



Consumer ACH Originator Guide

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This document does NOT contain all the rules and regulations that govern ACH transactions. For more information, go to www.epcor.org.<<http://www.epcor.org>>

All information contained herein is subject to change.

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Revision History

Version	Revision Date	Author	Description of Content Change
3.0	7/26/17	Felicia Storm	<ul style="list-style-type: none"> Revised Document
2018.01 Final	5/1/18	Felicia Storm	<ul style="list-style-type: none"> Addition of Eligible and Ineligible POP Source Documents Option to Opt Out of check conversion Additional Prenote detail Addition of Reinitiation and Dishonor of Returned Entries Added definitions for: Auxiliary On-Ups Field; Cashier's Check; Certified Check; Bank Draft; Paper Draft; Money Order Indent "Amount" options for WEB Authorization details Addition of CCD requirement to bind Receiver to the NACHA Rules

Introduction

This document provides a high-level overview of the Consumer ACH product.

ACH DEFINED

In general, the Automated Clearing House (ACH) is an electronic payments network, governed by the National Automated Clearing House Association (NACHA) Operating Rules and used by individuals, businesses, financial institutions and government agencies to transfer funds.

The ACH network is a Batch processing, store and forward system. ACH processes large volumes of both credit and debit transactions which are originated in Batches. This provides faster processing than paper checks, which must be physically handled. Instead of using paper to carry necessary transaction information, ACH transactions are transmitted electronically between financial institutions through data transmission. Rules and regulations governing the ACH network are established by NACHA.

Through the ACH product, automatic withdrawals or deposits can be processed, paper checks can be converted into electronic transactions, recurring withdrawals can be scheduled, or spontaneous transactions can be accepted over the telephone or internet.

The benefits of accepting ACH:

- ACH is less expensive than credit card and check processing and is more secure than cash.
- ACH processing requires less information and human contact than check processing.

The benefits of using *our* ACH process:

- ACH transactions may be submitted with credit card transactions in the same Batch, or in a separate Batch.
- If ACH transactions are submitted with card transactions, the merchant will be funded for all activity in the same deposit.
- While other financial institutions require ACH customers to establish an account for Settlement internally, we will transfer funds to the merchant's local bank.
- Merchants may process ACH under the same Merchant Identification Number (MID) as their card transactions or use a separate MID. This allows the merchant to receive a single, or separate, transfer for activity processed.
- Transactions are passed through "edits" to assure the fields are properly formatted and values appropriate
- For specific Return items, we offer the option to automatically "Re-clear" (re-send) the item on a merchant-by-merchant basis. The merchant will not be financially impacted until all possible attempts have been exhausted.
- If we receive notice from the Federal Reserve Bank that the Transit Routing number has changed, (e.g. due to mergers, acquisitions, or the financial institution uses a different Transit Routing number for electronic transactions than for paper checks) we automatically update the transaction when we create our ACH File and provide notification to the Originator sooner than if they were to wait for Notification from the Receiving Depository Financial Institution (RDFI) to occur.

ACH Security Framework Rule

The ACH Rules require all Originators to establish, implement and update, as appropriate, policies, procedures and systems with respect to the initiation, processing and storage of ACH Entries that are designed to:

- Protect the confidentiality and integrity of Protected Information until destruction;
- Protect against anticipated threats or hazards to the security or integrity of Protected Information until its destruction, and
- Protect against unauthorized use of Protected Information that could result in substantial harm to a natural person.

Policies, procedures and systems must include controls that comply with applicable regulatory guidelines on access to all systems used by such non-consumer Originators, participating Depository Financial Institutions (DFIs), or Third-Party Service Providers (TPSP) [and Third-Party Senders (TPS)] to initiate, process and store Entries.

Merchant should implement data security and controls surrounding ACH information as those set out in PCI requirements related to credit card acceptance.

Impact to Merchant:

- Each merchant needs to evaluate its current security policies, procedures and systems to ensure the company identifies safeguards for Protected Information – non-public information, including financial information of customers.
- Document its security policies, procedures and systems related to safeguarding protected ACH payment information.
- Maintain its security policies, procedures and systems related to safeguarding protected ACH payment information.

SEC Codes and Authorization Rules

The ACH network supports different payment applications. Each ACH application is identified and recognized by a specific Standard Entry Class (SEC) Code, which appears in the ACH record. The SEC Code identifies the ACH transaction type relevant to the application (whether it's a consumer or commercial transaction). Each SEC Code has different Rule, Authorization and/or disclosure requirements. Proper use of SEC Codes is crucial in ensuring that the merchant and the Originating Depository Financial Institution (ODFI) are in compliance with NACHA Rules.

The Originator (Merchant) MUST obtain proper Authorization prior to initiating an ACH transaction.

Following is the list of the SEC Codes we process and the Authorization and retention requirements for each.

NOTE: This section is intended to provide general information about each SEC Code. For complete information, refer to a recent version of the *NACHA Operating Rules and Guidelines*. **The *NACHA Operating Rules and Guidelines* supersedes any and all discrepancies between it and this ACH User Guide.**

SELECTION OF THE PROPER SEC CODE IS PARAMOUNT

SEC Codes

Each ACH Entry must be identified by an SEC code which determines the Rules governing the Entry. **In all cases, the merchant should be prepared to provide a copy of the Authorization obtained. (See "Authorization Requirements" on the next page)**

SEC Code	Title	Transaction Type	Transaction Code	When to apply
CCD	Corporate Credit or Debit Entry	Commercial	Both Credits and Debits	Business to Business (B2B) ACH transactions should use this SEC Code, when obtaining Authorization via a signed form (a/k/a Trading Partner Agreement), verbally over the phone, or via the internet
PPD	Prearranged Payment and Deposit Entry	Consumer	Both Credits and Debits	The consumer signs a form authorizing withdrawal from their account
POP	Point of Purchase	Both	Debits Only	Converted check at the point of purchase
TEL	Telephone-Initiated Entry	Consumer	Debits Only	Consumer provides oral Authorization via the telephone
WEB	Internet-Initiated Entry	Consumer	Debits Only	Consumer provides Authorization via the internet or a wireless network

Authorization Requirements

CCD – Corporate Credit or Debit Entry

Used to move funds to/from the account of one Organization to another Organization.

- The *NACHA Operating Rules and Guidelines* do not require the CCD Authorization to be in a specific form. However, the *Rules* require the Originator and Receiver to have a Trading Partner 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.
- The Authorization, whatever the format, should bind the Receiver to the NACHA rules.

Authorization Retention:

The Originator must be able to provide an accurate record evidencing the Receiver's Authorization or contact information that, at a minimum, includes the Originator's name and phone number or email address for inquiries regarding Authorization of Entries.

PPD – Prearranged payments and Deposit Entry

Through standing Authorizations, the consumer grants the merchant authority to initiate periodic charges to their account as bills become due. These transactions can be one-time or Recurring.

The 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; and
- Be either signed or similarly authenticated by the consumer.
- The Originator must provide the Receiver a copy of the Authorization for all debit Entries
- For credit Entries to a consumer account, the Authorization may be obtained in writing (a "best practice")

Authorization Retention:

An Originator must retain the original or a reproducible copy of the Receiver's Authorization for two years from the termination or revocation of the Authorization, and must be able to provide an accurate copy.

POP – Point of Purchase Entry

Used when the customer presents a check in-person and is read through a reading device to generate a one-time debit to the check writer's account.

An Originator may satisfy the requirement for Authorization of a POP Entry by providing the Receiver a notice meeting the NACHA requirements and obtaining a written Authorization from the Receiver (by signing the receipt). The Originator must provide a conspicuous notice to the Receiver that includes the following, or substantially similar, language prior to the receipt of each Eligible Source Document:

“When you provide a check as payment, you authorize us either to use information from your check to make a one-time electronic fund transfer from your account or to process the payment as a check transaction.”

- An Originator must initially use a reading device to capture the Receiver's routing number, account number, and check serial number from the MICR line of the Eligible Source Document. Such information may not be key-entered, except to correct errors resulting from MICR misreads or processing rejects.
- The Originator must post the notice in a prominent and conspicuous location and a copy of such notice, or language that is substantially similar, must be provided to the Receiver at the time of the transaction.

An Originator must use an Eligible Source Document provided by the Receiver at the point-of-purchase as the source document for the Receiver's routing number, account number, and check serial number. The document does not need to be completed or signed by the Receiver.

- Eligible Source Documents must meet the following requirement:
 - Have pre-printed check serial number, routing number and account number in magnetic ink.
- Ineligible Source Documents include:
 - Checks that contain Auxiliary On-Ups Field in MICR line
 - Check is payable to person other than Originator
 - Check cannot be a bank or paper draft
 - Check that is an obligation of a financial institution (e.g. Official Check, Cashier's Check, Money Order, Traveler's Check)
 - Check that accesses credit card, home equity line or some other form of credit
 - Check drawn on an Investment Company
 - Checks drawn on the Treasury of the United States, a Federal Reserve Bank, or a Federal Home Loan Bank)
 - Checks Drawn on a State or Local Government that is not payable through or at a participating DFI.
 - Checks payable in a medium other than U.S. currency
- An Originator must provide the Receiver a receipt containing the following information:
 - Originator Name (Merchant);
 - Company (Merchant)/TPSP telephone number;
 - Date of transaction;
 - Transaction amount;
 - Check Serial Number
 - Merchant Number (or other unique number that identifies the location of the transaction)
 - Terminal City
 - Terminal State
- Also recommended, but not required to be on the receipt:
 - Merchant Address;
 - Receiver's financial institution routing number;
 - Receiver's truncated account number, (*the Receiver's complete account number must not be placed on the receipt*)
 - Receiver's truncated identification number; and
 - Transaction reference number

The Originator must void the Eligible Source Document used and return it to the Receiver at the time of the transaction.

- Receiver may “Opt Out”
 - Receiver may choose to “Opt Out” of having their check converted at the point of purchase by choosing not to sign the authorization
 - Receivers may have an Auxiliary On-Us Field imprinted in the MICR line on their check making the Source Document ineligible for conversion

Authorization Retention:

The Originator must retain the original or a copy of the Receiver’s Authorization for two years from the Settlement Date. Originators must be prepared to provide a copy upon request.

TEL – Telephone-Initiated Entry

Used when an oral Authorization is provided to the Originator by a Receiver via the telephone. May only be used when there is an existing relationship between the Originator and the Receiver, or, when there is not an existing relationship between the Originator and the Receiver, when the Receiver initiates the telephone call.

- The Authorization must be readily identifiable as an Authorization and must have clear and readily understandable terms.
- The Originator must either make an audio recording of the oral Authorization or provide the Receiver with written notice confirming the oral Authorization prior to the Settlement of the Entry.
- The Originator must establish and implement commercially reasonable procedures to verify the identity of the Receiver.
- The Originator must establish and implement commercially reasonable procedures to verify that the routing number used is valid.
- The following information must be included as part of the Authorization:
 - The date on or after which the ACH debit to the Receiver’s account will occur;
 - The amount of the transaction or a reference to the method of determining the amount of the transaction;
 - The Receiver’s name or identify;
 - The account to be debited;
 - A telephone number for Receiver inquiries that is answered during normal business hours
 - The date of the Receiver’s oral Authorization;
 - A statement by the Originator that the Authorization obtained from the Receiver is for a single-entry ACH debit, a one-time electronic funds transfer, or other similar reference.
- Use of a Voice Response Unit (VRU) to capture a Receiver’s Authorization does not qualify as an oral Authorization. A VRU may be used to key enter data and respond to questions, provided the actual Authorization by the Receiver is provided orally.

Authorization Retention:

An Originator must retain the original or a copy of the written notice or the original or a duplicate audio recording of the oral Authorization for two years from the date of the Authorization. Originators must be prepared to provide a copy upon request.

WEB – Internet Initiated Entry

Used when the Receiver provides Authorization to the Originator via the internet or wireless network.

- The Originator must obtain written Authorization from the Receiver via the internet or a wireless network. 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 copy (hard or electronic).
- As long as the required information is included in the Authorization language, Originators have the flexibility to draft the language in any way that is user-friendly for their customers. The following pieces of information should be included in the Authorization:
 - Express Authorization language (e.g., “I authorize Company A to debit my account”)
 - Amount of transaction
 - For a single-entry payment
 - For a Recurring Entry that is for the same amount each interval or
 - For a range of payments
 - The effective date of the transaction
 - The Receiver’s account number
 - The Receiver’s financial institution’s routing number
 - Revocation language
- The Originator must be able to provide the Receiver with a hard copy of the Authorization if requested to do so.
- The *NACHA Operating Rules and Guidelines* allow the use of a digital signature or code to similarly authenticate a written Authorization. Examples of methods used to similarly authenticate an Authorization include, but are not limited to, the use of digital signatures, codes, shared secrets, PINs, biometrics, etc.
- In addition the Originator must 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 that include, at a minimum, adequate levels of:
 - Physical security to protect against theft, tampering, or damage;
 - Personnel and access controls to protect against unauthorized access and use; and
 - Network security to ensure secure capture, storage, and distribution.
- The Originator has established and implemented a commercially reasonable fraudulent transaction detection system.
- The Originator has established and implemented commercially reasonable methods of authentication of the identity of the Receiver.
- The Originator has established and implemented commercially reasonable procedures to verify that the routing number used is valid.

Authorization Retention:

Originators must retain records of a Receiver’s Authorization for two years after the termination or revocation of the Authorization. The Originator must be able to provide these records upon request.

Other Valuable Information

Refunding a Customer

When returning dollars to a consumer, the SEC Code “PPD” should be used. Such transactions should be submitted with the appropriate tran code.

When returning dollars to a business/Organization, the SEC Code “CCD” should be used. Such transactions should be submitted with the appropriate tran code.

Prenote

A Prenote, or Prenotification, is a zero-dollar transaction whose purpose is to act as a test transaction that flows through the ACH system to the Receiver’s account. This allows the RDFI to verify the account information and return it to the originating merchant before dollars are sent through. Prenotes are optional.

If the Originator decides to utilize Prenotes, ‘live’ entries may not be submitted until the Prenote is resolved.

Correcting an error (reversing a transaction)

Reversing a transaction should only take place when an error has occurred. If a Reversal is attempted for an SEC code that does not allow credits (POP, TEL or WEB), it will not be processed.

For a Reversal to process successfully, the proper transaction code must be used along with the word “REVERSAL” in the appropriate field.

Examples of when to reverse a transaction are:

- A duplicate of a prior Entry
- Orders payment from the wrong Receiver
- Orders payment in the wrong dollar amount

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. The Originator must also make a reasonable attempt to notify the Receiver of the Reversing Entry and the reason for the Reversing Entry no later than the Settlement Date of the Reversing Entry.

Timing

Merchant Funding

The “Merchant Funds Availability” table listed below, indicates when funds will be available to the Originator (Merchant) for ACH Entries captured/processed. This is being provided as an example and actual results will vary depending on a variety of factors, such as, the day of the week the transactions are captured/processed and how quickly the Originator (Merchant) will receive their funds.

The following steps will help you understand the sequence of events:

A.	The Receiver decides to purchase goods or services from the Originator (Merchant) and provides Authorization to withdraw funds from their account. At the end of the day, the ACH information and any payment cards are delivered for processing.
B.	All captured transactions are processed and each card type is delivered to its appropriate entity for Settlement. This includes sending ACH transactions to our ODFI.
C.	The ODFI collects the ACH payments and distributes a File of transactions to the ACH Operator.
D.	The ACH Operator (Fed) collects ACH Entries from the ODFIs and distributes them to the appropriate RDFI.
E.	The RDFI withdraws funds from the Receiver’s account for the stated amount.
F.	If the RDFI is unable to withdraw funds from the Receiver’s account, the Entry is “returned”. The RDFI may be unable to withdraw due to insufficient funds in the account, or the account number in inaccurate.
G.	A deposit is made into the merchant’s account for transactions successfully processed.
H.	The merchant may use available reporting tools to review submitted payments.
I.	“Returned” Entry received and Originator’s (Merchant’s) account adjusted to reflect funds not withdrawn from Receiver’s account. “Returned” Entry may be received ‘sooner’ or ‘later’ than the day identified; ‘sooner’ depending on delivery times with ACH Operator (Fed), ‘later’ depending on the Return Reason Code (see Common ACH Return Reason Codes for return timeframes) or if the merchant has opted to participate in the Re-clear service.
J.	Originator (Merchant) can view “returned” Entry information using available reporting tools

Merchant Funds Availability:

Sun	Monday	Tuesday	Wed	Thu	Fri	Sat
	1 A. Captured transactions processed B. Processed transactions delivered to appropriate entity for Settlement C. ODFI sends transactions to ACH Operator for distribution	2 D. RDFI receives transactions from Fed E. RDFI withdraws funds from Receiver’s account F. If RDFI is unable to withdraw funds from Receiver’s account, Entry is “returned” G. Deposit made to Merchant’s bank account (24-hour funding) H. Merchant can view deposit information through TSYS InfoCenter SM or TransactionSummary.com	3 I. “Returned” entry received. Originator’s (Merchant’s) account adjusted	4 J. Merchant can view “Returned” and “Re-cleared” information through TSYS InfoCenter SM	5	

Reject Codes

Individual Sales Rejects

Transactions not meeting processing requirements are considered Sales Rejects. An item is 'rejected' if it is missing information, includes an invalid value or is not in the proper format. Items reject during processing and are not reflected in the payment transfer with other transactions. Below is a list of some of the Individual Rejects an Originator may see on TSYS InfoCenterSM reports:

Internal Codes for ACH Individual Rejects

Tran Code	Description	Error Correction
252	AMT INVALID FOR SEC CODE	Ensure dollar amount of POP transaction is \$25,000 or less.
255	INVALID DISCRETIONARY DATA VALUE	If SEC is TEL, ensure Payment Type field contains value of S or space. If SEC is WEB, ensure Payment Type field contains value of R or S.
256	SEC NOT ON CONTRACT	Contact your provider to resolve
258	INVALID SEC CODE	Review value contained in SEC Code field. Current valid values are CCD, POP, PPD, TEL or WEB.
260	ROUTING NUMBER CLOSED/INVALID	Review value of field containing Routing Number. Ensure it contains a valid value and is the proper length.
261	ROUTING NUMBER MISSING	Review value of field containing Routing Number. Ensure it is not blank.
277	SEC/TC/PH# COMBO	Review SEC Code, Tran Code and Phone Number fields to confirm correct values populate those fields.
278	INVALID INDIV NAME	Review value contained in Individual Name field. Field cannot be blank.
279	PT NOT VALID W/SEC OR DISCRETIONARY	Ensure Payment Type field contains value of R or S.
280	INVALID PRENOTE AMT	Ensure the dollar amount of the transaction is "0".
283	INVALID TERMINAL STATE	Ensure field containing Terminal State is populated.
284	INVALID TERMINAL CITY	Ensure field containing Terminal City is populated.

Common ACH Return Reason Codes

An ACH Return is an ACH Entry that has been returned because it cannot be processed by the RDFI or the ACH Operator. The reason for each Return is included with the Entry in the form of a “Return Reason Code”.

Return Reason Code	Reason for Return	Applies to which SEC Codes	RDFI Deadline	Action by Originator
R01	INSUFFICIENT FUNDS Available balance not sufficient to cover amount of debit Entry	ALL	24 Hours	Originator may initiate a new ACH Entry; must remain within limits for reinitiation of Entries and be reinitiated within 180 days of the Settlement Date of the original Entry
R02	ACCOUNT CLOSED Previously active account has been closed	ALL	24 Hours	Originator must stop initiation of Entries. Contact Receiver to obtain Authorization for another account.
R03	NO ACCOUNT Account number structure is valid, but doesn't match individual or open account	ALL	24 Hours	Originator must stop initiation of Entries. Contact Receiver to obtain Authorization for another account.
R04	INVALID ACCOUNT Account number structure not valid; edit of check digit or number failed	ALL	24 Hours	Originator must stop initiation of Entries until account number/structure is corrected.
R05	UNAUTHORIZED DEBIT TO CONSUMER ACCOUNT USING CORPORATE SEC CODE A debit Entry that was transmitted to a Consumer Account of the Receiver	CCD	60 Days	Originator must stop initiation of Entries. Contact Receiver to obtain Consumer Authorization.
R06	ODFI REQUEST FOR RETURN ODFI requested the RDFI return an Entry	ALL	Undefined	Originator must accept requested return
R07	AUTHORIZATION REVOKED Receiver who previously authorized Recurring Entries claims Authorization has been revoked	PPD & Recurring WEB	60 Days	Originator must stop the initiation of Entries until new consumer Authorization is obtained. Depending upon the terms of the original Authorization,

Return Reason Code	Reason for Return	Applies to which SEC Codes	RDFI Deadline	Action by Originator
				the Originator may have recourse for the collection outside the ACH network
R08	PAYMENT STOPPED The Receiver has requested the stop payment of a single ACH Entry; not intended to stop all future payments	ALL	24 Hours	Originator must contact the Receiver to identify the reason for the Stop Payment and obtain Authorization from the Receiver before reinitiating the Entry.
R09	UNCOLLECTED FUNDS Sufficient ledger balance exists, but value of uncollected items brings available balance below amount of debit Entry	ALL	24 Hours	Originator may initiate a new ACH Entry; must remain within limits for reinitiation of Entries and be reinitiated within 180 days of the Settlement Date of the original Entry.
R10	CUSTOMER ADVISES NOT AUTHORIZED; NOTICE NOT PROVIDED; IMPROPER SOURCE DOCUMENT: or AMOUNT OF ENTRY NOT ACCURATELY OBTAINED FROM SOURCE DOCUMENT	POP, PPD, TEL, WEB	60 Days	Originator must stop initiation of Entries.
R12	ACCOUNT SOLD TO ANOTHER DFI Account has been sold to another financial institution	ALL	24 Hours	Originator must stop initiation of Entries and obtain correct routing number information for initiation of subsequent Entries.
R16	ACCOUNT FROZEN Access to the account is restricted due to action by the RDFI or by legal action	ALL	24 Hours	Originator must stop initiation of Entries. Terms of Authorization may offer recourse outside of the ACH network
R20	NON-TRANSACTION ACCOUNT Financial Institution policies or regulations restrict activity to account indicated	ALL	24 Hours	Originator must stop initiation of Entries.

Return Reason Code	Reason for Return	Applies to which SEC Codes	RDFI Deadline	Action by Originator
R23	CREDIT ENTRY REFUSED BY RECEIVER Receiver refuses transaction because amount is inaccurate, results in overpayment, account is in litigation or Originator is not known to the Receiver	ALL	24 Hours (after Receiver notifies RDFI)	Originator must obtain Receiver Authorization prior to reinitiating the Entry
R24	DUPLICATE ENTRY Entry appears to be duplication. The trace number, date, dollar amount, etc., match another Entry	ALL	24 Hours	*If Entry is a duplication, Originator should accept the Return. If the Entry has already been reversed, Originator should contact the RDFI to determine solution
R29	CORPORATE CUSTOMER ADVISES NOT AUTHORIZED Corporate customer has notified RDFI that the Entry is not authorized	CCD	24 Hours	Originator must stop initiation of Entries until subsequent Authorization has been obtained. If a valid Authorization exists, the Originators may have recourse outside the ACH network.
R31	PERMISSIBLE RETURN ENTRY ODFI agrees on behalf of the Originator to accept a Return after the deadline for an unauthorized corporate Entry	CCD	Undefined	**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.
R37	SOURCE DOCUMENT PRESENTED FOR PAYMENT The source document to which a POP Entry relates has been presented for payment	POP	60 Days	Originator must accept Return. The source document may not be presented for payment.
R39	IMPROPER SOURCE DOCUMENT The RDFI determines the source document used for the POP Entry is not an eligible item	POP	24 Hours	Originator must stop initiation of Entries

**ACH Return Entries may be dishonored when they are untimely, when they contain incorrect information or when they have been misrouted.

The Unauthorized Return Rate threshold is 0.5%. This applies to Return Reason Codes R05, R07, R10, R29 and R51. An Administrative Returns Rate threshold of 3.0% exists for R02, R03 and R04 Returns. And an 'overall' Return rate of 15% is applied to all debit Entries that are returned for any reason.

Merchants exceeding these thresholds may be required to identify why they are exceeding the threshold and provide specific information regarding how the entity will come into compliance with this *Rules* provision.

Failure to provide required information, the failure to reduce the Return rate, or the recurrence of this issue may result in enforcement action under the ACH *Rules*.

Notification of Change Codes

A Notification of Change (NOC) is a non-monetary Entry transmitted by an RDFI for distribution back to the Originator. It tells you that your information is either inaccurate or that something has changed requiring your customer database records to be updated; and it tells you which information to change.

Originators are to respond by making corrections within six Banking Days of receipt or prior to initiating another Entry to the account – whichever is later

Return Reason Code	Reason for Return	Action by Originator
C01	ACCOUNT NUMBER The account number is incorrect or is formatted incorrectly	Change the customer's account number
C02	TRANSIT/ROUTING NUMBER The transit/routing number is no longer valid	Change the customer's financial institution routing number
C03	TRANSIT/ROUTING NUMBER & ACCOUNT NUMBER Both the transit/routing and account number are not correct	Change the customer's financial institution transit/routing number and account number
C04	ACCOUNT NAME The customer has change the name on the account or the name has been submitted incorrectly	Change the customer's (Individual or Company) Name
C05	TRANSACTION CODE The incorrect transaction type code is wrong	Change the type of transaction code (from checking account to savings, or vice versa)
C06	ACCOUNT NUMBER AND TRANSACTION CODE The account number and the type of transaction code is wrong	Change the customer's account number and the type of transaction code
C07	TRANSIT/ROUTING NUMBER, ACCOUNT NUMBER & TRANSACTION CODE The transit/routing number, the account number and the transaction type code are all incorrect. (Three corrections)	Change the customer's account number and financial institution transit/routing number and the type of transaction code.

Managing ACH Returns and Notifications of Change (NOCs)

ACH Returns

An ACH Return is an ACH Entry that the RDFI, or ACH Operator, is unable to post for reasons defined by the Return Reason Codes identified in this document.

The reason for each Return is included with the Entry in the form of a "Return Reason Code". One such common example of an ACH Return is an Entry that is sent back because the Receiver's account has insufficient funds (Return Reason Code R01).

Most items are returned no later than the opening of business on the second Banking Day following the Settlement Date of the Entry.

Some items may be returned up to 60 days following date of Settlement. Examples include:

- The consumer claims the Entry is unauthorized
- The consumer places a stop payment on the transaction

Reinitiation of Returned Entries

Reinitiation is the sending of an ACH entry to the same account for the same obligation after a return has been received if it was returned for one of the following reasons:

- The Entry was returned for insufficient (Return Reason Code R01) or uncollected funds (Return Reason Code R09)
- The Entry was Returned for stopped payment (Return Reason Code R08) and Reinitiation has been separately authorized by the Receiver after the Originator or ODFI receives the Return Entry:
- The Originator or ODFI has taken corrective action to remedy the reason for the return

If the Entry was not returned for one of the above reasons or the Originator does not take corrective action, the Entry may not be Reinitiated.

The Originator must Reinitiate the Entry within 180 days after the Settlement Date of the Entry.

If an Entry is returned for insufficient or uncollected funds (Return Reason Codes R01/R09 respectively), no more than two additional attempts may be made following the Return of the original Entry.

A debit entry will not be treated as a Reinitiated Entry if:

- The debit Entry is one in a series of preauthorized, recurring debit Entries and is not contingent upon whether an earlier debit Entry in the recurring series has been Returned ; or,
- After receipt of the original Return Entry, the Originator obtains a new authorization; or
- Following the return of an Entry using Return Reason Code R03 (No Account/Unable to Locate Account) or R04 (Invalid Account Number Structure), a debit Entry is initiated to the Receiver's correct account.

If the Originator creates their own NACHA formatted file, Reinitiated entries must address the following rules:

- 1) The amount field of the Reinitiated item must be identical to the contents of the original Entry; and
- 2) The contents of other fields may be modified as necessary only to correct an error or to facilitate proper processing of the Returned Entry, and
- 3) The word "RETURN PYMT" must be entered in the Company Entry Description.

If the Originator utilizes one of the TSYS tools, and does not take advantage of the Re-Clear process outlined below, Reinitiated entries must address the following rules:

- 1) The amount field of the Reinitiated item must be identical to the contents of the original Entry;
- 2) The word "RETURN PYMT" must be entered in the Phone Number field; and
- 3) The contents of other fields may be modified as necessary only to correct an error or to facilitate proper processing of the Return Entry.

Improper Reinitiation Practices:

- Following the Return of an Entry, an Entry is initiated to the same Receiver in an amount greater than the amount of the previously Returned Entry in payment or fulfillment of the same underlying obligation plus an additional fee or charge.
- Following the Return of an Entry, one or more Entries is initiated to the same Receiver in an amount(s) less than the Original Entry in payment or fulfillment of a portion of the same underlying obligation.
- Reinitiating any Entry Returned as Unauthorized (Return Reason Codes R05, R07, R10, R29).
- Initiating any other Entry the National Association reasonably believes represents an attempted evasion of the limitations on Reinitiation.

Dishonor of Return Entries

To dishonor (dispute) a Returned Entry, the Originator must notify their ODFI so the ODFI can transmit the item to its ACH Operator within five Banking Days after the Settlement Date of the Return Entry.

An ODFI may Dishonor an Entry if

- The RDFI failed to return the Entry within the time limits established by these Rules
- Information in one or more of the following fields of the Returned Entry is incorrect or missing:
 - Account Number
 - Original Trace Number
 - Amount
 - Identification Number
 - Transaction Code
 - Company Identification Number
 - Effective Entry Date
- the Return Entry was misrouted
- the Return Entry was a duplicate
- The Return Entry is coded as the Return of an Erroneous Entry at the request of the ODFI.
- the Return entry is coded as a permissible Return Entry, but the ODFI did not agree to accept the Return Entry
- the Return Entry would result in an unintended credit to the Receiver because:
 - The Return Entry relates to a debit Erroneous Entry
 - The ODFI has already originated a credit reversing Entry to correct the Erroneous Entry
 - The ODFI has not received a return of that credit Reversing entry
- The Return Entry would result in an unintended credit to the Receiver because:
 - The Return entry relates to a debit Erroneous Entry that was intended to correct a credit Erroneous Entry
 - The ODFI has not received a return of that credit Reversing entry

Notification of Change – NOC

A Notification of Change (NOC) is a non-monetary Entry transmitted by an RDFI for distribution back to the Originator. It tells you that your information is either inaccurate or that something has changed requiring your customer database records to be updated; and it identifies which information to change. The NOC received from the Receiver's financial institution represents the most timely and accurate information with which to maintain the Originator's ACH File. Originators must correct records that affect future transactions.

NACHA regulations require NOC information to be delivered to the Originator within two Banking Days of receipt by the ODFI and for **Originators to respond by making corrections within six Banking Days of receipt or prior to initiating another Entry to the account – whichever is later.**

The RDFI warrants that it is providing accurate information, and, to the extent the information consists of a change in a Receiver's deposit account number, that the Receiver has appropriately authorized the change, if such an Authorization is required. The Originator can make the change without contacting the Receiver.

Swaps

A "Swap" is similar to a Notification of Change in that it is notification that the routing number submitted on the transaction should be updated prior to initiating another Entry.

While building our outgoing ACH File, we review each routing number and compare it to a File of routing numbers for all financial institutions served by the Fed. If the File from the Fed indicates the routing number provided by the Originator is 'out of date' we "Swap" that routing number received with the current one indicated by the Fed and send the transaction out with the updated routing number.

When this occurs, a record is created and included with any other ACH Returns and NOCs received for the Originator so they have knowledge and may update their customer database records accordingly.

Re-Clear

Re-clearing is an optional service, at the merchant level, whereby we will automatically "resend" an ACH debit item returned for Insufficient or Uncollected Funds (reason codes R01 or R09). The *NACHA Operating Rules and Guidelines* allow up to two additional attempts for these Return Reason Codes, to collect funds from a Receiver's account. This is similar to "Reinitiation" outlined in earlier paragraphs in this section of this document.

If this service is activated, it is an all-or-nothing service. It will apply to ALL eligible Return items. It cannot be assigned to individual Return items. However, the Originator (Merchant) can request to have this option deactivated any time.

Per the NACHA *Rules*, when a Re-clear Entry posts in the Receiver's account, it will include a description of "RETRY PYMT" instead of the description provided by the Originator.

How it works:

If the Re-clear option is activated, the first time an item is returned we will include the item on the ACH File created the same day we receive it. It will attempt to post at the Receiver's bank the next Banking Day.

If an item is returned a second time, we will send the item so it will post at the Receiver's bank on the 3rd or the 16th, whichever occurs first. Example 1: If an ACH Return is received on the 8th of the month, we would create the ACH File so the item will attempt to post on the 16th, that same month, since the 16th is the next available date. Example 2: If an ACH Return is received on the 21st, we would create the ACH File so the item will attempt to post on the 3rd of the next month, since the 3rd is the next available date.

If an item is returned a third time, we will adjust the dollars funded to the Originator. Until this time, the Originator is not financially impacted for this transaction.

ACH Participants

ACH Participants

The ACH participant is the individual or Organization that will be affected by the ACH transaction.

Originator (Merchant)	The Originator is the merchant. They have the 'contract' with the Receiver.
Third-Party Sender	The entity that acts as the collection point for transactions created by the Originator. They have the contract with the ODFI to process the merchant's transactions.
Originating Depository Financial Institution (ODFI) (FNBO)	The financial institution that receives and warrants all transactions created by the Originator. They forward the transactions to the ACH Operator.
ACH Operator (Federal Reserve Bank)	The ACH Operator performs the Settlement function and transaction delivery between ODFIs and RDFIs.
Receiving Depository Financial Institution (RDFI) Receiver's local Bank	The financial institution that receives ACH Entries from the ACH Operator and posts the Entries to the accounts of its depositors (Receivers).
Receiver (Consumer or Organization)	The 'entity' (a natural person or an Organization) purchasing goods or services from the Originator.
NACHA (National Automated Clearing House Association)	The entity that governs the framework and the <i>Rules</i> of the ACH network. All participants are obligated by legal agreement to abide by the <i>Rules</i> set forth by NACHA.

Available TSYS InfoCenterSM Reports

ACH as Transaction Exceptions

This daily report displays summary totals of Automated Clearing House transactions in the form of NOCs, Swaps, Re-clears, and ACH Transaction Rejects

Transaction Volume by Card Type Detail

A daily report that shows all transaction types accepted for the requested date.

Transaction Volume by Card Type

Monthly report that shows transaction summary volume by card type

Merchant Daily Activity Detail

Daily report that shows transaction summary volume by card type

Payment Summary Merchant Detail

This daily report provides deposit details from daily transaction processing activity as well as adjustments made to the deposit due to charge-backs and adjustments.

Frequently Asked Questions

Is a separate MID necessary to process ACH transactions?

No. The merchant may process both card and ACH Entries through the same MID. The merchant has the option of having a separate MID for ACH Entries if they want the funds transferred to a different account than the funds for the card transactions or to make reconciling easier.

Can an ACH Originator be on daily discount?

Yes. Fees tied to the Origination of the ACH transactions can be billed daily (the 'per click' fees). Fees tied to the Returns, NOCs and Swaps (if applicable) will be billed at the end of the month.

Will a merchant be able to see ACH activity reported the same as their card?

Yes. Merchants can use any of the available reporting tools to retrieve their ACH and card transaction history. Two reporting options include TSYS InfoCentersm or TransactionSummary.com.

Can the Originator (merchant) process ACH Entries where the Receiver has a depository account outside the United States?

At this time we are unable to support international transactions. However we can ACH to U.S. Territories (e.g., Guam, Northern Mariana Islands, Puerto Rico and U.S. Virgin Islands).

Do ACH Rules govern the timeframe for shipping goods or providing services for WEB and TEL Entries submitted?

No. The merchant's timeframe for providing the goods or services for non-face-to-face transactions falls outside the scope of the *NACHA Operating Rules and Guidelines*.

How long should the Originator (merchant) wait for an ACH Entry to post before shipping merchandise?

Administrative Returns, for invalid account number, account closed insufficient or uncollected funds, which comprise the majority of Returns, should be returned within two Banking Days. "Unauthorized" or "stop payment" Returns may take up to sixty days to be returned.

If the merchant is taking advantage of the "Re-clear" option, they should monitor the TSYS InfoCentersm report to identify Entries that have not yet posted at the Receiver's bank.

How/Where can the Originator (merchant) obtain a copy of the *NACHA Operating Rules and Guidelines*?

The Originator may purchase a copy of the *NACHA Operating Rules and Guidelines* through EPCOR (www.epcor.org) or NACHA (www.nacha.org) websites.

How does the Originator (merchant) determine which SEC Code to use when originating a transaction?

The SEC Code is determined by the way in which authorization was provided by the Receiver. For additional information, please refer to the *NACHA Operating Rules and Guidelines*.

Is an Originator (merchant) required to process a Pre-notification?

No. Pre-notifications are optional. An Originator would process a Pre-notification to verify the accuracy of the account routing and account number.

Why does the Originator (merchant) need to wait six days to enter a monetary transaction after entering a Pre-notification?

The NACHA *Rules* dictate the RDFI has six days to respond to a Pre-notification. If the Originator does not wait the required six days before originating a monetary transaction, the RDFI may return the item.

How can the Originator (merchant) verify a routing number?

Log on to <https://www.frbservices.org/EPaymentsDirectory/search.html>. The screen will allow you to enter the Routing Number (either whole or partial) and will return any results. A download of routing number information may also be obtained from this same web site.

Can the Originator (merchant) charge the Receiver a Collection Fee?

Yes. The Originator must obtain a separate authorization from the Receiver and the ACH Entry for the fee must be processed as a separate transaction from the original ACH Entry, which is being collected.

What happens if the Originator (merchant) receives a return for stop payment?

It is a Receiver's right to initiate a stop payment (similar to what can happen with a check). The Originator must work outside the ACH network with the Receiver to resolve.

What information will appear on the Receiver's bank statement?

The Merchant's DBA Name and the phone number or description provided by the Originator. The RDFI is required to post this information.

Will the merchant need to support all SEC Codes?

No. The merchant should select which SEC Code application(s) best meets their business needs.

Glossary of Terms and Definitions

ACH (Automated Clearing House)

An electronic funds transfer system governed by the Operating *Rules* of the National Automated Clearing House Association (NACHA). It is a network of financial institutions that facilitates financial transactions in the United States and acts as a financial hub to help people and Organizations move money from one bank account to another.

ACH Operator

A Federal Reserve Bank or other contracted entity that provides delivery, clearing and Settlement services regarding ACH Entries to the participating financial institutions. Currently, only the Federal Reserve Bank (Fed) and the Electronic Payments Network (EPN) act as ACH Operators.)

ACH Return/Return

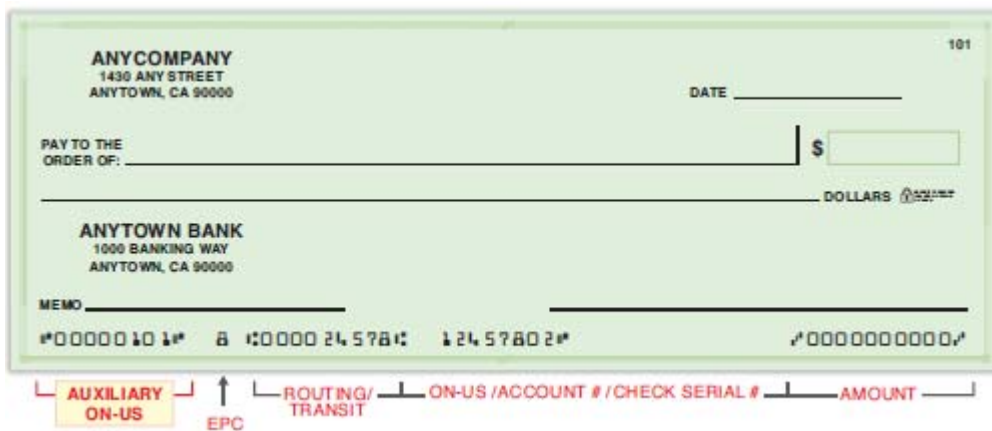
An ACH Entry that has been 'returned' to the ODFI by the RDFI or the ACH Operator because it cannot be processed. The reason for each Return is included in the form of a "Return Reason Code". One common example of a Return is an Entry that is 'returned' because the Receiver's account has insufficient funds (R01 Insufficient Funds) against which to post the item.

Authorization

An agreement provided by the Receiver that allows the Originator to post credits or debits to a specified depository account. Authorization, as it applies to ACH, may come in the form of a written (and signed), oral or electronic form depending on the SEC Code.

Auxiliary On-Us Field

The Auxiliary On-Us field is an optional field will appear on the leftmost position of the MICR line, before the routing number field; most generally on checks longer than 6". Checks with an Auxiliary On-Us Field cannot be converted to an ACH Entry.



Bank Draft (or Paper Draft)

Similar to a certified check but the bank will set aside the funds until the bank draft is used.

Banking Day

Any day on which a depository financial institution is open to the public for carrying on substantially all of its banking functions.

Batch

A group of like Entries/records considered one unit for the purpose of processing. Several Batches may be contained in a File.

Cashier's Check

Checks signed and guaranteed by the bank. This means the funds are coming from the bank instead of your account – which usually means they immediately take the money from your account.

Certified Check

Checks signed by the customer, certified by the bank that you have enough funds and that your signature is genuine. Usually, but not always, the bank will set aside the funds.

Collection Fee

A fee that is applied if an attempt to collect payment is unsuccessful due to insufficient funds in the designated account.

Eligible Source Document

A check that is used as a source of information for POP Entries. To be used as a source of information, the check must: (a) be in an amount of \$25,000 or less and (b) have a routing number, account number and check serial number encoded in magnetic ink.

Entry/Entries

An order or request for the transfer of money to/from the deposit account of a Receiver.

Fed or FRB

The Federal Reserve System (FED or Fed) consists of twelve regional Reserve Banks, the seven member Board of Governors, and member depository institutions created by the U.S. Congress to enforce monetary policies and maintain the stability of the financial system. The Fed serves as the central bank for the U.S.

File

Multiple Batches sorted for delivery to an ACH receiving point

MICR

A magnetic ink character recognition technology adopted to facilitate the processing of checks

Money Order

A payment order similar to a certified check, however, it needs to be prepaid. A money order may be purchased at retail outlets, the post office and check-cashing services for a small fee. Also money orders may have maximum face values allowed.

NACHA (National Automated Clearing House Association)

The association that sets the standards, Rules and procedures that enable depository financial institutions to exchange electronic payments.

NACHA Operating Rules and Guidelines

A publication that outlines the obligations with which participants in the ACH network must comply. The *NACHA Operating Rules and Guidelines* can be purchased via the EPCOR (www.epcor.org) or NACHA (www.nacha.org) web sites.

NOC (Notification of Change)

An Entry created by the Receiver's financial institution to notify the Originator that information contained in an ACH Entry is either outdated or erroneous.

ODFI (Originating Depository Financial Institution)

A participating financial institution that transmits directly or indirectly to an ACH Operator for Transmittal to an RDFI.

OFAC (Office of Foreign Assets Control)

A financial intelligence and enforcement agency of the U.S. Treasury Department. It administers and enforces economic and trade sanctions in support of U.S. national security and foreign policy objectives. The Office has the power to levy significant penalties against entities that defy its directives, including imposing fines, freezing assets and barring parties from operating in the United States.

Organization

A corporation, partnership, association, or other entity, governmental or private, or a natural person, provided that, in the case of a natural person, any account of such natural person to be debited or credited in respect of an Entry is maintained primarily for commercial and not for personal, family, or household purposes. (In the case of a natural person a "DBA account".)

Origination

Creation of ACH Entries for submission to the ACH network.

Originator

Any individual, corporation or government agency that initiates Entries into the ACH system.

Paper Draft (or Bank Draft)

Similar to a certified check but the bank will set aside the funds until the bank draft is used.

Prenote/Prenotification

An optional, non-dollar Entry that may be initiated through the ACH network by an Originator to validate the Receiver's account number, routing number and account type information is correct. Merchants are allowed to initiate pre-notifications, but the responsibility is on the merchant to know and follow the NACHA Rules governing Pre-notification.

Protected Information

The non-public personal information, including financial information, of a natural person used to create, or contained within, an Entry.

RDFI (Receiving Depository Financial Institution)

Any financial institution that receives ACH Entries.

Receiver

Any individual, business or government agency who has authorized an Originator to initiate debit or credit Entries to the Receiver's account at an RDFI.

Re-clear/Re-clearing

An optional service, at the merchant level, whereby we will automatically "resend" an ACH debit item returned for Insufficient or Uncollected Funds (Return Reason Codes R01 or R09). The *NACHA Operating Rules and Guidelines* allow up to two additional attempts for these Return Reason codes, to collect funds from a Receiver's account.

Recurring

Multiple Entries based on the arrangement between the Originator and Receiver, such as payments for utility bills.

Return Reason Code/Return Code

A standard code used in the ACH network to describe the reason for returning an Entry.

Reversal

An Entry to correct a prior erroneous Entry.

Rules

The NACHA Operating Rules and Guidelines.

Sales Reject(s)

A transaction that does not pass internal processing edits for one or more reasons.

Settlement

The exchange of funds with respect to an Entry or Entries.

Settlement Date

The date on which an exchange of funds is reflected.

SEC (Standard Entry Class) Code

The three character code assigned to ACH transactions to identify the type of transaction entered into the ACH network. The five SEC Codes we process are: CCD, POP, PPD, TEL and WEB

Swap

A Swap is similar to a Notification of Change in that it is notification that the routing number should be updated prior to initiating another Entry.

Third-Party Sender (TPS)

A type of Third-Party Service Provider. In this situation the Third-Party Service Provider must have the contract with the ODFI. The ISO acts as a TPS by having the contract with the ODFI to submit transactions into the ACH network.

Third-Party Service Providers (TPSP)

An Organization that performs any functions on behalf of the Originator, the Third-Party Sender, the ODFI, or the RDFI related to the processing of Entries, including the creation of the Entries or the Files containing ACH Entries, or acting as a Sending or Receiving Point on behalf of a Participating Depository Financial Institution.

Trading Partner Agreement

An agreement drawn up by two parties that have agreed to trade certain items or information to each other. The agreement may include a list of duties or responsibilities to be allocated to each part in the trade. It could also specify the terms of delivery or receipt of the goods or services. A good Trading Partner Agreement would also identify how to cancel or terminate the agreement.

Transit Routing Number/ABA number/Routing Transit Number

A nine digit code, used in the United States, which appears on the bottom of negotiable instruments such as checks to identify the financial institution on which it was drawn.

Voice Response Unit (VRU)

A Voice Response Unit (VRU) is an automated telephone answering system that allows the caller to navigate through a series of prerecorded messages and use a menu of options through the buttons on a touch-tone telephone or through voice recognition.

Refer to the most current NACHA Operating Rules and Guidelines for additional information and answers to questions.

End of document