



ACH Origination Guide

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This quick reference guide has been developed to provide an overview of important information that you should be aware of as an originator of ACH transactions. This information is presented to complement the guidelines under the NACHA Operating Rules and is not intended to provide complete and necessary knowledge required for ACH Originators. For full details, we encourage that you read and become familiar with the ACH Rules book.

What is ACH?

The Automated Clearing House, or ACH, is an electronic network for financial transactions. Governed by the National Automated Clearing House Association, or NACHA, ACH transactions and the parties involved (banks, ACH operators, consumers & businesses) must follow strict rules that have been detailed in the NACHA Operating Rules & Guidelines (referred to as the "Rules") which is published annually and updated from time to time to cover rules changes and other supplements.

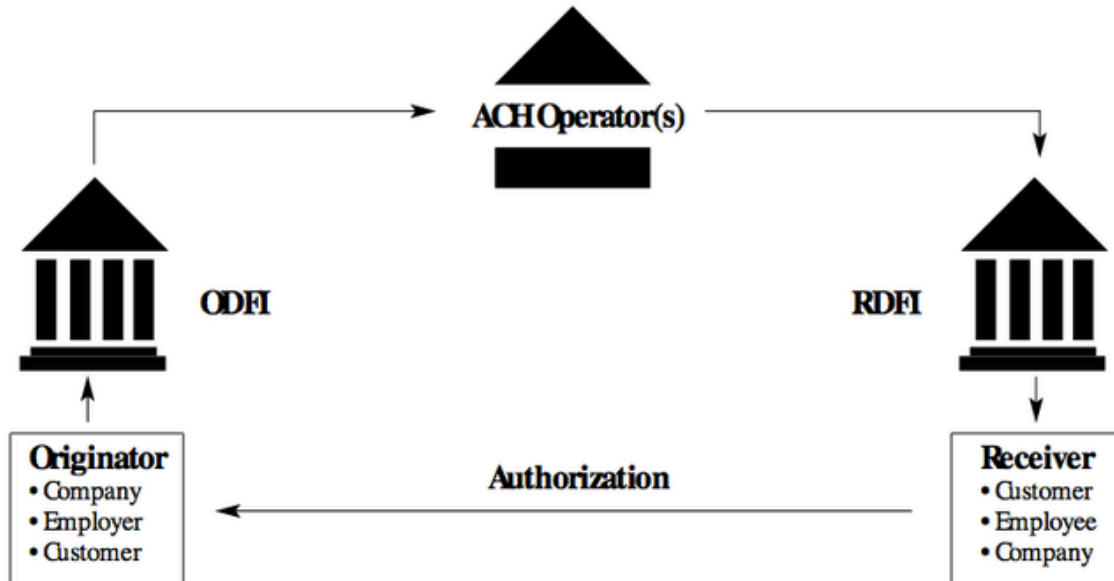
Common examples of ACH transactions are payroll or government benefit direct deposits (credits) and automated loan or other payments (debits).

ACH transactions are separated by "consumer" and "business" types and corresponding Standard Entry Classes, each with its own requirements under the Rules. The type of transaction is determined by the type of account where the deposit or payment is posted and the method by which a transaction is authorized. Transactions may be posted to a checking account, savings account or a loan (credits only), and can only be posted to a bank located within the U.S. (valid routing/transit number required).

ACH entries must be authorized by the owner of the account that is being debited or credited, though the type of authorization varies. The bank reserves the right to restrict types (i.e. Standard Entry Classes) available for processing and generally allows only consumer ("PPD") and business ("CCD", "CTX") transactions.

Once received by the bank, ACH entries are generally not revocable, though there are processes in place to correct duplicate or erroneous entries.

ACH Participants



Receiver

All ACH transactions begin with an authorization by the person/company on whose behalf the deposit or payment is processed (called the “Receiver” – regardless of the type of transaction – credit or debit). Authorizations for payments (debits) are most often required in writing, though certain transaction types require authorization by other methods. Authorizations for deposits (credits) are not required, but are typically obtained. For example, many companies require their employees to complete and sign a “direct deposit authorization form” which requires both the employee’s signature and bank/account information.

Originator

The Originator is the company that processes the transaction – either a deposit to a Receiver’s account (credit) or a payment from a Receiver’s account (debit). The Originator is responsible for maintaining the authorization for the transaction and is required to provide that authorization upon request. Since it initiates the transaction, the Originator is liable for total amount it processes through the ACH network, and is therefore typically evaluated for its credit worthiness.

ODFI

The Originating Depository Financial Institution (ODFI) is the bank that accepts and processes the ACH transactions on behalf of its customer, the Originator. The ODFI is also liable for the total amount it processes through the ACH network, and therefore requires a contract or agreement with each of its Originators to address processing requirements, exception handling and liability issues. It is not unusual for the ODFI to require credit underwriting, lending approval or collateral requirements for its Originators in order to protect against fraud or monetary loss. If an ODFI fails to comply with its responsibilities under the Rules, it could be assessed fines or lose its good standing in its payment network.

**ACH Operator**

The ACH Operator is a central clearing facility that receives entries from ODFIs, distributes the entries to appropriate RDFIs and performs the settlement functions for the financial institutions.

RDFI

The Receiving Depository Financial Institution (RDFI) is the bank where the Receiver holds its accounts. The RDFI is responsible for passing the ACH transaction on to the Receiver's account by the required date, and, in accordance with the Rules, handles exceptions such as notifications of change, non-sufficient funds, unauthorized or fraudulent transactions in a timely manner. Failure to comply with its responsibilities under the Rules could result in the RDFI to be assessed fines or lose its good standing in its payment network.



Your Responsibilities

As an ACH Originator, you have obligations under the Rules and the contractual agreement with the Bank:

- Obtain and maintain proper authorizations.
- Comply with file processing deadlines to ensure that entries are posted in a timely manner and as prescribed by the Rules.
- Make changes as indicated on a Notification of Change (NOC) within six business days or prior to the next live date, whichever comes first.
- Provide copy of an authorization if requested by the Bank.
- Cease subsequent entries when appropriate.
- Restrict transactions to individuals or companies that appear on the government OFAC lists.
- Protect access to your login credentials, computer, and confidential information.
- Perform an annual ACH audit and make available upon request.
- Establish, implement and maintain policies and procedures pertaining to the initiation, processing and storage of entries.

Limits

An ACH Limit is assigned to you and restricts the total amount of ACH Entries that you can initiate per banking day. This limit is determined by several factors, including your ACH needs and your credit worthiness, and may be adjusted from time to time by the bank.

ACH Files or Fund Transfers initiated above your ACH Limit will not be processed.

File Format

ACH entries must be provided to the bank in a specified file format referred to as a NACHA formatted file. In order to create a file in NACHA format, the Originator has the following options:

1. **Independent or proprietary software.** Software programs are commercially available that provide a range of ACH file services from simple NACHA formatted file generation to full ACH accounting systems. Additionally, some accounting or payroll systems include NACHA file as a standard export format. The bank does endorse any specific product.
2. **eTreasury.** Lakeland Bank's business online banking solution that generates an encrypted and proprietary NACHA formatted file that is compatible with the bank's ACH remittance system. It includes functionality to create a variety of Standard Entry Class Codes and file import capability (to convert a text file to a NACHA file, for example).

The bank requires that ACH files are "balanced," meaning the total debits and credits in the file must be equal.

Authorization

An Authorization is an arrangement between an Originator and a Receiver that permits entries to process through the ACH Network. Types of authorization required by the Rules vary by application and method which is determined by the Standard Entry Class.

In general, for **Consumer** entries:

- Debits must be authorized in writing; Credits authorizations must be written, verbal or by other non-written means



- Authorization must include bank and account information, amount and effective date.
- Authorization must be maintained for two years from date of revocation and be made available to the RDFI within 10 banking days upon request.
- Authorizations must provide information on how the receiver can revoke the authorization.

For **Business** entries:

- Debits and credits must be authorized in writing, either by form or contractual agreement.
- Authorization must include bank and account information, amount and effective date.
- Authorization must be maintained for two years from date of revocation and be made available to the RDFI within 10 banking days upon request.
- Authorizations must provide information on how the receiver can revoke the authorization.

Prenotes

Prenotifications, or “prenotes”, are zero-dollar transactions sent ahead of a live transaction to permit the RDFI to verify the accuracy of the account information. While not required, they are recommended whenever possible and should be remitted before originating entries that are time-sensitive (e.g. payroll direct deposit).

In general:

- Prenotes use a unique Tran Code specific to the account type (checking, savings).
- Prenotes must precede the first live entry by at least three business days.
- The RDFI is not required to validate the name of the payee on the Prenote (although some do); they are only required to validate the account number.
- If a prenote is returned by the RDFI, the originator must not originate a live entry to that customer account until any necessary corrections have been made.

Notification of Change

A Notification of Change (“NOC”) is sent by the RDFI upon discovery of an error in the ACH entry.

In general:

- NOCs are received by the ODFI and forwarded to the Originator upon receipt.
- NOCs must be addressed by the Originator and corrected within six (6) business days or prior to remitting the next live entry, whichever comes first.
- Failure to respond to NOCs may result in fines as prescribed in the Rules.

Data Security Framework Requirements for WEB Entries

1. Physical Security

- a) Critical network, server, and telecommunications equipment should be placed in physically secure locations that permit access only to authorized personnel.
- b) Ensure any banking information, including, but not limited to, an Entry, Entry Data, a routing number, an account number, and a PIN or other identification symbol transmitted via an Unsecured Electronic Network, have prior to the key entry and through transmission of any banking information: (i) encrypted the banking information using a security technology that, at minimum, is equivalent to 128-bit RC4 encryption technology, or (ii) transmitted or received the banking information via a secure session utilizing security technology that provides a level of security that, at a minimum, is equivalent to 128-bit RC4 encryption technology.
- c) Firewalls must be fully deployed with secured processes for access.



- d) Firewalls must protect websites from inappropriate and unauthorized access.
- e) Disaster recovery plans must be developed and reviewed periodically.

2. Personnel and Access Controls

- a) A formal set of security policies and procedures must be developed that clearly outline the corporate rules governing access to sensitive financial data.
- b) Hiring procedures should be developed that will, at a minimum, verify application information, and check references on new employees that will have access to Receiver financial information.
- c) Relevant employees must be educated on information security and company practices and their individual responsibilities.
- d) Methods of authentication to verify the identity of each Receiver (i.e. passwords, PINs, etc.) have been put in place and are completed prior to access.
- e) Access controls should be in place to:
 - Limit employee access to secure areas and to documents/files that contain Receiver financial information.
 - Ensure that terminated employees have no access to secure information and areas.
 - Permit visitors to these areas and information only when absolutely necessary and ensure that they are accompanied by an employee at all times.
 - Restrict access from external networks to authenticated users (i.e. by password or login codes).
 - Ensure that one person acting alone cannot circumvent safeguards (i.e. dual control procedures are in place).

3. Network Security

- a) All Receiver (customer) financial information should be kept behind firewalls and in an area inaccessible from the internet.
- b) A data retention schedule should be developed that covers policies on how to handle the data from time of capture to destruction.
- c) Retention schedules should be monitored to ensure that they are being met.
- d) Receiver (customer) information should only be stored permanently if it is required by law, regulation, rule or a governing organization.
- e) Data should not be stored longer than necessary.
- f) Distribution of Receiver (customer) data should be limited, with procedures and controls in place governing organization.
- g) The need for distributing Receiver (customer) data should be reviewed, and all distribution is verified and approved.
- h) Receiver (customer) data sent across networks must be encrypted.
- i) Use and regularly update anti-virus software.
- j) Regularly test security systems and processes.

4) Use of Fraud Detection System

- a) An Originator of a debit WEB entry must establish or implement a commercially reasonable fraudulent transaction detection system to screen the debit WEB Entry. The fraudulent transaction detection system must, at a minimum, validate the account to be debited for the first use of such account number and any subsequent change(s) to the account number.

5) Verification of Receiver's Identity

- a) An Originator of a debit WEB entry must establish and implement commercially reasonable methods of authentication to verify the identity of the Receiver of the debit WEB entry.



6) Verification of routing Numbers

An Originator of a debit WEB entry must establish and implement commercially reasonable procedures to verify that the routing number used in the debit WEB entry is valid.

Requirements for Micro Entries:

- Micro-Entries will be defined as ACH credits of less than \$1, and any offsetting debits, for account validation. Credit amounts must be equal to or greater than debit amounts, and must be transmitted to settle at the same time
- Originators must use "ACCTVERIFY" in the company entry description field
- Company name must be easily recognizable to Receivers and the same or similar to what will be used in subsequent entries.

Returns

ACH entries (debits and credits) may returned by the RDFI for various reasons, including non-sufficient funds ("NSF"), uncollected funds ("UCF"), stop payment, account closed, or unauthorized.

- The allowable time frame for returns is determined by the reason and the Standard Entry Class. In general:
 - CCD entries must be returned by the beginning of the second business day following the settlement date (i.e. the following business day).
 - PPD entries that are returned NSF, UCF, stop payment or account closed must be returned by the beginning of the second business date following the settlement date (i.e. the following business date).
 - PPD entries that returned unauthorized can be returned up to 60 days after the settlement date.
- Advices of returned items are sent to the originator upon receipt by the bank.
- Debit entries returned "NSF" or "UCF" may be re-originated up to two (2) additional times for a total of three (3) attempts. After that, no additional attempts may be made.
- Any entry being re-originated must have the words "RETRYPYMT" in caps in the entry description field.
- Debit entries returned for "stop payment" may only be re-originated upon approval from the receiver.
- Re-originating ineligible returns is a violation of ACH Rules and may result in loss of ACH Origination services.

Unauthorized Entries

If a receiver claims that an entry was not authorized, s/he may dispute the transaction by completing a Written Statement of Unauthorized Debit with the RDFI.

- Upon receipt of this statement, the RDFI will return the entry as "Authorization Revoked" (R07) or "Unauthorized" (R10) for consumer entries or "Customer Advises Entry Not in Accordance with the Terms of the Authorization" (R11) or "Corporate Advises Not Authorized" (R29) for corporate entries.
- The returned entry will automatically post to the Originator's account when received by the ODFI.
- The Originator has the right to request a copy of the Written Statement of Unauthorized Debit by contacting the ODFI.
- The Originator must provide a copy of the Receiver's Authorization if requested by the ODFI.



Reversals

Under certain circumstances, an erroneous ACH entry or File may be reversed in accordance with ACH Rules.

- Only eligible under the following three conditions:
 1. Incorrect amount
 2. Incorrect account number/type
 3. Duplicate transaction(s)
- If processing a reversal for an incorrect amount or account, a correcting entry must also be processed within 24 hours of the reversal file.
- If processing a file reversal, the complete ACH file that was originally submitted must be reversed and the word "REVERSAL" must be in the Company Entry Description.
- The RDFI is under no obligation to post the reversing debit if it overdraws the payee's account or if the payee's account is closed.
- A payee must be notified if a reversing entry debits his or her account. However, a payee does not need to authorize the reversing debit.

OFAC

The U S Treasury Department's Office of Foreign Asset Control (OFAC) administers economic sanctions and embargo programs and maintains a list of countries, groups and individuals that U S companies are restricted from doing business with, including sending or receiving funds. While the Bank and/or the ACH Operator monitor transactions & accounts and compare individuals & businesses contained in the Files against these blocked parties, all ACH Participants (including Originators) may be held accountable for violations of OFAC sanctions. The list of these blocked parties can be obtained at www.treas.gov/offices/enforcement/OFAC.

Reference

ACH File Fields

ACH Files are formatted using a strict file layout set forth under the Rules. A File is made up of one or more Batches, and includes several pieces of information, including:

- ▶ **Effective Date:** *The date the transaction should post to the receiver's account.*
- ▶ **Receiver's Name:** *Name of the person/company on whose behalf the transaction is processed.*
- ▶ **Receiver's Account Information:** *Includes the account number and the bank's Routing/Transit number.*
- ▶ **Transaction Code:** *2-digit code used to determine both the account type (e.g. checking, savings) and the transaction type (e.g. credit, debit).*
- ▶ **Standard Entry Class:** *3-character code used to determine the transaction type (e.g. 'PPD' – Prearranged Payments and Deposits; 'CCD' – Corporate Credit or Debit; 'WEB' – Internet-Initiated Payment).*
- ▶ **Company Name:** *The name of the Originator.*
- ▶ **File Header Information:** *Includes the file creation date/time, file specs and the ODFI/ACH Operator codes.*
- ▶ **Batch Header Information:** *Includes the Originator name, Standard Entry Class and the entry description.*
- ▶ **Batch/File Control Record:** *Includes item counts, batch/file amount totals and control totals.*
- ▶ **Addenda Record:** *Includes additional information about the transaction (optional).*
- ▶ **Transaction Record:** *Includes the Receiver's name, account information, and transaction code.*



Batch

Batches are a collection of transactions grouped by the same *Company Name*, *Effective Entry Date* or *Standard Entry Class*. Each Batch must contain a *Batch Header*, at least one *Transaction Record*, and a *Batch Control Record*.

NACHA Header Specs

Immediate Destination	021205376
Immediate Origin	Originator's Tax ID Number/Employer ID Number] (9 digits)
Company Name	[Name of Originator]
Company Identification	Originator's Tax ID Number/Employer ID Number] (9 digits)
Company Entry Description	[Transaction Description] (e.g. "PAYROLL")
Originating DFI Identification	02120537
Immediate Destination Name	Lakeland Bank
Immediate Origin Name	Company Name (up to 23 characters)

Minimum Required Fields

- Receiver's name
- Receiver's bank's 9-digit transit-routing number
- Receiver's bank account number
- Amount
- Bank account type (e.g. checking, savings)
- Effective date

Common ACH Abbreviations

ACH	Automated Clearing House
ODFI	Originating Depository Financial Institution
RDFI	Receiving Depository Financial Institution
NOC	Notification of Change
SEC	Standard Entry Class

Common Standard Entry Classes

PPD	Prearranged Payment and Deposit - electronic payments or deposits to a consumer account
CCD	Corporate Credit or Debit - electronic payments or deposits to a corporate/business account
CTX	Corporate Trade Exchange - electronic payments or deposits to a corporate/business account (support for ANSI ASC X12 and up to 9,999 addenda)
TEL	Telephone Initiated Entry – RESTRICTED
WEB	Internet Initiated Entry – Bank Approved Only

Common Notification of Change Codes

C01	Incorrect Account Number
C02	Incorrect Routing Number
C03	Incorrect Routing Number and DFI Account Number
C05	Incorrect Transaction Code

Common Return Reason Codes

R01	Insufficient Funds
R02	Account Closed
R03	Unable to locate/No Account on File



- R04 Invalid Account Number
- R07 Authorization Revoked (Consumer Only)
- R08 Payment Stopped
- R10 Consumer Advises Not Authorized
- R11 Customer Advises Entry Not in Accordance with the Terms of the Authorization
- R16 Account Frozen/Per OFAC
- R29 Corporate Advises Not Authorized

For access to the complete NACHA Rules & Guidelines please visit www.nacha.org



Appendix A | Sample Credit Authorization

AUTHORIZATION AGREEMENT FOR DIRECT DEPOSITS (ACH CREDITS)

Company Name _____

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate credit entries to my (our) Checking Account/ Savings Account (select one) indicate below at the depository financial institution named below, hereafter called DEPOSITORY, and to credit the same to such account. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law.

Depository Name _____ Branch _____

City _____ State _____ Zip _____

Routing Number _____ Account Number _____

This authorization is to remain in full force and effect until COMPANY has received notification from me (or either of us) of its termination in such times and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. The undersigned Receiver agrees to be bound by the NACHA Operating Rules, as amended and in effect from time to time.

Name(s) _____ Address _____
(Please Print)

Signature _____ Date _____

NOTE: WRITTEN CREDIT AUTHORIZATIONS MUST PROVIDE THAT THE RECEIVER MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.



Appendix B | Sample Debit Authorization

AUTHORIZATION AGREEMENT FOR PAYMENTS (ACH DEBITS)

Company Name _____

I (we) hereby authorize _____, hereinafter called COMPANY, to initiate debit entries to my (our) Checking Account/ Savings Account (select one) indicate below at the depository financial institution named below, hereafter called DEPOSITORY, and to debit the same to such account. I (we) acknowledge that the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law.

Depository Name _____ Branch _____

City _____ State _____ Zip _____
Routing Number _____ Account Number _____

This authorization is to remain in full force and effect until COMPANY has received notification from me (or either of us) of its termination in such times and in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it. The undersigned Debtor agrees to be bound by the NACHA Operation Rules, as amended and in effect from time to time.

Names(s) _____ Address _____
(Please Print)

Signature _____ Date _____

NOTE: WRITTEN DEBIT AUTHORIZATIONS MUST PROVIDE THAT THE DEBTOR MAY REVOKE THE AUTHORIZATION ONLY BY NOTIFYING THE ORIGINATOR IN THE MANNER SPECIFIED IN THE AUTHORIZATION.