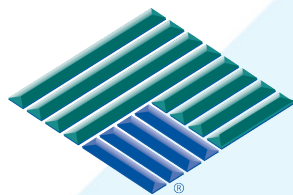




# ACH Originator Quick Reference 2020



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# Overview

- This document overviews important information you should be aware of as an originator of ACH transactions “ACH Originator”.
- The following information is to help you stay current with the ACH Operating Rules and keep you informed of any changes in the National Automated Clearing House Association (NACHA) rules.
- Changes can also be found in the Revisions to the NACHA Operating Rules section of the rule book. Changes will cover the time period of January 1 to December 31 of that year.

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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.

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# 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 ([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

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# 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, and
  - Cease subsequent entries when appropriate.
- All payees must be verified against lists issued by the Office of Foreign Asset Control “OFAC”. Refer to page 12 for additional information regarding OFAC requirements.
- Ensure your computer and you are protected as outlined in original agreement.

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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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# ACH Prenotes

- ACH Prenotes:
  - Are zero-dollar entries that precede the first live entry.
  - Purpose is to verify account information.
  - Are recommended, but their usage is not required.
  - When sent, the ACH prenote rules must be followed.
- Once a prenotification entry is sent, the ACH Originator may initiate subsequent Entries to the Receiver's account as soon as the third Banking Day following the Settlement Date of Prenotification Entry, provided the ODFI has not received a Return or NOC related to the Prenote.
- The Receiving Bank is only required to check the account number. They are not required to validate the name of the payee, although many do.
- There is still a risk if the subsequent entry credits the wrong account (this is true for all originations, not just prenotes)

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# Notice of Change (NOC)

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting that future entries contain corrected information. ACH Rules require you, as the ACH Originator, to make the change within six banking days of receiving the information from RDFI.
- Stearns Bank will notify you of any NOCs received on your behalf.
- The Receiving Bank warrants that the information they provide is correct.

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# ACH Reversals

- Reversals may only be initiated for duplicate or erroneous transactions.
- The ACH Originator **MUST** make reasonable attempt to notify the Receiver of, and the reason for, the reversing entry no later than the Settlement Date of the Reversing Entry.
- If a transaction qualifies and a reversing file/entry must be made, please contact the Stearns Connect team at: 888-629-8707 for instruction.
- The word “REVERSAL” (as shown) must be placed in the Company Entry Description Field of each Company/Batch Header Record.

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# ACH Reversals Continued

- When doing a reversal of a duplicate or erroneous batch:
  - The reversing entry must be for the full amount,
  - Must be sent within five banking days of original entry and
  - Within 24 hours of discovering the error.
- For incorrect amount or account information, a correcting entry must also be sent at the same time of reversal.
- 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.
- An authorization is not required for the reversing of a debit.

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# Office of Foreign Asset Control (OFAC)

- One such law is issued by OFAC that provides lists of countries, groups and individuals that U.S. companies are not allowed to send funds to or receive funds from.
- Stearns Bank must inform every ACH Originator that it is against the law to send debit or credit entries to OFAC blocked entities.
- ACH Originators can check payees against the OFAC SDN list at: <https://www.treasury.gov/about/organizational-structure/offices/pages/office-of-foreign-assets-control.aspx> - and clicking on the Resources tab.

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# 2020 Updates – Same day ACH Dollar Limit Increase

## Expanding Same Day ACH Rule: Regarding the Dollar Limit (effective 03/20/2020)

- Increased the per-transaction dollar limit from \$25,000.00 to \$100,000.00.
- Both Same Day ACH credits and Same Day ACH Debits are eligible for same-day processing up to \$100,000.00 per transaction.

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# 2020 Updates – Differentiating R10 & R11 Return reasons

## Differentiating Unauthorized Return Reasons (Phase 1 effective 04/01/2020)

- Return Reason Code R10 is a catch-all for various types of underlying return reasons, including some for which a valid authorization exists (i.e., a debit on the wrong date or for the wrong amount).
- An actual relationship and payment authorization between the ACH Originator and its customer (the Receiver), but the ACH Originator made an error regarding the payment. For these cases, a return of the debit still should be made, but using a return reason for correction of the error rather than termination of the origination authorization.
- **New**: Return Reason Code R11 has been repurposed for the return of a debit in which there is an error, but for where there is an authorization. The repurposed description is “Customer Advises Entry Not In Accordance with the Terms of the Authorization.”

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# 2020 Updates – Data Security Requirements

## Supplementing Data Security Requirements (Phase 1 effective 06/30/2020)

- Financial Institutions, ACH Originators, Third-Party Services Providers, and Third-Party Senders are currently required to establish, implement, and update security policies, procedures, and systems related to the initiation, processing and storage of ACH entries.
- Policies, procedures, and systems must:
  - Protect the confidentiality and integrity of Protected Information,
  - Protect against anticipated threats or hazards to the security or integrity of Protected Information, and
  - Protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.
- **New**: Account numbers used in the initiation of ACH entries must be protected by rendering them unreadable when stored electronically.

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# Upcoming Updates - 2021

- Differentiating Unauthorized Return Reasons
  - (Phase 2 effective 04/01/2021)
- Supplementing Data Security Requirements
  - (Phase 2 effective 06/30/2021)
- Supplementing Fraud Detection Standards for WEB Debits
  - (effective 03/19/2021)
- New Same Day ACH Processing Window
  - (effective 03/19/2021)

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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 Stearns Bank Electronic Banking Department:
  - Phone: 888-629-8707 or
  - Email: [StearnsConnect@stearnsbank.com](mailto:StearnsConnect@stearnsbank.com).

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