



2024 ACH Rules Awareness & Updates Guide

Each company sending ACH entries through Androscoggin Bank using its online banking system must comply with the NACHA Operating Rules & Guidelines (“Rules”) as stated within the ACH Agreement between Androscoggin Bank, the Originating Depository Financial Institution (“ODFI”), and you the client (“Originator”). The National Automated Clearing Houses Association (“NACHA”) is the rule-making body governing the ACH network and therefore all participants of the ACH network must comply with its Rules. The Rules are updated with changes, additions, and deletions from time to time. Androscoggin Bank will communicate any changes to our clients so they are educated on the Rules and are able to make any necessary changes to their daily process to comply with these changes. Below, we have outlined not only the Originator’s responsibilities but also included recent changes that have been made to the Rules which will have an impact on the Originator.

Data Security: As an Originator you must comply with specific security requirements with respect to the handling and storage of Protected Information. To protect certain financial data at all times minimum security obligations require Originators establish, implement, and, as appropriate, update security policies, procedures, and systems related to the initiation, processing, and storage of entries. These policies, procedures, and systems must:

1. Protect the confidentiality of Protected Information;
2. Protect against anticipated threats to the security of Protected Information;
3. Protect against unauthorized use of Protected Information.

Supplementing Data Security Requirements: All large, non-financial institution originators, Third-Party Service Providers, and Third-Party Senders with a total ACH transaction volume of 6 million or greater must employ additional Data Security Requirements to render account numbers unreadable when stored electronically.

This rule applies only to account numbers collected for or used in ACH transactions and does not apply to the storage of paper authorizations.

Company Name: You are required under the Rules to ensure there is a clear identification of the source of an ACH transaction. Specifically, the Rules require you to populate the “Company Name” field with the name by which it is known to and readily recognized by the Receiver of the entry. As this company name appears on the account holder’s statement, it should be easily recognized by the account holder/receiver of the debit/credit.

Company Identification: You are also required under the Rules to ensure there is clear identification of the source of an ACH transaction. Specifically, the requirement of the Originator to populate the “Company Identification” field with the company Employer Identification Number (EIN). This company identification appears on the account holder’s statement and is used to identify the originator should the company name be incorrect or missing.

Company Entry Description: Under the Rules you must ensure there is clear description of the purpose of the entry in the “Company Description” field. For example, “Gas bill” “Reg. Salary,” “Ins. Prem.,” “Payroll,” “Direct Dep,” “Dues,” etc. **Please note:** The company name, receiver’s name and date are not clear descriptions and should not be used.

Authorization Requirements: You must obtain authorization from the Receiver to originate one or more Entries to their account.

Authorization Retention: The signed or similarly authenticated authorization must be retained by the Originator for a period of two years following the termination or revocation of the authorization. In the case of a paper authorization that has been signed by the consumer, the Originator must retain either the original or the copy of the signed authorization. This authorization may be obtained in an electronic format that (1) accurately reflects the information in the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, printed or otherwise. The Originator must provide the original copy or other accurate record of the receiver’s authorization to Androscoggin Bank for its use or for the use of a Receiving Depository Financial Institution (“RDFI”) requesting the information. The authorization must be provided in such a time and manner to enable Androscoggin Bank to deliver the authorization to the RDFI within ten (10) banking days of the RDFI request.

Authorization Requirements for Consumer Entries: For consumer entries (those entries hitting a consumer account and not a corporate account), Originators should ensure that the authorization is clear and readily understandable by the account holder/receiver. The authorization should include account number and routing number which should be clearly stated (i.e., a copy of the account holder’s check stapled to authorization ensures the numbers are clearly obtained), the consumer must date and either sign or similarly authenticate (must prove that you had the account holder’s authorization to debit the account), should include what type of account it is debiting and/or crediting (demand deposit account, savings account), company identification is easily understandable (see below under company identification), and the Originator must obtain authorization for both consumer credit and debit entries.

Originators need to ensure its authorizations are clear and readily understandable in order to be a valid authorization. A review of its authorizations should be performed to make sure it meets the requirements of the Rules. If the company is unaware if the authorization is clear and readily understandable, it may contact its account officer for guidance.

Standing Authorizations: Standing Authorizations may be obtained when the payment is not a Single-Entry but doesn’t fit into a Recurring model. Standing Authorizations allow businesses and consumers to make more flexible payment arrangements for relationships that are ongoing in nature. Standing Authorizations may be collected in writing or orally.

Optional formatting codes are available to distinguish how the authorization was obtained. In order to accommodate this new form of authorization, the existing requirement for WEB and TEL type entries to designate the entries as either Recurring or Single-Entry will now be optional.

Payment Type Codes:

- “R” Recurring
- “S” Single-Entry
- “ST” Standing Authorization

Authorization Requirements for Corporate Entries: As with consumer entries, the business Receiver must authorize all ACH credits and debits to its account. The Originator must enter into an agreement with each business Receiver on entries to which the Receiver has agreed to be bound by the Rules. This agreement for credits and/or debits to the corporate customer account should be clear to the corporate customer as to what the credit/debit represents.

Proper Use of Standard Entry Class (SEC) Code: Androscoggin Bank allows our Originators to send PPD (Prearranged Payments and Deposits) for consumers hitting consumer accounts and /or CCD (Corporate Credits and Debits) for corporate hitting corporate accounts. Since the file format requires only one SEC code, consumer and corporate transactions are to be in separate batches with the appropriate SEC code. Consumer transactions are to reflect a consumer name in the "Individual Name" field and corporate transactions are to reflect the corporate name.

Additional Standard Entry Class codes for clients that obtain their authorizations orally or through web-based channels may be available upon request, contingent upon approval from Androscoggin Bank prior to its use.

Supplementing Fraud Detection Standards for Web Debits: Clients authorized to originate WEB debit entries must use a commercially reasonable fraudulent transaction detection system to screen those entries for fraud. Account validation will be required upon the first use of an account number, or upon changes to that account number.

Notice of Change in Amount/Change in Debiting Date for Recurring Debits: For recurring debits, when the debit amount varies, the Rules require the Originator to notify the account holder/receiver within ten (10) calendar days before the schedule transfer date. If an Originator changes the date in which it debits the account holder/receiver, it must notify the account holder/receiver in writing of the new date of the entry at least seven (7) calendar days before the first entry to be affected by this change is scheduled to be debited to the Receiver's account.

Prenotifications: Prenotifications are zero dollar entries generated to validate the account held at the receiving financial institution. Originators may originate a prenote; however this is not required under the Rules. If the Originator initiated a prenotification, it must wait three (3) banking days prior to initiating the live dollar amount.

Micro-Entries: A Micro-Entry is a debit or credit entry sent by an originator for the purpose of verifying a Receiver's account.

Originators are required to use "ACCTVERIFY" as the standard Entry Description and populate the Company Entry Name field with the same or similar name to be used in future entries. Originators using a debit entry must send a corresponding credit entry simultaneously for settlement to occur at the same time. The total amount of the credit Micro-Entry(ies) must be equal or greater to the value of the debit Micro-Entry(ies) and the aggregate total of debits and credits cannot result in a net debit to the receiver.

The use of Micro-Entries requires the Receiver to complete a verification process with the Originator prior to the transmission of live entries.

Originators are required to use commercially reasonable fraud detection practices, including the monitoring of forward and return Micro-Entry volumes. Originators should also consider practicing other sorts of velocity checks or anomaly detection.

Notification of Change Requirements: Notifications of Change are zero dollar entries sent by the RDFI to the ODFI to alert the Originator that a change to its transaction should be made. Under the Rules, you are required to change the information (the information requested to be changed by the RDFI) within 6 banking days of receipt of the NOC or the next time the transaction is generated, whichever is later.

Receiving ACH Returns and Reinitiating of Entries: The Rules make allowances that NSF and Uncollected Funds (Return Reason Code R01 and RO9) may be reinitiated. Under the Rules, a returned entry may not be reinitiated unless (1) the entry has been returned for insufficient or uncollected funds; (2) the entry has been returned for stopped payment and reinitiating has been authorized by the Account Holder, or (3) the bank or the Originator has taken corrective action to remedy the reason for the return. As a corporate customer, any returns received should be resolved within 180 days after the Settlement Date of the original entry, and no reinitiating of the same entry should be transmitted unless one of the reasons above has occurred. Reinitiation is limited to two times per entry.

An Originator must submit Reinitiated Entries as a separate batch that contains the word "RETRY PMYT" in the Company Entry Description field of the Company/Batch Header Record. The Company Name, Company ID, and Amount fields must be identical to the original entry.

Correction of Entries: Entries returned because of an invalid effective date or incorrect amount (Return Reason Code R11 – Customer Advises Entry Not in Accordance with the Terms of the Authorization) may correct and transmit a new entry that conforms to the original authorization within 60 days of the Settlement of the Return.

Stop Payments Made by Consumer: This affects Originators as a stop payment may be placed on the RDFI's system for all future transactions relating to the Originator. Originators need to train their internal staff to ensure they understand that there may be multiple stop payments returned. These should not be reinitiated into the system until resolved.

Reversing an ACH File: An Originator may reverse a file if the file is erroneous or duplicate. The Originator may transmit the reversing file within five (5) banking days after the Settlement/Effective Date for the entries within the duplicate or erroneous file. The word "REVERSAL" must be placed in the Company Batch Header Field if the file is reversing an erroneous file. The Company ID, SEC Code and Amount Fields of the Reversing Entry must be identical to the original entry. The Originator must initiate a correcting file with the reversing file.

Reversing an ACH Entry: An Originator may reverse an entry if the entry is erroneous or a duplicate entry. The Originator may transmit the reversing file within five (5) banking days after the Settlement/Effective Date for the entry. The word "REVERSAL" must be placed in the Company Batch Header Field. Company ID, SEC Code and Amount Fields of the Reversing Entry must be identical to the original entry. Only an Originator may reverse an entry. The Originator should notify the account holder/receiver of the reversing entry no later than the Settlement Date of the reversing entry.

Erroneous File or Entry: A file or entry that (1) is a duplicate of an entry previously initiated by the Originator or ODFI; (2) orders payment to or from a Receiver different than the Receiver intended to be

credited or debited by the Originator; (3) orders payment in an amount different that was intended by the Originator; or (4) is a PPD credit entry satisfying each of the following criteria: (i) the PPD credit entry is for funds related to a Receiver's employment; (ii) the value of the PPD credit is fully included in the amount of a check delivered to the same Receiver at or prior to the Receiver's separation from employment; or (iii) the PPD credit entry was transmitted by the Originator prior to the delivery of the check to the Receiver.

Same Day ACH: An Entry in which the Effective Date is the same as the Date Transmitted to the Bank in accordance with Androscoggin Bank's processing requirements and SDA cut-off time is considered a Same Day ACH entry. Debit and Credit entries for \$1,000,000* or less may be eligible for Same Day processing. IAT entries are not eligible. There are currently (3) processing windows, with settlement occurring no later than 6:00pm EST (or the End of their Processing Day) on the current business day.

Third-Party Sender Registration: The Third-Party Sender Registration Rule requires every ODFI to either register its Third-Party Sender customer(s) with NACHA, or provide to NACHA a statement that it has no such customers. To aid ODFI's in collecting registration information, the Rule obligates Third-Party Senders to provide the ODFI's, upon request, with any registration information needed. Such information may include: (i) any doing-business-as name, taxpayer identification number(s), and street and website address(es); (ii) the name and contact information for the Third-Party Sender's contact person; (iii) names and titles of Third-Party Sender's principals; (iv) type of entries (debit, credit, or both) transmitted by Third-Party Senders.

Nested Third Party Sender Reporting Requirement: A Third Party Sender must disclose to the Bank any Nested Third Party Sender Agreements they may hold. A Nested Third Party Sender is defined as a Third Party Sender that has an agreement with another Third Party Sender to act on behalf of its originators, but holds no agreement directly with the Bank.

General Audit Requirements for Third-Party Senders: A Third-Party Sender is an intermediary between the bank and the entity's (Third-Party Sender's) customers. The Rules require that all Third-Party Senders conduct an internal or external audit of its ACH operation and compliance with the Rules no later than December 31 of each year. Documentation supporting the completion of an audit must be (1) retained for a period of six years from the date of the audit, and (2) provided to NACHA upon request.

Laws and Regulations: Originators are required to comply with laws and regulations of the United States. This includes, but is not limited to, Regulation GG (Unlawful Internet Gambling Enforcement Act), sanction laws administered by the Office of Foreign Assets Control (OFAC), and programs administered by the Financial Crimes Enforcement Network (FinCEN). The penalties for ignoring OFAC obligations can be both criminal and civil and include jail time and fines ranging from \$10,000 to \$10,000,000 per occurrence. If these fines are levied against the bank they may be passed back to the corporate originator depending on the specifics of the case and the details of their contract with the financial institution. The fines are levied by the U.S. government and funds collected are the property of the government, not the financial institution.

Risk Management and Assessment Requirements: Originators need to understand the necessity of risk management requirements, such as (1) the performance of due diligence with respect to Originators

and Third-Party Senders; (2) the assessment of the nature of the Originator's or Third-Party Sender's ACH activity and the risk it presents; and (3) the establishment of procedures to monitor an Originator's or a Third-Party Sender's origination and return activity, and to enforce exposure limits and restrictions on the types of ACH transactions that may be originated.

Androscoggin Bank as an ODFI may establish additional risk management procedures such as requiring that an audit of its Originators' activity be performed, closely monitoring the return volume of its Originators, and assessing the risk associated with the type of ACH activity performed by each Originator. Androscoggin Bank may also limit the types of standard entry class codes which can be originated using the Androscoggin Bank routing number.

This 2024 ACH Rules Awareness & Updates Guide is offered to Androscoggin Bank's ACH clients. This document is meant as a source of information for our clients. Androscoggin Bank makes every attempt to create value-added articles with the most current information possible.

Disclaimer: This "ACH Rules Awareness & Updates Guide" is not intended to provide any warranties or legal advice, and is intended for educational purposes only. For any discrepancies between this Guide and the NACHA Operating Rules and Guidelines please refer to the NACHA Rules.

If you have any questions on the above NACHA Rules or your responsibilities as a participant in the ACH Network, please contact Michelle Latham at mlatham@androscogginbank.com or 1-800-966-9172.