



eBusiness Connect Security Tips NEWSLETTER

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ACH Rules Awareness Guide for Businesses

From the Desk of Steve Dehnert, Badger Bank President & CEO

Understanding *ACH Rules* keeps your organization at the top of its field, ensuring efficient ACH payments, and strengthening risk management practices. As your financial partner, we strive to keep you informed on our industry guidelines. Please review the below documentation to make sure your business is following the *rules*.

Automated Clearing House (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 found at www.nacha.org.

This Quick Guide provides a brief summary of ACH facts and ACH Originator Responsibilities. It is not intended to be a replacement or substitution for the NACHA Rules and Guidelines. NACHA Rules are subject to change.

ACH Facts

- An ACH Originator is any entity or person that creates an ACH transaction.
- ACH entries are categorized as “consumer” or “corporate.”
- ACH is capable of crediting or debiting checking or savings accounts.
- ACH entries are received by most financial institutions.
- ACH is a batch system (not real time).
- ACH entries are irrevocable once they have been sent for processing.

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)
- Regulation E (for consumer entries)
- UCC4 (for corporate credits)
- Badger Bank Deposit Agreement and Terms and Conditions
- Badger Bank eBusiness Connect & ACH Agreements
- Authorizations from employees, customers, etc.
- Bank and Corporate agreements

Your Responsibilities as an Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for two years past revocation (See “Consumer Debit Authorizations”).
- If requested by the Bank, provide a copy of the authorization. Badger Bank may request to see your authorizations from time to time as part of an audit.
- Send entries on the proper date.

- 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 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 you are protected as outlined in the Badger Bank eBusiness Connect & ACH Agreements

Direct Deposit Payroll Authorizations (Consumer)

- Use a direct deposit authorization form that collects employee account information. This form should allow the company 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).
- The most common SEC code for direct deposit is PPD.

Consumer Debit Authorizations

- For consumers, an authorization to debit an 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. While the NACHA Rules do not define an “agreement,” Badger Bank recommends that you have the company complete an authorization form.
- The most common SEC codes for corporate transactions are CCD or CTX, depending upon addenda origination. It is used for debits and credits.

Changing Date 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 is acceptable.

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 you to send. However, if sent, prenote rules must be followed and a prenote must precede the first live entry by at least six (6) 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.

Notice of Change

- 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 you to make the change within six (6) banking days of receiving the information from Badger Bank or before another entry is sent.
- The Receiving Bank warrants that the information they provide to you is correct.
- Badger Bank will notify you of any NOCs received on your behalf.
- Badger Bank may pass along any fines received based upon your non-compliance.

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 of the banking network. Badger Bank recommends that you view your account activity daily.
- Any exception to the 24-hour rule is consumer unauthorized returns, which may be returned within 60 days of posting.
- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must get a signed Written Statement of Unauthorized Debit from the account holder. You may obtain a copy of that statement by requesting a copy through Badger Bank.
- 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 NACHA Rules to re-initiate the debit entry if a return is received for any other reason.

Reversals

- If a reversing entry must be made, please contact Badger Bank at 920.563.2478 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, must be sent within five (5) banking days of original entry and must be sent 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.

OFAC (Office of Foreign Asset Control)

- You are required to check payees against OFAC compliance checklists.
- OFAC lists countries, groups and individuals with which U.S. Companies are not permitted to send or receive funds.
- The Bank must protect itself by informing every client that it is against the law to send debit or credit entries to OFAC-blocked entities.
- You may check the OFAC SDN list at: <http://sdnsearch.ofac.treas.gov>.