ACH for Operations

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Disclaimer

AAP Accredited ACH Professional

APRP Accredited Payments Risk Professional

Nacha Direct Member

Quick Conversation About ACH

Numbers

Legal Framework

The Players

Transaction/Exception Processing

Government Payments

Numbers

U. S. Payments *(annual)*

Checks	ACH	Debit Cards	Cash
=	=	=	=
11.2 billion	31.5 billion	106 billion	19% in person consumer payments

2023 ACH NETWORK VOLUME AND VALUE

31.5B Payments Totaling $80.1T

2023 VOLUME

31.5B
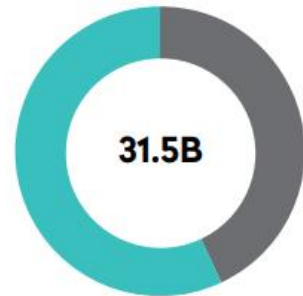
- 17.7* Billion Debits
- 13.7* Billion Credits

*Totals do not add due to rounding

2023 VALUE

$80.1T
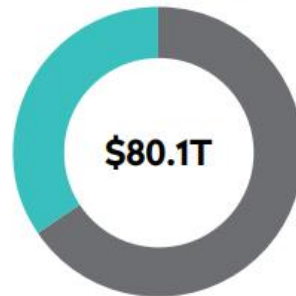
- $27.4 Trillion Debits
- $52.7 Trillion Credits

VOLUME +4.8% From 2022

VALUE +4.4% From 2022

126M Think about it: The ACH Network averaged more than 126 million payments per day.

94 Think about it: The total volume of 2023's ACH payments translates to approximately 94 payments per American.

Source: www.nacha.org

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How We Got Here

1973-1992

Formation of local ACHs
Formation of NACHA
1978 First Inter-Regional ACH
Consumer PPD
2 Corporate
1992
2 Billion entries

1992-2003

All Electronic ACH
Presentment of Check (RCK)
TEL initiated
WEB (Internet)
2002
6 billion entries

2003-2024

Technology – Internet
Check Conversion
EFT Mandate
29 billion entries
60% debits

The ACH Network Today

Evolving Applications
- Internet / Mobile / Voice
- Bill Payment
- Check Conversion
- Telephone Initiated
- International
- Faster Payments

Consumer Applications
- Direct Deposit
- Direct Payment
- Bill Payment

Corporate Applications
- Cash Concentration
- Disbursement Funding
- EDI Payments
- Vendor Payments

Settlement
- ATM/Debit Card
- Credit Card
- EBT

Government Applications
- Entitlements, Salary, Expense
- Taxes
- Vendor Payments
- Non-Tax Collections

ACH

ACH Network Fundamentals

Nationwide Financial Network → **Set of Rules and Formats for exchange of entries** → **Owned by no particular entity**

Mid 1970's, check volume growth → **Local ACH Associations formed first** →

1974 NACHA formed
- Promulgates the ACH Rules
- Provides "Voice" for the ACH
- Application development
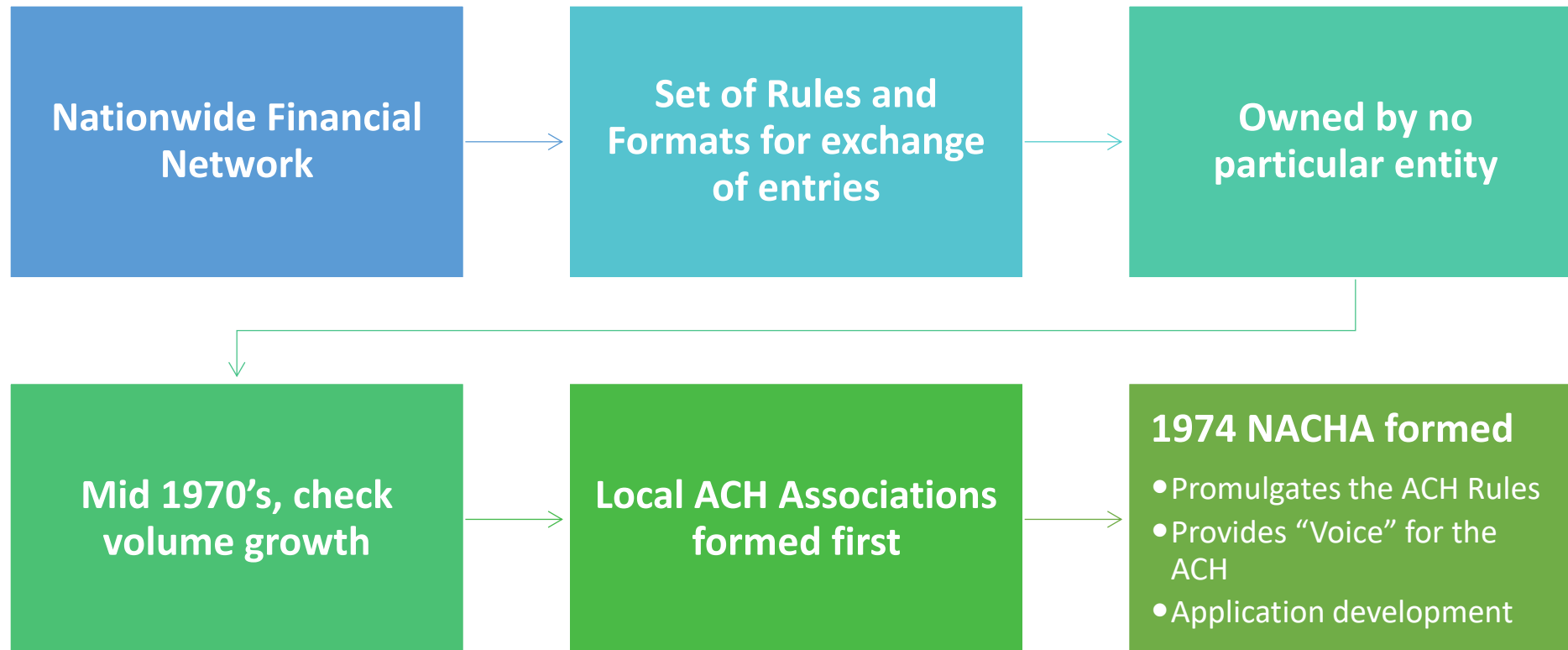
Foundation

- **Batch payment system**
  - No real-time authorization
  - Same Day and Next-day payment settlement
- Traditionally used for recurring consumer direct deposits and payments, corporate and government payments
- ACH now used extensively for one-time payments

Laws, Rules, Regulations

- **Nacha Operating Rules**
- Federal Government Rules – 31 CFR Part 210
- Regulation E
- UCC 4A
- OFAC, AML
- FRB Operating Circulars
- State Contract Laws
- Agreements
- Authorizations
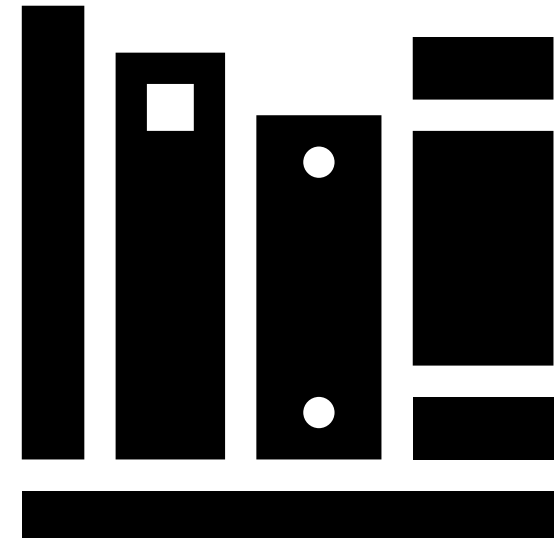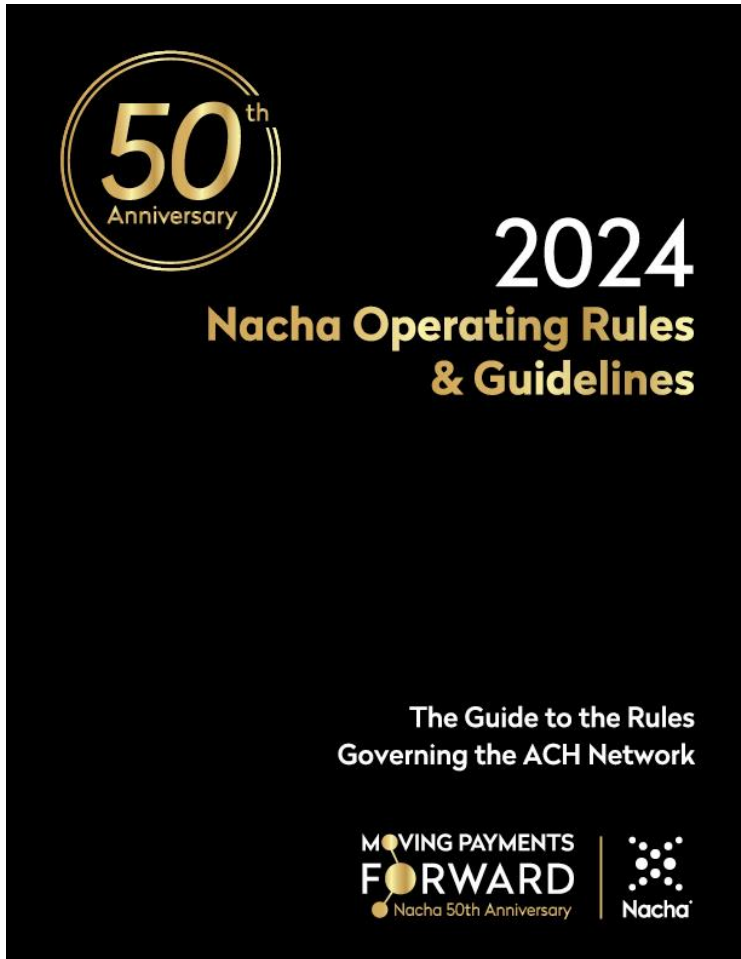
The Rule Book

- 2024 Nacha Operating Rules
  - **www.nachaoperatingrulesonline.org**
    - Access to Rules & supplements
    - Printing, bookmarking
  - Revisions Section (2023)
    - Rules passed
    - Highlighted text =
      - New or revised Rule (2024)

Using the Nacha Operating Rule Book

- **Take Advantage of the Resources in the "Book"**
  - Any word that is **Capitalized** is defined in **Article Eight**
  - **Appendix Four** – Return Reason Codes
    - Type, timing, written statement
  - **Guidelines Pages** charts, samples, etc
    - Written Statement of Unauthorized Debit

Rules Layout in the Book

- Article 1 – General Rules
- Article 2 – Rights and Responsibilities of ODFIs, their Originators and Third-Party Senders
- Article 3 - Rights and Responsibilities of RDFIs and their Receivers
- Article 4 - Rights and Responsibilities of ACH Operators
- Article 5 - Rights and Responsibilities of Gateways for IAT Entries
- Article 6 - Rights and Responsibilities of the National Association
- Article 7 – Settlement
- **Article 8 – Definition of Terms**

- Appendix One – File Exchange Specifications
- Appendix Two – Specifications for Data Acceptance by ACH Operators
- Appendix Three – ACH Record Format Specifications
- Appendix Four – Return Entries
- Appendix Five – Notifications of Change
- Appendix Six – Acknowledgement Entries
- Appendix Seven – Compensation Rules
- Appendix Eight – Arbitration Procedures
- Appendix Nine – Rules Enforcement
- Appendix Ten – Determination and Review of Same Day Entry Fee

www.frbservices.org

Your Routing Number in the **Contact Box**

Green Book – Federal ACH Payments

https://www.fiscal.treasury.gov/reference-guidance/green-book/

WHAT IT IS, WHAT IT IS NOT

- **What is an ACH**
  - Electronic Transaction
  - Debit or Credit
  - Checking or Savings
  - Consumer / Corporate
  - Commercial / Government
  - Recurring or One-time payment
  - Authorized

- **What is not an ACH**
  - Checks & Check 21
  - Preauthorized Paper Draft Items/Remotely Created Checks
  - Wire Transfers
  - Credit Card
  - Debit Card (cards you issue from your financial institution)

ACH Transaction Flow

Receiver gives authorization

Receiver
Acct holder receiving the transaction

ACH Operator
Federal Reserve & EPN

Originator
Entity that initiates or offers the transaction

RDFI
Institution that receives transaction on behalf of acct holder

ODFI
Institution that puts the transactions into the Network
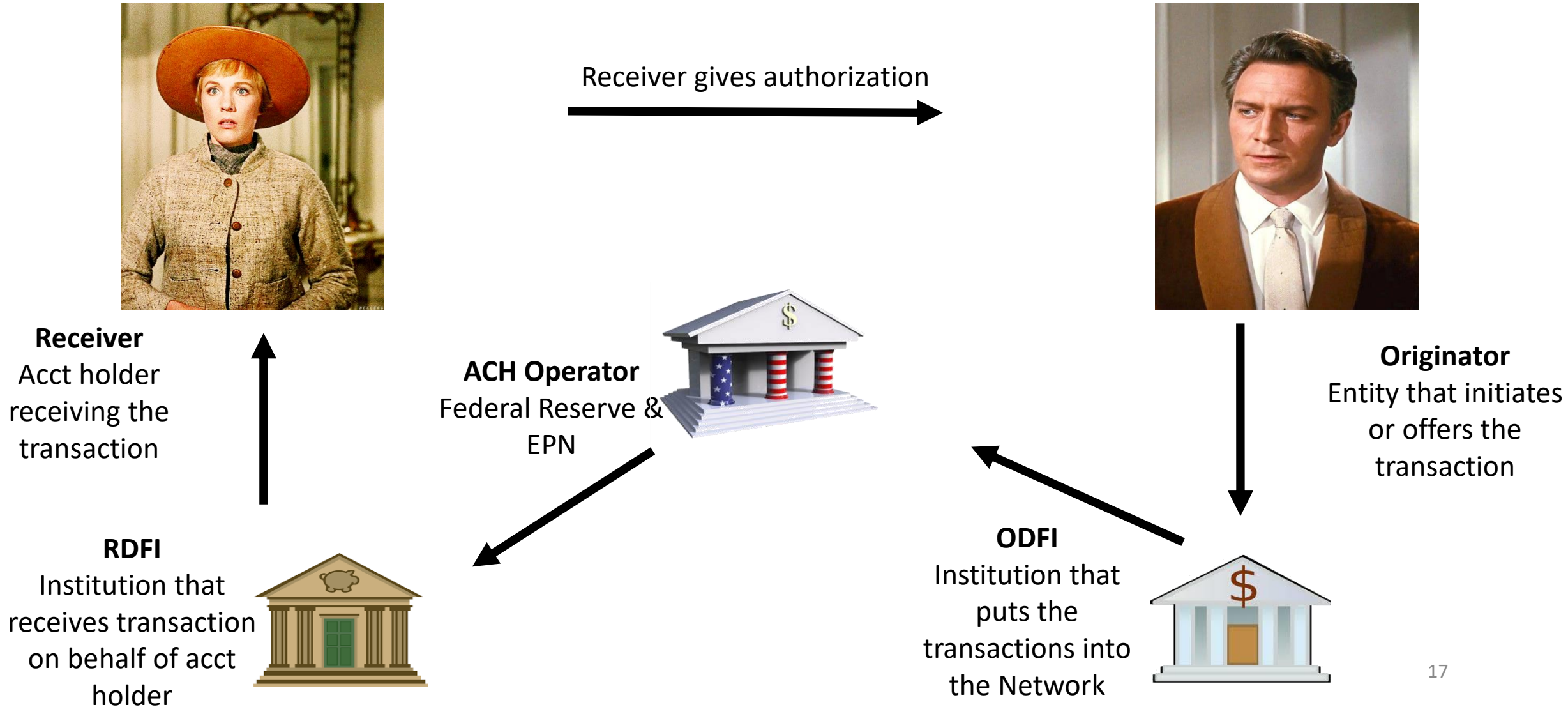
Transaction Types

PPD	TEL	WEB
• The First Type (1975) • Consumer • Generally signed authorization • Debits or Credits	• Authorized over the Phone • Consumer provides Account Information	• Consumer on the Internet • Provides Account Information • Also for "Mobile" • WEB Credit for P2P • Hey "Alexa" pay my bill

60 calendar day right to return

✓ Transaction Types

ARC	BOC	POP	RCK
• Check written • Notice on Bill • Sent by Mail • Check # on Statement • Ex: Verizon	• Check Written in Store • Notice Provided • Check # on Statement • Ex: Target	• Check Written in Store • Check Voided • Written Signature • Check # on Statement • Ex: Walmart	• Check Written In Store • Check presented & returned NSF • Check # on Statement • REDEPCHECK

60 calendar day right to return

Transaction Types

POS

- Card Issued by Originator
- Example: Target, Kwik Trip
- When swiped ACH debit sent
- Risk – Originator does not know if funds are available

IAT

- Consumer & Corporate
- Originator determines if International
- Many issued by PayPal
- Requires additional handling by your staff

60 calendar day right to return

Transaction Types

- **Corporate**
  - **CCD** – Corporate Credit or Debit (1 addenda)
    - receivables/payables – agreement
  - **CTX** - Corporate Trade Exchange (up to 9,999 addenda)
    - receivables/payables – agreement - EDI
    - CCD + and CTX may be processed with no payment, information only.
  - **CIE** – Customer Initiated Entry (Bill Payment)
  - **IAT – International ACH Entry**
    - Determined by Originator

Corporate to Consumer

- Debit entries (PPD, POP, WEB, IAT)
  - In writing, clear and conspicuous terms, signed or similarly authenticated, Revocation language
- Credit entries
  - May be provided orally or by other non-written means
- Notification only for ARC,RCK, BOC
- Orally for TEL

Authorization

Corporate to Corporate

- CCD, CTX, IAT
- Not subject to Regulation E
- Subject to UCC 4A and contract law
- ACH requirement
  - agreement between Originator and Receiver
  - Binds both Originator and Receiver to Rules

Originator Obligations

- **Originator**- generally the company/entity offering ACH services
  - Written agreement with ODFI
  - Comply with Applicable Rules
  - Obtain authorization from Receiver
  - Maintain Consumer Authorizations 2 years from termination
  - Respond to Returned Entries and NOC's

ODFI Obligations

- **ODFI** - Originating Depository Financial Institution - delivers (originates) the transactions into the ACH Network
  - Agreement with Originator
  - Establish Credit Exposure Limits
  - Provides Returns and NOC's to the Originator
  - Maintain ACH records for 6 years
  - Audit once every year
  - Risk Assessment
  - **Full Warranty for all entries!!!!!!!**

- **ACH Operator** – processes, edits, sorts, distributes the ACH entries
  - **Inserts Settlement Date**
  - Calculate Settlement Amounts
  - Reject Batches and Files not formatted correctly
  - Maintain Record of transactions for 1 year

ACH Operator (FRB and EPN)

RDFI - Receiving Depository Financial Institution - the FI that receives the ACH transaction on behalf of their account holder

- **May rely on Account # only for posting**
- Make Funds Available
- Provide Periodic Statements
- Return Transactions not Posted
- Verify Prenote Transactions
- Maintain Records for 6 Years
- Audit once every year
- Risk Assessment

RDFI Obligations

Receiver (Account Holder) Obligations

- **RECEIVER**- is the account holder and recipient of the ACH transaction

- Consumer or Corporate

  - Authorizes Payments (credits or debits)
  - Responsibility to Cancel Authorization
  - Monitor Account Statements, Report Errors

File   Edit   Format   View   Help

```
101 051000033 0220000461110131039A094101Federal Reserve Bank    Main Bank
5200MACHA BILLING                              1521051341CCDMACHA FEES       111031       1022000040000001
6270311006360001 2345              0000032942MACHA MFI 00102The First National Ban  0022000040023413
6470313187457318 5732              0000118593MACHA MFI 00104Traditional Bank         0022000040023414
6270520001132244 55                0000143245MACHA MFI 00106Main Bank               0022000040023415
647052007730423000000086732100 00023556MACHA MFI 00108Friendly Bank           0022000040023416
6470520017727722 66                0000081245MACHA MFI 00109Bank of Marylan         0022000040023417
6270520001135556 6698              0000004912MACHA MFI 00110Community Bank          0022000040023418
6270520802569999999999999999 0000009112MACHA MFI 00111Your Federal Credi      0022000040023419
820000000700322502380000004136050000000000001521051341                           022000040000001
900000100002000000070032250238000000413605000000000000
9999999999999999999999999999999999999999999999999999999999999999999999999999
9999999999999999999999999999999999999999999999999999999999999999999999999999
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Notes:

Account Numbers are not real!
Dollar Amounts are not real!

This is a file with a single batch that has 7 Entries and 0 Addenda Records
```

What's Really Cool

31.5 billion entries like this

Each ACH Record has 94 characters

ACH File Format
- File Header, Company Batch Header
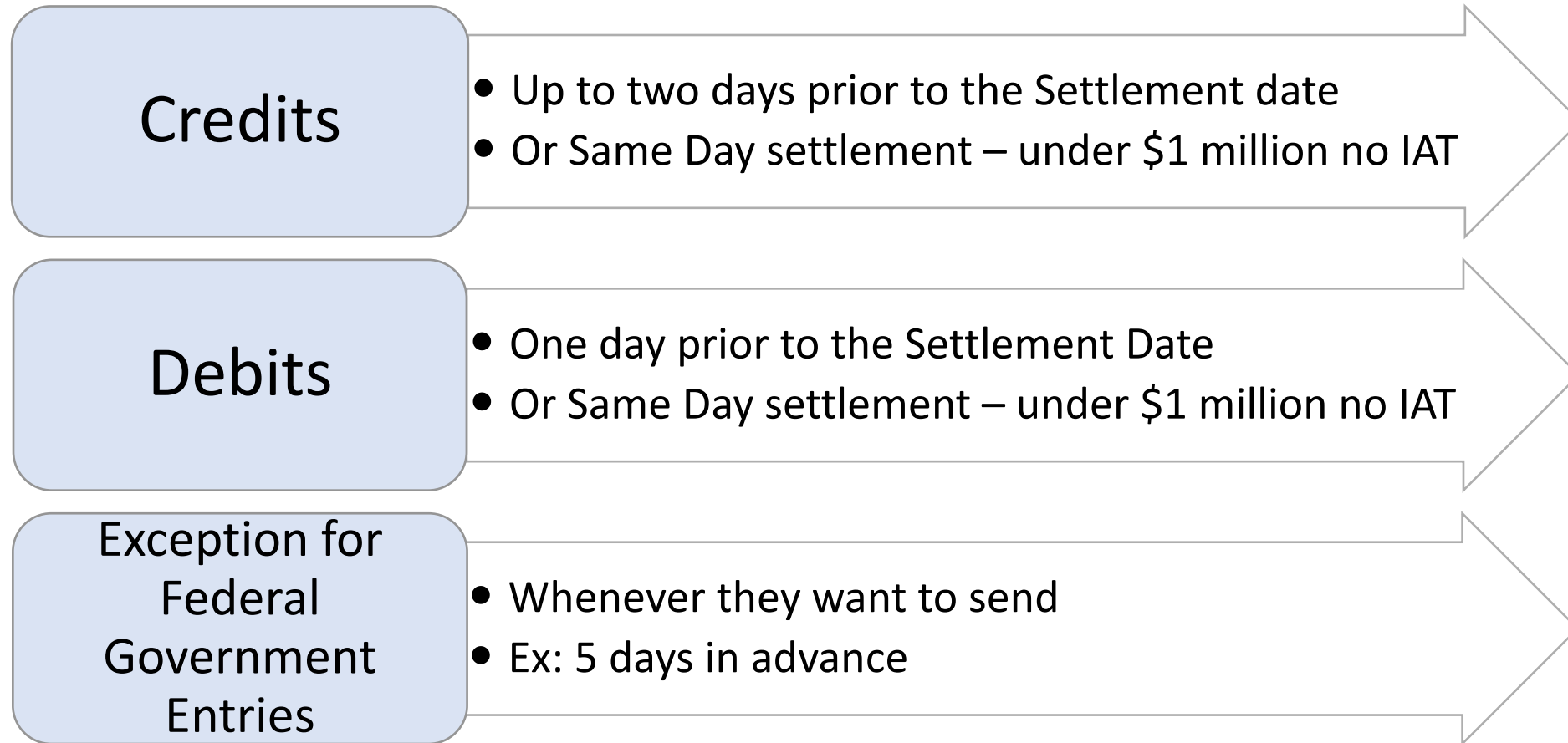- Entry Detail, Addenda
- Company Batch Control, File Control

Fields are Mandatory (M) Required (R) Optional (O)
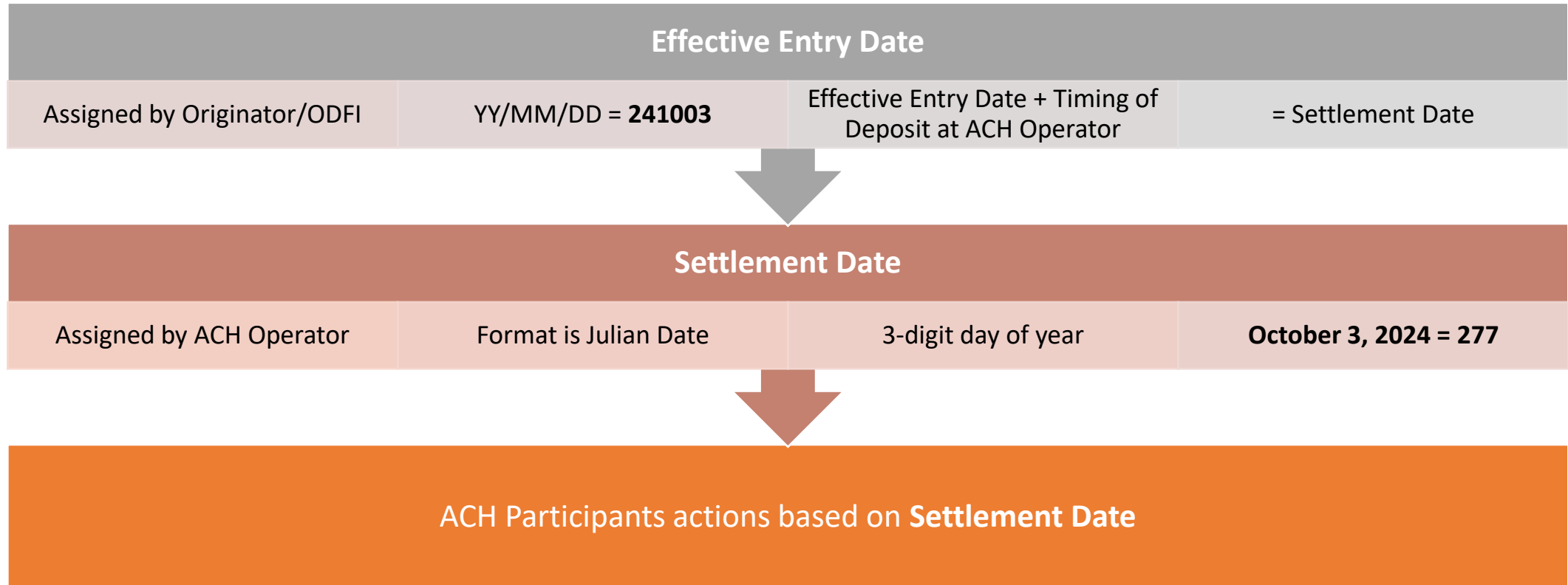
Each Entry has a 15 digit Trace Number

First 8 digits of trace number are the first 8 digits of the ODFI Routing Number
- www.frbservices.org

Delivery of ACH Entries to the Network

Credits
- Up to two days prior to the Settlement date
- Or Same Day settlement – under $1 million no IAT

Debits
- One day prior to the Settlement Date
- Or Same Day settlement – under $1 million no IAT

Exception for Federal Government Entries
- Whenever they want to send
- Ex: 5 days in advance

Dates in the ACH

Effective Entry Date			
Assigned by Originator/ODFI	YY/MM/DD = **241003**	Effective Entry Date + Timing of Deposit at ACH Operator	= Settlement Date

Settlement Date			
Assigned by ACH Operator	Format is Julian Date	3-digit day of year	**October 3, 2024 = 277**

ACH Participants actions based on **Settlement Date**

Posting & Funds Availability

- **Posting / Funds Availability**
  - Credits – on Settlement Date
    - may post prior
  - Debits – on Settlement Date
    - cannot post prior
  - Credits – Entries that are made available by the ACH Operator by 5 pm on the banking day prior to the settlement date must be made available for cash withdrawal by **9:00 am** on the Settlement date
    - Same Day ACH Credits = 1:30 pm, 5 pm & end of day funds availability

$ $

Settlement in the ACH

- Batch processing
  - 8:30 am – Funds available by 9 am
  - Entries received prior day(s)
- Same Day ACH
  - 3 settlements
    - 1:00 pm, 5:00 pm, 6:00 pm
- Results
  - 4 settlements each day for ACH
    - 8:30 am, 1:00 pm, 5:00 pm, 6:00 pm

The ACH is open 3:01 am – 2:15 am Monday thru Friday

File Processing & Settlement by the ACH Operators is based on Eastern Time

Same Day ACH

Functionality	Same Day ACH Processing
Transaction Eligibility ($1 million limit, IAT not eligible)	Credits and debits
Same Day ACH Processing Deadlines	10:30 AM ET 2:45 PM ET 4:45 PM ET
Settlement Time(s)	1:00 PM ET 5:00 PM ET 6:00 PM ET
ACH Credit Funds Availability	1:30 PM RDFI local 5:00 PM RDFI local End of Day local

Pre-notes & NOC's

PRENOTIFICATION

- Non-Dollar Entry - (test transaction)
- **Optional** for Originators
- RDFI MUST verify the validity of account # **only**
- Incorrect the RDFI must Return or send a Notification of Change (NOC)
- Live entry may be sent 3 days after prenote if not returned by RDFI

NOTIFICATION OF CHANGE (COR)

- RDFI must initiate NOC within **2** banking days following the settlement date of the original entry *(except for merger)*
- Originator must correct prior to next entry or within **6** banking days, whichever is later
  - Except if NOC is for Single Entry – they can then ignore
  - *If NOC in response to Prenote – must correct before live entry*
- Originator may rely on corrected information
- No requirement to contact account holder

Returning an ACH Entry

An RDFI may return any entry, however an entry may not be returned simply because it is a credit, debit, or zero dollar entry.

Appendix Four – Return Reason Codes

Available to ODFI no later than the opening of business on the second banking day following the settlement date

Data returned as received (with some minor changes)

ACH "Unauthorized" – Cheat Sheet

Consumer Account + Consumer Entry PPD/TEL/WEB etc	Consumer Account + Corporate Entry CCD/CTX	Corporate Account + Corporate Entry CCD/CTX	Corporate Account + Consumer Entry PPD/TEL/WEB etc
60 days	60 days	2 days	60 days
Written Statement	Written Statement	No Written Statement	Written Statement
R07/R10/R11 etc	Special Code R05	R29	R10

Stop Payments!!!

- Use Stop Payment when
  - Consumer or commercial account
  - Notice either verbal or written is received by the RDFI prior to the payment posting
  - To Stop the entry BEFORE it posts
  - To stop a single transaction
  OR
  - To stop all future entries

Authorization Revoked

[Financial Institution Name]
WRITTEN STATEMENT OF UNAUTHORIZED DEBIT (ACH)

Receiver's Name _____

Receiver's Account Number _____

Date and Amount of Debit ___/___/___ $_____ Date and Amount of Debit ___/___/___ $_____

Date and Amount of Debit ___/___/___ $_____ Date and Amount of Debit ___/___/___ $_____

Originator/Company Debiting Account _____
Note: *This form can only be used for one Originator/Company (Not Multiple Originators)*

I, (the undersigned) state that I have examined my statement (or other notification) from *[Financial Institution name]* indicating that the ACH debit entry/entries listed above was charged to my account and that the entry was unauthorized, improper, or incomplete and the following is the reason for this conclusion:

Section I. I further state that: (check one)
☐ **Unauthorized – (R10; R05)**
I did not authorize the Company listed above to debit my account.
☐ **I Authorized but –**
I authorized the Company listed above to originate the specified debit entry to my account, *but:*
   ☐ (R11) The amount debited is different than the amount I authorized. The amount I authorized is $_____, or;
   ☐ (R11) The debit was made to my account on a date different than the date on which I authorized the debit to occur. I authorized the debit to be made to my account on _____ (MM/DD/YY), or;
   ☐ (R11) The amount debited was not credited to the agreed upon payee. The name of the payee to be credited was: _____.
   ☐ (R11) The entry was improperly reinitiated.

☐ **Authorization Revoked – (R07) [PPD] [TEL] [WEB] [IAT] & [POS]**
I authorized the company listed above to originate the specified debit entry to my account, but on _____ (MM/DD/YY) I revoked that authorization by notifying the Company.

- Authorization Revoked
  - PPD, TEL, WEB, & IAT entries
  - Customer who has previously authorized entries has revoked authorization with the Originator
  - Written Statement of Unauthorized Debit is required
  - 60 day return time frame

Written Statement of Unauthorized Debit (WSUD)

Check(s) Converted to ACH are improper due to the following reason –
☐ (R11, R51) I was not provided the required notice. [ARC] [BOC] [POP] & [RCK]

☐ (R10, R51) The signatures on the item are not authentic or authorized, and/or the item has been altered. [ARC] [BOC] [POP] & [RCK]

☐ (R11, R51) The amount of the entry is different from the amount of the check. [ARC] [BOC] [POP] & [RCK]

☐ (R11, R51) The item is ineligible to be initiated as an ACH entry. [ARC] [BOC] [POP] & [RCK]

☐ (R37, R53) Both the check and the ACH entry posted to my account. [ARC] [BOC] [POP] & [RCK]

Section II. (For Corporate Accounts Only)
☐ **Corporate customer advises unauthorized (24 hour return time frame)** – (R29) [Entry to Corporate Account]
I did not authorize the above listed Company to originate the specified debit entry to my account at this financial institution.

I further state that the debit transaction was not originated with fraudulent intent by me or by any person acting in concert with me, I am an authorized signer or have authority to act on this account, and the signature below is my own proper signature. I certify [under penalty of perjury] that the foregoing is true and correct.

Date: _____   Signature _____

Rev. 4/1/20

To Be Used for Contested Consumer Transactions That

- Were Never Authorized or Not As Authorized
- Incomplete transaction
- Revoked or Cancelled
- Invalid POP, ARC, BOC, WEB or RCK Transactions
- CCD transaction posted to a Consumer account

Written Statement of Unauthorized Debit (WSUD)

Check(s) Converted to ACH are improper due to the following reason –
- ☐ (R11, R51) I was not provided the required notice. [ARC] [BOC] [POP] & [RCK]
- ☐ (R10, R51) The signatures on the item are not authentic or authorized, and/or the item has been altered. [ARC] [BOC] [POP] & [RCK]
- ☐ (R11, R51) The amount of the entry is different from the amount of the check. [ARC] [BOC] [POP] & [RCK]
- ☐ (R11, R51) The item is ineligible to be initiated as an ACH entry. [ARC] [BOC] [POP] & [RCK]
- ☐ (R37, R53) Both the check and the ACH entry posted to my account. [ARC] [BOC] [POP] & [RCK]

Section II. (For Corporate Accounts Only)
- ☐ Corporate customer advises unauthorized (<u>24 hour</u> return time frame) – (R29) [Entry to Corporate Account]
  I did not authorize the above listed Company to originate the specified debit entry to my account at this financial institution.

I further state that the debit transaction was not originated with fraudulent intent by me or by any person acting in concert with me, I am an authorized signer or have authority to act on this account, and the signature below is my own proper signature. I certify [under penalty of perjury] that the foregoing is true and correct.

Date: _____   Signature _____

Rev. 4/1/20

- As of Oct 1 - Written Statement must be signed and dated on or after date on which the entry is presented
- More than one entry from a specific Originator may be on one form
  - All details for each entry on each form
- **NOT to be used for stop payments**

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Oh No! Should Not Have Sent Entry

- **Reversals**
  - Duplicate or Erroneous Payment
  - Identified by "REVERSAL" in description
  - Initiated within 5 days of original entry
  - Receiver does not have to provide written authorization
  - ODFI indemnifies RDFI
  - If funds are not available, RDFI returns **NSF, Closed, ETC**
  - ODFI contacts RDFI to request return
    - RDFI not required to honor request

No Guarantee of Recovery

- Federal Government Payments
  - Social Security 4 times per month
    - 3rd of the month
    - All new Recipients since 1998 on cycled days

Birth Date	Payment Day
1st - 10th	Second Wednesday
11th - 20th	Third Wednesday
21st - 31st	Fourth Wednesday

Payments Subject to Reclamations

Social Security benefit or disability (SSA)

Supplemental Security Income (SSI)

Black Lung disability (Dept. of Labor)

Military and Coast Guard retirement, including allotments from military retired pay (DFAS)

Civil Service annuity (OPM)

Veterans benefits (VA)
Railroad retirement annuity (RRB)

Central Intelligence Agency annuity (CIA)

Workers' compensation (FECA) Longshore and Harbor Workers'

Compensation Act (Dept. of Labor)

Any other Federal retirement or annuity

Payments NOT Subject to Reclamations

Federal salary, allotments, and travel payments

U.S. savings bond payments

Vendor/ miscellaneous payments

IRS tax refunds

Discretionary Allotments

Public Debt payments (TreasuryDirect)

Other types of Federal ACH payments

Knowledge of Death

DNE (Death Notification Entry)

Notice of Reclamation

Contact from or Reference to an Estate

Reference from Probate Court, Funeral Director or Letters of Testamentary

Oral or Written report of death

Personal awareness by staff

Obtained by inquiry by RDFI

Knowledge Check

- Beneficiary (recipient) MUST be alive on payment date to keep the funds

- Let's test your knowledge – the Date of Death is April 1
  - To keep or Return?
    - SSA Payment Rec'd April 1
    - SSA Payment Rec'd March 30
    - SSI Payment Rec'd April 2
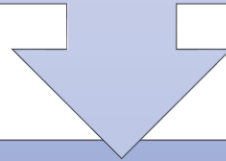   - **IRS Tax refund received May 2

Continuing Education Credits

ACH for Operations

October 3, 2024

This session is worth 1.8 credits

Payments – Its What We Do

Macha/PAR- Everything Payments, Everywhere

HELP DESK

Phone: 262-345-1245 410-859-0090	Toll Free: 800-453-1843	Fax: 262-345-1246	info@macha.org education@macha.org