



Member FDIC

ACH ORIGINATION Quick Reference Guide

The following information has been provided so that you can become familiar with the ACH Operating Rules. This quick reference guide was developed to give you an overview of important information you should be aware of as an originator of ACH transactions.

GENERAL

- 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
- ACH is capable of crediting or debiting checking or savings accounts, loans and general ledgers
- Most banks and credit unions receive ACH entries
- An ACH Originator is any entity or person that creates an ACH transaction
- As of March 2010, ACH stop payments no longer have expiration dates

GOVERNING RULES AND AGREEMENTS

You are required to abide by multiple rules and agreements including, but not limited to, the following when submitting ACH files and transactions.

- NACHA Operating Rules (www.nacha.org)
- Regulation E (for consumer entries)
- UCC4A (for corporate credits)
- First State Bank Deposit Account Agreement
- First State Bank ACH Agreement
- Bank/Corporate Agreements
- Customer Authorizations

ORIGINATOR RESPONSIBILITIES

- Obtain the proper authorizations – dependent on transaction type – and retain authorizations for two years past revocation
- Provide authorizations to the bank within 5 days if requested
- Protect the banking information received
- Send entries on the proper date
- Make necessary changes to payee account information within six banking days when notified by First State Bank
- Cease subsequent entries when appropriate
- All payees must be verified against the Office of Foreign Assets Control (OFAC)
- Ensure your computer and you are protected by following the guidelines listed in the First State Bank Access Agreement ACH Addendum

DIRECT DEPOSIT PAYROLL AUTHORIZATIONS (CONSUMERS)

- Neither ACH rules, nor Regulation E, require an authorization for ACH credits or reversals.
- First State Bank recommends you use direct deposit authorization forms that allow the company to debit the employee's account for adjustments. The forms may also be used to collect the proper employee account information.
- Verify that the routing number is a valid ACH participant
- The most common SEC code for direct deposit is PPD

CONSUMER DEBIT AUTHORIZATIONS

- For consumers, an authorization to debit his/her account must be in writing or "similarly authenticated"
- The most common SEC code for consumer debits is PPD

CORPORATE AUTHORIZATIONS

- For companies, there must be an agreement between the two parties, but rules do not define what business practices constitute agreements
- The most common SEC code for corporate entries is CCD (debit and credit)

CHANGING DATE OR AMOUNT OF DEBITS

- ACH Rules requires you notify the account holders of any changes in date or amount debited under the following circumstances:
 - 7 calendar days notice for a change of date (consumer and corporate)
 - 10 calendar days notice for a change in amount (consumer only)
- Sending the notice via U.S. Mail is acceptable

ACH PRENOTES

- Prenotes are zero dollar entries that precede the first live entry. The purpose of a prenote is to verify account information.
- Prenotes are optional; however, if sent, the prenote must precede the first live entry by at least three banking days.
- The Receiving Bank is not required to validate the name of the payee on the prenote, although many do; they are only required to check the account number. Understand there is still a risk if the subsequent entry debits or credits the wrong account (this is true for all originations, not just prenotes).

NOTICE OF CHANGE

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting that future entries contain correct information. ACH Rules requires you to make the change within six banking days of receiving the information or before the next entry is sent.
- The Receiving Bank warrants that the information they provide is correct.
- First State Bank will notify you of any NOCs received on your behalf.

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 the banking network. First State Bank recommends that 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 applicable ACH return rules.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must get a signed Written Statement of Unauthorized Debit from the Account holder. You may obtain a copy of that statement by requesting through First State Bank.
- You may re-initiate a debit entry up to two times if you receive a return entry of "NSF" or "Uncollected Funds". This give the Originator a total of three attempts at debiting an account.
- A "Stop Payment" return may be re-initiated only if you receive approval from the payee to re-send the item.
- It is a violation of ACH Rules to re-initiate the debit entry if a return is received for any other reason.

REVERSALS

- Reversals may only be made for the following three conditions: 1) wrong dollar amount, 2) wrong account, or 3) duplicate transaction.
- If a reversing entry must be made, please contact First State Bank for instructions.
- The reversing entry must be for the full amount, must be sent within five banking days of original entry and within 24 hours of discovering the error.
- For wrong amount or wrong account reversing entries, a correcting entry must also be sent.
- 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 a reversing entry debits his/her account. However, a payee does not need to authorize the reversing debit.

OFAC

- You are required to check payees against the OFAC SDN list at www.treas.gov/offices/enforcement/OFAC
- The Office of Foreign Asset Control (OFAC) lists countries, groups and individuals that U.S. companies are not allowed to send funds to or receive funds from.
- First State Bank must inform every customer that it is against the law to send debit or credit entries to OFAC blocked entities.

For more information call BJ Cooley at 601-671-2062 or 866-408-3582.