Lindell Bank

The Bank of Personal Service

ACH Reference Guide

Automated Clearing House (ACH) Rules for ACH Originators

The following Quick Reference Guide provides a brief overview of the important information you should be aware of as an originator of ACH transaction. This guide is not intended to be a replacement or substitution for the Nacha Rules and Guidelines. Nacha Rules are subject to change, any changes to Nacha Rules that pertain to your organization will be communicated to you annually.

ACH Basic Facts

- An ACH originator is any entity or person who creates an ACH transaction.
- ACH entries are received by most financial institutions and credit unions.
- ACH is capable of crediting or debiting checking or savings accounts.
- ACH entries are categorized as “consumer” or “corporate.”
- ACH is a batch system (not real time).
- Once sent to the ACH Operator, entries are final. The Bank does not have access to change or revoke any entry.

ACH Governing Rules and Agreements

You are required to abide by multiple rules and agreements including, but not limited to, the following when initiating ACH entries:

- Nacha Operating Rules (www.nacha.org)
- Regulation E (for consumer entries): A Federal Reserve regulation which outlines rules and procedures for electronic funds transfers (EFTs)
- UCC4 (for corporate credits): Governs commercial transactions within the United States
- Deposit Agreement and Terms and Conditions
- Cash Management Services Agreement
- Bank and Corporate Agreements
- Authorizations from employees, customers, etc.

Your Responsibilities as an ACH Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for up to two years past revocations (see “Consumer Debit Authorizations”)
- If requested by the Bank, provide a copy of the authorization. The Bank may request to see your authorizations from time to time as part of an annual audit.
- Send entries on the proper date to meet settlement deadlines.
- Give appropriate notice to the debtor if changing the amount or date.
- Cease entries when notified.
- Make necessary changes to payee account information within 6 banking days upon receipt of a Notification of Change (NOC) before another entry is sent.
- Protect the banking information received to originate transactions.
- Ensure you computer and organization/entity is protected as outline in the Cash Management Services Agreement.
- Select the appropriate Standard Entry Class (SEC) code based on category “corporate” or “consumer.”
- Company Entry Description should describe the purpose of the entry to the receiver. Example: PAYROLL, dividend, etc. This description will print on the receiver’s bank statement.

ACH Summary

The two most common types of Standard Entry Class (SEC) codes for ACH transactions originated through our business online banking system are PPD and CCD. PPD transactions are Consumer (person) involved transactions, whereas CCD are Corporate (company) involved transactions.

Direct Deposit Payroll Authorizations (Consumer)

- Use a direct deposit authorization form to collect employee account information. This form should allow the ACH Originator to make credit and debit entries in the event a payroll adjustment is necessary (a sample of this form is on page 11 of this packet.)
- Obtain a voided check from the employee (if possible).
- The most common SEC code for direct deposit payroll is PPD.
- Any compensation related payments must be identified as PAYROLL in the Company Entry Description field.

Consumer Debit Authorizations

- Authorization to debit an account must be in writing or "similarly authenticated." (a sample form is on page 12 of this packet)
- The SEC code for consumer debits is PPD.
- Authorizations for consumer debits must be maintained in a physically secure location for 2 years after the authorization is terminated or revoked. After the retention period, secure destruction of the authorization is required.

Corporate Authorizations

- There must be an agreement between the Originator and company for these types of transactions. While the Nacha Rules do not define an "agreement," it is recommended you have the company complete an authorization form (a sample of this form is on page 12 of this packet).
- The common SEC code for corporate transactions is CCD. Both debits and credits may be used for this type of origination.
- CCD transactions allow limited remittance detail to be provided electronically.
- Originator must have the ability to provide proof of authorization or originator contact information for entries to non-consumer account (corporate) if requested.

Changing Date or Amount of Debits

ACH Rules require you to notify your debtors of any changes in date or amount debited under the following circumstances:

- Seven (7) calendar days' notice for a change of date (consumer or corporate)
- Ten (10) calendar days' notice for a change in amount (consumer only)
- Sending the notice via U.S. Mail or electronically is acceptable.

Prenotifications (Pre-notes)

- Pre-notes are zero-dollar entries which precede a live entry. The purpose of a pre-note is to verify account information.
- Pre-notes are optional. If sent, pre-note rules must be followed and the live entry must be dated at least three (3) banking days after the pre-note is settled.
- The Receiving Bank is not required to validate the name of the payee on the pre-note; they are only required to verify the routing and account number.

Notice of Change

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting the future entries to contain correct information.
- The notification will be sent to you electronically
- When a NOC is received, the original transaction has processed, however, ACH Rules require you to make the change within six (6) banking days of receiving the information or before another entry is sent.
- The Receiving Bank warrants the information they provide to your is correct.
- Any fines received based upon your non-compliance may be passed along to you.

Returns

- 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 of the banking network. ***It is recommended you view your account activity daily***.
- An exception to the 24-hour rule is Consumer Unauthorized Returns, which may be returned within 60 days of posting.
- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules. Using the correct SEC Code ensures your company complies with the ACH rules established by Nacha, the electronic payment association.
- Do not mix consumer (PPD) and corporate (CCD) entries within the same batch.
- If CCD is selected, only entries intended for corporate (non-consumers) can be included within the batch.
- The batch type PPD or CCD will determine the permitted return timeframe. If a corporate entry is included in a PPD batch, the receiver will be allowed to return the item as Unauthorized for up to 60 days rather that the 24-hour CCD rule. Since consumers are protected, if a consumer entry is included in a CCD batch, the receiving institution can return the item as an Unauthorized Debit to a Consumer account for up to 60 days.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank may obtain a signed Written Statement of Unauthorized Debit from the account holder. You may request a copy of the statement by contacting us.
- The ACH Rules require Originators to 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. (continued)

- Originating Depository Financial Institutions (ODFI) will pay a fee for each ACH debit returned as unauthorized (return reason codes R05, R07, R10, R11, R29, and R51). Nacha has set the preliminary fee at $4.50 per unauthorized return. The fee may be passed on to the Originator of the ACH debit transactions.
- You may re-initiate a debit entry within 180 days (up to two times) if you received a return entry of "NSF or Uncollected Funds." This gives the Originator a total of three attempts at debiting an account. Re-initiated entries must contain identical content in the Company Name, Company ID, and Amount field. Modifications can only be made to the extent necessary to correct an error or facilitate processing of the entry. Re-initiated entries must contain "RETRY PYMT" (all caps) in the Company Entry Description field.
- A "Stop Payment" return may be re-initiated only if you receive authorization from the payee to re-send the entry.
- The Bank will monitor return rates and may require corrective action in the event of excess return rates. In the event we are fined by a Receiver's financial institution (RDFI) for a return of your entry, we may charge the amount fined to you.

Reversals

- If a reversing entry must be made, please contact your Cash Management Team for instructions.
- Reversals may only be made to correct an erroneous entry such as:
    - Wrong dollar amount
    - Wrong account number
    - Incorrect payment date
    - Duplicate transaction
- When initiating a reversal, the reversing entry must be for the full amount, must be sent within five (5) banking days of the original entry and must be sent within 24 hours of discovering the error.
- 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 the reversing entry debits his or her account. However, a payee does not need to authorize the reversing debit.
- The word "REVERSAL" (all caps) must be used as the Company Entry Description.

Exposure Limits

- The Bank establishes a daily ACH exposure limit. This exposure limit represents the total dollar amount allowed to settle on a single Effective Entry Date. ACH exposure limits are reviewed annually and may be adjusted at the Bank's discretion without prior notice.

Please contact us if you have a file above your established limit for exception processing.

ACH Fraud Risks

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. Operational Risk can arise from a technology failure, human or technical errors in financial models and reporting, or other internal control system deficiencies. The type of fraud perpetrated by employees or external sources.

Recommendations:

- Not using temporary employees for ACH functions
- Thorough screening of potential full-time employees
- Segregation of duties
- Changing or rotating work assignments
- Personal security/controlled access to department
- Internal audits of controls
- Periodic risk assessments

Fraud threats may be perpetrated through cyber-attacks, email compromise, account takeover, social engineering, and vendor impersonation fraud.

- Do not open any suspicious emails or emails from unknown parties.
- If you do open an email, avoid any links, attachments, photos or graphics you cannot verify.
- Verify all change requests. If a vendor or payee requests a change in account information, call the phone number listed on your system (not the number on the form received) and verbally verify the information with the requestor.
- Block the ability to auto-forward emails outside of the organization. This would prevent an attacker from forwarding emails to an alternative email account.
- Test your employees - send a phishing (fake malicious) email to see if there are any employees who open it.
- Educate employees on the risks of fraud threats.
- Disable the end user's administrative rights to their computers to minimize introduction of viruses, malware, etc. (continued)

- Keep virus protection and operating systems up-to-date.
- Protect account numbers by rendering them unreadable when stored electronically. This is required for ACH originators with volume exceeding 2 million annual entries.

Controls

The Bank is committed to being your partner in combating fraudulent transactions. The following fraud detection protocols are in place or recommended:

- Deployment of multi-factor authentication – tokenization of entry into the online system and tokenization at the time of transmission.
- Dual Control is recommended when originating any type of payment from the business online banking system.
- "Out of Band" authentication is in place through a service which provides out of band authentication for unusual activity.
- Daily ACH exposure limits are established for all Originators.

Same Day ACH

If offered, Same Day ACH allows payments to be processed within the same business day. This moves money in the ACH network in the same way, only faster.

- Same Day ACH entries must be authorized (and approved) before 11:00 AM CST.
- There is a $1,000,000 limit per originated transaction.
- If a file contains an entry over $1,000,000, the payment will be sent as a next-day transaction.
- If you submit a Pass-Thru file with a current date in the Effective Entry Date before 11:00 AM CST, the file will automatically be processed as a Same Day ACH file. Please note, stale or invalid dates in the Effective Entry Date field will be processed in the next available window, which could be same-day or next-day.
- Same Day ACH may be originated for credit or debit files.
- Access to Same Day ACH origination may be restricted by user within Business Online Banking.
- Any account which receives ACH transactions can receive Same Day ACH entries.
- Receiving Banks are required to make funds available to the receiver by 5:00 PM local time.
- Same Day ACH additional fees may be applicable.

Standard Entry Class (SEC) Codes

Each ACH transaction is identified and recognized by a specific Standard Entry Class (SEC) Code, which appears in the ACH record format. The SEC Code also identifies the specific record layout used to process the payment and payment-related information.

Code	Application Title	Application Description	Consumer/Business	Debit/Credit
ARC	Accounts Receivable Check	Converted Checks received via the US mail or at a drop box location.	Consumer accounts only	Single debit only
BOC	Back Office Conversion	Converted checks received by merchant at the point-of-purchase or manned bill payment locations and processed during back office operations.	Consumer accounts only	Single debit only
CCD	Corporate Credit or Debit	Transfer of funds between business accounts or to consolidate funds from several accounts of the same business.	Business accounts only	Debit or Credit
CIE	Customer Initiated Entry	Credit entry initiated by an individual (usually through a bill payment service) used to pay some sort of obligation.	Consumer or Business accounts	Credit only
CTX	Corporate Trade Exchange	Payment or collection of obligation between separate businesses.	Business accounts only	Debit or Credit
DNE	Death Notification Entry	Notice initiated by an agency of the Federal government to advise an RDFI of the death of an individual (includes addenda record details).	Consumer accounts only	Credit only (non-dollar amount entry)
ENR	Automated Enrollment Entry	Entry submitted by Financial Institutions to enroll client in direct deposit of Federal government benefit payment.	Consumer accounts only	Credit only (non-dollar amount entry)
IAT	International ACH Transaction	Transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States.	Consumer or Business accounts	Debit or Credit
POP	Point-of-Purchase Entry	Converted checks received by merchant at the point-of-sale	Consumer accounts only	Single debit only
POS	Point-of-Sale Entry	Entry initiated by individual at the merchant location using a merchant-issued card for payment of goods or services.	Consumer accounts only	Single debit only
PPD	Prearranged payment or deposit entry	Recurring entry for direct deposit of payroll, pension, etc., or for direct payment of recurring bills such as utilities, loans, insurance, etc.	Consumer accounts only	Debit or Credit
RCK	Represented Check Entry	Merchant collection of checks that had been returned as NSF or Uncollected Funds.	Consumer accounts only	Single entry debit
TEL	Telephone Authorized Entry	Single or recurring entry submitted pursuant to an oral authorization obtained solely via the telephone.	Consumer accounts only	Debit only
WEB	Internet Initiated Entry	Entry submitted pursuant to an authorization obtained via the Internet or a wireless network.	Consumer accounts only	Debit only
XCK	Destroyed Check Entry	Replacement entry for check that is lost or damaged, or for check image that is unreadable or cannot be processed.	Consumer or Business accounts	Single debit only

Transaction Codes

Transaction Codes	Return/NOC	Origination Entry	Pre-note
Checking Account Credit	21	22	23
Checking Account Debit	26	27	28
Savings Account Credit	31	32	33
Savings Account Debit	36	37	38
FI General Ledge Credit	41	42	43
FI General Ledge Debit	46	47	48
Loan Account Credit	51	52	53

Transaction codes are used internally within financial institutions and their processing partners. These transaction codes will be within your accounting software to map transactions and are used in NOC and Return Item communication.

Notification of Change

Standard notification of change reason codes are listed below.

Code	Reason	Description
C01	Incorrect Bank account number	Bank account number is incorrect or formatted incorrectly
C02	Incorrect transit/routing number	Once valid transit/routing number must be changed
C03	Incorrect transit/routing number and bank account number	Once valid transit/routing number must be changed and causes a change to bank account number structure
C04	Bank account name change	Customer has changed name or ODFI submitted name incorrectly
C05	Incorrect payment code	Entry posted to demand account should contain savings payment codes or vice versa
C06	Incorrect bank account number and transit code	Bank account number must be changed and payment code should indicate posting to another account type (demand/savings)
C07	Incorrect transit/routing number, bank account number and payment code	Changes required in three fields indicated
C09	Incorrect individual ID number	Individual's ID number is incorrect
C10	Incorrect company name	Company name is no longer valid and should be changed
C11	Incorrect company identification	Company ID is no longer valid and should be changed
C12	Incorrect company name and company ID	Both the company name and company ID are no longer valid and must be changed

Return Reason Codes

Standard return reason codes are listed below.

ACH return entries may be dishonored when they are untimely, when they contain incorrect information, or have been misrouted.

Return Code	Reason/Description	Action by Originator	Return Deadline
R01	Insufficient Funds - Available balance is not sufficient to cover the dollar amount of the debit entry.	May initiate a new ACH entry within 180 days of original Settlement date.	24 hours
R02	Account Closed – A previously open account is now closed.	Must stop initiation of entries. Obtain new authorization from Receiver for another account.	24 hours
R03	No Account/Unable to Locate – The account number does not correspond to the individual identified in the entry of a valid account.	Must stop initiation of entries and contact the Receiver for correct account information.	24 hours
R04	Invalid Account Number – The account number fails the check digit validation or may contain an incorrect number of digits.	Must stop initiation of entries until account number/structure is corrected.	24 hours
R05	Unauthorized Debit to consumer Account using Corporate SEC Code – A business (corporate) debit entry was transmitted to a client's consumer account and the client had not authorized the entry.	Must stop initiation of entries.	60 days – Written Statement of Unauthorized ACH Debit.
R06	Returned per ODFI's Request – The ODFI has requested that the RDFI return the entry.	Must accept requested return.	Not applicable
R07	Authorization Revoked – Client who previously authorized an entry has revoked authorization with the Originator.	Must stop initiation of entries until new consumer authorization is obtained.	60 days – Written Statement of Unauthorized ACH Debit
R08	Payment Stopped - Client had previously requested a stop payment of a single or recurring entry.	Must contact Receiver to identify the reason for the Stop Payment and obtain authorization before reinitiating the entry.	24 hours
R09	Uncollected Funds – Available balance is sufficient but collected balance is not sufficient to cover the entry.	May initiate a new ACH entry within 180 days of original settlement date.	24 hours
R10	Client advises not authorized, notice not provided, improper source document, or amount of entry not accurately obtained from source document.	Must stop origination of entries.	60 days – Written Statement of Unauthorized ACH Debit
R11	Client advises entry not in accordance with the terms of the authorization. The receiver has a relationship with the Originator, but there is an error in the debit entry that does not conform to the terms of the authorization.	Must stop origination of entries.	60 days – Written Statement of Unauthorized ACH Debit
R12	Account Sold to Another DFI – A financial institution received an entry to an account that was sold to another financial institution.	Must stop initiation of entries and obtain correct routing information. For initiation of subsequent entries.	24 hours
R14	Representative Payee Deceased – Representative payee is deceased or unable to continue in that capacity, beneficiary is not deceased.	Must stop origination of entries.	24 hours
R15	Beneficiary or Account Holder Deceased.	Must stop origination of entries.	24 hours
R16	Account Frozen – Access to account is restricted due to specific action taken by the RDFI or by legal action.	Must stop origination of entries.	24 hours
R17	File Edit Record Criteria – Field(s) cannot be processed by RDFI.	Must identify and correct errors prior to initiation of further entries.	24 hours
R20	Non-Transaction Account – Policies or regulations (such as Regulation D) prohibit or limit activity to the account indicated.	Must stop origination of entries.	24 hours
R23	Credit Entry Refused by Receiver – Any credit entry that is refused by the Receiver may be returned by the RDFI.	Must obtain Receiver authorization prior to reinitiating the entry.	24 hours
R24	Duplicate Entry – The RDFI has received what appears to be a duplicate entry, i.e. the trace number, date, dollar amount and/or other data matches another transaction.	Should accept the return. If the entry has already been reversed, Originator should contact RDFI to determine solution.	24 hours
R29	Corporate Entry Unauthorized – RDFI has been notified by business account holder that a specific transaction is unauthorized.	Must stop initiation of entries until subsequent authorization has been obtained.	24 hours
R31	Permissible Return Entry – ODFI agrees to accept a return of an unauthorized corporate entry after the 24-hour deadline.	Must accept return as agreed upon with the RDFI. If the Originator or ODFI has not given permission for the untimely return, the return may be dishonored.	24 hours

Direct Deposit Authorization Form – SAMPLE

Retain form no less than 2 years after cancellation date

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate credit entries to my (our) account indicated below and the financial institution named below, hereinafter called DEPOSITORY, to credit the same to such account. I (we), also, authorize the COMPANY and the DEPOSITORY to initiate debit entries to my (our) account indicated below to reverse any credits made to such account in error. The authority is to remain in full force and effect until COMPANY has received written notification from me (or either of us) of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law.

Please print and complete ALL the information below.

Name:_____Phone:_____

Street Address:_____

City, State, Zip:_____

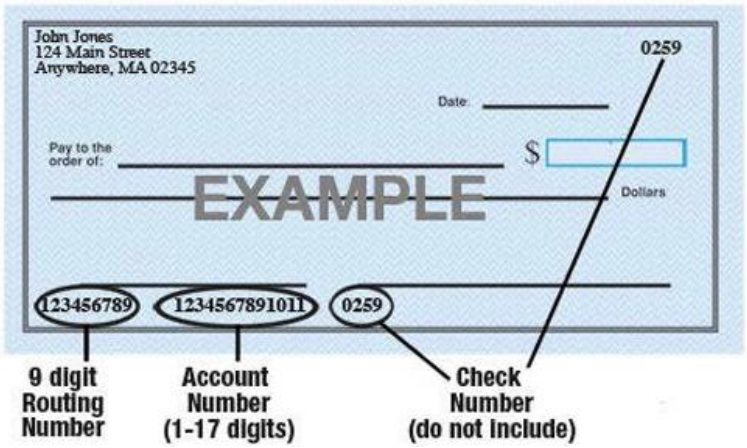
Name of Bank:_____

Routing Number (9-digits):_____

Account Number:_____

Amount: ☐ $_____ OR ☐ _____ % OR ☐ Entire Paycheck

Type of Account: ☐ Checking ☐ Savings



Please attach a voided check for each bank account to which funds should be debited. Do not use a deposit ticket routing number for direct debit as it may be different.

I am an authorized signer or otherwise have authority to act on the account identified in this statement. I attest that the above account information is correct and agree to enter into the direct deposit on behalf of said company and that the signature below is my own proper signature.

Signature:_____ Date:_____

Authorization Agreement for Direct Debit (Payment) – SAMPLE

Retain form no less than 2 years after cancellation date

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate debit entries to my (our) account. Account indicated below at the financial institution named below, hereinafter called DEPOSITORY, and to debit the same to such account. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law. This authorization is to remain in full force and effect until COMPANY has received written notification from me (or either of us) of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it.

TYPE OF BANK ACCOUNT:

☐ Checking account ☐ Savings account

☐ Business account (*check this box only if the account is a business account*)

☐ I have a Debit Filter or Debit Block on this account. Please contact me with the Company ID that I can provide my bank to allow this debit to process as authorized.

BANKING INFORMATION:

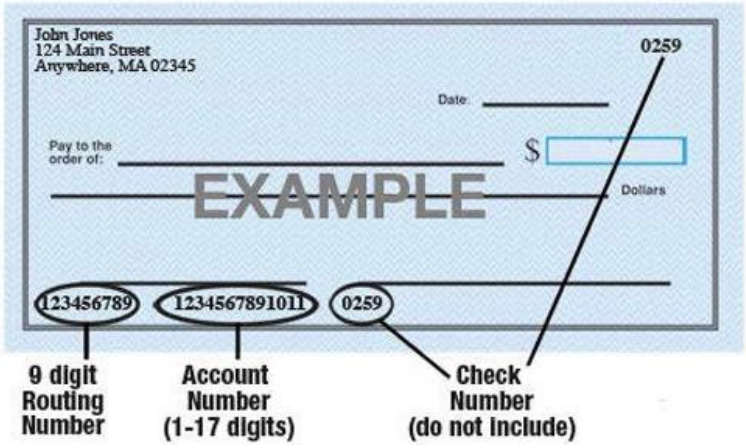
Financial Institution Name (please print): _____

Financial Institution City, State, and Zip Code: _____

Name on Account: _____

Account Number: _____ Routing Number (9-digits): _____

Effective Date of Transfer: _____ Frequency: _____ Amount: $_____



Please attach a voided check for each bank account to which funds should be deposited. Do not use a deposit ticket routing number for direct deposit as it may be different.

If monthly payment amount varies, the company must send the customer written notification of the payment amount 10 calendar days prior to the scheduled payment date (PPD debits only).

If the company changes the date on a recurring payment the company must send the customer written notification at least 7 calendar days prior to the scheduled payment date (PPD debits only).

I am an authorized signer or otherwise have authority to act on the account identified in this statement. I attest that the above account information is correct and agree to enter into the ACH direct debit on behalf of said company and that the signature is my own proper signature.

Signature: _____ Date: _____