

HOW AN ACH PROCESSES



Receiver Authorizes Originator



RDFI makes funds available to those accounts in the file

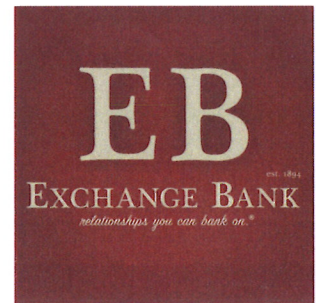


Originator forwards transaction to ODFI



Federal Reserve Bank distributes ACH file to RDFI

ODFI sorts and transmits file to Federal Reserve Bank



ACH NETWORK

The Automated Clearing House (ACH) Network is an electronic payments network used by individuals, businesses, financial institutions and government organizations. The Network functions as an efficient, electronic alternative to paper checks. It allows funds to be electronically debited or credited to a checking or savings account.

NACHA is a not-for-profit association that represents more than 11,000 financial institutions through direct memberships and a network of Regional Payment Associations. NACHA develops and governs the operating rules and business practices in the areas of Internet commerce, electronic bill and invoice presentment electronic check conversions (e-checks), financial electronic data interchange (FEDI), and electronic benefits (EBS).

ACH PARTICIPANTS

Originator – A company, consumer, or other types of organizations (these are the business owners who we set up for Cash Management) that has been authorized to initiate ACH entries into the payment system according to an arrangement with a Receiver.

Originating Depository Financial Institution (ODFI) – is the institution (Exchange Bank) that receives payment instructions from Originators (the business through Cash Management) and forwards the entries to the ACH Operator (The Fed. Reserve from Bankers Bank).

ACH Operator – is the central clearing facility operated by a private organization or a Federal Reserve Bank (FRB) on behalf of DFIs, to or from which Participating DFIs transmit or receive ACH entries. (We use Bankers Bank to upload all files to and they send to the Fed).

Receiving Depository Financial Institution (RDFI) –receives ACH entries from the ACH Operator (the Fed) and posts the entries to the accounts of its depositors (Receivers).

Receiver – The person or organization which has authorized an Originator (the business) to initiate an ACH entry to their accounts with the RDFI. A receiver may be either a company or a consumer.

ACH ENTRIES

ACH Credits – Entries that an Originator initiates to move funds into a Receiver's account. ACH credit transactions involve both consumer and corporate with separate rules and regulations for each. The most typical consumer ACH application is Direct Deposit of payroll. Some of the more common credits processed through the ACH Network:

- Annuities
- Dividends
- Interest payments
- Payrolls- private and government
- Pensions- private and government
- Social Security payments
- Tax Payments
- Government vendor payments
- Corporate-to-Corporate payments
- Customer-initiated entries

ACH Debits – The Originator of a preauthorized debit is the company to which the money is owed. ACH debit transactions involve both consumer and corporate payments with separate rules and regulations for each. The most typical consumer ACH application is Direct Payment. Some of the more common debits processed through the ACH network:

- Association/club dues
- Distributor/dealer payments
- Holiday or vacation club payments
- Safe deposit box rentals
- Contributions to Individual Retirement Accounts
- Corporate-to-corporate payments

PAYMENT APPLICATIONS

The ACH network supports a variety of payment applications

An Originator initiating entries into the system will code the entries in such a manner as to indicate the type of payment, such as a debit or credit and whether the entry is for a consumer or corporate in nature.

Each ACH application is identified and recognized by a specific 3 digit code, known as a Standard Entry Class code (SEC Code), which appears in the ACH record format.

The SEC code identifies the specific record format that will be used to carry the payment and payment-related information relevant to the application.

Exposure Limits

For security purposes, a daily exposure limit has been established for your company. This exposure limit represents the total amount of files you can process over a given settlement date.

If your ACH file exceeds your established exposure limit, please notify Exchange Bank to obtain approval prior to submission.

ACH Processing Schedule

Business Day Cut Off Required Submission Date

Debit and Credit Files 4:00 p.m. 1 business day prior to the effective date

Note: ACH files must be submitted by 4:00 p.m. to be processed. This deadline allows us time to review your files for accuracy and contact you if there are any issues or concerns. Files submitted after the cut off time will be processed on the next business day. If you are experiencing problems that will prevent you from meeting the deadline, please contact Exchange Bank before the deadline.

CCD [CORPORATE CREDIT OR DEBIT]

A credit or debit entry initiated by an organization to consolidate or fund accounts of that organization from its branches, franchises, or agents.

It is also used as a business-to-business transfer for payment of goods or services.

This application can serve as a stand-alone funds transfer, or it can support one addenda record, making this a CCD+ transaction.

Prior to the origination of a CCD entry to the customer's account, the customer must have authorized the Originator to initiate the entry to such an account.

The authorization must be in writing and signed or similarly authenticated by the customer, and the customer must be provided with a copy of the authorization.

The authorization must be readily identifiable as an authorization, its terms must be clear and understandable, and indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization.

The authorization may be included within a trading partner agreement that defines the responsibilities of each party under the agreement.

Authorization must be retained by the company for **two years** following the termination of authorization.

CTX [CORPORATE TRADE EXCHANGE]

A credit or debit entry used to collect or disburse funds and information between businesses.

This application can serve as a stand-alone funds transfer, or it can support multiple addenda records.

Prior to the origination of a CTX entry to the customer's account, the customer must have authorized the Originator to initiate the entry to such an account.

The authorization must be in writing and signed or similarly authenticated by the customer, and the customer must be provided with a copy of the authorization.

The authorization must be readily identifiable as an authorization, its terms must be clear and understandable, and indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization.

The authorization may be included within a trading partner agreement that defines the responsibilities of each party under the agreement.

Authorization must be retained by the company for **two years** following the termination of authorization.

PPD [PRE-AUTHORIZED PAYMENT AND DEPOSIT ENTRY]

A credit or debit entry initiated by an organization (business) pursuant to a standing or single entry authorization from a Receiver to effect a transfer of funds to or from a consumer account of the Receiver.

Prior to the origination of a PPD entry to the consumer's account, the consumer must have authorized the Originator to initiate the entry to such an account.

The authorization must be in writing and signed or similarly authenticated by the consumer, and the consumer must be provided with a copy of the authorization.

The authorization must be readily identifiable as an authorization, its terms must be clear and understandable, and indicate that the Receiver may revoke the authorization by notifying the Originator in the manner specified in the authorization.

The authorized amount must be stated on the authorization form for debit entries.

If monthly payment amount varies, the company must send the customer written notification of the payment amount 10 calendar days prior to the scheduled payment date (debits only).

If the company changes the date on a recurring payment, the company must send the customer written notification at least 7 calendar days prior to the new date on which the entry will be debited (debits only).

TEL [TELEPHONE-INITIATED ENTRIES]

A TEL Entry is a debit initiated by an Originator in response to a consumer's oral authorization, which includes the consumer's banking information, captured via telephone to transmit a debit entry for collection of goods and services. This type of entry cannot be used to debit a corporate account.

Credit Entries

Originators may NOT utilize the TEL SEC Code to transmit credit entries, with the exception of reversals, to the consumer's account.

Relationship Requirements

A TEL entry may be transmitted only in circumstances in which (1) there is an existing relationship between the Originator and the Consumer, or (2) there is not an existing relationship between the Originator and the Consumer, but the Consumer has initiated the telephone call to the Originator.

A TEL entry may not be used by an Originator when there is no existing relationship between the Originator and Consumer, and the Company has initiated the telephone call. The Originator and the Consumer are considered to have an existing relationship when either (1) there is a written agreement in place between the Originator and the Consumer for the provision of goods or services, or (2) the Consumer has purchased goods or services from the Originator within the past two years.

Authorization Criteria

Originators of TEL entries are obligated either to tape record the consumer's oral authorization **or** to provide, in advance of the Settlement Date of the entry, written notice to the consumer that confirms the oral authorization.

With either option the Receiver must be provided, and must acknowledge, the following terms of the transaction:

- The date on or after which the consumer's account will be debited, for recurring Entries, the timing, including the start day, number and frequency
- The amount of the transaction or, if recurring, the amount of the recurring transactions or a reference to the method of determining the amount of the recurring transaction.
- The consumer's name
- The account to be debited
- A telephone number that is available to the consumer and answered during normal business hours
- The date of the consumer's oral authorization
- For recurring Entries, the method by which the Consumer can revoke the authorization
- a statement by the Originator that the authorization obtained from the Receiver will be used to originate an ACH debit entry to the consumer's account.

Retention

The Originator must retain either the original or a duplicate tape recording of the consumer's oral authorization or a copy of the written notice confirming the consumer's oral authorization for **two years** from the date of the authorization.

Verification of Identity of Receiver

Originators are required to utilize commercially reasonable procedures to verify the identity of the consumer.

Verification of Routing Numbers

Originators that initiate TEL entries must employ commercially reasonable procedures to verify that routing numbers are valid.

Record Retention

Records must be retained for a period of 2 years and promptly provide a copy of such authorization to the Bank upon request.

WEB [INTERNET-INITIATED TRANSACTIONS]

A debit entry to a consumer account initiated by an Originator pursuant to an authorization that is obtained from the Receiver via the Internet. This type of entry cannot be used to debit a corporate account.

An authorization that was obtained from the Receiver in person, through the mail, or over the telephone in order to effect an Internet payment is NOT to be initiated as a WEB transaction. These transactions should use the appropriate SEC Code as defined by the NACHA Operating Rules.

Credit Entries

Originators may NOT utilize the WEB SEC Code to transmit credit entries, with the exception of reversals, to the consumer's account.

Single-Entry Payment

A one-time transfer of funds initiated by an Originator in accordance with the Receiver's authorization for a single ACH debit to the Receiver's account.

Recurring Payment

An entry that has been set up to occur, based on the Receiver's authorization obtained via the Internet, at regular intervals without any additional intervention of the consumer; OR multiple entries, based on an authorization provided by the consumer establishing a relationship with the Originator for a specific type of activity, that are originated each time upon specific instructions of the consumer.

Authorization Requirements

Originators of WEB entries must obtain the consumer's authorization prior to initiating a debit entry. The authorization must conform to the requirements of the NACHA Operating Rules, which require that the authorization (1) be in a writing that is signed or similarly authenticated by the Receiver, (2) be readily identifiable as an ACH debit.

Retention

Originator must obtain a copy of the authorization and a record of the authentication for a period of **two years** following the termination or revocation of the authorization and promptly provide a copy of such authorization to the Bank upon request.

Record Format

Refer to the NACHA Operating Rules for specific requirements regarding WEB entries.

Authentication

Originators are required to employ an authentication method that is commercially reasonable to verify the identity of the Receiver before accepting ACH debit authorizations online. Such authentication methods may include-shared secrets such as a PIN, password, or previous transaction history, or asking for several forms of identifying information and checking that information against databases, asking challenge questions, or sending the consumer a piece of information (either online or offline) and then asking the customer to verify the information. Assigning a password as the sole method of authenticating the Receiver is not considered commercially reasonable. The authentication method must also demonstrate the consumer's assent to the authorization.

Fraudulent Detection System

Company is required to deploy a fraudulent transaction detection system to screen each entry.

Verification of Routing Numbers

Originators that initiate WEB entries must employ commercially reasonable procedures to verify that routing numbers are valid. Verification can be accomplished by a component of a fraudulent transaction detection system, through the use of a database or directory (either commercial or proprietary), or through other methods devised by the Originator.

Security of Internet Session

Customer has established a secure Internet session with each Receiver utilizing a commercially reasonable security technology providing a level of security that, at a minimum, is equivalent to 128-bit encryption technology prior to the Receiver's key entry and through transmission to the Originator of any banking information, including, but not limited to, the Receiver's routing number, account number, and PIN number or other identification symbol.

Annual Security Audit

Company shall conduct or have conducted 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 (1) physical security to protect against theft, tampering, or damage, (2) personnel and access controls to protect against unauthorized access and use, and (3) network security to ensure secure capture, storage, and distribution. Audit should be submitted annually to the Bank

PRENOTES

Are non-dollar entries used by Originators to ensure ACH entries contain accurate identification of the receiving institution and individual's account. Prenotes are optional.

Originators that choose to send prenotes are required to do so **three** banking days before the first live entry.

ACH TRANCODES

Demand Credits

21 Automated Return or NOC

22 Demand Credit

23 Prenote

Demand Debits

26 Automated Return or NOC

27 Demand Debit

28 Prenote

Savings Credits

31 Automated Return or NOC

32 Savings Credit

33 Prenote

Savings Debits

36 Automated Return or NOC

37 Savings Debit

38 Prenote

RETURN REASON CODES

Return Code Description

R01 Insufficient funds

R02 Account closed

R03 No account found

R04 Invalid account number

R05 Unauthorized debit using corporate SEC

R06 Returned/ODFI's request

R07 Authorization revoked by customer (non-POP, TEL, or WEB with PTC=S)

R08 Payment stopped (non-RCK)

R09 Uncollected funds

R10 Customer advises not authorized (non-RCK)

R11 Check safekeeping entry return

R12 Account sold to another DFI

R13 Invalid ACH routing number

R14 Representative Payee deceased or unable to continue in capacity
R15 Beneficiary or account holder (other than representative payee deceased)
R16 Account is frozen
R17 File record edit criteria
R20 Non-transaction account
R21 Invalid company identification
R22 Invalid individual ID number
R23 Credit entry refused by receiver
R24 Duplicate entry
R29 Corporate customer advises not authorized
R31 Permissible return entry
R33 Return of XCK entry
R37 Source document presented for payment (ARC, BOC, and POP)
R38 Stop payment - source doc (ARC and BOC)
R39 Improper source document (ARC, BOC, and POP)
R50 State law affects RCK acceptance
R51 RCK item is ineligible
R52 RCK stop payment
R53 Item and ACH entry presented for payment (RCK only)
R80 Cross-border payment coding error
R82 Invalid foreign receiving DFI ID
R83 Foreign receiving DFI unable to settle
R84 Entry not processed by Gateway Operator
*Note: This is not a complete listing of return codes. For more codes, please refer to your NACHA ACH Rules book.

RETURNED ITEMS

Returned entries may not be reinitiated unless the entry was returned for insufficient funds (R01) or uncollected funds (R09) and are limited in number to two and must be initiated within 180 days of the original entry date. An entry returned for stop payment (R08), or an authorization issue may only be reinitiated if the Originator has received appropriate authorization to reinitiate the payment.

When reinitiating a returned item, the words “**RETRY PYMT**” in all capitalized letters is required in the Company Entry Description field. **Identical content is required** in the following fields: Company Name, Company ID, and Amount. Modifications to other fields are permitted but only to those necessary to correct an administrative error made during processing of an entry.

Bank will report Return information to Originators within 2 banking days from the settlement date (see FedEDI Services).

NOTIFICATION OF CHANGE

A non-dollar entry sent to the Originating Depository Financial Institution (ODFI) by the Receiving Depository Financial Institution (RDFI) that contains information for the correction of erroneous information contained within an ACH entry.

Originators must make the specified changes within 6 banking days of receipt of the NOC information or prior to initiating another entry to the Receiver’s account, whichever is later.

NOTIFICATION OF CHANGE CODES

- C01 Incorrect DFI Account #
- C02 Incorrect Routing #
- C03 Incorrect Routing # and Incorrect DFI Account #
- C04 Incorrect Individual Name/Receiving Company Name
- C05 Incorrect Transaction Code
- C06 Incorrect DFI Account # and Incorrect Transaction Code
- C07 Incorrect Routing #, Incorrect DFI Account #, and Incorrect Transaction Code
- C08 Incorrect Foreign Receiving DFI Identification
- C09 Incorrect Individual ID #
- C13 Addenda Format Error

REVERSALS

If an Originator creates erroneous ACH entries or files, corrections may be made by initiating reversing entries or files.

An erroneous entry or file is defined as:

- is a duplicate of an entry previously initiated by the Originator or ODFI
- orders payment to or from receiver not intended to be credited or debited
- Orders payment in a dollar amount different than was intended

Must be originated within 5 banking days following settlement date of the erroneous entry.

Enter **REVERSAL (must be in all capitalized letters)** in the description field of the Company Batch Header Record.

- Will need to build a new Batch Record
- Change the transaction codes to offset entries (i.e., debits reverse credits)
- The Effective Date should be the same date as the original entry/file date for future dated files

Notify the Receiver of the reversal by the settlement date.

In the case of an erroneous file, transmit a correcting file with the reversing file.

Note: Bank recommends that Originators use an authorization agreement (credits) with their Receivers that states they are authorized to debit/reverse any entries made in error. This is good business practice and will help with any disputes in the future.

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EXCHANGE BANK

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AUTHORIZATION AGREEMENT FOR PREAUTHORIZED TRANSACTIONS

COMPANY NAME: _____ COMPANY ID NUMBER _____

I hereby authorize _____, hereinafter called COMPANY, to initiate entries to my (select one) Checking Savings account indicated below at the depository named below, hereinafter called DEPOSITORY, to debit/credit the same to such account.

DEPOSITORY NAME _____ BRANCH _____

CITY _____ STATE _____ ZIP _____

ROUTING # _____

Debit Credit

ACCOUNT # _____ AMOUNT \$ _____

FREQUENCY _____ START DATE _____

This authorization is to remain in full force and effect until COMPANY has received written notification from me of its termination in such time and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it.

NAME _____ ID NUMBER _____

SIGNED _____ DATE _____

NOTE: All written debit/credit authorizations **MUST** provide that the receiver may revoke the authorization only by notifying the originator in the manner specified in the authorization.

PLEASE ATTACH COPY OF VOIDED CHECK TO THIS FORM.
(NO DEPOSIT SLIPS, PLEASE)

