites. Links can take you to a different website than their labels indicate. Typing an address in your browser is a safer alternative.
- Only give sensitive information to websites using a secure connection. Verify the web address begins with "https://" (the "s" is for secure) rather than just http://.
- Avoid using websites when your browser displays certificate errors or warnings.