Understanding ACH Operations

PaymentsFirst is one of the largest payment associations within the United States, promoting the secure use, advancement, and understanding of payment systems. We are a proud Direct Member of Nacha and the U.S. Faster Payments Council and a proud payment association participant of the Center for Payments.

Agenda

01. Roles of Key Participants
02. ACH Processing Flow
03. Transaction Types
04. Handling ACH Returns
05. Regulatory and Compliance Considerations

The ACH Network's Role

The ACH Network is a vital part of the U.S. payments system, enabling secure electronic transfers between bank accounts. It supports a wide range of transactions, including direct deposits, bill payments, tax refunds, and person-to-person payments. The ACH Network streamlines recurring payments for businesses, consumers, and governments. Governed by NACHA, the ACH Network ensures standardized, reliable, and scalable payment processing.

Roles of Key Participants

Originator

Any individual or organization that initiates ACH debit or credit entries according to authorization from a Receiver.

ODFI

The Originating Depository Financial Institution is the Financial institution that receives payment instructions from originators and forwards to the ACH Operator.

ACH Operator

Central clearing facility operated by the Federal Reserve Bank (FRB) or Electronic Payments Network (EPN) on behalf of the Depository Financial Institutions (DFIs).

RDFI

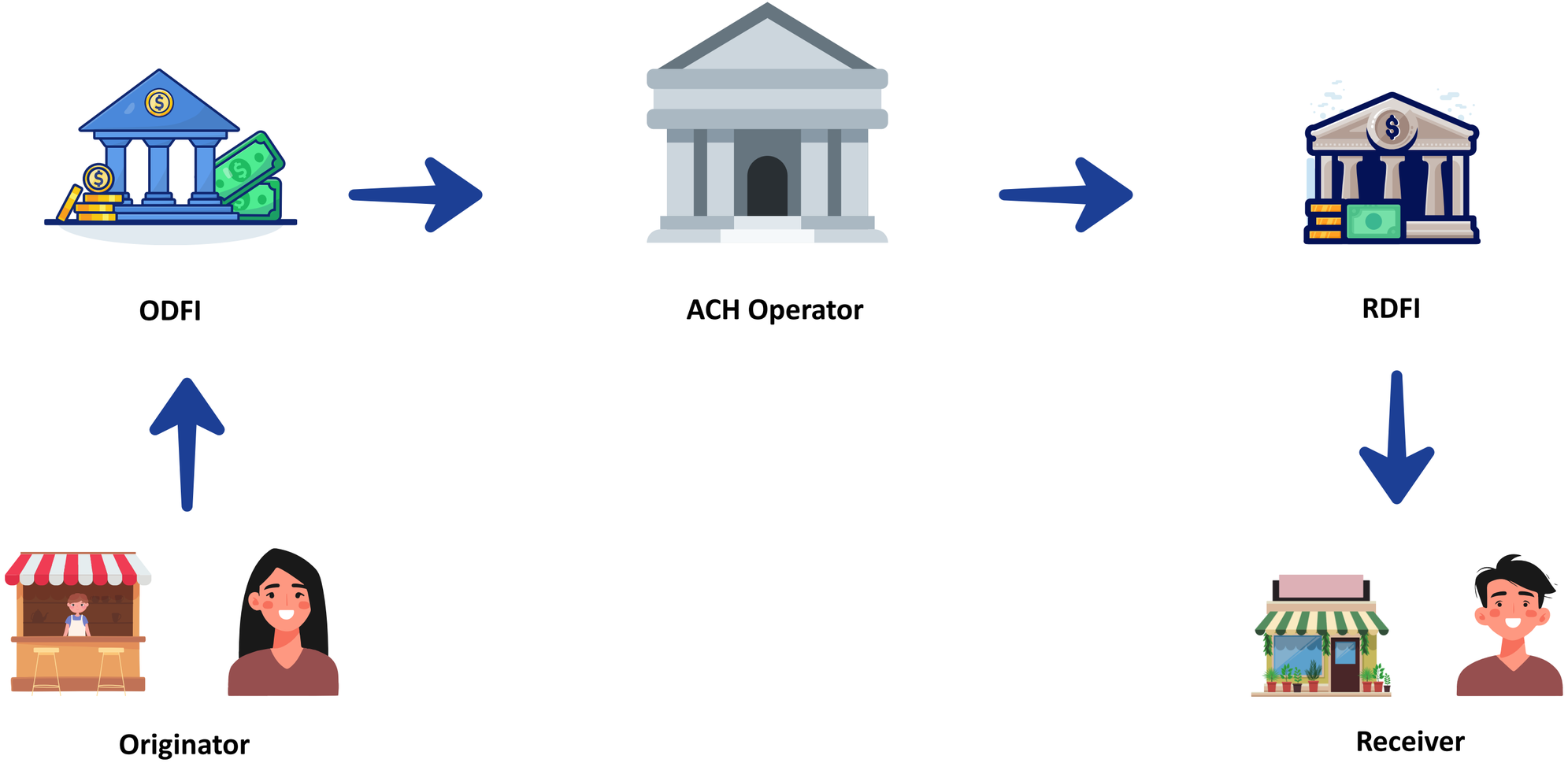
The Receiving Depository Financial Institution is the Financial institution that receives ACH entries from the ACH Operator and posts entries to the accounts of the Receivers.

Receiver

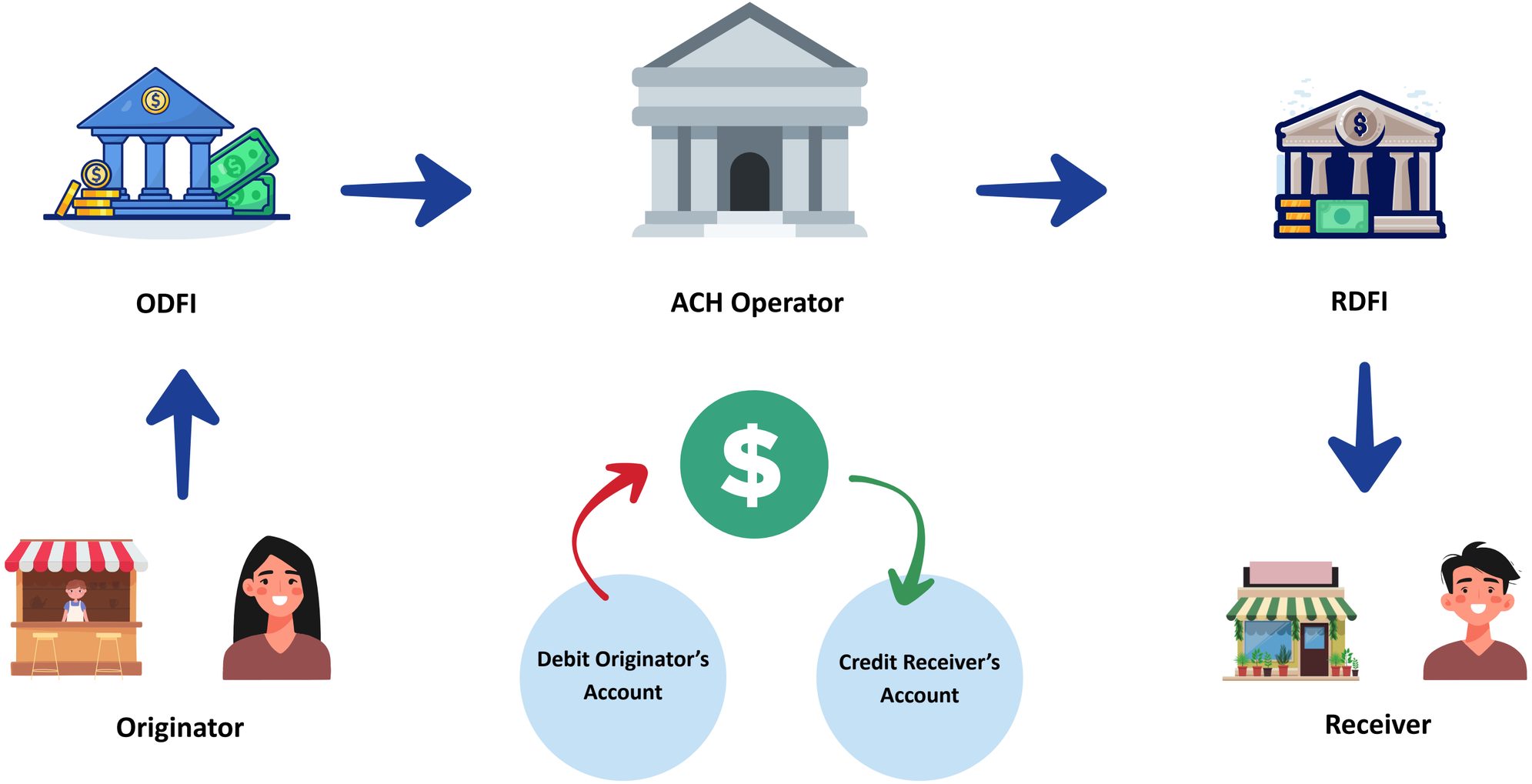
Individual, Corporation or other entity that has authorized an Originator to initiate a credit or debit entry to a transaction account held at the RDFI.

ACH Processing Flow

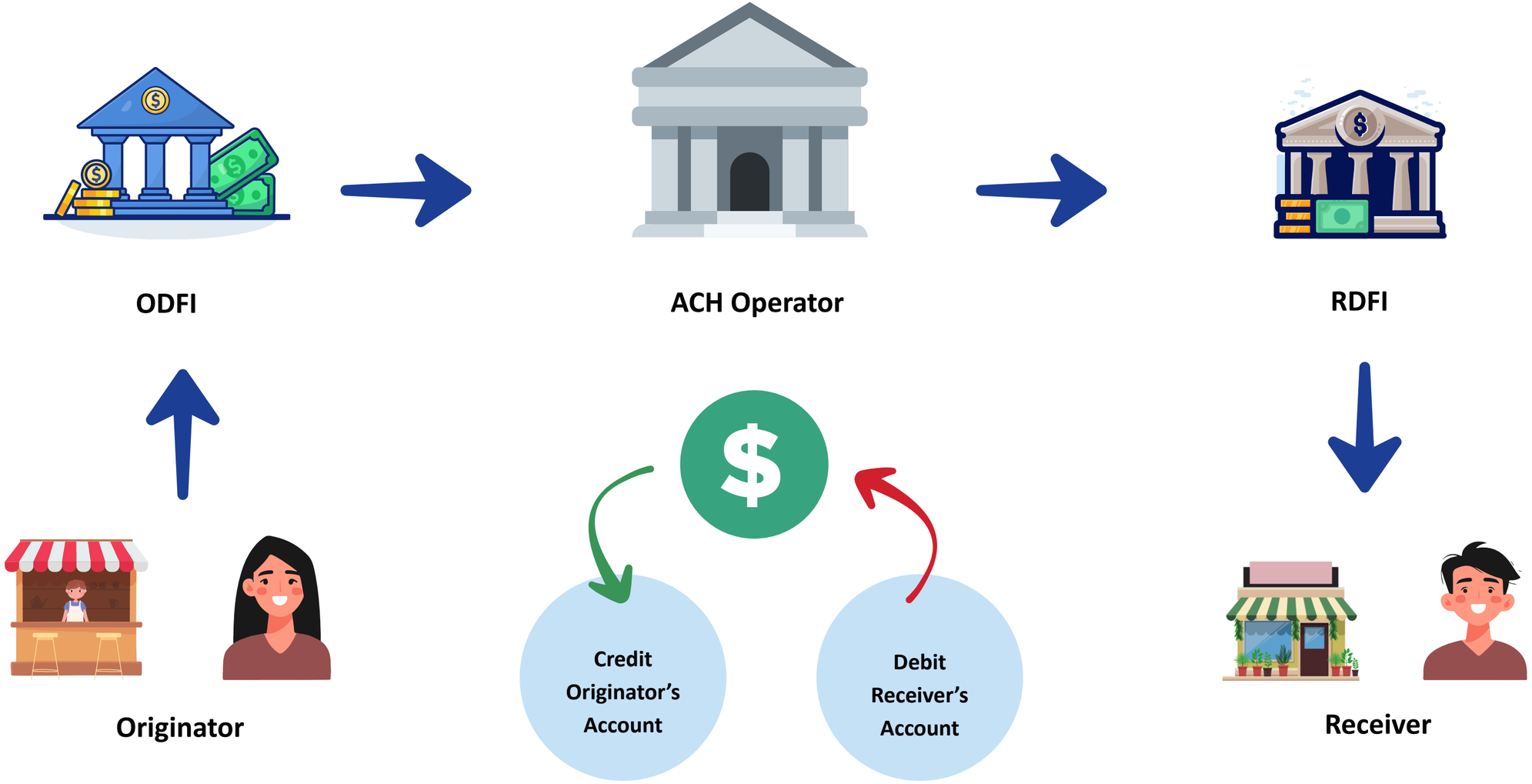
Information Flow



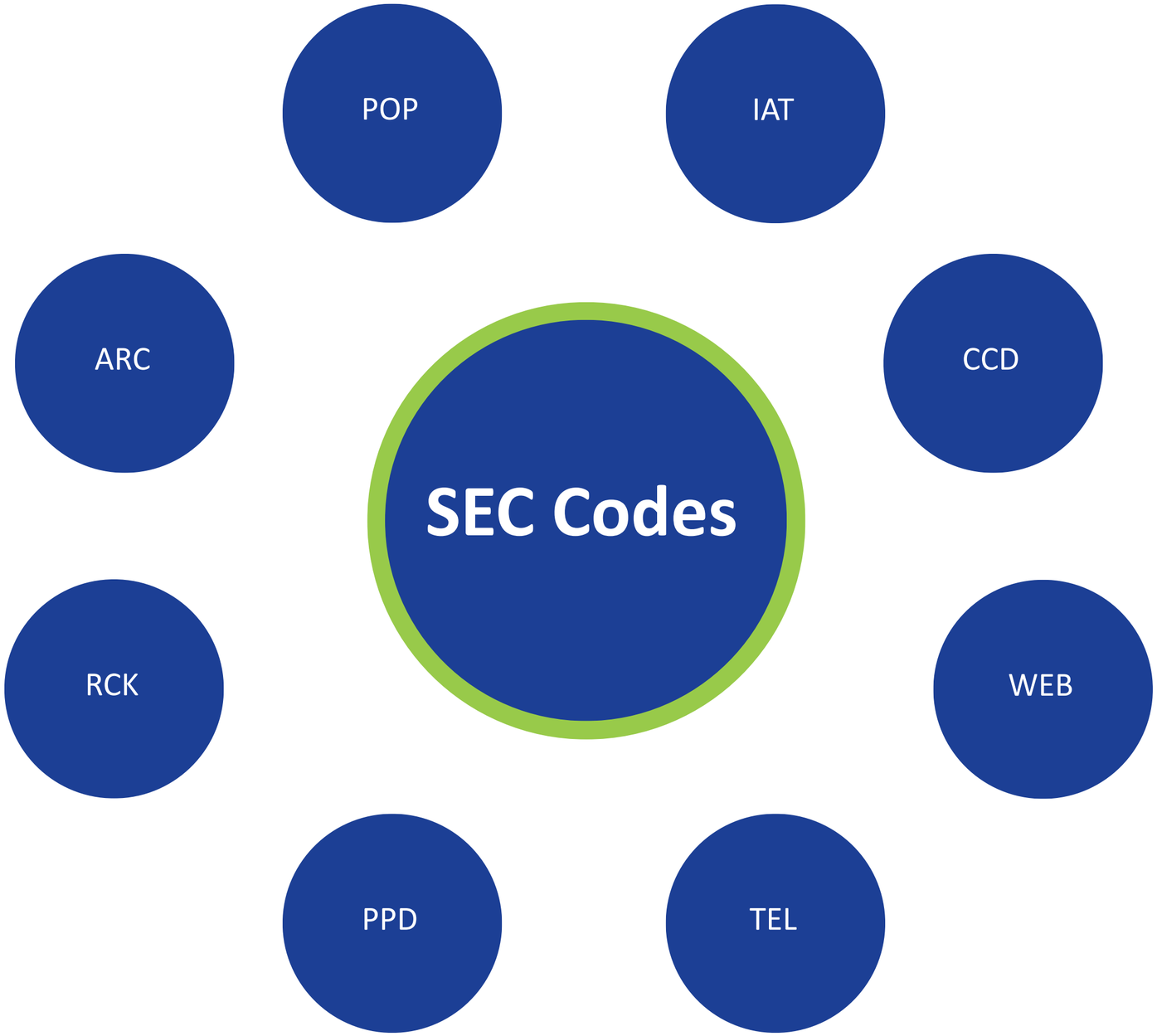
ACH Credit Transaction



ACH Debit Transaction



Transaction Types


SEC Codes
POP
IAT
ARC
CCD
RCK
WEB
PPD
TEL

Point of Purchase Entry

- POP
- Eligible Source Document that is received in-person for payment of goods and services.
- Single debit transaction
- Consumer or Corporate (6-inch check)
- The Source Document (Check) is received by the merchant. It is run through the merchants check reader. The person will also be ask to sign the PIN pad and given a very long Receipt along with the Source Document(Check) that has been voided.

Account Receivable Entry

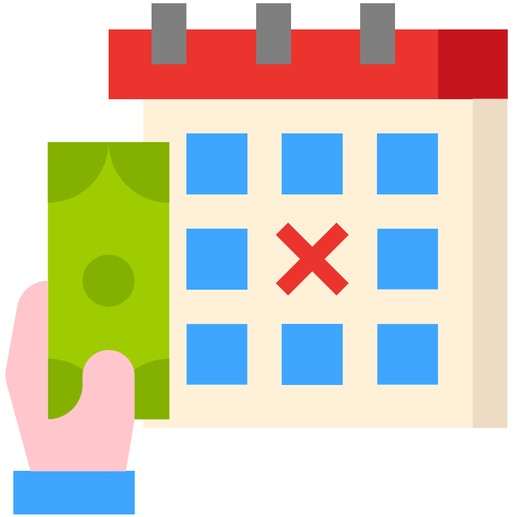
- ARC
- Single entry debit
- Consumer or Corporate (6-inch check)
- Originated based on an eligible source document provided to an Originator by the Receiver
  - Via U.S. mail or delivery service
  - At a dropbox location, or
  - In person for payment of a bill at a manned location

Re-Presented Check Entry

- RCK
- Debit entry
- Consumer accounts only
- Used to collect the amount of a check returned for insufficient or uncollected funds
- The total presentments of the item, whether it is a check or an RCK can not exceed three times

Prearranged Payment and Deposit Entry

- PPD
- Used with a prior written authorization. For Example:
  - Payroll/Direct Deposit
  - Insurance Payments
  - Gym Memberships
  - Streaming Services
- Authorization for PPD debit entry must be in writing and signed or similarly authenticated by the Receiver



Telephone Initiated Entries

- TEL
- Entries that are obtained via the telephone and use oral authorization.
- Ways a TEL can be originated
  - Existing relationship with the Originator and Receiver
  - No pre-existing relationship means the Receiver needs to initiate the phone call.

Internet Initiated Entries

- WEB
- Consumer account
- Recurring or single
- Debit or Credit
- Authorization via the Internet or wireless network

Corporate Credit or Debit Entry

- CCD
- Used in business to business transactions
- Debit or Credit
- Used to supply payment related information
- Written authorization is implied

International ACH Transaction

- IAT
- Used when a payment involves a financial agency outside U.S. jurisdiction, and that payment goes through the U.S. ACH Network.

WEB Use Case

A customer uses their utility company's website to pay their monthly bill via ACH using a WEB entry.

TEL Use Case

A customer makes a one-time donation to a charity by providing their bank account details over the phone, processed as a TEL entry in the ACH Network.

PPD Use Case

An employer uses a PPD entry to directly deposit an employee’s paycheck into their bank account.

CCD Use Case

A company uses a CCD entry to pay a vendor for monthly services directly from its business account.

Handling ACH Returns

Returns

- RDFIs must return entries that are not posted to a Receiver’s account
- Prenotification entries should also be returned when the RDFI wishes to advise the Originator not to initiate he subsequent live entry
- RDFIs must also return any credit entry that is refused by the Receiver
- Entries must be returned for valid reasons
- Must be made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry

Standard Return Timeframe

- Must be made available to the ODFI no later than the opening of business on the second banking day following the Settlement Date of the original entry
  - Attempts to post on Monday
  - Returned on Tuesday
  - At ODFI by Opening of Business on Wednesday

- Must be made available to the ODFI no later than the opening of business on the second banking day (Wednesday) following the Settlement Date (Monday) of the original entry

- Saturdays, Sundays, and Holidays are NOT banking days

Common Return Reason Codes

R01

Insufficient Funds

R02

Account Closed

R03

No Account / Unable to Locate Account

R04

Invalid Account Number Structure

R08

Stop Payment

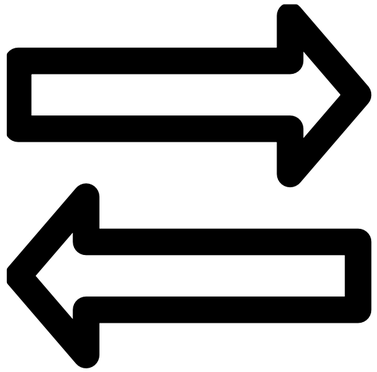
R09

Uncollected Funds

Return Flow Chart

1. ODFI transmits to RDFI

ODFI



2. RDFI returns to ODFI

RDFI

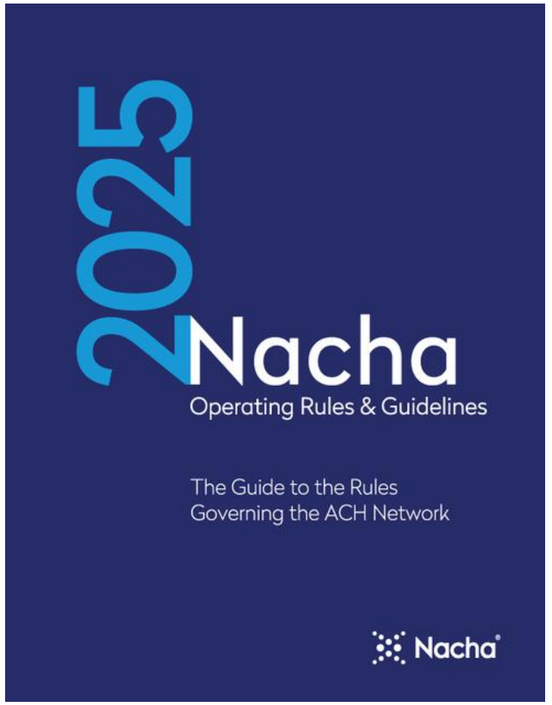
Identifying and Resolving Returns

- The FI will notify the ODFI of the return using a return reason code.
- The ODFI receives the file with the return entries and notifies the Originator
- Take corrective action based on the return reason code
- Document any records or communications to comply with the Nacha Operating Rules

Regulations and Compliance

Nacha Operating Rules

- Apply to all entries and entry data transmitted through one or more ACH Operators
- All participating financial institutions agree to comply with the applicable Nacha Operating Rules
- Considered contract law
- Revisions are made annually
- Addresses relationship between ODFI and RDFI



Nacha Operating Rules

Article One	General Rules
Article Two	ODFIs, Originators, and Third-Party Senders
Article Three	RDFIs and Receivers
Article Four	ACH Operators
Article Five	Gateways for IAT Entries
Article Six	National Association
Article Seven	Settlement
Article Eight	Definitions of Terms

Nacha Operating Guidelines

Section I	General Information
Section II	Originating Depository Financial Institutions
Section III	Receiving Depository Financial Institutions
Section IV	ACH Operators
Section V	Standard Entry Class Codes
Section VI	Special Topics
Section VII	Appendices

Regulation E

- Regulation E, which implements the Electronic Fund Transfer Act (EFTA) of 1978, is crucial to electronic fund transfers (EFTs), including ACH transactions.
- Focuses on consumer protection
- Establishes and defines rights, liabilities, and responsibilities of consumers and financial institutions
- Defines financial institution investigation, notification, and re-credit requirements
- Sets consumer notification requirements
- Does not give mechanism for returning unauthorized entries

Questions?

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