



UMACHA

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# ACH Guide for Originators - Basic

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UMACHA – Upper Midwest ACH Association

7100 Northland Cir, Suite 402

Brooklyn Park, MN 55428

Phone: (800) 348-3692

## 2025 ACH Guide for Originators - Basic

The purpose of this guide is to provide a high-level, easy to comprehend understanding of the *Nacha Operating Rules & Guidelines* for companies Originating ACH transactions. Understanding the Rules is important because violations can incur hefty fines. A strong understanding of the basics can also help streamline your ACH Origination processes and procedures.

A free version of the ACH Rules can be found on Nacha's website, [www.nachaoperatingrulesonline.org](http://www.nachaoperatingrulesonline.org). You may also purchase the Nacha Operating Rules & Guidelines in multiple formats (physical book, online access, or digital access) through UMACHA's website, [www.UMACHA.org](http://www.UMACHA.org).

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UMACHA, 7100 Northland Circle, Suite 402, Brooklyn Park, MN 55428.

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# ACH Network Basics

## Key Terms

### **ACH**

The Automated Clearing House. An electronic funds transfer system that provides for the processing and settling of debit and credit Entries for financial institutions.

### **ACH Operator**

There are two ACH Operators within the United States. The first is the Federal Reserve Bank, and the second is The Clearing House through their Electronic Payments Network (EPN), which is privately owned. The ACH Operator is an entity that acts as a central facility for the clearing, delivery, and settlement of Entries between or among Participating Originating Depository Financial Institutions (ODFI) and Receiving Depository Financial Institutions (RDFI).

### **Nacha**

The National Automated Clearing House Association creates and manages the Rules and Guidelines of the ACH Network.

### **Nacha Operating Rules & Guidelines**

The Rules and Guidelines that govern the ACH Network. All Originators must comply with the *Nacha Operating Rules & Guidelines*. Violations of the Nacha Operating Rules may incur fines.

### **Originator**

An Originator is typically a business that creates transactions (Entries) within the ACH Network. These could include transactions such as payroll, rent, or dues, etc.

### **Third-Party Sender (TPS)**

A type of Third-Party Service Provider that acts as an intermediary in transmitting Entries between an Originator and an ODFI. A Third-Party Sender acts on behalf of an Originator or another Third-Party Sender. A Third-Party Sender is never considered the Originator for Entries it transmits on behalf of another Organization; however, it may be an Originator of other Entries initiated on its own behalf.

### **Originating Depository Financial Institution (ODFI)**

A Financial Institution with whom the Originator has an agreement to submit ACH transactions to (i.e., your financial institution).

### **Receiving Depository Financial Institution (RDFI)**

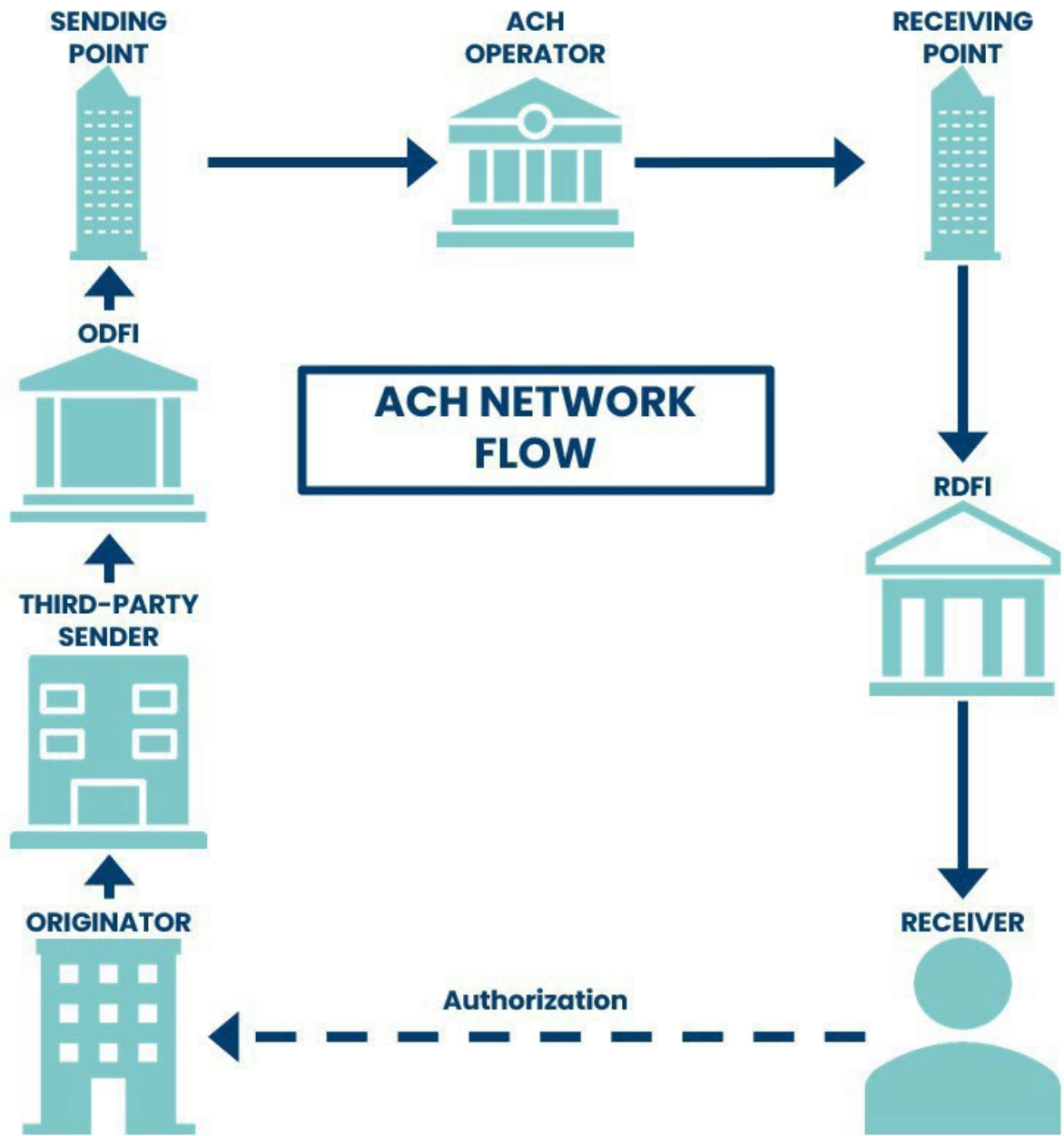
The Receiving Financial Institution of an ACH transaction (i.e., your customer's, employee's, or vendor's financial institution).

### **Receiver**

The party that ultimately receives an ACH transaction. This could be an employee, customer, renter, etc.

## ACH Flow

An Originator sends an ACH File to their Financial Institution, the Originating Depository Financial Institution (ODFI). The ODFI then transmits ACH Files on behalf of its Originators to the ACH Operator (e.g., Federal Reserve Bank or The Clearing House). Each transaction is then parsed out to the appropriate Receiving Depository Financial Institution (RDFI), who then posts the transaction to the appropriate Receiver's account.



\* There can be other participants within the ACH Network, but those noted above are necessary. Third parties often play a role helping the Originating Company, their financial institution, or the receiving company.

## ACH Products

There are several different ACH products a company can use when transmitting transactions within the ACH Network. Each product type is assigned a Standard Entry Class Code (i.e., SEC Code) to denote what type of product is being used. Three of the most used products are PPD, CCD, and WEB.

### Prenarranged Payment and Deposit

This is a consumer transaction. It is used to credit or debit Consumer Accounts, and it should not be used for corporate-to-corporate transactions. If a company uses PPD for a transaction going to a corporate account, they are extending consumer protection rights to a corporation. This gives the Receiver a 60-day right to return the transaction versus a 2-day right of return for transactions reported to be unauthorized.

#### **SEC Code: PPD**

##### **Types of Uses**

- Payroll
- Payroll Reimbursements
- Pension Dividends
- Insurance Payments
- Rent Payments
- Utility Payments

### Corporate Credit or Debit Entry

This is a corporate transaction. It is used to credit or debit corporate accounts and should not be used for consumer transactions.

#### **SEC Code: CCD**

##### **Types of Uses**

- Vendor Payments
- Trading Partner money movement
- Cash concentration within a corporation
- Healthcare Payments
- Can carry up to 80 characters of payment information

*\* Refer to your financial institution to understand the importance of using the correct SEC Code to mitigate risk*

*\* For a full listing of SEC Codes, refer to the Nacha Operating Rules & Guidelines Section V Standard Entry Class Codes*

## Internet-Initiated/Mobile Entry

This is a consumer transaction. It is used to debit Consumer Accounts, and it should not be used for corporate-to-corporate transactions. If a company uses WEB for a transaction going to a corporate account, they are extending consumer protection rights to a corporation. This gives the Receiver a 60-day right to return the transaction versus a 2-day right of return for transactions reported to be unauthorized.

### **SEC Code: WEB**

#### **Types of Uses**

- Insurance Payments
- Rent Payments
- Utility Payments
- Payments for goods and services

## Authorizations

An authorization between the originating company and Receiver (i.e., customer or employee) is required prior to initiating a transaction. However, not all authorization requirements are the same. Confirm with your financial institution, or Payments Association, what is needed for a proper authorization for each SEC Code your company originates.

## Authorization, Retention, and Change in Terms Requirements

### PPD Credits (Consumer Transaction)

#### Authorization Requirement

Consumers may provide authorization for credits (e.g., payroll, expense reimbursement, etc.) either verbally or in writing. However, it is considered best practice to obtain written authorization.

#### Retention Period

Two years past cancellation or termination.

#### Change in Terms Requirement

No notice required.

### PPD Debits (Consumer Transaction)

#### Authorization Requirement

Consumers **must** provide written authorization that is signed or similarly authenticated. The authorization must be readily identifiable as an ACH debit authorization and contain clear and readily understandable terms. This includes specifying the method in which a consumer can cancel or terminate the authorization. You must provide the consumer with either an electronic or hard copy of the authorization.

An authorization to debit a consumer must include the following minimum information:

- a) Language regarding whether the authorization obtained from the Receiver is for a Single Entry, Recurring Entries, or one or more Subsequent Entries initiated under the terms of a Standing Authorization
- b) The amount of the Entry(ies) or a reference to the method of determining the amount of the Entry(ies)
- c) The timing (including the start date), number, and/or frequency of the Entries
- d) The Receiver's name or identity
- e) The account to be debited
- f) The date of the Receiver's authorization; and
- g) Language that instructs the Receiver how to revoke the authorization directly with the Originator (including the time and manner in which the Receiver's communication with the Originator must occur).

*For a Single Entry scheduled in advance, the right of the Receiver to revoke the authorization must afford the Originator a reasonable opportunity to act on the revocation prior to initiating the Entry.*



## **Retention Period**

Two years past cancellation or termination.

## **Change in Terms Requirement**

If there is a change in the dollar amount, the business must send a written notice to the consumer that contains the new amount and the date on which it will be debited at least ten calendar days prior to the transaction posting. If there is a change in the date of the transaction, the business must send a written notice to the consumer that contains the new date and the next date on which it will be debited at least seven calendar days prior to the transaction posting. This does not include changes to the date due to holidays or weekends.

## **CCD Credits or Debits (Corporate Transactions)**

### **Authorization Requirement**

Normally, there is a signed agreement or similar trading partner agreement between corporations. This agreement must include language stating that the corporation (Receiver) agrees to be bound by the *Nacha Operating Rules*.

### **Retention Period**

Not specified by the *Nacha Operating Rules*. As a best practice, Originators are encouraged to retain proof of authorization for at least one year from the Settlement Date of each transaction. A Receiver's financial institution is permitted to make a claim for a breach of the authorization warranty for up to one year from the Settlement Date of an Entry. An Originator's proof of authorization could be used to deny such a claim if the Entry was authorized.

### **Change in Term Requirement**

As specified in the trading partner agreement or authorization.

## **WEB Debits (Consumer Transaction)**

### **Authorization Requirement**

Consumers **must** provide authorization via the Internet or a Wireless Network. The authorization must be readily identifiable as an ACH debit authorization and contain clear and readily understandable terms. This includes specifying the method in which a consumer can cancel or terminate the authorization. You must provide the consumer with either an electronic or hard copy of the authorization.

An authorization to debit a consumer must include the following minimum information:

- a) Language regarding whether the authorization obtained from the Receiver is for a Single Entry, Recurring Entries, or one or more Subsequent Entries initiated under the terms of a Standing Authorization
- b) The amount of the Entry(ies) or a reference to the method of determining the amount of the Entry(ies)
- c) The timing (including the start date), number, and/or frequency of the Entries
- d) The Receiver's name or identity
- e) The account to be debited

- f) The date of the Receiver's authorization; and
- g) Language that instructs the Receiver how to revoke the authorization directly with the Originator (including the time and manner in which the Receiver's communication with the Originator must occur).

*For a Single Entry scheduled in advance, the right of the Receiver to revoke the authorization must afford the Originator a reasonable opportunity to act on the revocation prior to initiating the Entry.*

## **Retention Period**

Two years beyond cancellation or termination.

## **Change in Terms Requirement**

If there is a change in the dollar amount, the business must send a written notice to the consumer that contains the new amount and the date on which it will be debited at least ten calendar days prior to the transaction posting. If there is a change in the date of the transaction, the business must send a written notice to the consumer that contains the new date and the next date on which it will be debited at least seven calendar days prior to the transaction posting. This does not include changes to the date due to holidays or weekends.

## **Other Considerations**

If your company sends WEB transactions, there are additional requirements besides the authorization requirements you must satisfy:

- An audit must be conducted annually to make sure the financial information (e.g., account numbers and other sensitive information) related to processing ACH transactions is being adequately protected.
- A commercially reasonable fraudulent transaction detection system must be used to screen the transactions. As part of this process, account numbers must be validated before the first use and again if there any changes to the account number.
- The person's identity who authorizes the debit must be authenticated using commercially reasonable methods.
- The routing number provided during the authorization process must be validated before the transaction is processed.

\* For a full listing of authorization requirements per SEC Code, refer to the *Nacha Operating Rules & Guidelines* Section V Standard Entry Class Codes

**\*\*\* Sample Authorization forms are located on pages 19-22 in the Appendix. \*\*\***

## Sending Files

### Next Day ACH vs. Same Day ACH

Next day, or future-dated, ACH is the traditional form of ACH. Next day transactions settle on the next business day, or, in the case of credit Entries, up to two business days in the future. Same Day ACH was introduced in 2016 and continues to grow. Same Day ACH transactions settle on the same business day that they are originated.

#### Why is this important?

The transactions that you submit to your financial institution should include an Effective Entry Date. This is the date that you intend the transaction to post to the Receiver's account. If you send a File with a stale date (i.e., date in the past), or today's date, to your financial institution, it could post "today" unintentionally. This could cause your organization and/or your customers to become overdrawn at their respective financial institutions, among other implications.

### Prenotifications

#### What is Prenotification (Prenote)?

Prenotifications are also referred to as a Prenote. It is a non-value transaction used to verify an account prior to sending additional Entries.

#### Why should Prenotes be used?

A Prenote is a great tool to use. You can send a Prenote prior to the initiation of future Entries to your employee's/customer's/vendor's account. This can help verify the information that was provided to you was valid. While a Prenote will verify that the account is able to receive transactions, it **will not** verify the account belongs to the Receiver (i.e., that the account ownership matches the Receiver's name).

#### When should a Prenote be sent?

If you choose to send a Prenote, it must be sent at least three business days before sending additional Entries. This will give the Receiving Financial Institution enough time to respond in case the information is incorrect.

#### What happens if the Prenote Information is incorrect?

If the information in the Prenote is incorrect, one of two things will happen: The Prenote will be returned, or you will receive a Notification of Change (NOC).

- **If the payment is returned**, you cannot send additional Entries. You will need to obtain the correct account information from your employee/customer/vendor prior to sending another transaction.
- **If you receive a Notification of Change**, you must make the requested change prior to sending additional Entries.

\* Contact your financial institution for Same Day ACH and Next Day ACH cutoff times and availability

\* For more information on Prenotifications, refer to the *Nacha Operating Rules & Guidelines* Section II; Chapter 19 Originators and Prenotifications, Micro-Entries, and Notifications of Change

## Micro-Entries

### **What is a Micro-Entry?**

Micro-Entries are small dollar debit and/or credit transactions sent to an employee's/customer's/vendor's account for the purpose of verifying they have access to that account. Micro-Entry credit transactions must be for less than \$1.00, and the dollar amount of any debit Micro-Entries cannot be more than the dollar amount of any credit Micro-Entries sent.

### **Why should Micro-Entries be sent?**

Micro-Entries can, in some cases, provide greater assurance than a Prenotification that the account you intend to send transactions to is owned by the employee/customer/vendor since they must be able to sign into online banking or otherwise access the Receiver's account to confirm the dollar amounts of the Micro-Entries.

### **When should Micro-Entries be sent?**

Micro-Entries are one method of performing account validation, which is a requirement before sending WEB Entries to a new or changed account number. However, Micro-Entries can be sent for Entries other than WEB when you want to perform account validation to have greater certainty you have the correct account information before sending future Entries.

### **How does the validation process work?**

The employee/customer/vendor receiving the Micro-Entries must confirm the dollar amount of the Micro-Entries you send to their account to validate they have access to the account. Once this validation has been completed, you may begin to send authorized transactions to that account.

If there are issues with the Micro-Entries, like they are returned or the employee/customer/vendor cannot verify the amounts, you should research to determine what the issue was. It is likely that the account information provided was incorrect.

## Notification of Change

### What is a Notification of Change?

A Notification of Change (NOC) is sent by the Receiving Financial Institution to notify you that something was incorrect with either a Prenote or other transaction that you originated. A Notification of Change should be given to you by your financial institution. This could be done verbally or in writing. It will give you information on the original Prenote or transaction, and it will include the information that needs to be corrected, such as a corrected account number.

### What steps need to be taken after receiving a Notification of Change?

After receiving an NOC, you will need to investigate and correct the transaction. For corrections on live transactions, you will need to make the change within six Banking Days, or prior to the next transaction, whichever is later. If the NOC is in response to a Prenotification, you need to make the change prior to sending a live transaction, if the NOC is made available to you before the third Banking Day. In the case of an NOC in response to a Prenote that is received on or after the third Banking Day, you will need to make the changes within six Banking Days, or prior to the next transaction, whichever is later.

### Is it okay to make the requested change? What is the risk of making the change?

Yes, it is okay to make the requested change. When the Receiving Financial Institution sends an NOC, they make a warranty that the information provided in the NOC is correct. In addition, you are indemnified against all claims, demands, losses, or expenses that result from a breach of said warranty.

### What happens if a Notification of Change is ignored?

Ignoring a Notification of Change could lead to a Rules violation against your company and Rules Enforcement proceedings. If found in violation of the Rules, fines may be assessed.

Common Notification of Change Codes	
Code	Meaning
C01	Incorrect Account Number
C02	Incorrect Routing Number
C03	Incorrect Routing and Account Number
C05	Incorrect Transaction Code
C06	Incorrect Account Number and Transaction Code
C07	Incorrect Routing Number, Account Number, and Transaction Code

\* A complete list of change codes for Notifications of Change can be found in Appendix Five of the *Nacha Operating Rules & Guidelines*

\* Warranties made by a Receiving Depository Financial Institution can be found in Article Three of the *Nacha Operating Rules & Guidelines*

\* Information on Rules Enforcement and fines can be found in the *Nacha Operating Rules & Guidelines* Appendix Nine – Rules Enforcement

## Returned and Rejected Transactions

### Rejected Transactions

Entire Files or individual transactions may be rejected by the ACH Operator or your financial institution for not meeting formatting criteria or if the routing number used does not exist. You should receive notification from your financial institution if a transaction(s) is rejected.

### Returned Transactions

Sometimes originated transactions are returned for various reasons. You should receive notification from your Financial Institution when a transaction is returned. It is important to track returns and make changes to the transaction, if necessary, or cease generating the transaction completely.

Common Return Reason Codes	
Code	Meaning
R01/R09	Insufficient Funds/Uncollected Funds
R02	Account Closed
R03	No Account/Unable to Locate Account
R04	Invalid Account Number Structure
R05	Unauthorized Debit to Consumer Account Using Corporate SEC Code (CCD or CTX)
R07	Authorization Revoked by Customer
R08	Payment Stopped
R10	Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account
R11	Customer Advises Entry Not in Accordance with the Terms of the Authorization
R23	Credit Refused by Receiver
R29	Corporate Customer Advises Not Authorized

\* Information on rejected transactions and files can be found in Appendix Two of the *Nacha Operating Rules & Guidelines*

\* A complete list of Return Reason Codes can be found in Appendix Four of the *Nacha Operating Rules & Guidelines*

### **What should you do when a debit transaction is returned as Unauthorized or Authorization Revoked (Return Reason Codes R05, R07, R10, \*R11, R29)?**

You should immediately remove the transaction from future Files. A new authorization is required to send the transaction again.

*\* For transactions returned R11, a corrected transaction may be sent within 60 days of the Settlement Date of the R11 Return in some cases. Such cases where a corrected transaction can be sent include initiating a transaction for settlement too early, debiting for the wrong amount, the debit was part of an Incomplete Transaction (i.e., the intended third-party was not credited), or for improperly reinitiated transactions.*

### **Are there additional steps or other options?**

Contact your financial institution. They can contact the ACH Department of the receiving financial institution and request a copy of a signed Written Statement of Unauthorized Debit Form (WSUD). This form is required to be signed by the customer, renter, etc. (does not apply to business accounts where a CCD or CTX Entry was returned) before returning a transaction as unauthorized or authorization revoked. Once requested, the receiving financial institution has 10 Banking Days to provide a copy of the form. If a signed copy of the form is completed, you will need to work with your customer, renter, etc. to resolve the disputed transaction.

There are also specific timeframes in which a transaction can be returned as unauthorized, or authorization revoked. You can work with your financial institution to determine whether the transaction was returned timely or not. If it was returned untimely, your financial institution can dishonor the Return if they are notified promptly after you receive the Return.

### **What happens if the transaction is not fixed?**

Ignoring a transaction that is returned as unauthorized or authorization revoked, and either reinitiating the current transaction, or sending a new transaction without an updated authorization, could lead to a Rules violation against your company and Rules Enforcement proceedings. If found in violation of the Rules, fines may be assessed.

### **What should you do when a debit transaction is returned as R11 - Customer Advises Entry Not in Accordance with the Terms of the Authorization?**

You should retrieve the authorization that corresponds to the transaction that was returned. Review the authorization to determine what the underlying error is in the transaction. You have 60 calendar days from the date of the Return to correct any errors and send out a corrected transaction. You do not need to get a new authorization form from the Receiver if there was an error made that is able to be corrected.

## Administrative Returns

### **What is an administrative Return?**

An administrative Return is a transaction that has been returned due to the account being closed, no account/unable to locate account, or an invalid account number structure.

### **What should you do when a transaction is returned due to an administrative issue or error?**

You should immediately remove the transaction from future Files and obtain a new authorization with the correct account information for your employee, customer, renter, etc.

### **What happens if additional transactions are sent with the same account information?**

Ignoring a transaction that is returned due to an administrative issue or error, and either reinitiating the current transaction, or sending a new transaction without an updated authorization, could lead to a Rules violation against your company and subsequent Rules Enforcement proceedings.

\* Information on Rules Enforcement and fines can be found in Appendix Nine of the *Nacha Operating Rules & Guidelines*



### Unauthorized, Administrative, and Overall Return Thresholds

Return Rates are tracked and should not exceed the following thresholds:

- Unauthorized or Authorization Revoked Return Rate – 0.5%
- Administrative Return Rate – 3%
- Overall Return Rate – 15%

### Who tracks the return rates?

Your financial institution is responsible for monitoring the return rates for each company that originates ACH transactions. Information on Return Rate Reporting can be found in Article Two of the *Nacha Operating Rules & Guidelines*. You can also contact your financial institution with questions.

### What happens if you exceed the return rate?

Nacha may contact your financial institution. The financial institution is then required to give a statement either refuting Nacha's claim or giving a reason why the return rate threshold was exceeded. Some of the information that will need to be provided to Nacha includes: the complete legal name and DBAs of the business, Tax-Payer Identification Number, originated transaction volume for a period specified by Nacha.

If, after the investigation, it is determined the threshold was exceeded, your financial institution is also required to provide the following:

- A detailed plan and timeline to reduce your return rate within 30 days of the notice sent by Nacha
- The address, telephone number, and a point of contact at the company
- If privately held, the name(s) of the principal owners and officers
- A description of the business
- The length of the relationship between the company and financial institution

### What should you do if you exceed the return rate?

You will need to cooperate with your financial institution by following a detailed plan and timeline to reduce your return rate within 30 days. You will then need to keep the return rate below the threshold for at least 180 days.

### What happens if you don't lower your return rate?

Nacha may initiate a Rules Enforcement proceeding for a Class 2 Rules Violation. A Class 2 Rules Violation could result in a fine of up to \$100,000 per month until the issue is resolved, plus additional fines as it relates to a specific Originator. Your company may also have its ACH origination services terminated, and your company could possibly be added to the Terminated Originator Database. The database is used as a tool for financial institutions to determine whether they want to offer ACH origination services to a company. This means it may be difficult to sign up for ACH origination services at another financial institution.

### Can a transaction be reinitiated?

Yes, a returned transaction may be reinitiated if:

- It was returned for insufficient or uncollected funds (can only be reinitiated twice); or
- The transaction was returned as a stop payment, and you have received authorization from the Receiver, after the transaction was returned, to process the transaction again; or
- 
- You have taken corrective action to fix the reason for the return; and
- It is within 180 days of the settlement of the original transaction

### What are the requirements for reinitiating a payment?

- Reinitiated transactions must be processed in a separate batch and contain the words **"RETRY PYMT"** in the Company Entry Description field of the batch header. The Company Entry Description field cannot contain any other additional information.
  - o By definition, a Reinitiated Entry is an Entry to the same Receiver's account. When correcting the account number, account type, or routing number for Administrative Returns, the transactions is not considered to be reinitiated because it's the first presentment to the Receiver's correct account. Therefore, "RETRY PYMT" does not need to be in the Company Entry Description for these types of transactions.
- The Company Name, Company ID, and amount fields must be identical to the original transaction. You should only make changes to additional fields if it is to correct an error.

\* Information on Reinitiation of Returned Entries can be found in Article Two of the *Nacha Operating Rules & Guidelines* Article

## Reversals

### Can a File or batch be reversed?

A File (or batches within a File) may be reversed if it is a duplicate or erroneous File. A duplicate File is a File that was sent two or more times in error. A duplicate File is exactly the same as the original and contains the same Effective Entry Dates, trace numbers, dollar amounts, etc. An erroneous File is one that contains a substantial amount of incorrect information, such as incorrect account numbers or amounts, a credit entry for a date later than intended, or a debit entry for a date earlier than intended.

### What are the requirements for processing a File Reversal?

- The File must be reversed so that it is available to the receiving financial institution no later than five Banking Days from the original File's Settlement Date.
- The word "**REVERSAL**" must be in the Company Entry Description field of the batch header.
- If the File is erroneous, a correcting File must be processed at the same time
- The Reversing File and correcting File, if applicable, must be sent within 24 hours of the discovery of Erroneous File.

### Can a single transaction be reversed?

A transaction can be reversed if it is a duplicate of a previous transaction, the payment to or from the Receiver is different than the Receiver intended, the amount is different than intended, the date is earlier than intended for a debit Entry or later than intended for a credit Entry, or it is a PPD Credit that meets the following criteria:

- o Related to the Receiver's employment (payroll, expense check, etc.)
- o The amount has been provided to the employee in check form at, or prior to, their termination or withdrawal of employment
- o The ACH was transmitted prior to the delivery of the check to the employee

Additionally, you must:

- Make a reasonable attempt to notify the Receiver of the transaction that a reversal is being sent prior to the settlement of the reversal
- The reversal must be processed or made available to the Receiving Financial Institution within five Banking Days of the original Entry's Settlement Date.

### Is there any risk in processing a Reversal?

If you are reversing a credit (deposit) transaction, there may be risk involved. The Receiver of the deposit may have already spent the funds that were erroneously sent. If this happens the Receiving Financial Institution may return the reversal for insufficient funds. In this case, you would need to resolve the issue with the Receiver.

### What can you do if you need to reverse a transaction outside of the 5-banking day timeframe?

You will need to work with your financial institution. They can request that the Receiving Financial Institution return a transaction; however, the Receiving Financial Institution is not required to comply. Your financial institution may also ask that the company indemnify them against any losses before attempting to contact the Receiving Financial Institution.

\* Information on Reversals can be found in Article Two of the *Nacha Operating Rules & Guidelines*

# ACH Security Requirements

## What are the ACH Security Requirements?

The *Nacha Operating Rules & Guidelines* requires Participants in the ACH Network to establish a data security framework which meets certain minimum data security obligations. It requires non-consumer Originators (companies), to establish, implement, and as appropriate, update security policies, procedures, and systems related to the initiation, processing, and storage of ACH Entries and resulting Protected Information.

Your financial institution is required to perform a level of due diligence to form a reasonable belief that each of its Originators have the capacity to comply with the Security Requirements.

## Are there any additional requirements if I process a high volume of transactions?

If your company processes more than 2 million ACH transactions annually, you must protect account numbers used in the initiation of transactions by rendering them unreadable when stored electronically. You should utilize a commercially reasonable method to do this, such as encrypting the account numbers when they are being stored electronically no later than June 30 of the year immediately following the year in which such volume first exceeds the 2 million Entry threshold, and consistently thereafter regardless of annual volume.

## Why does my financial institution require an onsite visit or security checklist as part of our agreement?

To comply with the ACH Security Requirements, your financial institution may require an onsite visit or require that you fill out a security checklist/questionnaire. This helps determine whether your company is using commercially reasonable security measures to protect sensitive information.

## What are some security measures the company could implement?

- Store physical copies of sensitive information in a locked and secure location
- Enforce a clean desk policy
- For digital security of data, consider implementing the following:
  - o Password controls:
    - i. Strong password requirements (minimum length, character requirements, etc.)
    - ii. Secure storage of passwords, including ensuring they are not posted at the workstation
    - iii. Required changes of passwords after a certain period of time
    - iv. Lockout of user account after a certain number of invalid attempts
    - v. Timeout or automatic locking of workstation after so many minutes
  - o Restricted access to files on the network by job responsibilities
  - o Designated PC for any internet banking or funds transfer services, such as ACH
  - o Updated anti-virus and anti-malware programs
  - o Automatic software patches or upgrades, including operating system updates
  - o Restrictions on types of internet sites that can be used, or usage of company e-mail

- Firewall for office network
  - Secure e-mail for communications with customers/employees when sensitive information is being transmitted
  - Encrypted or secured customer websites if used for accepting payment requests
  - Encryption for laptops or other mobile devices
  - "Self-destruct" or "remote clean" ability for lost or stolen mobile devices
  - Controls for remote connections to and from the company (e.g., Virtual Private Network [VPN] connection)
- Provide employee training on the following topics:
  - Password Security
  - Social Engineering, including Business Email Compromise
  - Acceptable internet and email usage
  - Security of mobile devices/laptops when travelling
- Implementing a document retention schedule or procedure
- Secure destruction of physical and digital data
- Creating an Incident Response Plan

### Sample Authorization Forms

#### Consumer Authorization for Direct Deposit Via ACH (ACH Credits)

*Direct Deposit via ACH is the deposit of funds to a consumer's account for purposes such as payroll, employee expense reimbursement, government benefits, tax and other refunds, annuities, and/or interest payments.*

**Check one:**    ☐ Begin Deposit                                      ☐ Change Information

I (we) hereby authorize \_\_\_\_\_ ("COMPANY") to electronically credit my (our) account and, if necessary, to electronically debit my (our) account to correct erroneous credits as follows:

☐ Checking Account / ☐ Savings Account (select one) at the depository financial institution ("DEPOSITORY") named below.

I (we) agree that ACH transactions I (we) authorize comply with the laws of the United States and all applicable law.

Depository Name: \_\_\_\_\_

Routing Number: \_\_\_\_\_ Account Number: \_\_\_\_\_

Name(s) as it appears on the Account: \_\_\_\_\_

Amount of credit(s) or method of determining amount of credit(s): \_\_\_\_\_

Date(s) and/or frequency of credit(s): \_\_\_\_\_

I (we) understand that this authorization will remain in full force and effect until I (we) notify COMPANY [insert manner of revocation, e.g., in writing, by phone, location, address, etc.] that I (we) wish to revoke this authorization. I (we) understand that COMPANY requires at least X days/weeks prior notice in order to cancel this authorization.

Name(s): \_\_\_\_\_  
(Please Print)

Date: \_\_\_\_\_ Signature(s): \_\_\_\_\_

\* This sample is taken from Appendix F of the *Nacha Operating Rules and Guidelines*

## Consumer Authorization for Direct Deposit Via ACH with Split Deposits

*Direct Deposit via ACH is the deposit of funds to a consumer's account for purposes such as payroll, employee expense reimbursement, government benefits, tax and other refunds, annuities, and/or interest payments.*

**Check all that apply:** ☐ Begin Deposit ☐ Change Information ☐ Split Among Multiple Accounts

I (we) hereby authorize \_\_\_\_\_ ("COMPANY") to electronically credit my (our) account and, if necessary, to electronically debit my (our) account to correct erroneous credits. I (we) agree that ACH transactions I (we) authorize comply with the laws of the United States law and all applicable law.

### Account #1

☐ Checking Account / ☐ Savings Account (select one) at the depository financial institution ("DEPOSITORY") named below.

Depository Name: \_\_\_\_\_

Routing Number: \_\_\_\_\_ Account Number: \_\_\_\_\_

Name(s) on the Account: \_\_\_\_\_

Amount of credit(s) (e.g. flat amount or percentage): \_\_\_\_\_

Date(s) and/or frequency of credit(s): \_\_\_\_\_

### Account #2

☐ Checking Account / ☐ Savings Account (select one) at the depository financial institution ("DEPOSITORY") named below.

Depository Name: \_\_\_\_\_

Routing Number: \_\_\_\_\_ Account Number: \_\_\_\_\_

Name(s) on the Account: \_\_\_\_\_

Amount of credit(s) (e.g. flat amount or percentage): \_\_\_\_\_

Date(s) and/or frequency of credit(s): \_\_\_\_\_

I (we) understand that this authorization will remain in full force and effect until I (we) notify COMPANY [insert manner of revocation, e.g., in writing, by phone, location, address, etc.] that I (we) wish to revoke this authorization. I (we) understand that COMPANY requires at least [X days/weeks] prior notice in order to cancel this authorization.

Name(s): \_\_\_\_\_

*(Please Print)*

Date: \_\_\_\_\_ Signature(s): \_\_\_\_\_

\* This sample is taken from Appendix F of the *Nacha Operating Rules and Guidelines*

## Consumer Authorization for Direct Payment via ACH

Direct Payment via ACH is the transfer of funds from a Consumer Account for the purpose of making a payment.

**Check One:** ☐ Begin Payment

☐ Change Information

I (we) authorize \_\_\_\_\_ ("COMPANY") to electronically debit my (our) account and, if necessary, to electronically credit my (our) account to correct erroneous debits as follows:

☐ Checking Account / ☐ Savings Account (select one) at the depository financial institution named below ("DEPOSITORY"). I (we) agree that ACH transactions I (we) authorize comply with the laws of the United States and all applicable law.

**Depository Name:** \_\_\_\_\_

**Routing Number:** \_\_\_\_\_ **Account Number:** \_\_\_\_\_

**Name(s) on Account:** \_\_\_\_\_

### Debit Transaction Frequency:

☐ **Single Entry** (one-time payment)

☐ **Recurring Entries** (Entries that recur at substantially regular intervals, without further affirmative action by the Receiver)

☐ **Subsequent Entries** (Entries that are initiated by a Receiver's affirmative action in accordance with the terms of this Standing Authorization)

#### How will subsequent Entries be authorized?

(If any of the options below are applicable, insert additional information about the method used to authorize subsequent Entries so that the process is clear and readily understandable. Remove any of the options that are not applicable.)

☐ Telephone

☐ Internet

☐ Other: \_\_\_\_\_

**Date of debit (if Single Entry) or date of first debit:** \_\_\_\_\_

**Number of and/or frequency of debits:** \_\_\_\_\_

**Authorized debit amount** (or method for determining amount): \_\_\_\_\_

I (we) understand that this authorization will remain in full force and effect until I (we) notify COMPANY [insert manner of revocation, i.e., in writing, by phone, location, address, etc.] that I (we) wish to revoke this authorization. I (we) understand that COMPANY requires at least X days/weeks prior notice in order to cancel this authorization.

Name(s): \_\_\_\_\_  
(Please Print)

Date: \_\_\_\_\_ Signature(s): \_\_\_\_\_

\* This sample is taken from Appendix F of the *Nacha Operating Rules and Guidelines*



## Trading Partner Authorization for Direct Payment via ACH

**Receiving Company** sells goods and/or services to **Originating Company** and/or one or more of its wholly owned subsidiaries.

**Originating Company** desires the flexibility to make payments for such goods and/or services electronically through the ACH Network. **Receiving Company** agrees to grant such flexibility.

Therefore, **Receiving Company** hereby (1) authorizes **Originating Company** to make payments for goods and/or services by ACH, (2) certifies that it has selected the following depository Financial Institution, and (3) directs that all such payments be made as provided below:

Financial Institution Name: \_\_\_\_\_

Address: \_\_\_\_\_

Routing Transit Number: \_\_\_\_\_

Account Name: \_\_\_\_\_

Account Number: \_\_\_\_\_

Payment Format (please circle selection)

CTX

CCD

CCD+

**Receiving Company** Contact: \_\_\_\_\_

Contact Telephone Number: \_\_\_\_\_

**Receiving Company** acknowledges and agrees to the terms and conditions of all agreements with **Originating Company** concerning the method and timing of payments for goods and/or services.

**Receiving Company** will give thirty (30) days advanced, written notice to **Originating Company** of any changes in depository Financial Institution or other payment instructions.

When properly executed, the authorization will become effective fifteen (15) days after its receipt by **Originating Company**. Both parties subject to this authorization agree to be bound by the *Nacha Operating Rules & Guidelines* and United States Law.

I certify that I am an authorized signer, or otherwise have the authority to act, on the account identified in this statement.

Name of Company: \_\_\_\_\_

Signature of Authorized Representative \_\_\_\_\_

Printed Name: \_\_\_\_\_

Title: \_\_\_\_\_ Date: \_\_\_\_\_