

First Commerce Bank

A Guide to ACH Origination



Overview

The Automated Clearing House (ACH) system allows funds to be processed through the use of electronic transfers. ACH transfers can be made from one account to another or between multiple accounts.

Through the ACH system, companies can:

- Disburse funds to vendors
- Create direct deposits for their company payroll
- Collect funds for consumer payments.

In addition, ACH transfers can be utilized for:

- Corporate-to-corporate payments
- Dividends
- Interest payments
- Pensions
- Association dues

As an ACH Originator, your company must follow these rules and guidelines for the creation, submission, and processing of electronic files. The National Automated Clearing House Association (NACHA), an organization that manages the development, administration, and governance of the ACH Network, sets these guidelines. Your company can access the rules online at www.nachaoperatingrulesonline.org. Failure to comply with the ACH rules can lead to the termination of services and/or fines imposed by NACHA. First Commerce Bank may contact your company periodically to verify your internal ACH procedures and policies.

This guide provides a brief overview of important sections of the ACH rules as they apply to your company (the “Originator”).

Originator Responsibilities

- Obtain the proper authorizations, dependent on the transaction type, and retain authorization for two years past revocation
- Provide authorization to the bank within five business days, if requested
- Protect the Receiver’s banking information
- Transmit entries on the proper date
- Make necessary changes to the payee’s account information within six banking days or prior to the next origination, when notified
- Cease subsequent entries when appropriate
- Ensure you and your computer are protected by following the guidelines listed in the *Business Online Banking Agreement*

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Authorizations

As an Originator, your company must obtain authorization from the Receiver of the transaction to originate one or more entries to the Receiver's account. The required authorization varies by the entry types and parties involved. Authorizations must be retained for at least two years following the termination of the authorization. As an Originator, your company must be able to provide the Proof of Authorization (POA) within five business days of a request. Your company can customize the authorization 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 United States laws
- Statement authorizing Originator to initiate credit or debit entries
- Account number and routing number of accounts
- Identification of account type (checking, savings, 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

Your company will find sample authorization forms and information about how the authorization rules apply to your transactions in the *NACHA Operating Rules and Guidelines*. Sample forms are also provided with your First Commerce Bank ACH Origination Agreement.

Prenotifications

The prenotification process can help your company ensure the data in your file is accurate prior to sending live dollars. Use of the prenotification process is optional, however, when an Originator initiates a prenote to a receiver, it must do so at least three banking days before initiating the first live dollar electronic transaction to that receiver.

If a response is not received by the end of the third banking day, your company may initiate live transactions. If your company receives a Return or Notification of Change (NOC), your company must correct your records prior to initiating live dollar transactions. Your company may choose to submit another prenote file after making your corrections although this is not required.

Please refer to the *NACHA Operating Rules and Guidelines* for more information on the prenotification process.

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ACH File Limits

An ACH exposure limit is established by First Commerce Bank for each client. If an originator submits a file that exceeds the exposure limit, the file may be suspended, deleted or require special approval for transmittal.

If you suspect that your ACH File may exceed your exposure limit, please contact your local Branch Office to request a temporary or permanent limit increase.

ACH Prefunding

Your service agreement states that your use of the ACH module is subject to ACH Prefunding. To ensure that adequate funds are available for requested credits/payments, the Bank will debit the offset account for the full amount of your file, when the file is submitted. If sufficient collected funds are not available at the time of file submission, the file will not be processed. When sufficient funds are available, you will need to resubmit the file for processing. Prefunding is only applicable when sending credits.

ACH Deletion/Edit

ACH files should be reviewed carefully before submitting them to the bank. If you have submitted an ACH file/transaction and realize there is an error, you must request a reversal.

ACH Reversal

ACH Originators sometimes determine that they need to reverse an entry after the transaction has been distributed. Reversals may only be processed for the following conditions: 1) erroneous error or 2) duplicate transaction. Transactions can be reversed at the file or transaction level. The word "REVERSAL" must be in the Company Entry Description Field of the Batch Header Record.

NOTE: A reversal does not delete the initial transaction. It submits a second transaction to reverse the first transaction. Reversals do not guarantee that the funds will be returned to the Originator. It is imperative that credit Originators take special care to ensure that no transactions are sent to unintended receivers.

A reversal can only be executed within five banking days after the settlement date. When your company requests the reversal of a transaction, NACHA Rules require that your company notify the receiver of the reversing entry and provide the reason for the reversing entry to the receiver's account.

Please contact the Electronic Banking Department at (732) 364-0032 for assistance in processing these requests.

Please refer to the *NACHA Operating Rules and Guidelines* for more information on the General Rule for Reversing Entries.

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Notifications of Change

A Notification of Change (NOC) is a non-monetary transaction by which an RDFI notifies an ODFI (Originating Depository Financial Institution) that information contained in an entry the RDFI has received and posted has become outdated or that information contained in a prenotification is incorrect. The entry must be transmitted to the ODFI within two banking days of the settlement date of the entry. The Originator must make the changes specified in the NOC within six banking days of receipt of the NOC information (or prior to initiating another entry to the Receiver's account, whichever is later).

NOTE: Non-compliance can result in NACHA rules violations and associated fines.

The most common NOC reasons are listed below. The full listing can be found in the *NACHA Operating Rules – Notification of Change*.

<u>Code</u>	<u>Description</u>
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

Return Entries

A return entry occurs when the RDFI or Receiver rejects a transaction your company has originated. Most returns are received within 48 hours of the transaction's original settlement date, which creates a reversing entry to the originator's deposit account. Consumers can return unauthorized transactions up to 60 days from the statement date. The most common return reasons are listed below. A full listing can be found in the *NACHA Operating Rules – Return Entries*.

<u>Code</u>	<u>Description</u>
R01	Incorrect DFI Account Number
R02	Incorrect Routing Number
R03	Incorrect Routing Number AND Incorrect Account Number
R04	Addenda Format Error
R05	Unauthorized Debit to Consumer Account Using Corporate Code
R07	Authorization Revoked by Customer
R08	Payment Stopped
R09	Uncollected Funds
R11	Customer Advised Originator is Not Known to Receiver and/or Originator is NOT Authorized by Receiver to Debit Receiver's Account.
R13	Invalid Routing Number
R16	Account Frozen
R20	Non-Transaction Account
R23	Credit Entry Refused by Receiver
R29	Corporate Customer Advises Not Authorized

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Certain ACH rules apply to reinitiating returned transactions. To review these rules, refer to the *NACHA Operating Rules and Guidelines*. In order 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 & Notification of Changes Reporting

If an ACH Entry is returned or a Notification of Change is received, you will receive notification via email, which will include the amount and the reason for the returned entry, including the code and description of the reason.

Deadlines and Cutoff Times

Transactions must be submitted by the cutoff time in order to be processed that day. Transactions submitted after the cutoff time will be processed on the next business day. When possible, files should be submitted two days prior to the settlement date.

Cutoff times are as follows:

- ACH credit and debit files must be submitted before 5:30pm EST and [it is recommended] at least two days before the effective date of the file.
- ACH Reversal requests must be submitted no later than 5:30pm EST and within five banking days of the settlement date.

Holiday and Weekend Processing

“Business days” refer to days the United States banking system is open for business. ACH file transfers will not be processed on days the bank is closed or during the weekend. Therefore, clients should ensure that settlement dates are not set for days the bank is closed or during the weekend. Our Bank observes all federal holidays as listed below:

- New Year’s Day
- Martin Luther King, Jr. Day
- Presidents’ Day
- Memorial Day
- Juneteenth National Independence Day
- Independence Day
- Labor Day
- Columbus Day
- Veterans’ Day
- Thanksgiving Day
- Christmas Day

If there are changes in processing days or times, you will be notified in advance.

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Standard Entry Class (SEC) Codes

A three-character identifier referred to as a standard entry class (SEC) code must accompany each ACH Entry (transaction). 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 NACHA Rules. Allowable SEC Codes include CCD and PPD.

The chart below outlines and defines the SEC codes permissible by First Commerce Bank for use in the ACH network:

SEC Code	Consumer/ Corporate	Definition	Debit/ Credit	Return Timeframe*
CCD Corporate Credit or Debit Entry	Corporate	An Entry originated by an organization to or from the account of that organization or another organization. The entry can be monetary or nonmonetary.	Debit or Credit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 2 Calendar days
PPD Prearranged Payment & Deposit Entry	Consumer	An entry originated by an organization to a consumer account based on a standing or single-entry authorization from the receiver of the transaction.	Debit or Credit	<i>Administrative:</i> 2 Banking Days <i>Unauthorized:</i> 60 Calendar days

*Return timeframes listed in this table may vary depending on certain circumstances surrounding the transaction. For a complete guide on return timeframes, please refer to the *NACHA Operating Rules & Guidelines*.

NACHA Resources

To obtain a copy of the 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 company to access the rules via www.nachaoperatingrulesonline.org. The search features of the online edition can be helpful, especially to those who are unfamiliar with the rules.

For additional questions regarding the *NACHA Operating Rules and Guidelines*, our Electronic Banking Department can assist you at (732) 364-0032 between the hours of 8:30am to 6:00pm, EST Monday through Friday.

For additional questions regarding First Commerce Bank's Business Online Banking platform, please call the E-Banking Department at (732)364-0032 between the hours of 8:30am to 6:00pm Monday through Friday or email us at ebanking@firstcommercebk.com.