

TITANBank

ACH Origination Guide

Updated August 2020

Introduction

The ACH Network is the electronic funds-transfer system that provides clearing of electronic payments in the United States. It is governed by the National Automated Clearing House Association (“NACHA”) and their book of Operating Rules (“Rules”). As an ACH Originator, you must comply to all Rules and changes to the Rules.

The Titan Bank team has compiled a list of important reminders and changes for fiscal year 2019 and 2020. Please note this is NOT a complete list of regulations. To obtain a copy of the 2020 NACHA Operating Rules & Guidelines book, please visit www.nacha.org/store.

Terms To Know

Originator

The entity or business that initiates the ACH entry to request funds from a customer or a different company’s account.

Originating Depository Financial Institution (ODFI)

The financial institution that enters the ACH request into their system and forwards a batch of requests to an ACH Operator.

ACH Operator

The institution that processes requests for many differed ODFIs and sends each request to the correct customer or company’s bank.

Receiving Depository Financial Institution (RDFI)

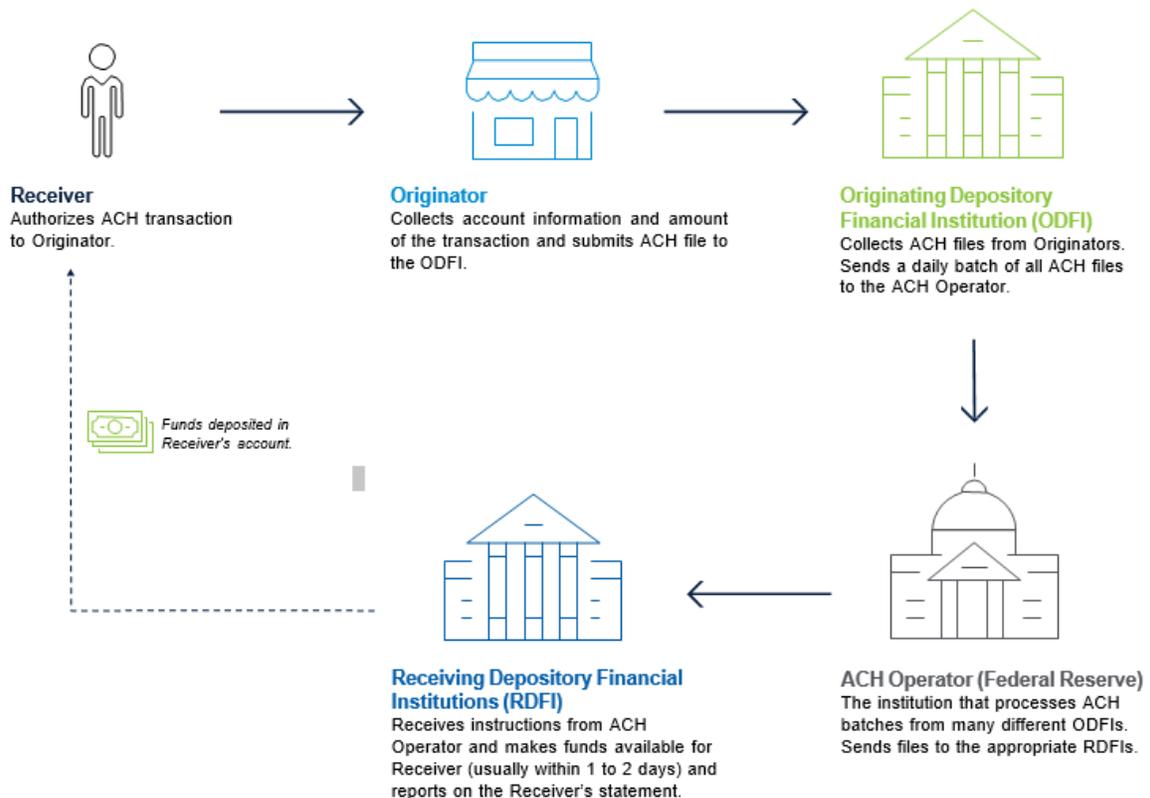
The bank of the receiving customer or company that receives the request from the ACH Operator, verifies the request and deposits the funds to the appropriate account.

Receiver

The customer or company that receives the funds, usually within 1 to 2 days.

How does an ACH transaction work?

As an Originator, your company receives authorization to initiate an ACH transaction from the Receiver's account. The Originator creates a unique file for the transaction and sends the file to your Originating Depository Financial Institution (ODFI), Titan Bank. Titan Bank will collect information to verify the file. Once verified, a batch of ACH files are sent at one time to the ACH Operator, better known as the Federal Reserve. The ACH Operator will edit, sort and distribute the files to the appropriate Receiving Depository Financial Institution (RDFI). The RDFI receives files on behalf of account holders. Funds are usually received within 1 to 2 days and deposited into the Receiver's account.



NACHA Operating Rule Updates

Every year, NACHA updates the Operating Rules to reflect new regulations. Below are some important updates and their effective dates. Titan Bank will annually communicate changes to ensure companies are educated.

This update is not meant to replace the NACHA Operating Rules & Guidelines.

2019 UPDATES

1

EFFECTIVE JANUARY 1, 2019 - *Applies to audits required to be conducted by December 31, 2019* Annual ACH audit requirements for participating DFIs, Third-Party Providers and Third-Party Senders has been modified to allow the financial institution greater flexibility in conducting annual Rules compliance audits.

Note: Only required for Participating DFIs, Third-Party Providers and Third-Party Senders.

2

EFFECTIVE SEPTEMBER 20, 2019

New Funds available schedule: 4:45pm EST/3:45pm CST/2:45pm MT/1:45pm PST
An RDFI will be required to make funds available for Same Day ACH credits in this new Same Day ACH processing window no later than the end of its processing day.

2020 AND 2021 UPDATES

1

EFFECTIVE MARCH 20, 2020

The Same Day dollar amount has been increased from \$25,000 to \$100,000.

2

EFFECTIVE JUNE 30, 2020 for 2019 ACH VOLUME GREATER THAN 6 MILLION (PHASE 1), and

JUNE 30, 2021 for 2020 ACH VOLUME GREATER THAN 2 MILLION (PHASE 2).

There are now requirements for large Originators and Third-Parties. The Rule expands the existing ACH Security Framework rules to require large, non-FI Originators, Third-Party Service Providers (TPSs) to protect deposit account information by rendering it unreadable when it is stored electronically.

3

EFFECTIVE SEPTEMBER 18, 2020

New window: 4:45pm EST/3:45pm CST/2:45pm MT/1:45pm PST
There is an additional ACH window added to send Same Day ACH Entries.

4

EFFECTIVE MARCH 21, 2021 (*previously January 1, 2020*)

There are now fraud detection standards for originating WEB debit entries.

NACHA Reminders

Below are important reminders in order to comply with the NACHA Operating Rules. These reminders can serve as a quick guide and best practices, but always refer to the official NACHA Operating Rules Book for further details.

Your Responsibilities as an ACH Originator

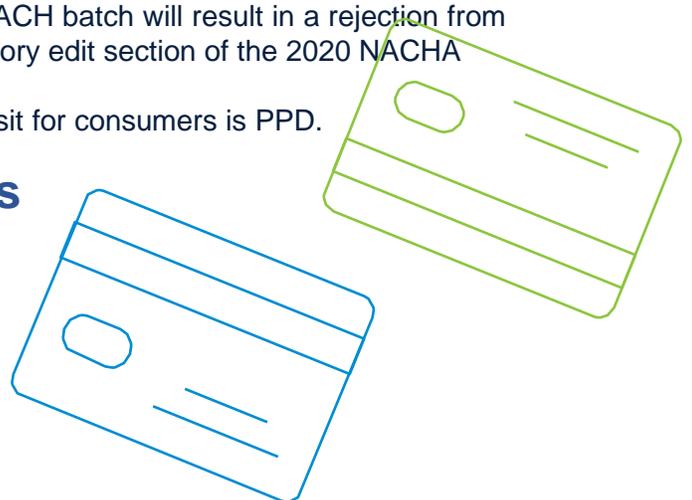
- Obtain proper authorizations — dependent on transaction type — and retain authorizations for two years past revocation.
- Provide copy of authorization if requested by the financial institution within 10 banking days of request.
- Give appropriate notice to debtor if changing amount or date
- Protect your banking information received
- Send entries on proper date
- Make necessary changes to payee account information within 6 banking days when notified by the financial institution.
- Place your company name in the company batch header record.
- Cease subsequent entries if unauthorized/revoked returns are received until you obtain a new authorization such as (R05, R07, R10, R29, R51). For a complete list of return codes, refer to the 2020 NACHA Operating Rules Book.
- Check payees against OFAC compliance checklists.
- Ensure information included in the NACHA File is accurate and follows the Technical Specifications of NACHA
- Ensure your computer and you are protected from corporate account attacks or social engineering attacks.

Direct Deposit Payroll Authorizations (Consumers)

- Neither ACH Rules, nor Regulation E, require an authorization for ACH credit or reversals.
- Use a direct deposit authorization form that collects proper employee account information in the event a payroll adjustment is necessary.
- If possible, obtain a voided check from employees, not a deposit slip.
- Overriding mandatory information within the ACH batch will result in a rejection from the ACH network. Please refer to the mandatory edit section of the 2020 NACHA Operating Rules Book.
- The most common SEC code for direct deposit for consumers is PPD.

Consumer Debit Authorizations

- For consumers, an authorization to debit his or 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. However, the Rules do not define what constitutes as an agreement.



The most common corporate SEC codes are CCD (Corporate Credits and Debits) and CTX (Corporate Trade Exchange).

Changing Date or Amount of Debits



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



For *consumer and corporate*, 7 calendar day notice for a **change of date**



For *consumer only*, 10 calendar day notice for a **change in amount**



Sending notices via U.S. mail is acceptable; however, best business practice is to send through multiple communication channels to ensure reception.

Prenotifications (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 for Originators to send. However, if sent, prenote rules must be followed and must precede the first live entry by at least 3 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. There is still a risk if the subsequent entry debits or credits the wrong account.

Notice of Change (NOC)

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 require the changes to be made by Originators within 6 banking days of receiving the information from the financial institution.



The Receiving Bank warrants that the information they provide is correct. The Originating Bank (Titan Bank) will notify you of any NOCs received.

Titan Bank may pass any fines received to you for non-compliance from NACHA.

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. We recommend that you view your account activity daily.
- Note: An exception to this rule is consumer unauthorized returns, which may be returned within 60 calendar days of posting through the ACH Network.
- The use of consumer (PPD) or corporate (CCD) entry codes determines applicable ACH return rules.
- If the Receiving Financial Institution (RFI) receives a dispute claiming a debit was unauthorized, the RFI must obtain a signed Written Statement of Unauthorized Debit (WSOUD) from the account holder. You may obtain a copy of that statement by requesting a copy through us as your financial institution.
- You may re-initiate a debit entry up to two times if you receive a return entry of "NSF" or "Uncollected Funds." This gives 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 (can only be used under certain conditions)

- Reversals may only be made for the following three conditions: wrong dollar amount, wrong account or duplicate transaction.
- When performing a reversal, the complete ACH file that was originally submitted must be reversed. The reversing entry must be for the full amount, must be sent within 5 banking days of original entry and within 24 hours of discovering the error.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the payee's account or if the payee's account is closed.
- A payee must be notified if a reversing entry debits his or her account. However, a payee does not need to authorize the reversing debit.
- If a reversing entry or file must be made, please [contact us](#).

OFAC (Office of Foreign Asset Control)

- You are required to check payees against OFAC compliance checklists.
- OFAC lists countries, groups and individuals that U.S. companies are not allowed to send funds to or receive funds from.
- Titan Bank must inform every client that it is against the law to send debit or credit entries to OFAC-blocked entities.
- Check the OFAC Specially Designated Nationals (SDN) list [here](#).

Security

- Comply with the *security procedures* including any code, password, personal identification number, user identification technology, token, certificate or other element, means or method of authentication or identification used in connection with a security procedure confidential.
- Note: This information can be found in your ACH Originator agreement.
- Keep all security procedures and security devices protected, secure and strictly confidential and provide or make available to only your authorized representative(s).
- Ensure only users (designated by the admin at your company) have the authority to originate ACH transactions as stated on the ACH agreement.
- Educate your representative(s), agents and employees about the risks of fraud and train these individuals to avoid said risks.
- [Contact us](#) if you have any questions or have identified a possible fraudulent situation.

call 888.360.1300
treasury@titanbank.com

