

ACH Basics Quick Reference Guide

This guide provides a summary of key information about ACH (Automated Clearing House) transactions, which are electronic movements of money. The ACH Network is a secure and reliable system for direct payments.

01 Key Participants in an ACH Transaction:

- **Receiver:** The individual or company that authorizes a credit or debit to their account. For example, an employee receiving payroll or a business partner being paid for services.
- **Originator:** Your company or business that initiates the credit or debit transaction with the Receiver's authorization. For example, when you pay employees via direct deposit or collect payments from customers electronically.
- **Originating Depository Financial Institution (ODFI):** The bank or financial institution your company has a relationship with for ACH services. Your bank when you send ACH transactions.
- **ACH Operator:** The central clearing facility that processes ACH transactions.
- **Receiving Depository Financial Institution (RDFI):** The bank or financial institution where the Receiver holds their account.

02 Understanding ACH Transactions

- **Credit:** Money is sent *to* an account (e.g., payroll direct deposit, vendor payments).
- **Debit:** Money is pulled *from* an account (e.g., customer payments).
- ACH transactions can be directed to checking (demand), savings, and financial institution general ledger accounts. Only credits can be sent to loan accounts.
- Required entry descriptions include **"payroll"** for all credit entries (PPD) used to pay wages, salaries, bonuses, commissions, or other similar compensation; and **"purchase"** for all e-commerce debit entries (WEB) authorized by a consumer for the online purchase of goods.

03 Common SEC (Standard Entry Class) Codes

- **PPD (Prearranged Payment and Deposit):** Consumer debits and credits and can be recurring or single-entry transactions.
- **CCD (Corporate Credit or Debit):** Business-to-business debits and credits and can be recurring or single-entry transactions.
- **CTX (Corporate Trade Exchange):** Business-to-business debits and credits with detailed remittance information.
- **WEB (Internet Initiated Entry):** Debits authorized via the internet that require secure authentication.
- **TEL (Telephone Initiated Entry):** Debits authorized via telephone that requires a clear oral authorization.

04 Prenotification (Prenotes):

- Prenotes are non-monetary entries used to verify account information before sending live transactions.
- Sending prenotes is optional.
- If you send a prenote and don't receive a Notification of Change (NOC) or a return, you can typically send the live transaction as soon as the third banking day following the prenote's settlement date.
- A banking day is any day other than Saturday, Sunday, or a federal holiday.

05 Authorizations

- As an Originator, you must obtain authorization from the Receiver before initiating any ACH credit or debit to their account.
- Authorizations must be clear and readily understandable.
- Debit authorizations for consumer accounts generally need to be in writing or similarly authenticated and include details like whether it's for a single or recurring entry, the amount, timing, Receiver's name, account information, date, and how to revoke the authorization. A copy should be provided to the consumer.
- Credit authorizations for consumer accounts do not necessarily need to be in writing and can be oral.
- Business-to-business (corporate) transactions (CCD/CTX) require authorization through an agreement with the Receiver.
- You must retain records of authorizations for a specific period. For consumer transactions, this is typically 2 years from the termination or revocation of the authorization.

06 Returns

- The RDFI may return an ACH entry for a valid reason . Common reasons include insufficient funds, account closed, or unauthorized transactions.
- Returns must be transmitted by the RDFI within specific timeframes, often by the opening of business on the second banking day following the settlement date of the original entry (the "24-hour" rule). Some SEC codes, like RCK (re-presented checks), have different timeframes.
- As an Originator, you should receive return information from your ODFI, often through your online banking system.

07 Notifications of Change (NOC)

- Instead of returning an entry, the RDFI may send an NOC if there's incorrect account information (e.g., wrong account number or routing number).
- NOCs must be sent by the RDFI within 2 banking days of the settlement date of the related entry.
- Your ODFI will provide you with the NOC information. For recurring entries, you must make the necessary changes within 6 banking days of receiving the NOC or before the next scheduled entry, whichever is later . For single entries and certain SEC codes (ARC, BOC, POP, RCK, XCK, single entry TEL and single entry WEB), you have the discretion to make the changes.

08 Reversals

- A reversal is used to correct an erroneous ACH entry (e.g., duplicate payment, wrong amount, wrong recipient)
- Reversals must be transmitted within 5 banking days after the settlement date of the error.
- Authorization from the Receiver is not required for a reversing entry. You should attempt to notify the Receiver of a reversing entry no later than the settlement date of the reversal.

Important Note: This guide provides a general overview. For complete and legally binding information, please refer to the annual Nacha Operating Rules & Guidelines. This guide is not a substitute for those rules. Specific service responsibilities and procedures are outlined in the MainStreet Bank Treasury Management Services Booklet - Terms and Conditions.