

NACHA, The National Automated Clearing House Association, has Operating Rules and Guidelines (the Rules) that 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.achrulesonline.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 reference guide compiled by Cape Cod 5 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 originators have an obligation to implement commercially reasonable policies, procedures and systems to receive, store, transmit and destroy consumer level ACH data in a secure manner to protect against data breaches.

ACH FACTS & DEFINITIONS

- An ACH can be a credit or debit entry and are received by most financial institutions; an ACH must be authorized by the receiving entity.
- An ACH Originator is an individual, corporation or another entity- that initiates either a Direct Deposit or Direct Payment transaction using the ACH Network.
- Originating Depository Financial Institution (ODFI) is responsible for all entries originated through the ODFI, whether by an Originator or through a Third Party Sender. An ODFI is responsible for its Originators' and Third Party Senders' compliance with the NACHA rules.
- Receiving Depository Financial Institutions (RDFI) is the receiving institution of an ACH.
- Banking Days are business days, Monday through Friday excluding federal holidays.

ORIGINATOR RESPONSIBILITIES

- Originator must obtain authorization from the Receiver to originate one or more Entries to the Receiver's account.
- Originators must retain either the original or a copy of the authorization from a receiver for two years from the date of termination or revocation of the authorization.

At the request of the ODFI, an Originator must provide a copy of the authorization to the ODFI. If such copy is requested by an RDFI, the ODFI must provide the copy within ten (10) banking days of the request. Cape Cod 5 may request to review your authorizations from time to time.

- Originators must protect sensitive banking information received and control access to this data.
- Originators must cease subsequent entries when appropriate.
- Proper use of the Standard Entry Class (SEC) codes by Originators is required;
 - CCD: Corporate Credit or Debit Entry - The code that identifies an Entry initiated by an Organization to transfer funds to or from an account of that Organization or another Organization.
 - PPD: Prearranged Payment or Deposit Entry - The code that identifies an entry initiated by an Organization based on a standing or single-entry authorization from a receiver to transfer funds to or from a Consumer account of the receiver.
- An Originator must make the changes specified in a Notification of Change (NOC) within six (6) banking days of receipt of the NOC information OR prior to initiating another entry to the receiver's account, whichever is later.
- Originators must send Entries on the proper date. An effective entry date is the date specified by the Originator on which it intends a batch of entries to be settled;
 - For credit Entries, the Effective Entry date must be either **one or two** banking days following the banking day of processing by the Originating ACH Operator.
 - For debit Entries, the Effective Entry date must be **one banking** day following the processing date.
- Originators must have documented risk based procedures to help control the origination of fraudulent transactions sent into the ACH network. A review of these procedures must be conducted annually by the originator and updated according to evolving risks.
- At the request of the ODFI, an Originator must provide a copy of the procedures for review. Failure to provide the documentation may result in termination of ACH services.
- Originators will use the word **PAYROLL** in the company entry description field for entries related to credits for compensation. The word **PURCHASE** will be used for debits relating to online purchases.

AUTHORIZATIONS

The type of Authorization agreement entered into between the Receiver and the Originator depends on the type of transfer that is being initiated. The Rules require the use of the appropriate Standard Entry Class code (SEC) for such entries.

DIRECT DEPOSIT PAYROLL AUTHORIZATION

- 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. **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 and signed or similarly authenticated. **The most common SEC code for consumer debits is PPD.**

CONSUMER CREDIT AUTHORIZATIONS

- Consumers may provide authorizations for credit entries in writing, or they may be provided orally. **The most common SEC code for consumer credits is PPD.**

CORPORATE AUTHORIZATIONS

- As with consumer entries, corporate receivers must authorize all ACH Credits and Debits to its account. Cape Cod 5 recommends that you have the Receiver complete an authorization form.
- **The most common SEC code for corporate transactions is CCD and is used for debit or credit entries.**
- Originators must obtain all consents and authorizations required under the Rules and shall retain such consents and authorizations for two years after they expire. At the request of the ODFI, an Originator must provide a copy of the authorization to the ODFI within ten banking days of the request.

PRE-NOTIFICATIONS (PRENOTES)

- Pre-notes are zero-dollar entries that precede the first live entry. The purpose of a pre-note is to verify account information is correct.
- Pre-notes are optional. However, if sent, the pre-note must precede the first live entry by at least three banking days.
- The Receiving Bank is not required to validate the name of the payee on the pre-note, although some do, they are only required to verify the account number is valid.

CHANGING AMOUNT OR DATE OF DEBIT ENTRIES

- ACH rules require Originators to notify a Receiver of any changes in the amount or date of a debit entry:
 - If the amount of a debit entry changes, notification must be sent to the Receiver in writing, at least **ten (10) calendar days** prior to the date on which the entry is scheduled to be initiated (consumer and corporate).
 - If a scheduled date changes, notification must be given to the Receiver in writing at least **seven (7) calendar days** before the first such entry is scheduled to be debited to the Receiver's account (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 ACH Rules require an Originator to make the change within six (6) banking days of receiving the information from Cape Cod 5 or before another entry is sent.
- **If you fail to make changes to your ACH entries, we reserve the right to delay your ability to process ACH items originated through our online platform.**
- The Receiving Bank warrants that the information they provide to you is correct.
- Cape Cod 5 will notify you of any NOCs received on your behalf via secure email.

RETURNS

- Returns are to be processed by the Receiving Financial Institution within 24 hours of settlement, for CCD entries.
 - An exception to the 24-hour rule is consumer unauthorized returns, which may be returned within 60 days of the settlement date.
 - The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules.
 - The ACH Rules require that Originators must cease the origination of any ACH debit transactions when a previous ACH debit is returned as unauthorized or authorization revoked by the Receiver. The Originator must obtain a new Authorization prior to re-originating any future transaction.
 - An Originator may re-initiate a debit entry within 180 days up to two times if you receive a return entry of “NSF or Uncollected Funds.” Reinitiated entries must be sent in a separate batch and contain identical content in the Company Name, Company ID, and Amount field. Re-initiated entries must contain “**RETRY PYMT**” in the Company Entry Description Field.
 - A “Stop Payment” return may be re-initiated only if you receive approval from the payee to re-send the item.
- If you fail to make changes to your ACH entries, we reserve the right to delay your ability to process ACH items originated through our online platform.**
- It is a violation of NACHA Rules to re-initiate the debit entry if a return is received for any other reason.

REVERSALS

- Once an entry or file of entries has been transmitted into the ACH network, it cannot be recalled, but an erroneous or duplicate entry may be reversed.
 - Reversals may only be made for the following three conditions:
 - 1) wrong dollar amount,
 - 2) wrong account, or
 - 3) duplicate transaction
- If reversing an entry due to an incorrect amount or incorrect account, a correcting entry must also be sent.
- 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/her account. However, a payee does not need to authorize the reversing debit.
 - If a reversing entry needs to be made, please contact the Treasury Management within five (5) days after the settlement date at 508-247-1699.

For more information or assistance please contact Cape Cod 5’s Treasury Management Department via phone at 508-247-1699 or email at treasurymanagement@capecodfive.com.