



The Bank of Kaukauna

ACH Originator Training and Best Practices

What is ACH?

The Automated Clearinghouse (“ACH”) networks allow clearing of electronic payment from bank to bank. The ACH networks are governed by NACHA Operating Rules and Guidelines (collectively, the “NACHA Rules”) which apply to all entries and data transmitted through the ACH networks.

NACHA reviews and updates rules annually, rules that affect our ACH Originating Customer will be communicated via email at that time.

What are your responsibilities as an Originator?

As an Originator, you are required to adhere to certain rules and agreements when initiating ACH transactions. Authorization must be readily identifiable as an authorization and have clear and readily understandable terms (including the amount or timing of debits). It should also provide that the receiver may revoke the authorization by notifying the originator in the time and manner stated in the authorization.

You should retain a copy of the authorization for two years following the termination or revocation of the authorization.

Below are various points to consider with respect to your responsibilities as an Originator:

- You must obtain authorization regardless of whether the ACH transaction being processed is a debit or credit.
- You must obtain authorization from a customer when he or she makes a one-time/recurring ACH debit.
- You must indicate very clearly to the customer that they are authorizing a one-time/recurring ACH debit.
- You must provide appropriate notice if you are changing the amount or date of a debit.
- Ensure that you cancel a subscription promptly and stop making debits if a customer asks to cancel.
- If you collect hard copies of sensitive customer data, then you must take reasonable precautions to ensure they are stored securely and only allow employee access for legitimate business purposes.
- Whether you store information electronically or in paper form, you must ensure the information is secured from the point of collection to the time of destruction. Do not store sensitive information on portable devices.
- You must take reasonable steps to ensure customers’ Routing numbers are valid. The Bank of Kaukauna’s system will verify routing numbers during file creation.

- You must ensure secure transmission and storage of sensitive data.
- You must be vigilant about possible fraud and do whatever is “commercially reasonable” to ensure the ACH transactions you initiate are not fraudulent.
- You should have a clear written policy that governs how you protect sensitive data and outlines how you transmit, access, store, and protect confidential data from various threats and unauthorized use.

Reminders when creating an ACH File:

- Do **NOT** use employee social security numbers within ACH files. Please review your templates or files to ensure you are not displaying personal, non-public information within your files. **It is an ACH Rules violation to do so.**
- Ensure your Entry Description is clear on the purpose of the file. I.e Payroll, Pmt Retry, Invoice Pmt
- Daily ACH cutoff for Next Day file submission is 5:00pm CST
- Same Day ACH entry limit is \$1,000,000.00. No one entry within the file can be for more than \$1,000,000.00.
- Same Day ACH Files need to be submitted by 11:00 am CST on that day. Receiving Banks are required to post entry by 5:00 PM in their time zone.
- Each Company is assigned a Daily ACH Limit. If you exceed your limit your file submission email will include the details of the overage. A Treasury Management Service & Support Team Member will place a phone call to an account signer to verify the over limit. This is a fraud mitigation step. Limits may be increased at any time by request of an account signer.
- Any file submitted after 5:00 PM CST will be processed on the next business day.
- When an ACH item you sent is returned to The Bank of Kaukauna, or if the information you used is not correct, we receive either an ACH Return (RET) or an ACH Notification of Correction (NOC). See Below for more information.

When your Company receives one of these Notifications, it is imperative the notice be acted upon timely. The Bank and your Company could be subject to ACH Rule violations and fines if the entry continues to be sent using incorrect information when the receiving financial institution has notified us of the needed change. When the receiving financial institution sends these Notifications of Correction, they warrant the information they are providing is true and correct.

- Fraud continues to happen. We know there is an increase in email account takeover for both consumer email accounts as well as business email systems where fraudsters are communicating routing and account number changes purportedly for employees to the HR

department or to accounts payable areas of a business, but the email is being sent from a fraudster on behalf of the employee or company. The new information is not for an account owned by the employee or company. We strongly encourage a multi-step process in changing routing and account information for your Receivers. A phone call and verbally speaking with the employee, vendor, etc. is always best. Call a number on file and not the phone number contained in the change request as this may be to the fraudster as well. Consider requiring an updated signed form acknowledging the change(s) in addition to the phone call.

Notifications of Change (NOC)

An NOC is a non-dollar entry transmitted by Receiving Bank (RDFI) to notify The Bank of Kaukauna (ODFI) that previously valid information contained in a posted entry has become outdated or is erroneous and should be changed. NOCs allow the RDFI to return information to your ODFI (and thus, your company) without returning the value of the entry. Many NOCs are the result of a merger or consolidation at the RDFI, which requires changes in Receiver account information. When the RDFI is able to recognize the intended account, NOCs provide a means for the RDFI to post the entry to the Receiver’s account and to notify your company of necessary changes. Upon receipt of an NOC, your ODFI must report NOC information to you. The ACH Rules require your company to make the requested changes within 6 banking days of the receipt of the NOC or prior to the initiation of another ACH entry.

ACH Return

An ACH return is an ACH entry that the RDFI is unable to post for reasons defined by the various return codes (see common ones below). An RDFI may use the return process for pre-notifications as well as for valued ACH entries. The RDFI must transmit the return in time for your ODFI to receive it by opening of business on the second banking day following the Settlement Date of the original entry, also referred to as the “24-hour rule.” Some return reasons allow extended deadlines. Your company as the Originator should receive prompt advice of ALL return entries from your ODFI with a code and/or description that describes the reason for the return.

Reason for Return	Action by Originator
R01 – Insufficient Funds	Originator may initiate a new ACH entry within 180 days of original Settlement date. (maximum of two attempts) Entry Description must state "RETRY PMT"
R02 – Account Closed	Originator must stop initiation of entries and obtain an authorization from the Receiver for another account.
R04 – Invalid Account	Originator must stop initiation of entries until account number/structure is corrected.
R05 – Unauthorized Debit to Consumer Account Using Corporate SEC Code	Originator must stop initiation of entries.
R06 – ODFI Request for Return	Originator must accept requested return.

R07 – Authorization Revoked	Originator must stop initiation of entries until new consumer authorization is obtained.
R08 – Payment Stopped	Originator must contact Receiver to identify the reason for the Stop Payment and obtain authorization before reinitiating the entry.
R09 – Uncollected Funds	Originator may initiate a new ACH entry within 180 days of original Settlement date. (maximum of two attempts)
R10 – Customer Advises Not Authorized, Notice Not Provided, Improper Source Document, or Amount of Entry Not Accurately Obtained from Source Document	Originator must stop initiation of entries.
R12 – Account Sold to Another DFI	Originator must stop initiation of entries and obtain correct routing number information for initiation of subsequent entries.
R16 – Account Frozen	Originator must stop initiation of entries.
R17 – File Edit Record Criteria	Originator must identify and correct errors prior to initiation of further entries.
R20 – Non-Transaction Account	Originator must stop initiation of entries.
R23 – Credit Entry Refused by Receiver	Originator must obtain Receiver authorization prior to reinitiating the entry.
R24 – Duplicate Entry	Originator should accept the return. If the entry has already been reversed, Originator should contact the RDFI to determine a solution. An Originator may reverse an erroneous or duplicate ACH entry/file up to 5 banking days after the Settlement Date of the entry/file. OR it may request the RDFI to send a return.
R29 – Corporate Customer Advises Not Authorized	Originator must stop initiation of entries until subsequent authorization has been obtained.
R31 – Permissible Return Entry	Originator must accept return as agreed upon with RDFI. If the Originator or ODFI has not given permission for the untimely return, the return may be dishonored. ACH return entries may be dishonored when they are untimely, when they contain incorrect information or have been misrouted.