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ACH and Nacha for Beginners

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Agenda:



- What is ACH
- Who is Nacha and what is their role
- What is the ACH Network
- Who are the participants in the ACH Network and what are their roles
- What is settlement
- What are SEC Codes and what do they mean
- How does the ACH returns process work
- How are errors and disputes processed
- Other important compliance info

Questions & Comments at ANY TIME

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What is ACH?

ACH is:

- An electronic funds transfer;
- Debits and Credits transferred between Banks and Credit Unions across the Automated Clearing House Network;
- ACH Network is a payment system with the capability to reach all U.S. Banks and Credit Union accounts;
- Zero-dollar entries used to verify valid account ownership and validate account and routing numbers.

COMMON USES OF ACH PAYMENTS



customers paying a service provider



employers depositing money to an employee's checking account



customers moving funds from one bank to another



businesses paying suppliers for products



taxpayers sending funds to the IRS or local organizations online

Data from: The Balance

SHOW ME THE MONEY!!!



- In 2023, there were 31.5 billion ACH Network payments valued at \$80.1 trillion.

Who is Nacha?

Nacha is:

- **N**ational **A**utomated **C**learing **H**ouse **A**ssociation;
- Governs the ACH network;
- Advances interoperability and innovation in the payments system;
- Develops rules and standard practices;
- Delivers education and accreditation services.



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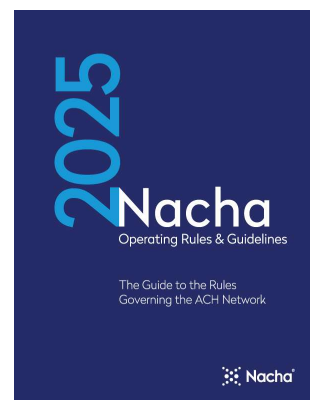
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The Book

“The Rules Book”:

- Annual publication of the Nacha Operating Rules & Guidelines;
- “The Rules” provide users with the legal framework for the ACH network;
- “The Guidelines” serve as sources of information governing the exchange and settlement of electronic funds transfers through the ACH Network;
- Available in print or online at:

<https://www.nacha.org/products/2025-nacha-operating-rules-guidelines>



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ACH Network Participants

- Receiver
- Originator
- Originating Depository Financial Institution (ODFI)
- ACH Operator
- Receiving Depository Financial Institution (RDFI)
- Third-Party Sender
- Third-Party Service Provider

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ACH Network Participants, Cont.

- Receiver
 - A Person that has authorized an Originator to initiate a credit entry, debit entry, or non-monetary entry to the Receiver's account at the RDFI. With respect to debit entries, the term "Receiver" means all persons whose signatures are required to withdraw funds from an account for purposes of the warranty provisions of Subsection 2.4.1 (General ODFI Warranties). (Article 8, Section 8.85)
- Originator
 - A person that has authorized an ODFI (directly or through a Third-Party Sender) to Transmit, for the account of that person, a credit entry, debit entry, or non-monetary entry to the Receiver's account at the RDFI. (Article 8, Section 8.72)
- ODFI
 - A Participating Depository Financial Institution with respect to entries (a) it transmits directly or indirectly to an ACH Operator for transmittal to an RDFI, and (b) on which it is designated as the ODFI in accordance with Appendix Three (ACH Record Format Specifications). An RDFI is not considered an ODFI solely by reason of its initiation of Acknowledgment Entries, Return Entries, Extended Return Entries, or Notifications of Change. (Article 8, Section 8.70)

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ACH Network Participants, Cont.

- ACH Operator
 - An entity that acts as a central facility for the clearing, delivery, and settlement of entries between or among Participating DFIs. (Article 8, Section 8.11)
- RDFI
 - A Participating Depository Financial Institution with respect to entries (a) it receives from its ACH Operator to the accounts of Receivers, and (b) on which it is designated as the RDFI in accordance with Appendix Three (ACH Record Format Specifications). An ODFI is not considered an RDFI solely by reason of its receipt of Acknowledgment Entries, Return Entries, Extended Return Entries, or Notifications of Change. (Article 8, Section 8.87)

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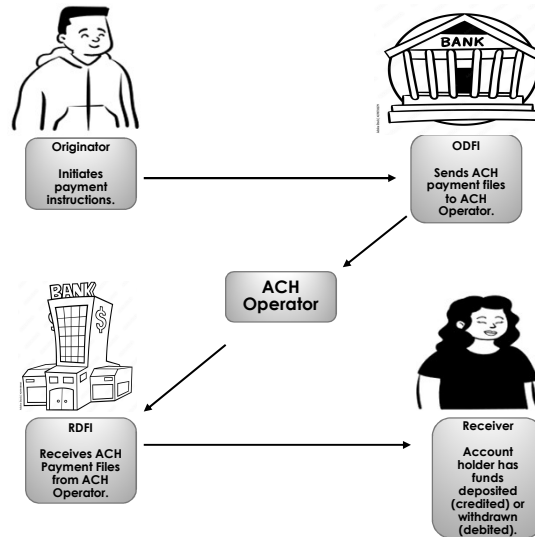
ACH Network Participants, Cont.

- Third-Party Sender
 - A type of Third-Party Service Provider that acts as an intermediary on behalf of an Originator or another Third-Party Sender in transmitting entries between the Originator and the ODFI (or the ACH Operator on behalf of the ODFI via Direct Access), when there is not an Origination Agreement directly between the Originator and ODFI. A Third-Party Sender must have an Origination Agreement with an ODFI or with another Third-Party Sender. (Article 8, Section 8.113)
 - A Third-Party Sender is never the Originator for entries it transmits on behalf of another Organization; however, a Third-Party Sender of entries may also be an Originator of other entries in its own right. (Article 8, Section 8.113)
- Third-Party Service Provider
 - An Organization that performs any functions on behalf of the Originator, the Third-Party Sender, the ODFI, or the RDFI (not including the Originator, ODFI, or RDFI acting in such capacity for such entries) related to the processing of entries, including the creation of the Files or acting as a Sending Point or Receiving Point on behalf of a Participating DFI. An Organization acting as Third-Party Sender also is a Third-Party Service Provider. (Article 8, Section 8.114)

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ACH Transaction Process Flow



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Settlement

Settlement is:

- The actual transfer of the value of funds between financial institutions to complete the payment instruction of an ACH entry.

The Federal Reserve:

- Provides settlement services for ACH entries processed by the Federal Reserve and for private sector ACH Operators that process ACH entries.
- Calculates the net credit and debit positions of financial institutions and applies those credits or debits to the reserve accounts of the financial institutions (or their correspondent banks) that are maintained on the books of the Federal Reserve.

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Standard Entry Class (SEC) Codes



- Three letter code that describes how a payment was authorized by the consumer or business receiving an ACH transaction.
- Example: a recurring ACH debit for a monthly, recurring, debit to pay your auto loan and using the **PPD (Prearranged Payment and Deposit Entry)** SEC code, indicates a consumer account holder authorized the originator to initiate this entry via a written authorization.
- Example: An **Accounts Receivable Entry (ARC)** is a single-entry ACH debit based on an eligible source document (check) provided to the Originator by the Receiver (check writer)
 - Via the U. S. Mail or delivery service
 - At a drop box location, or
 - In person for payment of a bill at a manned location.

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Standard Entry Class (SEC) Codes, Cont.



Other common SEC codes include:

- **CCD (Corporate Credit Or Debit Entry)**
 - Business-to-business transactions like paying corporate vendor or collecting corporate customers' funds.
- **TEL (Telephone-Initiated Entry)**
 - A debit entry to a consumer account based on an oral authorization obtained via a telephone call.
- **WEB (Internet-Initiated/Mobile Entry)**
 - A debit entry to a consumer account based on any form of authorization that is communicated from the receiver via the internet or a wireless network.
 - A credit entry initiated by or on behalf of the holder of a consumer account that is intended for the consumer account, regardless of the manner in which the consumer Originator communicates the payment instruction to the ODFI or Third-Party Service Provider (ex. P2P).

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ACH Returns



- Communication that indicates why the entry could not be completed as intended.
- Typically, ACH returns come from the RDFI.
- BUT, in some instances, the ODFI or ACH Operator might send a return Entry.
- Time frames for returning ACH entries are established by the Nacha Operating Rules.

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ACH Returns, Cont.

- The reason for return entries are communicated as a message to the participant receiving the return.
- These reasons are communicated via return codes consisting of an "R" followed by two numeric digits (i.e., R01, R02).
- There are approximately 70 unique return codes.



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ACH Returns, Cont.



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Common ACH Return Codes include:

- R01 - Insufficient Funds
- R02 - Account Closed
- R03 - No Account/Unable to Locate
 - The account number structure is valid but does not correspond to the individual identified in the Entry, or the account number designated is not an existing account.
- R04 - Invalid Account Number Structure
 - The account number structure is not valid.
- R08 - Payment Stopped

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ACH Returns, Cont.



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Common ACH Return Codes include:

- R16 – Account Frozen/Entry Returned per OFAC Instruction
 - Access to the account is restricted due to specific action taken by the RDFI or by legal Action.
 - OFAC has instructed the RDFI or Gateway to return the Entry.
- R20 – Non-Transaction Account
- R29 – Corporate Customer Advises Not Authorized

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ACH Returns, Cont.

Time Frame for ACH Returns

- The typical time frame for an RDFI to return a transaction is two banking days.
- Per the Nacha Rules: Each Return Entry must be received by the RDFI's ACH Operator by its deposit deadline for the return to 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.

Extended ACH Returns

- Certain situations (i.e., unauthorized transactions) allow for an extended time frame of 60 calendar days to initiate a return when the transaction involves a consumer account.
- The entry is returned in sufficient time to be made available to the ODFI no later than the opening of business on the **sixtieth calendar day** following the Settlement Date of the original entry.

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ACH Returns, Cont.

Common Extended Return Entries include:

- R05 - Unauthorized Debit to a Consumer Account Using Corporate SEC Code
- R07 - Authorization Revoked by Customer
- 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
- R33 - Return of XCK Entry
- R37 - Source Document Presented for Payment
- R38 - Stop Payment on Source Document



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ACH Returns, Cont.

Dishonored Returns:

- Must be transmitted within **five banking days** of the settlement date of the return Entry.
- Common reasons an ODFI may dishonor a return Entry include:
 - Untimely return by the RDFI – R68
 - The return Entry was duplicated - R67
 - Incorrect amount – R69
 - Incorrect transaction code – R69
- An RDFI is able to contest a dishonored return and transACH Operator within **two banking days** of the settlement date of the dishonored return entry.mit to the



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ACH Returns, Cont.

Contested Dishonored Returns:

- Must be transmitted within **two banking days** of the settlement date of the return Entry.
- Common reasons an RDFI may contest a dishonored return Entry include:
 - Untimely dishonored return – R72
 - Timely original return – R73
 - Corrected return – R74



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Errors and Disputes Processing

Written Statement of Unauthorized Debit (WSUD)

- 60 calendar days from the settlement date of the entry
- Unauthorized entries;
- Entries where authorization was revoked;
- Entries where terms of authorization were not adhered to:
 - Wrong amount; wrong date;
 - An improperly initiated RCK entry.

RDFI receives funds from the ODFI through the ACH Network to their settlement account.

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Errors and Disputes Processing, Cont.

Breach of Warranty Claim (Article One, Section 1.15)

- Less than **two years after the settlement date** of an Entry to a consumer account;
- Less than **one year after the settlement date** of an Entry to a non-consumer account.
- Unauthorized debit entries to a consumer account that **settle within 95 calendar days** of the settlement date of the first such unauthorized entry to the **consumer's** account.

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Errors and Disputes Processing, Cont.

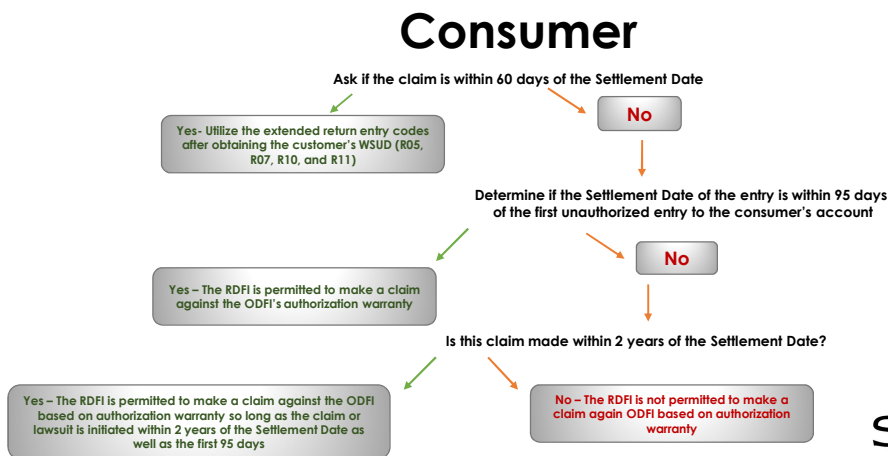
How Do I proceed with a warranty claim against the ODFI?

- Contact the ODFI:
 - Request authorization (if consumer SEC Code).
 - If the ODFI is unable to provide the authorization, or if the consumer still states unauthorized: Contact the ODFI and file a breach of warranty.
 - **For Non-Consumer Accounts**, you may start the warranty claim process since no authorization is required for CCD/CTX entries.

*Note: There is no form to fill out a breach of warranty claim. The RDFI contacts the ODFI to begin this process.

*Helpful Hint: Utilize the Nacha Contact Registry to locate the correct individual with the ODFI's ACH Department.

Warranty Claim – Flow Chart



Other Important Info for Compliance Professionals

ACH Risk Assessments

- Article One, Subsection 1.2.4
- Participating DFIs must conduct, or have conducted an ACH risk assessment;
- Must implement a risk management program on the basis of the risk assessment;
- Comply with the requirements of the regulator(s) with respect to such assessment and risk management program.



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Other Important Info for Compliance Professionals, Cont.

Generally, regulators stress the importance of:

- assessing the nature of risks associated with ACH activity;
- performing appropriate know-your-customer due diligence;
- establishing controls for Originators, third-parties, and direct-access to ACH Operator relationships; and
- having adequate management, information and reporting systems to monitor and mitigate risk.

Examples of recent risk-management requirements and guidance by regulators can be found on the Nacha website at: <https://www.nacha.org/content/regulatory-guidance>. (Nacha Operating Guidelines, Section 1, Chapter 4, Risk Assessments)



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Other Important Info for Compliance Professionals, Cont.



Annual Rules Compliance Audit

- Article One, Subsection 1.2.2
- Annual audit must be conducted no later than December 31 of each year.
- Audit programs should include testing of all rules applicable to ACH activities performed by the Participating DFI.

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Other Important Info for Compliance Professionals, Cont.

Accreditation programs offered through Nacha:

- Accredited ACH Professional (AAP)
 - If you work solely on matters related to the ACH Network.
 - Some instruction on wires and checks, and Regulation E, but primarily ACH.
- Accredited Payments Risk Professional (APRP)
 - If your position focuses on risk management across all payment types, including checks, cards, wires, and others.



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