

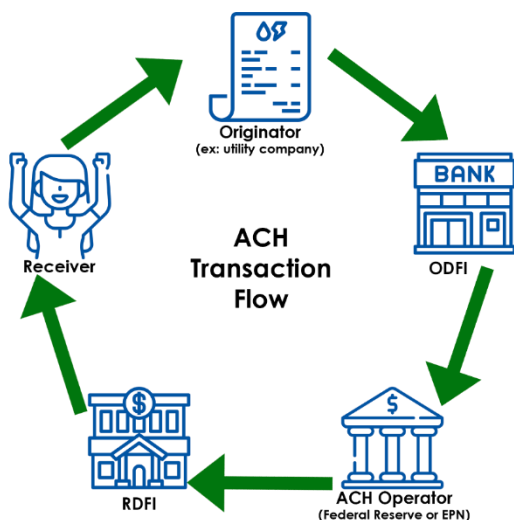
## Small Business Plus User ACH Quick Reference Guide

### ACH Rules for ACH Originators

To ensure compliance with current regulations, all ACH Originators must obtain a current copy of the National Automated Clearing House Association (NACHA) Operating Rules (Rules) and Guidelines that is published annually. A copy of the Rules book may be purchased at [www.nacha.org/store](http://www.nacha.org/store) This quick reference guide provides a summary of ACH facts and ACH Originator responsibilities. *This guide is not intended to be a replacement or substitution for the NACHA Rules and Guidelines. NACHA Rules are subject to change.*

### What is the ACH Network?

The Automated Clearing House (ACH) Network is a cost-effective network created for the electronic movement of money and other related data. This is a safe, secure, and reliable network for direct consumer, business, and government payments.



### Who are the ACH Participants?

There are **five key participants** that contribute to the successful completion of an ACH transaction:

1. The **RECEIVER** can be either an individual or a company that has authorized the Originator (your company) to credit or debit their account. Examples might be employees receiving a payroll deposit or customers receiving a withdrawal for payment of goods or services.
2. The **ORIGINATOR** is any entity that has been authorized by the Receiver to either credit or debit their account with an ACH transaction. If your company is sending the employee's payroll deposit or customer's payment, your company is the **ORIGINATOR**.
3. The **ORIGINATING DEPOSITORY FINANCIAL INSTITUTION (ODFI)** is the financial institution with which your company has the contractual relationship for ACH Services.
4. The **ACH OPERATOR** is the central clearing facility for ACH transactions.
5. The **RECEIVING DEPOSITORY FINANCIAL INSTITUTION (RDFI)** is a financial institution with which the Receiver has an account relationship.

## **ACH Legal Framework**

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

- NACHA Operating Rules ([www.nacha.org](http://www.nacha.org))
- Regulation E (for consumer entries)
  - A Federal Reserve regulation which outlines rules and procedures for electronic funds transfers (EFTs).
- UCC4 (for corporate entries)
  - Governs commercial transactions within the United States.
- Authorizations from employees, customers, etc.
- Small Business Plus Master Services Agreement and Addendum A - ACH Origination

## **Your Responsibilities as an ACH Originator**

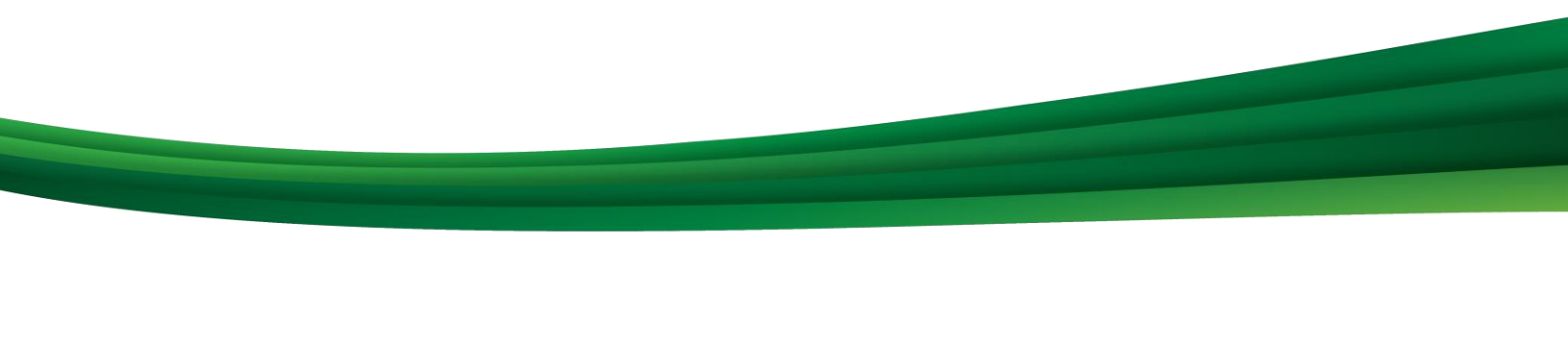
- Obtain proper authorization, dependent upon the transaction type, and retain authorization for two (2) years past revocation.
- If requested by Bank, provide a copy of authorization. Bank may request to see your authorizations from time to time as part of an annual audit.
- Send entries on the proper date to meet settlement deadlines.
- Give appropriate notice to debtor if changing amount or date.
- Cease subsequent entries when notified.
- Make necessary changes to payee account information within six (6) banking days upon receipt of a Notice of Change/Correction or before another entry is sent.
- Check payees against OFAC compliance checklists.
- Protect the banking information received to originate transactions.
- Ensure your computer and organization/entity is protected as outlined in the Small Business Plus Master Services Agreement.
- Select the appropriate Standard Entry Class (SEC) code based on category "corporate" or "consumer".
- Company Entry Description should describe the purpose of the entry to the receiver, i.e. payroll, etc. This description will print on the receiver's bank statement.
- Verbally validate banking information for receivers obtained through e-mail or electronic correspondence.

## **Effective Entry Date**

The date the ACH Originator intends for a batch of entries to settle, the date specified in the Company/Batch Header Record.

## **Settlement Date**

The date an exchange of funds with respect to an entry is reflected on the books of the applicable Federal Reserve Bank(s), and with respect to the non-monetary entry, the date specific in the "Settlement Date" field of the entry.

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## **ACH Authorizations**

### **Direct Deposit Payroll Authorizations (Consumer)**

*Common SEC (Standard Entry Class) Code: PPD*

- Use a direct deposit authorization form to collect employee account information. This form should allow the ACH Originator to make credit and debit entries in the event a payroll adjustment is necessary.
- Obtain a voided check or deposit ticket from the employee (if possible).

### **Consumer Debit Authorizations**

*Common SEC (Standard Entry Class) Code: PPD*

- Authorization to debit an account must be in writing or “similarly authenticated”.
- Authorizations for consumer debit must be maintained in a physically secure location for two (2) years after the authorization is terminated or revoked. After the retention period, secure destruction of the authorization is required.

### **Corporate Authorizations**

*Common SEC (Standard Entry Class) Code: CCD, CTX*

- There must be an agreement between the ACH Originator and company for these types of transactions. While the Nacha Operating Rules do not define an “agreement”, it is recommended you have the company complete an authorization form.
- Both debits and credits may be used for this type of origination.

### **Changing Dates or Amounts of Debits**

- ACH Rules require you to notify your debtors of any changes in date or amount debited under the following circumstances:
  - Seven (7) calendar days’ notice for a change of date (consumer and corporate).
  - Ten (10) calendar days’ notice for a change in amount (consumer only).
- Sending the notice via U.S. Mail or electronically is acceptable.

### **Prenotification (Pre-note)**

- Prenotification (prenotes) are zero-dollar entries that precedes the first live entry. The purpose of a pre-note is to verify account information.
- Prenotes are optional. If sent, pre-note rules must be followed, and the first live entry must be dated at least three (3) banking days after the pre-note is settled.
- The Receiving Bank is not required to validate the name of the payee on the pre-note; they are only required to verify the routing and account number.

## Transaction Codes

A transaction code identifies whether an entry is a debit or credit as well as the type of the account. ACH Entries may be directed to a variety of account types. Both credit and debit entries may be transmitted to demand accounts (Checking and DDA), savings accounts (SAV). A loan account can only accept credit entries. *More information on the various types of debit and credit Transactions Codes can be found in the Nacha Operating Rules & Guidelines.*

| Checking Credits |                                  | Savings Credits |                                  | Loan Credits |                 |
|------------------|----------------------------------|-----------------|----------------------------------|--------------|-----------------|
| Code             | Description                      | Code            | Description                      | Code         | Description     |
| 21               | Notification of Change or Return | 31              | Notification of Change or Return | 52           | Payment         |
| 22               | Deposit                          | 32              | Automated Payment/Deposit        | 53           | Prenotification |
| 23               | Prenotification                  | 33              | Prenotification                  |              |                 |

| Checking Debits |                                  | Savings Debits |                                  | Loan Debits |             |
|-----------------|----------------------------------|----------------|----------------------------------|-------------|-------------|
| Code            | Description                      | Code           | Description                      | Code        | Description |
| 26              | Notification of Change or Return | 36             | Notification of Change or Return | 55          | Reversal    |
| 27              | Payment                          | 37             | Payment                          |             |             |
| 28              | Prenotification                  | 38             | Prenotification                  |             |             |

## Standard Entry Class (SEC) Code

Each ACH transaction is identified and recognized by a specific Standard Entry Class (SEC) Code, which appears in the ACH record format. The SEC Code also identifies the specific record layout that will be used to process the payment and payment-related information. There are specific requirements for each SEC code. *Refer to Appendix Three of the 2024 Nacha Operating Rules & Guidelines, pages OR84 – OR135 for specific formatting requirements.*

| SEC Codes                              | Description   | Debit / Credit  | Consumer / Corporate | Authorization Requirements |
|--|---|-----------------|----------------------|----------------------------|
| <b>ARC</b> - Accounts Receivable Entry | Check conversion Entry used to convert checks received via the U.S. mail, drop box, or in person for payment of a bill at a manned location | Debit           | Consumer/ Corporate  | Notification               |
| <b>BOC</b> - Back Office Conversion    | Check conversion Entry used to convert checks at point-of-sale or a manned bill payment location.   | Debit           | Consumer/ Corporate  | Notification               |
| <b>CCD</b> - Corporate Credit or Debit | Corporate to Corporate transactions   | Credit or Debit | Corporate            | Agreement                  |
| <b>CTX</b> - Corporate Trade Exchange  | Corporate to Corporate transactions with payment related remittance information.  | Credit or Debit | Corporate            | Agreement                  |

|  |  |                 |                        |  |
|--|--|-----------------|------------------------|--|
| <b>POP- Point of Purchase</b>                      | Check conversion Entry used to convert checks received at the point-of-purchase or manned bill payment location  | Debit           | Consumer/<br>Corporate | Notification and Written   |
| <b>PPD- Prearranged Payment and Deposit Entry</b>  | A credit or debit Entry initiated by an organization to a consumer account of a Receiver based on a standing or a Single-Entry authorization from the Receiver. (Examples; Payroll, expense reimbursements, or bill payment such as utility or insurance). | Credit or Debit | Consumer               | Credit – Written, Oral or Similarly authenticated.<br><br>Debit – Written or Similarly Authenticated |
| <b>RCK- Re-presented Check Entry</b>               | Check conversion Entry used to collect funds via the ACH Network for checks returned insufficient or uncollected funds.  | Debit           | Consumer               | Notification   |
| <b>TEL- Telephone Initiated Entry</b>              | ACH Entry initiated by an Originator pursuant to an oral authorization obtained via the telephone  | Debit           | Consumer               | Oral (must be recorded or written notice sent prior to Settlement Date)                              |
| <b>WEB Debit - Internet Initiated/Mobile Entry</b> | ACH Entry initiated pursuant to an authorization obtained via the Internet or Wireless Network.  | Debit           | Consumer               | Similarly Authenticated (Examples: Digital Signature, shared secrets, biometrics etc.)               |

## Reversals

An ACH Reversal may be initiated by an Originator for error resolution. ***A Reversal must be originated within five (5) banking days following the settlement date of the erroneous entry.*** Files must be transmitted within 24 hours of the error discovery to the original entry. The RDFI is not obligated to comply if funds are not available

- If a reversing entry must be made, please contact Small Business Support at 920-617-8278 for instructions.
- Reversals may only be made for the following three conditions:
  - Wrong Dollar Amount
  - Wrong Account Number
  - Duplicate Transaction
- When initiating a reversal, the reversing entry must be for the full amount.
- As an Originator, you must make reasonable attempt to notify the Receiver of the reversing entry. However, a Receiver does not need to authorize the reversing debit.
- The word REVERSAL (all caps) must be used as the Company Entry Description.

## ACH Returns

An ACH Return is an ACH entry that the RDFI is unable to post for reasons defined by the return code. *More information on these Return reason codes can be found in the 2024 Nacha Operating Rules & Guidelines starting on page OR137.*

An RDFI may use the return process for valued ACH entries as well as prenotifications (zero-dollar entries). Most ACH returns must be returned to the ODFI within two (2) banking days following the Settlement Date of the original entry, with a few exceptions. **The ODFI will send notification to you for ALL return entries with a code that describes the reason for the return.** An Originator must make an appropriate action for each ACH return.

- CCD/CTX corporate entries are limited to a 24-hour unauthorized return timeframe. Nicolet recommends that you view your account activity daily.
- Any exception to the 24-hour rule is consumer unauthorized returns, which may be returned within sixty (60) days of posting.
- The use of consumer (PPD) or corporate (CCD/CTX) entry codes determines the applicable ACH return rules.
- An Originator may re-initiate a debit entry up to two times if the entry is returned “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 an approval from the payee to re-send the item.
- It is a violation of NACHA Operating Rules to re-initiate the debit entry if a return is received for any other reason.

| Return Code | Description  | Entry Type              | Return Time Frame | Action by Originator  |
|-------------|--|-------------------------|-------------------|---|
| R01         | INSUFFICIENT FUNDS - Available and/or cash reserve balance not sufficient to cover amount of debit Entry.  | ALL                     | 2 Banking Days    | Originator may reinitiate the ACH Entry for a total of 3 presentments within 180 days of the Settlement Date of the original Entry for the same amount.   |
| R02         | ACCOUNT CLOSED – Previously active account has been closed.  | ALL                     | 2 Banking Days    | Originator must stop initiation of Entries. Contact Receiver to obtain authorization for another account.   |
| R03         | NO ACCOUNT / Unable to Locate Account– Account number structure is valid, but the account number does not correspond to the individual identified in the Entry, or the account number designated is not an existing account. | ALL                     | 2 Banking Days    | Originator must stop initiation of Entries. Contact Receiver to obtain authorization for another account.   |
| R04         | INVALID ACCOUNT – Account number structure is not valid.   | ALL                     | 2 Banking Days    | Originator must stop initiation of Entries until account number/structure is corrected.   |
| R05         | UNAUTHORIZED DEBIT TO CONSUMER ACCOUNT USING CORPORATE SEC CODE – A corporate Entry was transmitted to a consumer account that was not authorized.   | CCD, CTX                | 60 Calendar Days  | Originator must stop initiation of Entries. If a valid authorization exists, the Originator may have recourse outside the ACH Network.  |
| R06         | ODFI REQUEST FOR RETURN – ODFI has requested that the RDFI return an Entry.  | ALL                     | Undefined         | Originator must accept requested return.  |
| R07         | AUTHORIZATION REVOKED – The RDFI’s customer revoked the authorization previously provided to the Originator for this debit Entry.  | PPD, POS, TEL, WEB, IAT | 60 Calendar Days  | Originator must stop initiation of Entries until new consumer authorization is obtained. Depending upon the terms of the original authorization, the Originator may have recourse for collection outside the ACH Network. |



|     |  |                                       |                  |  |
|-----|--|---------------------------------------|------------------|--|
| R08 | PAYMENT STOPPED – The Receiver has placed a stop payment order.  | ALL                                   | 2 Banking Days   | Originator must contact the Receiver to identify the reason for the Stop Payment and must stop initiation of the Entries until they receive instruction from the Receiver.   |
| Ro9 | UNCOLLECTED FUNDS – Sufficient ledger balance exists, to satisfy the dollar value of the transaction, but the available balance is below the dollar value of the debit Entry.  | ALL                                   | 2 Banking Days   | Originator may reinitiate the ACH Entry for a total of 3 presentments within 180 days of the Settlement Date of the original Entry and for the same dollar amount.   |
| R10 | CUSTOMER ADVISES ORIGINATOR IS NOT KNOWN TO RECEIVER /OR ORIGINATOR IS NOT AUTHORIZED BY THE RECEIVER TO DEBIT THE RECEIVERS ACCOUNT. - The RDFI has been notified by the Receiver that the Entry is unauthorized, improper, or ineligible.  | ARC, BOC, IAT, POP, POS, PPD TEL, WEB | 60 Calendar Days | Originator must stop initiation of Entries. If a valid authorization exists, the Originator may have recourse outside the ACH Network.   |
| R11 | CUSTOMER ADVISES ENTRY NOT IN ACCORDANCE WITH THE TERMS OF THE AUTHORIZATION. Transaction was incomplete, the amount debited was different, debited earlier than authorized, Source document ineligible, improperly reinitiated debit entry. | ARC, BOC, IAT, POP, POS, PPD TEL, WEB | 60 Calendar Days | Originator would be permitted to correct the underlying error, if possible and, submit a new Entry without being required to obtain a new authorization. The new Entry must be Originated within 60 days of the Settlement Date of the R11 Return Entry. |
| R16 | ACCOUNT FROZEN/ENTRY RETURNED PER OFAC INSTRUCTION – 1) Access to the account is restricted due to specific action taken by the RDFI or by legal action or 2) OFAC has instructed the RDFI or Gateway to return the Entry.                   | ALL                                   | 2 Banking Days   | Originator must stop initiation of Entries. Terms of authorization may offer recourse outside the ACH Network.   |
| R29 | CORPORATE CUSTOMER ADVISES NOT AUTHORIZED – RDFI has been notified by the Receiver that a specific Entry has not been authorized.  | ALL                                   | 2 Banking Days   | Originator must stop initiation of Entries until subsequent authorization has been obtained. If a valid authorization exists, the Originator may have recourse outside the ACH Network.  |

## What is a Dishonored Return?

- An ACH return entry transmitted by your ODFI in response to a returned ACH entry that was mishandled by the RDFI.
- Dishonored Returns may either be initiated by your company or your ODFI.
- If your ODFI receives a misrouted return, they will initiate the dishonored return. If your ODFI receives an untimely return, the decision to dishonor the return may be made by ACH Originator.
- To dishonor a return, your ODFI, on your company's behalf, must transmit a dishonored return within five (5) banking days of the Settlement Date.
- For additional information, please contact Small Business Support at 920-617-8278.

## Notification of Change (NOC)

A Notification of Change (NOC) is a non-monetary entry transmitted by an RDFI to notify your 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 the ODFI and Originator without returning the value of the entry. *More information on these NOC codes can be found in the 2024 Nacha Operating Rules & Guidelines starting on page OR180.*

**The ACH Rules require an ACH Originator to make the requested changes within 6 banking days of the receipt of the NOC or prior to the initiation of another ACH Entry.**

**Failure to respond to NOCs may result in fines according to the *Nacha Operating Rules***

| NOC Code | Description  | Action by Originator  |
|----------|--|---|
| C01      | Incorrect Account Number.                                    | Change the Receiver's account number record.  |
| C02      | Incorrect Routing Number.                                    | Change the Receiver's Financial Institution routing number.   |
| C03      | Incorrect Routing Number & Incorrect Account Number.         | Change the Receiver's Financial Institution routing number & account number.  |
| C05      | Incorrect Transaction Code.                                  | Change the two-digit transaction code.  |
| C06      | Incorrect Account Number & Incorrect Transaction Code.       | Change the Receiver's account number and transaction code.  |
| C07      | Incorrect Routing Number, Account number & Transaction Code. | Change the Receiver's financial institution routing number, account number, and transaction code.   |
| C09      | Incorrect Individual Identification Number.                  | Change the Individual ID number.  |
| C13      | Addenda Format Error.  | Review the formatting in the Addenda Record that accompanied the original Entry Detail Record to determine errors and make corrections using only ANSI standards or Nacha endorsed banking conventions. |
| C14      | Incorrect SEC Code for Out bound International Payment.      | The RDFI/Gateway has identified the Entry as an Outbound international payment and is requesting that future Entry be identified as IAT Entries.  |

## What is a Same Day ACH Payment?

A Same Day ACH payment is a credit, debit or non-monetary entry that will process and settle in the same day. Same Day ACH provides an optional enhancement designed to address gaps in traditional payment methods. The only identifier of a Same Day ACH entry is the Effective Entry Date in the Company/Batch Header Record.