



TREASURY MANAGEMENT DEPARTMENT

ACH SERVICES

ACH ORIGINATOR GUIDE

May 2020

About the ACH Originator Guide

The Automated Clearing House (ACH) Network is at the center of commerce in the U.S., moving money and information from one financial institution account to another through Direct Deposit and Direct Payment via ACH transactions, including ACH credit and debit transactions; recurring and one-time payments; government, consumer and business-to-business transactions; international payments; and payments plus payment-related information. The ACH Network is now one of the largest, safest and most reliable payment systems in the world, creating value and enabling innovation for all participants.

As an ACH Originator with Troy Bank & Trust, your company must follow the rules and guidelines for the creation, submission, and processing of ACH entries and files. These are set by Nacha¹, an organization which manages the development, administration, and governance of the ACH Network. The Nacha Rules include the legal framework for the ACH Network, and the basic obligations of each ACH Network participant.

This ACH Originator Guide provides a brief overview of some important sections of the ACH Rules as they apply to your company (the “Originator”) and is designed to serve as a guide to understanding essential rules regarding the processing of ACH transactions.

To introduce you to our services, this document also includes several reference materials and a brief summary of your responsibilities as the ACH Originator. Although this ACH Originator Guide covers important topics, it is not intended to be a replacement or a substitute for the referencing and compliance with the *Nacha Rules and Guidelines*. To ensure compliance with current regulations, all ACH Originators must stay abreast of annual rule changes via the online portal rules update message.

Please note that failure to comply with the ACH Rules can lead to termination of services and/or fines imposed by Nacha. Troy Bank & Trust may contact your company periodically to verify your internal ACH procedures and policies. Upon review of the ACH Originator Guide, we encourage you to call us at 888.258.8769 with any questions or concerns.

To purchase a complete copy of the latest NACHA Operating Rules & Guidelines, please visit <https://www.nacha.org/store>.

¹Nacha owns the copyright for the Nacha Operating Rules and Guidelines.

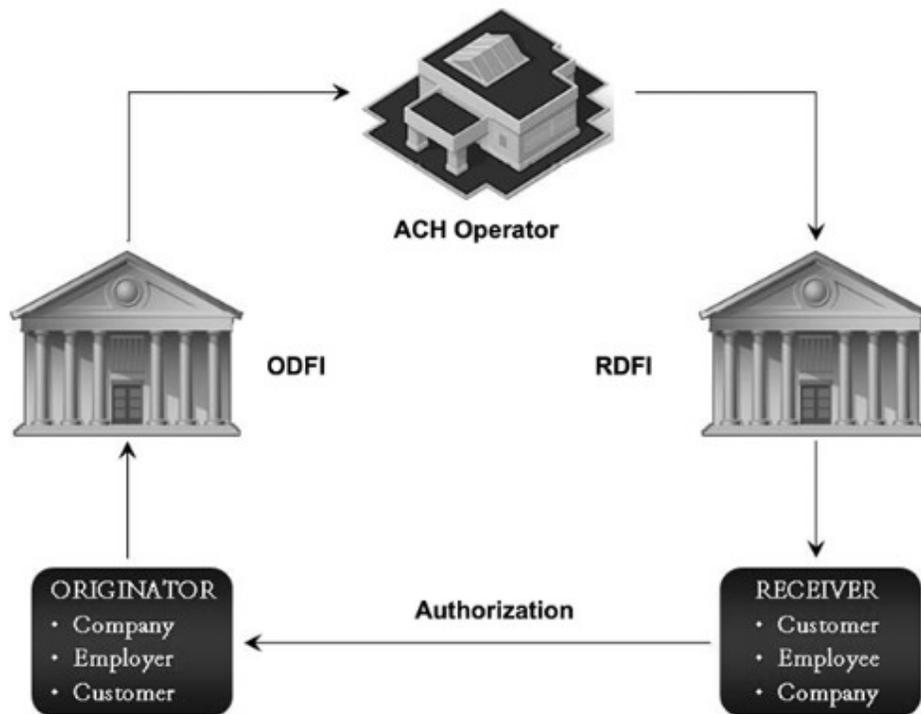
ACH Main Participants & Key Definitions

The ACH Network is a batch processing system in which financial institutions accumulate ACH transactions throughout the day for later batch processing. Instead of using paper

to carry necessary transaction information, such as with checks, ACH Network transactions are transmitted electronically, allowing for faster processing times and cost savings. Through the ACH system, companies can disburse funds to vendors, create direct deposits for their company payroll, and collect funds for consumer payments.

When you call the Troy Bank & Trust Treasury Management Support for assistance around your ACH processing, our mutual understanding depends upon sharing a common set of terms. These terms may prove useful in reporting a problem or inquiring about a transaction.

ACH Participants: An ACH transaction involves several parties. The ACH Participants listed below are required for the completion of an ACH transfer.



- ❑ **Originator (you, our client):** The Originator is the entity that agrees to initiate ACH entries, either a credit or debit, into the payment system according to an arrangement with a Receiver. The Originator usually directs the transfer of funds to or from a consumer's or another company's account. When your company initiates credit transactions to your employee's account for payroll or initiates debit transactions to consumer or business accounts for payment of goods or services, your company is acting as the Originator.

- ❑ **Originating Depository Financial Institution (ODFI):** The ODFI is the financial institution with which the Originator has a contractual relationship for ACH origination services and is responsible for sending ACH entries into the ACH Network on behalf of the Originator. Troy Bank & Trust is acting as your ODFI when we receive the payment instructions from Originators and forward the entries to the ACH Operator. Your business account with Troy Bank & Trust will be debited or credited in connection with the entries submitted for processing.
- ❑ **Automated Clearing House Operator:** An 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. The ACH Operator also performs some editing functions, ensuring that mandatory information required in ACH records is included. There are currently two ACH Operators, the Federal Reserve Bank and the Electronic Payments Network (EPN).
- ❑ **Receiving Depository Financial Institution (RDFI):** The RDFI is the Depository Financial Institution that has an account relationship with the Receiver and accepts ACH entries from the ACH Operator and posts them to the accounts of its depositors (Receivers). The RDFI provides information regarding each ACH transaction to the Receiver on their statements.
- ❑ **Receiver:** A Receiver is a consumer or an organization that has authorized an Originator to initiate an ACH entry to the Receiver's account with the RDFI. For example, the employee is the Receiver if his/her employer is initiating a Direct Deposit payroll credit. In the context of a sale of goods or services, the Receiver is the buyer or business partner if the Originator is sending a credit to pay for goods or services.
- ❑ **Third-Party Intermediaries:** There are two other Network participants that may be involved in the flow of transactions, Third-Party Service Providers (TPSP) and Third-Party Senders (TPS). In most ACH transactions, the roles of the various parties to the transaction – Originator, Receiver, ODFI, and RDFI – are well-understood. However, when a transaction involves the use of a payment intermediary (e.g., a Third-Party Service Provider that performs some aspect of payment processing on behalf of a client), those ACH roles may not always be easily identifiable.

A TPSP is an organization that performs any function on behalf of an Originator that is related to the processing of Entries. A payroll processor is a common example of a Third-Party Service Provider used by many Originators. A TPSP also becomes a TPS when there is a contractual relationship between the Originator and the Third-Party, but there is NOT an agreement between the Originator and the ODFI. In the case of the payroll processor, for example, if the Originator has an agreement with an ODFI for ACH origination and they use a payroll processor to create the ACH file on their

behalf, the payroll processor is a Third-Party Service Provider. However, if the Originator instead has a contractual relationship with the payroll processor and the payroll processor sends the ACH file to the payroll processor's financial institution for introduction into the ACH Network, the payroll processor is considered a Third-Party Sender.

If your company originates Entries on behalf of other entities, then your company may operate as a TPS. Please talk to your **TB&T Treasury Management Officer** if you believe your business is acting as an intermediary in transmitting entries between an Originator and Troy Bank & Trust. Remember that an ACH participant can be a TPS for one set of entries, and an Originator for a different set of entries.

ACH Basic Terminology:

- ❑ **ACH Entry:** An ACH Entry may be either a credit or a debit transaction. By examining what happens to the Receiver's account, one can distinguish the difference between an ACH credit ("push funds") and an ACH debit ("pull funds") transaction. If the Receiver's account is debited (balance decreased), then the entry is an ACH debit. If the Receiver's account is credited (balance increased), then the entry is an ACH credit. Conversely, the offset to an ACH debit is a credit to the Originator's business checking account and the offset to an ACH credit is a debit to the Originator's business checking account. These Entries are routed through the ACH network for settlement on a specified date.

ACH Entries may also be referred to as an Electronic Funds Transfer, or EFT. Both ACH entries and Wire Transfers could be considered EFTs. However, an ACH transaction is not a wire transfer or a "wire." A wire transfer is a completely different product from ACH. The wire transfer system enables immediate transfer of funds for single entries, typically at larger dollar values than average ACH transactions.

- ❑ **Prenotification:** – A prenotification, or prenote, is a Non-Monetary entry transmitted through the ACH Network by an Originator to an RDFI. A prenotification conveys the same information that will be carried on subsequent entries, except for the dollar amount, transaction code, and any addenda records. Prenotifications allow the RDFI to verify the accuracy of account numbers prior to receiving a live entry. Use of the prenotification process by an Originator is optional. However, an Originator that chooses to transmit prenotification entries may initiate live dollar entries as soon as the third banking day following the prenote's settlement date, provided that no return or NOC related to the prenote is received.

- ❑ **Returns:** A prenote or monetary transaction a receiving financial institution cannot process and therefore sends back to you for resolution. ACH entries can be returned to an Originator for any valid reason just as deposited checks can be returned for any valid reason. Your account will be credited or debited for all returned monetary transactions on the date the item is received by Troy Bank & Trust. Additional information about Returns and a list of return reason codes are included in Exhibit E. An example of return notices is also provided in Exhibit G. For a complete list of Return Reason Codes, refer to Appendix Four of the current edition of the *NACHA Operating Rules*.
- ❑ **Notification of Change (NOC):** A Non-Monetary Entry transmitted by an RDFI for distribution back to the Originator. The NOC is created when the RDFI receives an entry (prenotification or live dollar) that contains incorrect information, as a request for revision that needs to be acted upon before initiating another transaction. The original transaction is applied to the Receiver's account; however, something within your records needs to be changed before the origination of a subsequent entry. A list of NOC codes, with definitions, is included in Exhibit F. Return notices samples are in Exhibit G.
- ❑ **Reversals:** A transaction intended to reverse a previous transaction that has already been processed through the ACH system. In the event an erroneous or duplicate transaction or file is originated, the ACH Rules allow the Originator or ODFI to reverse the transaction or file. Reversals must meet certain requirements. Those requirements are laid out in detail in this document.
- ❑ **Deletion:** An action performed by Troy Bank & Trust as the ODFI to eliminate a transaction, batch, or file after the transaction, batch, or file has been transmitted to Troy Bank & Trust but before it has been processed and distributed.
- ❑ **ACH Stop Payment:** An instruction from an account holder which indicates that a particular transaction should not be paid. Originators may receive entries that are returned because the Receiver has placed a stop payment order on the ACH entry or associated source document. Since the stop payment order may be for one, several or all future entries, the Originator should contact the Receiver for clarification and may not reinitiate the returned entry unless the reason for the return is remedied.
- ❑ **Authorization:** An Originator must obtain the Receiver's authorization or provide proper notification prior to initiating entries through the ACH Network to the Receiver's account. Authorization requirements differ among the types of ACH transactions, also known as Standard Entry Class (SEC) codes. Those requirements are laid out in detail in this document.

ACH Rules & Regulations

The ACH Network is governed by the Nacha Rules, Uniform Commercial Code, Regulation E, 31 CFR Part 210 (Green Book) and Office of Foreign Assets Control (OFAC). The Nacha Rules serve as the primary source for rules and regulations; however, Originators also need to be aware and comply with other rules and regulations governing the transmission of ACH entries. Details on the rules and regulations having the most impact on Originators follow:

- ❑ **Office of Foreign Assets Control (OFAC):** The U.S. Department of the Treasury, OFAC, administers economic sanctions and embargo programs that require assets and transactions involving interests of targeted countries, targeted country nationals and other specifically identified companies and individuals to be frozen. OFAC maintains a list of Specially Designated Nationals and Blocked Persons (SDN List) to assist all U.S. participants in the ACH Network in identifying blocked parties.

The ACH Network is subject to the requirement to comply with OFAC regulations, this means that all U.S. ACH participants, including Originators, need to be aware that they may be held accountable for sanctions violations and must understand their compliance obligations. As an Originator, your company is subject to applicable U.S. law, including OFAC-enforced sanctions, when initiating ACH entries. Originators are encouraged to obtain a current SDN List directly from OFAC in order to check payees against OFAC compliance checklists. As an Originator you should also remember it is against the law to send debit or credit entries to OFAC-blocked entities. You may check the OFAC SDN list at: <http://sdnsearch.ofac.treas.gov>.

- ❑ **Regulation E and Electronic Fund Transfer Act (EFTA):** Regulation E establishes the basic rights, liabilities and responsibilities of consumers who receive electronic fund transfer services, including ACH entries. The primary objective is the protection of individual consumers engaging in electronic fund transfer services. Regulation E also addresses the responsibilities of financial institutions regarding stop payments and unauthorized debit transactions to consumer accounts and defines the process for resolving errors. If your company originates debits to consumer accounts, you should be familiar with the Reg E protections available to those consumers.
- ❑ **State Law:** Some state laws may impact the origination of ACH transactions. For instance, some states allow companies to mandate employees to be paid by Direct Deposit; however, most state labor codes restrict companies from offering only Direct Deposit. Many states have mandated state taxes paid by businesses and corporations be initiated through the ACH. Please consult with the state's Attorneys General Office for specifics.

- ❑ **Uniform Commercial Code Article 4A (UCC 4A):** The UCC 4A is a series of state laws that govern commercial transactions. Article 4A of the UCC governs corporate ACH transactions that are referred to as “corporate wholesale credit entries.” UCC 4A also addresses the ‘commercially reasonable security procedures’ that must in place for ACH Origination to occur.

Consumer vs. Corporate Entries

ACH transactions are typically categorized as either consumer payments or corporate payments, depending on the relationship of the parties involved in the transaction and the type of Receiver account.

- ❑ The term “corporate payments” refers generally to any transaction to a non-consumer account and includes corporations, small businesses and non-profit organizations alike. Corporate ACH applications include cash concentration and disbursement, corporate trade payments, state and Federal tax payments and financial electronic data interchange (EDI). Cash concentration and disbursement allows companies to achieve efficiencies in cash management through timely intra-company transfer of funds. Corporate trade payments enable corporations to exchange both data and funds with trading partners, facilitating an automated process of updating their accounts receivable and accounts payable systems.
- ❑ Consumer payments currently made via the ACH Network include credit applications such as payroll, employee expense reimbursements, dividends, interest, and annuity payments, in addition to educational benefit reimbursements, payments and advances, and many others. Consumer ACH debit applications include, among others, the collection of insurance premiums, mortgage and rent payments, utility payments, installment payments, a variety of membership dues, and other recurring obligations.

Standard Entry Classes (SEC) Codes

ACH applications are payment types used by Originators, such as your company, to identify ACH debit and/or credit entries transmitted to a corporate or consumer account at the RDFI. Each ACH application is identified and recognized by a unique three-character identifier referred to as the Standard Entry Class (SEC) code. Among other things, the SEC identifies:

- ❑ The nature of the transaction as consumer or corporate/business, as well as whether the transaction is single-entry or recurring.

- ❑ The ACH Rules and other regulations governing the transaction, including the method for obtaining authorization or providing notice and the return timeframes. Some SEC codes may only be used for transactions sent to a consumer account; others may only be used for transactions sent to a business/corporate account. Some codes may be used for transactions sent to both types of accounts.
- ❑ The specific record format that is used to carry the payment and payment-related information relevant to the entry.

As an Originator, your company is responsible for using the SEC codes appropriately and in accordance with Nacha Rules. The use of certain SEC codes may require additional due diligence and approval from Troy Bank & Trust. See Exhibit B for a list of supported SEC codes.

Authorizations Requirements by SEC - Your Responsibilities

The category into which an ACH transaction falls has significant consequences for how it is regulated and the parties' rights and responsibilities. As the Originator, your company must first obtain proper authorization to initiate a transaction to the Receiver's account or provide notice to the Receiver that a transaction will be initiated to their account. Obtaining the proper authorization for your ACH entries is the most significant step you can take to protect your business against disputes, return fees, and reversed transactions.

The way the authorization may be obtained varies based on the type of transaction. ACH debit entries intended for consumer accounts are heavily regulated and mandate special authorization requirements which are covered as part of this guide². Your business must fulfill the specific authorization requirements for the ACH entries submitted, or the Receivers can have the transactions reversed for several reasons, including improper authorization, the processing on a date earlier than authorized, or for an amount different than authorized, among other reasons³. Additional information about the authorization requirements is included as part of this guide – please refer to Exhibit H.

As an ACH Originator, your company is responsible for:

- ❑ Obtaining proper authorizations, dependent upon the transaction type, and retaining evidence of such authorizations for two years from the termination or revocation of the authorization. An Originator must retain the original or a copy of each written authorization of a Receiver, or a readily and accurately reproducible record evidencing any other form of authorization.

² The Electronic Funds Transfer Act and Regulation E limits the consumer's potential liability for unauthorized electronic funds transfers.

³ The transactions originated must be for the exact amount authorized and agreed with the Receivers, they cannot be arbitrarily higher or lower. However, as an Originator you are permitted to have Receivers authorize payments for variable amounts, and/or not to exceed amounts with the proper authorization forms and verbiage.

- ❑ Providing a copy of the authorization(s) in a prompt manner if requested by Troy Bank & Trust to resolve a dispute, or as part of an audit.
- ❑ Giving prompt and appropriate notice to the Receivers if changing amount or date of any ACH debit entries.
- ❑ Stopping subsequent entries when notified by the Receiver that the entry was unauthorized, or the authorization was revoked.
- ❑ Making necessary changes to payee account information within three (3) banking days upon receipt of a Notification of Change or before another entry is sent.

You shall obtain all authorizations necessary to enable Troy Bank & Trust to process the ACH Debit Entries and shall furnish Troy Bank & Trust with copies of such authorizations if requested. An RDFI may request, in writing, proof of authorization for all entries. For consumer entries, your company must provide a copy of the authorization. For corporate entries, you are required to provide Troy Bank & Trust with either a copy of the authorization or contact information, including a contact name and phone number or email address for inquiries.

Troy Bank & Trust must be able to provide proof of authorization for all entries to the RDFI within 10 banking days of the RDFI's request. Your company, as the Originator, must provide the original, copy or other accurate Record in such time and manner as to enable Troy Bank & Trust to deliver the authorization to a requesting RDFI within 10 Banking Days of the RDFI's request.

Prenotification Process

The prenotification (prenote) process can help your company ensure the account data in your file is accurate prior to sending live dollar entries, however, the use of the prenotification process by an Originator is optional.

An Originator that chooses to transmit prenotification entries may initiate live dollar entries as soon as the third banking day following the prenote's settlement date, provided that no return or NOC related to the prenote is received by Troy Bank & Trust. However, if your company receives a Return or Notification of Change (NOC), your company must correct your records prior to initiating live dollar transactions. Your company may choose to submit another prenote file after making your corrections; however, this is not required. Please note that the RDFI is not required to validate the name of the payee on the prenote, although many do; they are only required to validate the Receiver's account number.

The format of a prenotification entry is the same as a live dollar entry. However, the dollar amount of a prenotification entry is zero and a unique transaction code is used to indicate a prenotification entry. The following chart includes common transaction codes by account and transaction type:

Notifications of Change (NOC) - Your Responsibilities

A Notification of Change (NOC) is a Non-Monetary Entry transmitted by an RDFI for distribution back to the Originator through Troy Bank & Trust as the ODFI. It is created when the RDFI receives a prenotification or a live dollar entry that contains incorrect information. A Notification of Change:

- ✓ Identifies the entry that has been received at the RDFI;
- ✓ Pinpoints the specific information on that entry that is incorrect; and
- ✓ Provides the correct information in a precise format so the Originator can make the change.

As an Originator, you must respond to Notifications of Change by investigating incorrect data and making corrections within six banking days of receipt of the NOC information or prior to initiating another entry to the Receiver's account, whichever is later. Failure to change or correct the errors identified on the NOCs could cause subsequent entries to that account to be delayed or returned and can expose your company and Troy Bank & Trust to fines. Troy Bank & Trust may pass along any fines received based upon your non-compliance.

Like Return Codes, the NOCs are defined by change codes which describe the error that needs to be corrected. NOC Change Codes generally fall into two categories:

- 1) Codes that indicate an error in the account information: Entries carrying these codes indicate that the Receiving Bank did receive the entry but the account information or information regarding the Receiver was incorrect. Changes must be made so that the Receiving Bank can handle the entry appropriately.
- 2) Codes that indicate an error in the routing of the entry: Entries carrying these codes indicate that the entry needs a change in the routing information.

The most common change codes are listed below. An expanded listing of change codes can be found in Exhibit F.

CODE DESCRIPTION

C01	Incorrect DFI Account Number
C02	Incorrect Routing Number
C03	Incorrect Routing Number and Incorrect Account Number
C05	Transaction Code
C13	Addenda Format Error

ACH Returns

ACH entries can be returned to an Originator for multiple valid reasons, including Non-Sufficient Funds (NSF), Invalid Account Number, or Transaction Not Authorized among many other reasons. Most returns are received within two-banking days of the transaction's original settlement date and will create an adjustment entry to your designated business checking offset account at Troy Bank & Trust. However, some return reasons allow extended deadlines. Consumers can dispute and return unauthorized transactions up to 60 days from the statement date. If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must get a signed Written Statement of Unauthorized Debit from the account holder. You may obtain a copy of that statement by requesting a copy through Troy Bank & Trust Treasury Solutions Customer Service or your assigned Relationship Specialist, a request will be made on your behalf to the Receiving Bank.

ACH Returns are defined by return codes which describes the reason for the return. The most common return reasons and the corresponding codes are listed below. An expanded listing of return codes which indicate the appropriate action that should be taken depending upon the reason can be found in Exhibit E.

CODE DESCRIPTION

R01	Insufficient Funds
R02	Account Closed
R03	No Account / Unable to Locate Account
R04	Invalid Account Number
R06	Returned Per ODFI Request
R07	Authorization Revoked by Customer
R08	Payment Stopped
R09	Uncollected Funds
R10	Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account
R11	Customer Advises Entry Not in Accordance with the Terms of the Authorization (Effective April 1, 2020)
R29	Corporate Customer Advises Not Authorized

Options for receiving Return & NOC transactions:

Your company will receive prompt advice of all return entries from Troy Bank & Trust with a code that describes the reason for the return. Troy Bank & Trust validates that a return or notification of change sent back to your account from the RDFI matches the entry originated by you. As part of the implementation process, you can choose one or more ways of receiving this information.

Troy Bank & Trust offers the following options by which your company can receive information about returned transactions and notifications of change.

ACH Return Items Report delivery options include:

- Cash Management system – using secure message feature
- Secure email transmission – with PDF attachment

Reinitiation of Return Entries

In a debit application, entries can be returned by the RDFI if there are no funds in the Receiver's account to cover the debit entry, i.e., insufficient funds (NSF) or if there are uncollected funds so the entry cannot be honored. The specific Return Reason Codes used by the RDFI are R01 for NSF and R09 for uncollected funds. These codes are unique in that entries returned with the codes can be re-originated through the ACH Network, subject to certain timing and frequency limitations.

The Nacha Operating Rules impose a limit on the number of times that an entry returned for insufficient or uncollected funds may be reinitiated, allowing such entries to be reinitiated a maximum of two times following the return of the original entry. For returned entries, the NACHA Operating Rules permit an Originator or ODFI to reinitiate the returned ACH entry if:

- (1) the entry has been returned for insufficient or uncollected funds;
- (2) the entry has been returned for stopped payment and reinitiation has been authorized by the Receiver, or
- (3) the Originator has taken corrective action to remedy the reason for the return.

The Rules explicitly prohibit the reinitiation of entries outside of the limited circumstances stated above.

The Rules also clarify three categories of entries that are not considered reinitiations:

- (1) A debit entry in a series of preauthorized recurring debit entries will not be treated as a reinitiated entry, even if the subsequent debit entry follows a returned debit entry, as long as the subsequent entry is not contingent upon whether an earlier debit entry in the series has been returned. For example, if a consumer arranges for his/her minimum payment on a payment plan to be paid monthly from an account based on a preauthorization for recurring debits, and the consumer's debit entry for the September minimum payment is returned for insufficient funds, the debit entry for the October minimum payment would not be considered a reinitiation of the debit entry with respect to the returned September entry.
- (2) A debit entry is not considered a reinitiation if the Originator obtains a new authorization for the debit entry after the receipt of the return. For example, if an Originator has twice attempted to re-present an entry returned as NSF, and the consumer later provides a new authorization because s/he now has funds in his/her account, the Originator is permitted to debit the account.
- (3) An entry that has been returned due to invalid or incorrect routing and account information (i.e., R03/R04) is not considered to be a reinitiated entry when corrected and subsequently transmitted into the ACH Network. By definition, a Reinitiated Entry is an entry to the same Receiver's account. In this situation, a new entry with corrected routing and/or account number information would be the first presentment to the correct Receiver's account and should not be identified as a reinitiated entry. To identify the correct entry as a reinitiated entry would cause confusion to the Receiver, since there was no previous attempt to post the entry to the correct Receiver's account.

ACH Origination Exception Handling Procedures

If your company releases an item or file in error, Troy Bank & Trust accepts delete and reversal requests to help correct the situation.

Submitting an ACH transactions, file or batch level "Delete" or Reversal Request through ACH Customer Service:

Please contact Treasury Management Customer Service for assistance in processing these requests at 888.258.8769 ext. 5110 or cashmgt@troybankandtrust.com.

NOTE: Reversals do not guarantee that the funds will be returned to the Originator. It is imperative that credit Originators take special care to ensure that no transactions are sent to unintended receivers.

Submitting an ACH file or batch level “Delete” or Reversal Request through Customer Service:

A deletion request can be processed if the file or batch has NOT yet been distributed or released to the ACH Operator and remains within the Troy Bank & Trust warehouse system.

You may need to delete an ACH file or batch soon after you’ve sent the transmission to Troy Bank & Trust. If your transmission was completed today or if your batches include future dated entries of more than 3 days in the future, those entries **may** be eligible to be deleted. To request the deletion, your Authorized signer must send an email to Treasury Management Customer Support cashmgt@troybankandtrust.com and include the file or batch details below, along with the transmission method.

To Delete a File or Batch

File deletion requires the following information:

- The Originator ACH company identification number
- The effective date(s)
- The total amount contained in the file, and
- The total number of credit and debit transactions in the file
- Date and time of submission

Batch deletion requires the following information:

- The Originator ACH company identification number
- The effective date
- The total amount contained in the batch, and
- The total number of credit and debit transactions in the batch
- Date and time of submission

ACH Reversal Request Guidelines

ACH Originators sometimes determine that they need to correct a duplicate file, an erroneous file, or an erroneous entry previously initiated and distributed by Troy Bank & Trust. Distributed transactions can be reversed on a file, batch, or transaction level. However, the reversal requests can only be initiated or executed within five (5) banking days of the transaction settlement date. Reversal requests received after the expiration of such period will not be honored.⁴

Please note that Troy Bank & Trust cannot guarantee the funds will be returned to the Originator or that all entries within the ACH Batch submitted for Reversal are going to be honored by the Receiving Depository Financial Institution, as the funds may not be available in the Receiver's account. It is imperative that Originators of credit entries take special care to ensure that no transactions are sent out to unintended Receivers. Your company should not rely on the ACH reversal process to recover funds, as the RDFIs are under no obligation to post the reversing debits if they overdraw the payee's account or if the payee's account is closed.

When you request that Troy Bank & Trust reverse a transaction(s), Nacha Rules require that you notify⁵ the Receiver of the reversing entry and the reason for the reversing entry. This notice must be provided no later than the settlement date of the reversal. If these criteria are not met, Troy Bank & Trust can only request that the RDFI returns a transaction.

- 1) **Individual Entry Reversals:** An Originator may initiate a Reversing Entry to correct an Erroneous Entry previously initiated to a Receiver's account. Reversals can be made for the following three conditions:
 - a) Duplicate Transactions: there is a duplicate of an Entry previously initiated by the Originator;
 - b) Wrong Account Numbers: orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator;
 - c) Wrong Dollar Amount: orders payment in a dollar amount different than was intended by the Originator.

- 2) **File or Batch Level Reversals:** File or Batch level reversals may be originated to correct a duplicate or an erroneous file or batch in which substantially all the entries

⁴ If the effective date of your original processed entry or batch is beyond the 5 banking days, your authorized ACH Company contact may contact Troy Bank & Trust about requesting an ACH recall. Not all receiving banks honor ACH recalls and there is no guarantee that funds will be returned.

⁵ 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 entry.

were incorrect. A file can include an entire file or several batches that constitute a segment of a file.

- a) Duplicate Files or Batches: A duplicate file or batch is one that was erroneously introduced into the ACH Network twice. Duplicate files or batches are exact in that all data within the two files are the same, including effective entry dates, trace numbers, dollar amounts, etc. Therefore, the Receiver was erroneously paid (credits) or charged (debits) twice.
 - b) Erroneous Files: An erroneous file is one in which the information within a substantial number of the entries was incorrect. For example, the Receivers' account numbers could all be invalid, causing the entries to be posted or rejected incorrectly, or the dollar amount could have been incorrectly calculated, causing the Receiver to be credited or debited incorrectly.
- 3) **Separation from Employment Individual PPD Reversing Entries:** Some states require employers to issue a check to an employee at the time of separation of employment. In cases where the employer has initiated a PPD credit entry prior to the employee's termination, it is common for the employer to reverse the payment to offset the check. The ACH Rules address this situation by allowing the Originator (employer) to reverse the PPD credit entry if:
- a) The PPD credit entry is for funds related to employment (i.e., payroll);
 - b) The amount of the separation check is equal to or greater than the PPD credit amount; and
 - c) The PPD credit entry was transmitted by the employer prior to delivery of the separation check to the Receiver.

To Reverse a File, Batch, or Individual Transaction⁶

ACH Reversal requests must be submitted no later than 4:00pm CST within five (5) business days of the settlement date. When you initiate a reversal entry, it is a new ACH entry that is originated and is the opposite of the original entry. If the original entry was an ACH credit, a reversal debit entry is initiated. If the original entry was an ACH debit, a reversal credit entry is initiated. Likewise, when initiating a reversal of an entire ACH batch previously processed, the reversal batch is a new batch containing the opposite type of entries. Reversing a file that has been released to the ACH network requires specific information:

File reversals require the following information:

- The Originator ACH company identification number and Company Name
- The effective date(s)
- The total amount contained in the file, and
- The total number of credit and debit transactions in the file
- Time and date of submission

⁶ Reversal requests, reversals that have been processed and other reversal activity may not be reflected on your Commercial Online Banking reports.

Batch reversals require the following information:

- The Originator ACH company identification number and Company Name
- The effective date
- The total amount contained in the batch, and
- The total number of credit and debit transactions in the batch
- Time and date of submission

Individual transactions reversals require the following information:

- The Originator ACH company identification number
- The effective date
- The account name and number of the specific Receiver
- The amount of the specific transaction
- The Transit/routing number

Holiday Processing Schedule

Troy Bank & Trust observes Federal Reserve Bank holidays as ACH non-processing days. ACH file transfers, and other online funds transfers, will not be processed on days the bank is closed. In the event the selected Effective Entry Date falls on a weekend or holiday, the processing will be deferred until the next available business day.

The holiday schedule table below lists dates that Troy Bank & Trust will be closed for ACH processing, which correspond to the dates the Federal Reserve is closed. Please make note of these dates, as they may require a change to your normal ACH processing schedule.

Federal Holiday Schedule

2020		
Date Observed	Day of the Week	Holiday
January 1, 2020	Wednesday	New Year's Day
January 20, 2020	Monday	Martin Luther King, Jr. Day
February 17, 2020	Monday	Presidents' Day
May 25, 2020	Monday	Memorial Day
July 4, 2020	Saturday*	Independence Day
September 7, 2020	Monday	Labor Day
October 12, 2020	Monday	Columbus Day
November 11, 2020	Wednesday	Veterans' Day
November 26, 2020	Thursday	Thanksgiving Day
December 25, 2020	Friday	Christmas Day

File Delivery Deadlines & Cutoff Times

All transmissions to Troy Bank & Trust must be completed by the established Cutoff Times in order for processing to commence on the same business day. Any transmission completed and received by Troy Bank & Trust after such Cutoff Times or on any non-business day, will be processed the following Business Day. Cutoff Times noted below apply to business days, excluding bank holidays.

Input deadlines by initiation method

- **Traditional Next-Day or Future Date Effective Date Processing:** For processing that can result in payment settlement and receipt as early as the next day, the deadlines are:
 - Cash Management ACH Origination:
 - **2:00pm CST**

Special Note: ACH transaction files submitted to the bank with stale or invalid Effective Entry Dates will be rejected. The bank recommends all effective dates are reviewed prior to submitting your ACH file.

Your Company ACH Processing Limits

ACH limits are risk exposure thresholds used by Troy Bank & Trust to determine whether the ACH transaction(s) submitted for processing by Originators are within approved guidelines. The ACH Total Exposure Limits establish the cumulative maximum dollar amount of debits and credit transactions transmitted on any given day prior to settlement.

The Nacha Rules require ACH entries and batches released to the Troy Bank & Trust ACH processing platform go through ACH risk scrutiny. The ACH risk scrutiny validates the ACH limits established at the time of your implementation, but these limits are periodically reviewed by us.

If your company is anticipating an increase in the dollar amount of your ACH transactions, you should proactively reach out to our **Treasury Management Customer Service Department** to discuss the situation and request a temporary or a permanent limit adjustment based on the situation. This will prevent any delays in the processing of your files.

Mitigating Fraud Risk

Fraud schemes and attacks are inevitable for most businesses and represent a serious threat to your business and bank accounts. Troy Bank & Trust's goal is to create awareness and offer a secure ACH Origination process by providing your business a variety of tools to help your company create a safer process for originating your ACH transactions.

Guidelines & Best Practices for a strong fraud protection program: Many of these options can be used together to suit your specific requirements.

- ✓ Implement dual custody and dual controls: Dual custody is one of the most effective fraud deterrents in a layered security approach and can help protect your business accounts from the risk of fraud. Establish dual controls within our online systems to help your company maintain separation of duties for creating and approving templates and for initiating and approving transactions. Require all payments or user modifications initiated by one user be approved by a second user on a different device. Remember that for dual custody to work as intended, the initiator and approver must be different users on different devices.
- ✓ Establish ACH Transaction Limits: Troy Bank & Trust establishes limits for each Originator, but your company can further minimize the amount of funds at risk in the event of a breach by setting ACH transaction limits on specific users, accounts, or ACH applications.

- ✓ Establish customized User privileges and entitlements: ACH transaction rights should be limited to personnel with appropriate business need for functionality. Some Users may only need access to the origination or credits or debits, but perhaps not both. Your company should ensure that all individuals with access to the ACH Origination program received training necessary to understand their responsibilities and utilize the program in accordance with the applicable policies.
- ✓ Protect your company and users access credentials: Your company representatives should never give out their User IDs, or token codes, or other authorization credentials. If they receive an email, phone call, or text message claiming to be from Troy Bank & Trust, asking for their credentials, it is likely a “phishing” attempt. Do not respond to it. Report it to Troy Bank & Trust immediately.
- ✓ Educate your employees: Remind your employees not to click on links purporting to be antivirus or anti-malware software, do not download files from unknown sources or respond to on screen pops; especially ones asking you to enter your contact information. Ignore pop-ups seeking your online banking credentials and be cautious of unexpected token prompts or unsolicited calls to assist you for unreported log-in issues.
- ✓ Verify your vendors’ account number changes: Require all changes to vendor payment account numbers to be made in writing on the vendor’s letterhead and verified with a call to the vendor’s telephone number in your files. You should always “Verify before you initiate” and “Verify before you approve.”
- ✓ Perform Daily Reconciliation & Monitoring: It is also very important for your company to make it a practice of monitoring your accounts online daily. Reviewing both the balances and the ACH account transaction reports daily will ensure that you are aware of all transactions, even when they have not yet posted to your account. The sooner account or ACH fraud can be detected; the more successful Troy Bank & Trust will be in assisting to recover your company’s potentially lost funds.
- ✓ Strengthen your internal controls to protect your computers from malware: Due to the high-risk of this type of fraud, it is critical that all computer equipment used by your company to operate Troy Bank & Trust's ACH Origination program is regularly updated and patched for security vulnerabilities, including the use of and updating of firewall, virus protection, anti-malware protection, anti-spam protection. Troy Bank & Trust recommends having a dedicated computer, which is not used to browse the internet or read e-mail, to be the sole source of access to your Online Banking or transmission activity, as this helps avoid the accidental downloading of harmful programs/viruses that could potentially compromise your transactions.

Due to the risks inherent in the processing of electronic funds transfers, Troy Bank & Trust suggests that your company perform an internal risk assessment and an evaluation of your controls periodically to make sure you are considering and leveraging all available security options to your company.

ACH Nacha Rule Changes

Each company originating ACH entries through Troy Bank & Trust's ACH Origination program must comply with the *Nacha Operating Rules* as stated within the ACH agreement between Troy Bank & Trust and your company. Troy Bank & Trust will annually communicate applicable Operating Rules changes to ensure that our Originators are educated on those Rules and make any necessary changes to its daily process as a result of these changes. However, as an ACH participant, your company is also required to stay update and comply with the Nacha Rule changes.

Please refer to Exhibit I for Rule Changes in 2020.

Exhibits & Supporting Documents

Exhibit A: ACH Support & Contact Information

Exhibit B: Supported SEC Codes & Required Authorization

Exhibit C: Return Reason Codes

Exhibit D: Notification of Change Codes

Exhibit E: Details in Return & NOC Notices

Exhibit G: Authorization Requirements

Exhibit H: Sample Authorization Form Consumer Debits

Exhibit I: Nacha Rule Changes in 2020

Exhibit A – Troy Bank & Trust ACH Contact Information

Treasury Management Customer Service

For ACH file assistance, limit increase or questions, please contact:

Cash Management Customer Service

334.807.5110

888.258.8769 ext. 5110

cashmgt@troybankandtrust.com

(f) 334.566.8379

Hours of Operation

Monday thru Thursday: 8:00 am - 4:30 pm CT

Friday: 8:00 am – 5:00 pm CT

Treasury Management Officer

For Cash Management System Updates and Contract Revisions:

Amy McManigle

AVP, Treasury Management Officer

334.807.5210

888.258.8769 ext. 5210

cashmgt@troybankandtrust.com

(f) 334.566.8379

Hours of Operation

Monday thru Thursday: 8:00 am - 4:30 pm CT

Friday: 8:00 am – 5:00 pm CT

Exhibit B – Troy Bank & Trust Supported SEC Codes

The following chart outlines and defines the SEC codes supported⁸ by Troy Bank & Trust:

SEC Code	Application Title & Definition	Transaction Type	Receiver Account	Required Authorization
PPD	Prearranged Payment & Deposit Entry: An entry originated by an organization to a consumer account based on a standing or single-entry authorization from the Receiver of the transaction. PPD transactions are more widely known as Direct Deposit and Direct Payment. The Direct Deposit application provides the ability to disburse funds to consumer accounts. The Direct Payment application provides the ability to collect funds from consumer accounts.	Debit or Credit Single or Recurring Entry	Consumer	In writing and signed for Debits. Orally or other written or non-written means for Credits.
CCD	Corporate Credit or Debit Entry: An entry originated by an organization to or from the account of that organization or another organization. The entry can be monetary or non-monetary. Used for transfer of funds between businesses or to consolidate funds from several accounts of the same business. Child Support Payments, Federal & State Taxes, and the STP 820 are examples of CCD+ entries used for specific applications which carry a limited amount of additional payment related data.	Debit or Credit Single or Recurring Entry	Non-Consumer	Agreement between Originator and Receiver

⁸ Note that your ACH Origination privileges may not be enabled for all SEC codes. Please check with your Treasury Management Officer regarding the origination of certain SEC codes listed above.

Exhibit C – Return Reason Codes

The table below lists the return reason codes most frequently used by RDFIs and indicates the appropriate action that should be taken depending upon the reason for each ACH return. For a complete listing of Return Codes and timeframes, please refer to the *Nacha Operating Rules & Guidelines*.

Return Code	Reason for Return	SEC Codes	Return Timeframes	Action by Originator
R01	Insufficient Funds: Available balance not sufficient to cover the dollar amount of the debit entry	All	2 Banking Days	May initiate a new ACH entry within 180 days of the Settlement Date of the original entry.
R02	Account Closed: A previously open account is now closed	All	2 Banking Days	Must stop initiation of entries and obtain an authorization from the Receiver for another account.
R03	No Account / Unable to Locate: The account number structure is valid but does not correspond to the individual identified in the entry	All	2 Banking Days	Must stop initiation of entries and contact the Receiver for correct account information.
R04	Invalid Account Number: The account number fails the check digit validation or may contain an incorrect number of digits	All	2 Banking Days	Must stop initiation of entries until account number / structure is corrected.
R05	Unauthorized Debit to Consumer Account using Corporate SEC Code: A business (corporate) debit entry was transmitted to a consumer's account who had not authorized the entry	CCD	60 Calendar Days	Must stop initiation of entries. (RDFI obtains a Written Statement of Unauthorized Debit from Consumer Receiver).

R06	Returned per ODFI's Request: ODFI requested that the RDFI return the entry	All	Not Applicable	Must accept requested return.
R07	Authorization Revoked: Consumer accountholder who previously authorized an entry claims authorization has been revoked from the Originator *Disagreements regarding authorization should be handled outside the ACH Network	PPD	60 Calendar Days	Must stop initiation of entries until new consumer authorization is obtained. Depending upon the terms of the original authorization, the Originator may have recourse for collection outside the ACH Network. (RDFI obtains a Written Statement of Unauthorized Debit from Consumer Receiver).
R08	Payment Stopped: Accountholder had previously requested a stop payment of a single or recurring entry	All	2 Banking Days	Must contact Receiver to identify the reason for the Stop Payment and obtain authorization before reinitiating the entry.
R09	Uncollected Funds: Ledger balance is sufficient, but value of uncollected items brings available balance below the amount of debit entry	All	2 Banking Days	May initiate a new ACH entry within 180 days of the Settlement Date of the original entry.
R10	Accountholder advises Originator is not known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account *Disagreements regarding authorization should be handled outside the ACH Network	PPD	60 Calendar Days	Must stop initiation of entries. Code is used when a Consumer Receiver claims he or she does not know the Originator, does not have a relationship with the Originator, or did not give authorization to debit Receiver's account. (RDFI obtains a Written Statement of Unauthorized Debit from Consumer Receiver).
R11	Accountholder advises entry not in accordance with the Terms of the Authorization	PPD	60 Calendar Days	Must stop initiation of entries. Code is used when a Consumer Receiver claims he or she authorized the debit entry, but there is an error or defect in the payment such that the entry does not conform to the terms of the authorization. (RDFI obtains a Written Statement of Unauthorized Debit from Consumer Receiver).

R12	Account Sold to Another DFI: Account has been sold to another financial institution	All	2 Banking Days	Must stop initiation of entries and obtain correct routing number information for initiation of subsequent entries.
R16	Account Frozen: Access to account is restricted due to specific action taken by the RDFI, by legal action or returned per OFAC instruction	All	2 Banking Days	Must stop initiation of entries. Terms of authorization may offer recourse outside the ACH Network. OFAC may have instructed the debit be returned.
R20	Non-Transaction Account: Policies or regulations (such as Regulation D) prohibit or limit activity to the account indicated	All	2 Banking Days	Originator must stop initiation of entries.
R23	Credit Entry refused by Receiver: Customer refuses transaction because amount is inaccurate, account is in litigation or Originator is not known to Receiver	All	2 Banking Days from notification by Receiver	Dependent upon notification by Receiver to the RDFI. Must obtain customer authorization prior to reinitiating the entry.
R24	Duplicate Entry: Entry is a duplication of another entry. The trace number, date, dollar amount, etc. match another entry.	All	2 Banking Days	Originator should accept the return. If the entry has already been reversed, Originator should work with the ODFI to contact the RDFI to determine a solution. 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.
R29	Corporate Entry Unauthorized: ODFI has been notified by non-consumer account holder that a specific transaction is unauthorized	CCD	2 Banking Days	Must stop initiation of entries until subsequent authorization has been obtained. If a valid authorization exists, the Originator may have recourse outside the ACH Network. Corporate Receiver with ACH Positive Pay may need to add your ACH Company ID to their filters.

Exhibit D – Notification of Change Codes used by RDFIs

For a complete guide on Notification of Change codes, please refer to the NACHA Operating Rules & Guidelines.

Code	Description of Error	Description of Error and Corrective Action Required by Originator
C01	Incorrect Account Number	The account number is incorrect or is formatted incorrectly. Update the Receiver's account number.
C02	Incorrect Transit Routing Number	Due to a merger or consolidation, a once valid routing number must be changed. Update the Receiver's financial institution routing number.
C03	Incorrect Transit Routing Number and Incorrect Account Number	Due to a merger or consolidation, a once valid routing number must be changed, and this change will cause a change to the account number structure. Update both the Receiver's financial institution routing number and account number.
C04	Incorrect Account Name	Customer has changed name.
C05	Incorrect Transaction Code	An incorrect transaction code is causing the entry to be routed to the wrong type of account. Update the type of account field.
C06	Incorrect Account Number and Incorrect Transaction Code	The account number is incorrect, and the transaction is being routed to the wrong type of account. Update both the account type field and the account number.
C07	Incorrect Transit Routing Number, Incorrect Account Number and Incorrect Transaction Code	Due to a merger or consolidation, a once valid transit/routing number must be changed, the account number structure is no longer valid, and the transaction code is incorrect causing the ACH entry to be routed to the wrong application (checking or savings). Update the Receiver's financial institution routing number, account number, and type of account
C09	Incorrect Individual Identification Number	Individual ID Number is incorrect. Change the Individual ID Number.
C13	Addenda Format Error	Information in the Entry Detail Record was correct, and the entry was able to be posted by the RDFI, but information in the addenda record was unclear or formatted incorrectly. For example, a CCD entry addenda record does not contain ANSI X12. Review the formatting in the Addenda Record that accompanied the original ACH entry to determine errors and make corrections using only ANSI standards or NAC HA-endorsed banking conventions.

Exhibit E – Details in Returns & NOCs Reports

ACH Returns Fields Descriptions - This information is intended to help Originators understand how to interpret the information provided by Troy Bank & Trust in the ACH Returns Report.

1. Company Identification
2. Effective Entry Date
3. Company Entry Description
4. Company Name
5. Individual Name/Receiving Company Name
6. Individual Identification Number/Identification
7. Depository Financial Institution Routing Number (ABA Number)
8. Depository Bank Account Number
9. Return or Change Code
10. Return/ Change Information (Corrected Data)

Exhibit F – PPD Authorization Requirements

Obtaining the proper authorization for your ACH entries is the most significant step you can take to protect your business against disputes, return fees, and reversed transactions. ACH debit entries intended for consumer accounts are heavily regulated and mandate special authorization requirements.

The most common SEC code for consumer debits is PPD. These transactions must be authorized in writing on a form or contract that grants a business permission to debit a consumer's personal checking or savings account. The PPD authorization form used by your company should clearly outline the conditions under which the business is permitted to debit the account of the consumer, such as amount, date, and frequency, as well as conditions for termination or change of the authorization.

The Receiver must unambiguously express consent and your business must clearly understand and fulfill the specific authorization requirements for the ACH entries submitted, or the Receivers can have the transactions reversed for several reasons, including: improper authorization, the processing on a date earlier than authorized, or for an amount different than authorized, among other reasons. Below are some best practices and tips as it relates to recurring debits to consumer accounts.

1. Have your customer sign and date a form that includes the bank account to be charged, how to terminate or revoke the authorization, and the information specified below for the type of recurring payment schedule being used:
 - a. Payments for the same amount on a regular schedule: Include the amount, frequency, and start date of the ACH debits.
 - b. Payments for a different (variable) amount on a regular schedule: Include the frequency, start date, and a not to exceed amount.
 - c. Payment plans: Include the total due, # of payments, amount of payment, frequency, start date.
2. Give your customer a copy of the signed form. Adding a telephone number that is available to the consumer and answered during normal business hours for customers inquiries also helps reduce the volume of unauthorized entries.
3. Keep this form on file, stored digitally or on paper, for two years after the last payment on the schedule.

Troy Bank & Trust will provide the ACH Authorization Form for Credits and Debits. The forms may also be found on the Bank's website at:

<https://www.troybankandtrust.com/ebanking-services/cash-management>

Exhibit F – PPD Authorization Requirements (cont.)

- ❑ **Authorization Sample:** Your company can customize the authorization to fit your specific application needs, but it must be readily identifiable as a payment authorization and, at a minimum, include the following:
 - ✓ Acknowledgement that entries must comply with laws of the United States
 - ✓ Statement authorizing Originator to initiate credit or debit entries
 - ✓ Account number and routing number of accounts
 - ✓ Identification of account type (checking, savings, loan, etc.)
 - ✓ Provisions for termination of the authorization
 - ✓ Individual identification- Name & Address are suggested
 - ✓ Date and signature

- ❑ **Changing Date or Amounts of Debits:** The Nacha Rules require you to notify your clients of any changes in date or amount debited under the following circumstances:
 - ✓ Seven (7) calendar days' notice for a change of date (consumer and corporate).
 - ✓ Ten (10) calendar days' notice for a change in amount (consumer only).

Exhibit G –Nacha Rule Changes in 2020

1. Differentiating Unauthorized Return Reasons

Phase 1 - Effective April 1, 2020

Phase 2 - Effective April 1, 2021

Summary

This rule differentiates unauthorized return reasons for consumer debits to provide Originators with enhanced information. In particular, it enables an RDFI to distinguish a customer's claim of an error with an authorized payment versus a claim that a payment was not authorized.

Details

Return reason code R10 will be redefined as "Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account." Effective April 1, 2020, R10 is used by the Receiving Depository Financial Institution (RDFI) with any of the following scenarios:

- The receiver does not know the identity of the Originator
- The receiver has no relationship with the Originator
- The receiver has not authorized the Originator to debit the account
- For ARC and BOC entries, the signature on the source document is not authentic or authorized
- For POP entries, the signature on the written authorization is not authentic or authorized

Return reason code R11 will be defined as "Customer Advises Entry Not in Accordance with the Terms of the Authorization." Effective April 1, 2020, R11 is used by the RDFI to return an entry when the originator and receiver have a relationship, and an authorization exists, but one of the following errors occurred:

- The debit entry is for an incorrect amount
- The debit entry was debited earlier than authorized
- The debit entry is part of an incomplete transaction
- The debit entry was improperly reinitiated
- For ARC, BOC, or POP entries:
 - The source document was ineligible
 - Notice was not provided to the receiver
 - The amount of the entry was not accurately obtained from the source

Also effective on April 1, 2020, an Originator receiving an R11-coded return is allowed to correct the underlying error and submit a new entry within 60 days using the pre-existing authorization from the receiver.

Both R10 and R11 returns are considered unauthorized under the Nacha Rules, meaning:

- Both return types are subject to the same error resolution procedures under Regulation E as unauthorized EFTs
- The RDFI's procedures to handle the receiver claim and obtain a signed Written Statement of Unauthorized Debit (WSUD) remain the same for both types of returns
- The return timeframe for both returns is 60 days
- Both returns will be included within Nacha's definition of Unauthorized Entry Return Rate
- Both returns will be covered by the Nacha's existing Unauthorized Entry Fee
- The use of both types of returns does not include disputes about goods and services

Phased Implementation

April 1, 2020 (Designated as Phase 1) - RDFIs may begin using the re-purposed return codes with applicable return entries. Originating Depository Financial Institutions (ODFIs) and Originators are obligated to begin reporting return rates for these transaction types.

April 1, 2021 (Designated as Phase 2) - The re-purposed R11-coded returns are covered by the Unauthorized Entry Fee. Between April 1, 2020 and March 31, 2021, Unauthorized Entry Fees associated with R11-coded returns will not be debited/credited to ODFIs/RDFIs by their ACH Operator.

Originator and Third-Party Sender Impact

Originators of consumer debits will have access to the precise reasons for the return distinguishing a receiver's claim of error from a lack of authorization. This allows an Originator to customize their response for both types of returns. For instance, Originators may fix and resend an entry associated with an R11-coded return while obtaining a new authorization or closing the account of the receiver associated with an R10-coded return.

Reference Information

The ACH Rules were amended to support differentiating unauthorized return reasons in the following locations:

- Article Three, Subsection 3.12 *Written Statement of Unauthorized Debit*
- Article Three, Subsection 3.12.2 *Debit Entry Not in Accordance with the Terms of the Authorization*
- Article Three, Subsection 3.12.2 *Improper ARC, BOC, POP, and RCK Debit Entries*
- Article Three, Section 3.11 *Obligation to Re-credit Receiver*
- Section 8.117 definition of *Written Statement of Unauthorized Debit*

2. Supplementing Data Security Requirements

Effective June 30, 2021

Summary

This rule supplements the existing account information security requirements for large-volume Originators and Third-Party Processors and Senders.

Details

This rule requires non-financial institution Originators, Third-Party Service Providers and Third-Party Senders with annual ACH volume of 6 million entries or greater, to protect deposit account information by “rendering it unreadable when stored electronically.” A second phase that applies to originators with annual ACH volume of 2 million entries or greater will take effect on June 30, 2022. A common solution will be to encrypt this information.

Originator and Third-Party Sender Impact

Any non-financial institution Originator whose total ACH origination volume exceeds 6 million entries in calendar year 2020 will be required to comply with this rule no later than June 30, 2021.

Any Third-Party Sender or Third-Party Service Provider whose total aggregate transmission volume on behalf of all of its clients exceeds 2 million entries in calendar year 2021 must comply with this rule no later than June 30, 2022.

Reference Information

This rule modifies the language within Article One, Section 1.6 *Security Requirements* of the ACH rules

3. Increasing the Same Day ACH Dollar Limit

March 20, 2020

Summary

On March 20, 2020 the Same Day ACH per-entry dollar limit increased from \$25,000 to \$100,000.⁹

Originator and Third-Party Sender Impact

The increase in the same day ACH per entry limit enables additional use cases for same day ACH which typically require higher dollar entries, such as B2B, claims, and reversals for larger pools of entries.

⁹Troy Bank & Trust is not currently offering Same Day ACH.

Reference Information

This rule modifies the language within the following areas of the ACH rules:

- Article Eight, Definitions of Terms, Section 8.00 *Same Day Entry*
- Appendix Three, Glossary of Data Elements, *Settlement Date*
- Appendix Ten, Rules Enforcement, Subpart 10.4.6 *ACH Rules Enforcement Panel*

4. General Originator Responsibilities

In addition to the new ACH Rules above, all Originators, Third-Party Senders and Third-Party Service Providers are required to comply with the general origination requirements of the ACH Rules including:

- a) Obtaining proper authorization from its receivers. *Subsection 2.3.1 (Originator Must Obtain Authorization from Receiver)*
- b) Retaining the original or copy of each written authorization of a receiver, or a readily and accurately reproducible record evidencing any other form of authorization for at least two years from the termination or revocation of the authorization. *Subsection 2.3.2.5 (Retention and Provision of the Record of Authorization)*
- c) Providing proper and timely notice to receivers for changes to the amount or scheduled date of recurring debits. *Subsection 2.3.2.6 (Notices of Variable Debits to Consumer Accounts)*
- d) The proper way to initiate prenotification entries. *Section 2.6 (Prenotifications)*
- e) The proper way to reverse files or entries. *Section 2.8 (Reversing Files) and Section 2.9 (Reversing Entries)*
- f) Familiarity with the proper actions to take upon receipt of a notification of change entry *Section 2.11 (Notifications of Change)*
- g) Familiarity with the rules pertaining to reinitiation of ACH entries. *Subsection 2.12.4 (Reinitiation of Returned Entries)*

The originator should also be aware of the provisions for the specific types of entries it originates:

- CCD (Corporate Credit or Debit) provisions are included in Subsection 2.5.3
- PPD (Prearranged Payment and Deposit) provisions are included in Subsection 2.5.12