



ACH Originator Quick Reference Guide

A guide to understanding certain rules regarding ACH transactions

The Automated Clearing House (ACH) system allows funds to be processed quickly through the use of electronic transfers. ACH transfers can be 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, and collect funds for consumer payments. ACH transfers are also utilized for annuities, corporate-to-corporate payments, dividends, interest payments, pensions, association dues, and contributions to IRAs and 401Ks.

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

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

Creating a Safer ACH Process

Amegy’s processing incorporates state-of-the-art customer fraud protection and analytics behind your company’s ACH transactions. With electronic payment fraud on the rise, our bank has a variety of tools to help your company create a safer process for originating your ACH transactions. Many of these options can be used together to suit your specific requirements.

- Establish dual controls within our online systems to help your company maintain separation of duties for creating and approving templates and for initiating and approving transactions.
- Install complimentary browser protection software, Trusteer’s Rapport. Trusteer works with your firewall and anti-virus programs, picking up where conventional security software fails. Visit our website <https://www.amegybank.com> to download or to read more information.
- Minimize the amount of funds at risk in the event of a breach by setting ACH transaction limits on users and accounts.
- Review your ACH transactions on our online system, AmegyConnect®.

Authorization

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 type of 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 5 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 laws of the United States
- Statement authorizing Originator to initiate credit or debit entries
- Account number and routing number of accounts
- Identification of account type (checking, savings, loan, etc.)
- Provisions for termination of the authorization, including any policies for automatic termination in the case of excessive returns or 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.

Prenotification Process

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 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; however, this is not required.

The prenotification transaction codes differ from other entry codes. The following chart includes common transaction codes by account and transaction type:

Account and Transaction Type	Return/NOC	Normal Entry	Prenotification
Checking Account Credit	21	22	23
Checking Account Debit	26	27	28
Savings Account Credit	31	32	33
Savings Account Debit	36	37	38
General Ledger Credit	41	42	43
General Ledger Debit	46	47	48
Loan Account Credit	51	52	53

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

ACH File Limits

An ACH exposure limit may be established for each originator. This limit is calculated based on your company's expected volume, along with credit worthiness. If an originator submits a file that causes the exposure limit to be exceeded, the file may be suspended, deleted, or require special approval for transmittal.

ACH Prefunding

Your service agreement may state that your use of the ACH module is subject to ACH Prefunding. If this is the case, to ensure that adequate funds are available for requested credits/payments, as a general rule, the Bank will debit the offset account for the full amount of your batch, two (2) days prior to processing the transactions. Insufficiently-funded batches suspend until sufficient funds become available in the funding account. If sufficient collected funds are not available before processing begins on the evening before the settlement date of the batch, the batch may not be processed. Prefunding can be used only when sending credits.

Same Day ACH

The NACHA rule provides to you the option to send same day ACH transactions to accounts at any Receiving Depository Financial Institution (RDFI). All RDFI's must receive same day ACH transactions.

The Same Day ACH Rule became effective September 23, 2016 in three phases:

- Phase 1 - **Sept. 23, 2016**: Option for same day **credits** (e.g. payroll direct deposit). Funds must be available by the end of RDFI's processing day.
- Phase 2 - **Sept. 15, 2017**: The option for same day **debits** becomes available (e.g. recurring automatic bill payments).
- Phase 3 - **March 16, 2018**: Same day funds are **available** to the recipient (e.g. payroll direct deposit) by 5:00 PM based on the RDFI's local time.

Same Day Eligibility:

- Eligible items:
 - ☑ All domestic ACH transactions up to \$25,000 (PPD, CCD, etc.)
 - ☑ Includes Prenotes, Notifications of Change (NOC), & Zero Dollar Remittance
- Ineligible items:
 - ❖ International ACH Transaction (IAT) entries
 - ❖ Entries over \$25,000

ACH transactions submitted to the Bank by the posted cutoff time, meeting the eligible items requirement and having a same day (today's date) as the Effective Entry Date will be processed as a Same Day Entry. Same Day entry fees will apply.

Please note: ACH transactions submitted to the Bank with stale or invalid Effective Entry Dates will be settled at the earliest opportunity, which could be the same day. The Bank recommends all effective dates are reviewed prior to submitting your ACH file.

ACH Deletion/Reversal

ACH Originators sometimes determine that they need to delete an entry after the transaction has been distributed. Distributed transactions can be reversed at the file, batch, or transaction level. The word “REVERSAL” must be in the Company Entry Description Field of the Batch Header Record.

NOTE: 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.

If your company uses the Direct Send/Transmission method for submitting ACH files, please refer to the NACHA Operating Rules and Guidelines - ACH Record Format Specifications for assistance with the components of your reversal file.

Submitting a Reversal/Deletion Request

Please contact Treasury Management Customer Service for assistance in processing these requests at (713) 235-8805 or treasurymanagement@amegybank.com

For same-day processing, reversal/deletion requests must be received by Amegy Bank by published bank cutoff time within five (5) business days of the settlement date.

Your company may submit reversal requests in writing using the Deletion/Reversal form. AmegyConnect® ACH users may also submit reversal requests through AmegyConnect®.

Notifications of Change (NOC)

A Notification of Change is a non-monetary transaction by which an RDFI (Receiving Depository Financial Institution) 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 could result in NACHA rules violations and associated fines.

The most common NOC reasons are listed below. A 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
C13	Addenda Format Error

Return Entries

A return entry occurs when the RDFI (receiving bank) or Receiver rejects a transaction your company has originated. Most returns are received within 48 hours of the transaction’s original settlement date and create a reversing entry to originator’s deposit account. ***Consumers are able to 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	Insufficient Funds
R02	Account Closed
R03	No Account / Unable to Locate Account
R04	Invalid Account Number
R06	Returned Per ODFI Request
R07	Authorization Revoked by Customer
R08	Payment Stopped
R09	Uncollected Funds
R10	Customer Advises Not Authorized, Improper or Ineligible
R29	Corporate Customer Advises Not Authorized

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 Reporting

Amegy Bank offers options by which your company can receive information about returned transactions.

Return Item Report delivery options include:

- Online – using AmegyConnect®
- Data Transmission - formatted in standard NACHA file format

Addenda Reporting

Electronic Data Interchange (EDI) reporting gathers addenda information from ACH entries and formats it into either a human-readable report or data file. If the Receiver of the transaction requests addenda information, your company must first include the information in an addenda record. Then, the Receiver of the transaction must obtain EDI reporting from their financial institution. Origination services are not required to enroll in addenda reporting.

If your company does not currently receive this reporting and is interested in this service, please contact Treasury Management Customer Service at (713) 235-8805 or treasurymanagement@amegybank.com.

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.

NOTE: Files submitted with a next day settlement date may not allow time for repair in the event of a problem in the file or processing.

Cutoff times are as follows:

- ACH origination **Reversal/Deletion** requests must be submitted *no later than 5:30 p.m. CT within five (5) business days* of the settlement date.
- ACH credit and debit files should be submitted before **5:30 p.m. CT and at least two days before** the effective date of the file.
- Transactions intended for **Same Day settlement** must be submitted by **12:00 PM CT**.

Holiday and Weekend Processing

“Business days” refer to days the US banking system is open for business. ACH file transfers and other online funds transfers will not be processed on days the bank is closed. Therefore, customers should ensure that settlement dates are not set for days the bank is closed. Our Bank observes all federal holidays. Federal holidays are listed below.

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

Standard Entry Class (SEC) Codes

Each ACH transaction must be accompanied by a three-character identifier referred to as a standard entry class (SEC) code. 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. The use of ARC, BOC, IAT, POP, RCK, TEL, and WEB requires an additional written agreement with the Bank.

The following chart outlines and defines the most common SEC codes being used today in the ACH network:

SEC Code	Consumer / Corporate	Definition	Debit / Credit	Return Timeframe*
ARC – Accounts Receivable Entry	Both	A single-entry debit originated based on an eligible source document provided to an Originator via the US mail or at a dropbox location.	Debit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
BOC – Back Office Conversion Entry	Both	A single-entry debit originated based on an eligible source document provided to an Originator at the point-of-purchase or manned bill payment location for subsequent conversion to an ACH transaction during back-office processing.	Debit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
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 non-monetary.	Debit or Credit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 2 calendar days
CIE – Customer Initiated Entry	Consumer	A credit entry initiated by or on behalf of the holder of a consumer account to the account of a receiver.	Credit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
COR – Notification of Change	Both	A non-monetary transaction that instructs the Originator of a transaction to change certain information before reinitiating another transaction to the same receiver (i.e., change the account number, change the truncode, etc.).	N/A	N/A
CTX – Corporate Trade Exchange Entry	Corporate	An entry originated by an organization to or from the account of that organization or another organization. This transaction may be accompanied by up to 9,999 lines of payment-related addenda information. CTX is most commonly used when multiple lines of addenda are needed.	Debit or Credit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 2 calendar days
IAT – International ACH Transaction**	Both	A debit or credit entry that is part of a payment transaction involving a financial agency’s office that is not located in the territorial jurisdiction of the United States.	Debit or Credit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
POP – Point of Purchase Entry	Both	A single-entry debit originated based on an eligible source document provided in-person to an Originator at the point-of-purchase or manned bill payment location for conversion to an ACH transaction at the point-of-purchase or manned bill payment location.	Debit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days

ACH Origination Guide

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
RCK – Re-presented Check Entry	Both	A debit entry used to collect the amount of a check returned for insufficient or uncollected funds.	Debit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
TEL – Telephone Initiated Entry	Both	A debit entry originated based on an oral authorization provided to the Originator by a receiver via the telephone.	Debit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
WEB – Internet/Mobile Initiated Entry	Consumer	A debit entry originated based on (1) an authorization that is communicated, other than by an oral communication, from the receiver to the Originator via the Internet or a wireless network; or (2) any form of authorization if the receiver’s instruction for the initiation of the individual debit entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a wireless network.	Debit	<i>Administrative:</i> 2 banking days <i>Unauthorized:</i> 60 calendar days
XCK – Destroyed Check Entry	Both	A debit entry initiated to collect an eligible item that is contained within a cash letter that has been lost, destroyed, or is otherwise unavailable to the originating bank.	Debit	<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.*

***International ACH Transactions (IAT) are possible; however, they must be kept separate from domestic transactions. For a complete list of IAT countries, please contact your Treasury Management Customer Support. Both credit and debit transactions can be sent to Canada. The processing requirements and schedules for these transactions differ from normal domestic transactions. Please contact your Treasury Management representative or Relationship Manager for more information.*

Additional Resources

To obtain a copy of *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 the Internet at www.achrulesonline.org. The search features of the online edition can be very helpful, especially to those who are unfamiliar with the rules. Resources are also available online at Western Payments Alliance <http://www.wespay.org>.

The materials available in this guide are for general informational purposes only and not for the purpose of providing specific instruction or legal advice. You are solely responsible for compliance with, and interpretation of, all NACHA rules, and should contact your attorney to obtain advice with respect to any particular issue or problem. You are also reminded that you are solely responsible for compliance with any agreements with the bank, including but not limited to, the Treasury Management Master Services Agreement.