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## 2021 ACH ORIGINATOR QUICK REFERENCE

### Overview:

This document covers important information you should be aware of as an originator of ACH transactions, or an "ACH Originator."

The following information is to help you stay current with the ACH Operating Rules and informed of any changes in the National Automated Clearing House Association (Nacha) rules. Updates can also be found in the Revisions to the NACHA Operating Rules section of Nacha Operating Rules & Guidelines resources.

Changes will cover the time period of January 1 to December 31 of that year.

### Contents:

- General Information
- Governing Rules and Agreements
- ACH Originator Responsibilities
- Corporate Authorizations
- Proper SEC Code Usage
- Updates for 2021
- Additional Information



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## General Information

- An ACH Originator is any entity or person that creates an ACH transaction
- ACH entries are categorized as "consumer" or "corporate"
- ACH is a batch system, not real time
- Once sent to the ACH Operator, entries are final
- ACH is capable of crediting or debiting checking or savings accounts
- Most banks and credit unions receive ACH entries

## Governing Rules and Agreements

As an ACH Originator, you are required to abide by multiple rules and agreements including, but not limited to, the following when submitting ACH files and transactions:

- Nacha Operating Rules, found at [www.nacha.org](http://www.nacha.org)
- Regulation E (for consumer entries)
- UCC4A (for corporate credits)
- Stearns Bank Deposit Account Agreement
- Stearns Bank ACH Agreement
- Bank/Corporate Agreements
- Customer Authorizations

## ACH Originator Responsibilities

The ACH Originator must agree to:

- Be bound by the Nacha Operating Rules
- Not originate entries that violate the laws of the United States
- Protect the banking information received
- Send entries on the proper date, according to your critical timing calendar
- Make necessary changes to payee account information within six banking days when notified by Stearns Bank
- Cease subsequent entries when appropriate
- Ensure your computer and you are protected as outlined in your original agreement

In addition, all payees must be verified against lists issued by the Office of Foreign Asset Control (OFAC).

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## Corporate Authorizations

- ACH Originators must obtain signed and dated agreements with their Receivers (i.e. customers, vendors, etc.) before originating ACH Debit files
- Agreements must be securely stored and retained until 2 years from the date of cancellation, termination or revocation
- Nacha does not specify the verbiage required in their authorization agreements but ACH Originators must hold themselves to all Nacha requirements for origination, regardless of said agreements



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## Proper SEC Code Usage

Standard Entry Class (SEC) Codes are three-character codes that identify the type of entry. The rules explicitly require the use of the appropriate SEC Codes for all entries.

If you are unsure of which SEC Codes were authorized as part of your agreement with Stearns Bank, contact the StearnsConnect Team at **(888) 629-8707**.

Stearns Bank allows for the Origination of the following SEC Codes: CCD, PPD, WEB and TEL, each of which are described in detail below.



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### **CCD – Corporate Credit or Debit Entry**

CCD is a credit entry, a debit entry, or a non-monetary entry originated by an Organization to, or from, the account of that Organization or another Organization.

It can be either a buyer-initiated or seller-initiated transaction used to move funds between the buyer's and seller's financial institution accounts. CCD may be used by companies to move funds from outlying depository locations to a central bank account.

**Agreement with Receiver:** As with all ACH transactions, the Originator of a CCD entry must have the Receiver's authorization to debit or credit the Receiver's account.

The Nacha Operating Rules do not require the CCD authorization to be a specific form. However, the rules require the Originator and Receiver to have an agreement that binds the Receiver to the Rules. This trading partner agreement should contain the authorization requirements and procedures as determined by the parties; the companies negotiate the terms.



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## **PPD – Prearranged Payment and Deposit Entry**

PPD is 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.

Entries can be used for both recurring and non-recurring payments.

When initiating a PPD entry:

- An Originator obtains authorization from the Receiver to originate an entry to the Receiver's account
- For PPD debit entries, the authorization must be in writing and signed or similarly authenticated by the Receiver
- For PPD credit entries, the consumer's authorization may be provided orally or by other non-written means
- The Originator initiates PPD entries to the Consumer's account based on the terms of the authorization

A PPD authorization must:

- Be in writing
- Be readily identifiable as an ACH authorization
- Have clear and readily understandable terms
- Provide that the Receiver may revoke the authorization only by notifying the Originator in the manner specified in the authorization
- Be either signed or similarly authenticated by the consumer

Additionally, the Originator must provide the Receiver a copy of the authorization for all debit entries. An Originator must retain the original, or a reproducible copy of the authorization for two years from termination/revocation.



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## **WEB – Internet-Initiated/Mobile Entry**

A WEB entry is a debit entry initiated by an Originator to a Consumer Account of the Receiver based on:

- Any form of authorization that is communicated from the Receiver via the Internet or a Wireless Network, except for an Oral Authorization via a telephone call; or
- Any form of authorization if the Receiver's instructions for the initiation of the individual debit entry is designed by the Originator to be communicated, other than orally via a telephone call, to the Originator via a Wireless Network

**Obligations of Originators:** The Nacha Operating Rules require an Originator of debit WEB entries to conduct or have conducted, on its behalf, annual audits to ensure that the financial information it obtains from Receivers is protected by security practices and procedures.

### **WEB Authorization Requirements:**

For credit WEB entries, no authorization by the Receiver is required. Non-consumer Originators of debit WEB entries must obtain the Receiver's authorization prior to initiating a debit entry under this application.

The authorization must conform to the Rules, which require that:

- The authorization must be in writing that is signed or similarly authenticated by the Receiver via the Internet or Wireless Network; or
- The authorization is obtained in any manner permissible for other SEC Codes, but the Receiver's instructions for the initiation of the debit entry is communicated via a Wireless Network; and
- The authorization must be readily identifiable as an ACH debit authorization
- The Authorization must express its terms in a clear and readily understandable manner; and
- The authorization provides the Receiver with a method to revoke their authorization by notifying the Originator in the manner prescribed

To meet the requirement that the authorization be in writing, in the context of WEB entries, the Receiver must be able to read the authorization language displayed on a computer screen or other visual display.

The Originator should prompt the Receiver to print the authorization and retain a hard copy or electronic copy. The Originator must be able to provide the Receiver with a hard copy of the authorization if requested to do so. Only the Receiver may authorize the WEB transaction, and not a Third-Party Service Provider on behalf of the Receiver.

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The Nacha Operating Rules allow the use of a digital signature or code to similarly authenticate a written authorization.

Examples include:

- Digital signatures
- Codes
- Shared secrets
- PINs
- Biometrics



## TEL – Telephone-Initiated Entry

A TEL entry is a debit entry initiated by an Originator to a Consumer Account of the Receiver, based on an oral authorization obtained over the telephone.

Initiating a TEL entry:

- Initiated by an Originator in response to a Receiver's oral authorization that is spoken over the telephone and includes certain elements of the Receiver's banking information, as specified in the Rules
- Based on the Receiver's oral authorization, an ACH debit is initiated to the Receiver's account to collect payment for goods or services
- TEL entries may be used for debit transactions only

A TEL entry may be transmitted only in circumstances in which:

- There is an existing relationship between the Originator and the Receiver; or
- There is not an existing relationship between the Originator and the Receiver, but the Receiver initiated the telephone call to the Originator

The Originator and the Receiver are considered to have an existing relationship when either:

- There is a written agreement in place between the Originator and the Receiver for the provision of goods or services (e.g., the Receiver has an insurance policy with the Originator); or
- The Receiver has purchased goods or services from the Originator within the past two years.

### **Obligations of Originators:**

- Obtain specific information to the Receiver during the telephone call;
- Audio record the oral authorization or provide written confirmation of the Receiver's authorization for single-entry TEL entries
- Comply with Regulation E with respect to recurring TEL entries, including its requirements to audio record the oral authorization AND provide a written copy of the Receiver's authorization
- Verify the identity of the Receiver; and
- Verify routing numbers

### **TEL Authorization Requirements:**

- Originators of TEL entries must obtain the Receiver's explicit oral authorization prior to initiating a debit entry to a consumer's account
- The authorization must evidence the Receiver's identity and assent to the authorization



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- For both single entry and recurring TEL entries, the Originator must clearly state during the telephone conversation that the consumer is authorizing an ACH debit entry to their account
- The Originator must understand that the Receiver must explicitly express consent; silence is not express consent



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## 2021 Updates

### 1. Supplementing Fraud Detection Standards for WEB Debits (Effective March 19, 2021)

With the implementation of the Supplementing Fraud Detection Standards for WEB debits rule, the current requirement to screen WEB debits for fraud will be enhanced to make it explicit that “account validation” is part of a “commercially reasonable fraudulent transaction detection system.”

The supplemental requirement will apply to the first use of an account number or changes to the account number. For existing WEB debit authorizations, the rule will be effective on a going-forward basis.

Originators must perform account validations, as there are updates to account numbers in existing authorizations.

**Impact on Originators:** Originators of WEB debits may need to re-tool their ACH fraud detection systems to comply with the rule. Those Originators of WEB debits that do not currently perform any fraud detection will need to implement a system to do so.

### 2. Supplementing Data Security Requirements (Phase 1 effective June 30, 2021 Phase 2 effective June 30, 2022)

The Supplementing Data Security Requirements rule expands the existing ACH Security Framework to explicitly require large, non-financial institution Originators, Third-Party Service Providers, and Third-Party Senders to protect account numbers used in the initiation of ACH entries by rendering them unreadable when stored electronically.

Implementation of the Supplementing Data Security Requirements rule will begin with the largest Originators, TPSPs, and TPSs and will initially apply to those with ACH volume of six million transactions or greater, annually. A second phase will apply to those with ACH volume of two million transactions or greater, annually.

**Impact on Originators:** Any participants that are not currently compliant with the rule will need to implement changes to bring their systems into compliance.



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### **3. Meaningful Modernization**

Meaningful Modernization is comprised of five amendments, designed to improve and simplify the ACH user experience.

They do so by facilitating the adoption of new technologies and channels for the authorization and initiation of ACH payments, reducing barriers to use of the ACH Network, providing clarity and increasing consistency around certain ACH authorization processes and reducing certain administrative burdens related to ACH authorizations.

The amendments will:

- Explicitly define the use of standing authorizations for Consumer ACH debits
- Define and allow for oral authorization of consumer ACH debits beyond telephone calls
- Clarify and provide greater consistency of ACH authorization standards across payment initiation channels
- Reduce the administrative burden of providing proof of authorization
- Better facilitate the use of electronic and oral WSUDs

**Four of the five amendments affect originators and are included below.**



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**Standing Authorizations Amendment:  
(Effective September 17, 2021)**

The current authorization framework for consumer ACH debits encompasses recurring and single payments.

Recurring payments occur at regular intervals, with no additional action required by the consumer to initiate the payment and are for the same or a similar amount. For example, a monthly mortgage payment or utility bill. A single payment is a one-time payment and can be between parties that have no previous relationship, such as in a purchase, or between parties that have a relationship, but the payment is not recurring. For example, a single payment on a credit card.

ACH Originators that have, or want to use, a different model for ongoing commerce do not have specific rules for payment that are a hybrid, falling somewhere in between recurring and single entries.

By defining a Standing Authorization, the Rule will fill the gap between single and recurring payments and enable businesses and consumers to make more flexible payment arrangements for relationships that are ongoing in nature. The Standing Authorizations Rule will define a standing authorization as an advance authorization by a consumer for future debits at various intervals. Under a Standing Authorization, future debits would be initiated by the consumer through further actions. The Rule will allow for Originators to obtain Standing Authorizations in writing or orally.

The Rule also defines subsequent entries, which will be individual payments initiated based on a Standing Authorization. Subsequent entries will be able to be initiated in any manner identified in the Standing Authorization. The Rule will allow Originators some flexibility in the use of consumer Standard Entry Class (SEC) Codes for individual subsequent entries.

Originators will be able to use the TEL or WEB SEC Codes for subsequent entries when initiated by either a telephone or via the Internet/wireless network, respectively, regardless of how the Standing Authorization was obtained. In these cases, the Originator will not need to meet the authorization requirements of TEL or WEB but will need to meet the risk management and security requirements associated with those SEC Codes.

**Impact on Originators:** Originators may choose to use Standing Authorizations and subsequent entries but will not be required to do so. Those Originators that want to use this authorization method may need to modify or add to their authorization practices and language.



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**Oral Authorizations Amendment:  
(Effective September 17, 2021)**

Currently, the authorization language in the Nacha Operating Rules does not provide for oral authorizations of an ACH payment outside of a telephone call. The Oral Authorizations rule will define and allow Oral Authorizations as a valid authorization method for consumer debits distinct from a telephone call.

Enabling the broader use of Oral Authorizations will allow businesses to adopt ACH payments in transactional settings that make use of verbal interactions and voice-related technologies. The Rule will not change how existing TEL transactions are used and authorized.

Under the Rule, any oral authorization obtained via any channel will need to meet the requirement of an Oral Authorization. An Oral Authorization obtained over the Internet that is not a telephone call also will need to meet the risk and security requirements that currently apply to Internet-Initiated/Mobile (WEB) entries and will use the WEB SEC Code.

The Rule will allow for Standing Authorizations to be obtained orally. In addition, the Rule will allow for subsequent entries initiated under a Standing Authorization to be initiated through voice commands, instructions or affirmations.

**Impact on Originators:** Originators may choose to use the expanded applicability of Oral Authorizations but will not be required to do so. Those Originators that want to use Oral Authorizations will need to modify or add to their authorization practices and language to ensure they meet all the requirements for Oral Authorizations. Originators may find that their digital storage needs will be impacted by using Oral Authorizations.



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**Other Authorization Issues Amendment:  
(Effective September 17, 2021)**

In conjunction with the rules on Standing Authorizations and Oral Authorizations, Meaningful Modernization includes the Other Authorization Issues rule, which covers other modifications and re-organizations of the general authorization rules for clarity, flexibility and consistency.

For clarity, the Rule will:

- Re-organize the general authorization rules to better incorporate Standing Authorizations, Oral Authorizations and other changes
- Define 'recurring entry' to complement the existing definition of 'single entry' and the new definition of 'subsequent entry' and align with terms in Regulation E

For flexibility, the Rule will explicitly state that authorization of any credit entry to a consumer account and any entry to a non-consumer account can be by any method allowed by law or regulation. Only consumer debit authorizations require a writing that is signed or similarly authenticated

For consistency, the Rule will:

- Apply the standards of "readily identifiable" and "clear and readily understandable" terms to all authorizations
- Apply the minimum data element standards that are currently stated only in the rules for Telephone-Initiated Entries for all Consumer debit authorizations

**Impact on Originators:** Originators and ODFIs may need to review authorizations to ensure they meet the standards of "readily identifiable" and "clear and readily understandable" terms. These participants may also need to review and revise consumer debit authorization language to ensure that it includes the minimum data elements.



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## **Additional Information**

NACHA Operating Rules available at [www.nacha.org](http://www.nacha.org).

The Better Business Bureau offers training specifically for small businesses on how to simplify the requirements of ACH data security. Visit [www.bbb.org/data-security](http://www.bbb.org/data-security) to get further information.

For additional information contact StearnsConnect Electronic Banking Team:

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