## What Is the ACH Network?

The Automated Clearing House (ACH) Network is the backbone for the electronic movement of money and other related data, providing a safe, secure, reliable network for direct consumer, business, and government payments. The ACH Network is governed by Nacha Operating Rules (Rules). These are fair and equitable rules that guide risk management certainty and is created for all participants. As the migration from paper to electronic payment continues, the cost-effective ACH Network grows and enables innovation that strengthens the industry with creative payment solutions.
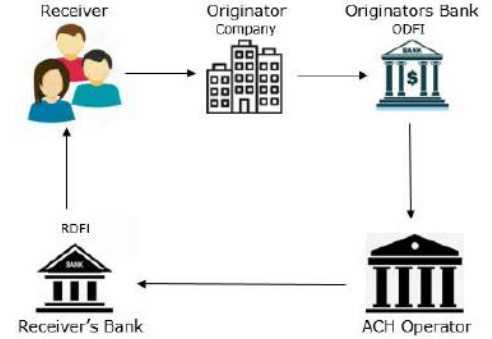
Who are the ACH Participants?

There are five key participants to contribute to the successful completion of an ACH Transaction:
- The **Receiver** can be either an individual or a company that has authorized the Originator (your company) to credit or debit their account.
- The **Originator** is a company that has been authorized by the Receiver to either credit or debit their account. **Your company is the Originator when you are creating an ACH Transaction.**
- The **Originating Depository Financial Institution (ODFI)** is the financial institution with which your company has a contractual relationship for ACH Services – Stockman Bank.
- The **ACH Operator** is the central clearing facility for ACH transactions, such as the Federal Reserve Bank.
- The **Receiving Depository Financial Institution (RDFI)** is a financial institution with which the Receiver has an account relationship.

What are the ACH Origination Cut Off Times?

ACH files have to be submitted (and approved) to Stockman Bank before the cut off times to ensure files are processed as intended.

- 12:30 PM MST – Any files that were submitted since the last cutoff, as well as Same Day ACH Files. Same Day ACH files have to be submitted by 12:30 PM MST in order for them to settle same day.
- 4:30 PM MST – End of day cut off. Anything after this will go on next business day processing

What is an ACH Application

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 specific Standard Entry Class (SEC) code.

ACH Application	SEC Code	Application Use	Debit/Credit	Consumer/Corporate	Authorization Requirement
Corporate Credit or Debit	CCD	Make regular payments or distribute or consolidate funds between corporate entities.	Credit or Debit	Corporate	Agreement
Direct Deposit	PPD	Payroll, expense reimbursement, etc.	Credit	Consumer	Oral or non-written means
Direct Payment	PPD	Preauthorized bill payment pulled from consumer account	Debit	Consumer	Written and Signed or similarly authenticated

What are Stockman Bank Holiday processing days?

Stockman Bank Small Business Banking is closed for Federal Holidays. Files will not settle on Federal Holidays, Saturdays, or Sunday. Keep in mind of the settlement date when submitting files. The ACH file will need be submitted at least one day prior to the settlement date unless sent as a Same Day ACH.

- New Year's Day (January 1st)
- Martin Luther King Jr. Day (Third Monday in January)
- Presidents Day (Third Monday in February)
- Memorial Day (Last Monday in May)
- Juneteenth National Independence Day (June 19th)
- Independence Day (July 4th)
- Labor Day (First Monday in September)
- Columbus Day (Second Monday in October)
- Veterans Day (November 11th)
- Thanksgiving Day (Fourth Thursday in November)
- Christmas Day (December 25)

Note: If January 1st, June 19th, July 4th, November 11th, or December 25th falls on a Sunday, the following Monday is considered an observed Federal Reserve Bank holiday and the bank will be closed. If these dates fall on a Saturday, bank will not be closed.

ACH Tips for You, as the Corporate Originator

- Implement Dual Control and Separation of Duties for ACH Origination. Have multiple employees involved in creating and sending ACH files. Do not have a single employee completing the entire process.
- Always use the proper SEC Code for entries. Entries with consumer SEC codes may be returned as unauthorized up to 60 days after settlement. Non-consumer SEC Code transactions must be returned within 2 banking days if the non-consumer receiver claims the transaction is unauthorized.
- Understand your ACH exposure limits. These limits are set by the Originating Depository Financial Institution to protect against loss. Evaluate the limits regularly and communicate with the Financial Institution if they need to be adjusted.
- Train employees about Corporate Account Takeover and Business Email Compromise scams. Know the signs of fraudulent money transfer requests and what action to take.
  - If you have a working relationship with someone requesting account information, account changes, or requesting monies to be sent, make a call to a known phone number to verify the emailed request is legitimate. It is possible the relationship has been compromised.
- Know the authorization requirements for the types of entries initiated. Authorizations must be retained by the originator for two years following single entries or the last recurring or standing authorization entry.
  - Consumer debit authorization must be written.
  - Non-consumer debit authorization must be written, but may be part of a master agreement between the parties.
  - Consumer and non-consumer credits may be written.
  - Electronic means may be used for written authorizations if they meet the criteria for similarly authenticated, meaning the Originator can verify it was the Receiver that agreed to the authorization.
  - Authorizations need to state if the entries are single, recurring or standing. Recurring authoriziations need to state the number and/or frequency of debits. Standing authorizations need to state the action required to authorize subsequent debits. Authorizations need to include the amount or method for determining the amount of debits.

What is a Prenotification (Prenote)?   *A banking day is a calendar day other than Saturday, Sunday, or Federal Holiday*

Prenotifications (prenotes) are zero-dollar entries used by your company to verify account information on an entry is valid at an RDFI. Prenotes are optional and can be sent with an ACH application. If your company chooses to send prenotes, you are required to do so at least 3 banking days before sending the first live dollar entry. If there are any errors in a prenote entry or it cannot be processed, a Notification of Change (*NOC*) or return will be sent by the RDFI to notify your company of the necessary corrections to be made. **Stockman Bank recommends that all companies submit Prenotes for new receivers.**

What is a Notification of Change (NOC)?

An NOC is a non-monetary entry transmitted by an RDFI to notify your ODFI that previously valid information contained in a posted entry has become outdated or is erroneous and should be changed. Many NOCs are the result of a merger or consolidation of the RDFI, which requires changes in a Receiver's account information. Upon receipt of an NOC, your ODFI must report NOC information to you. For additional information regarding NOCs, refer to the ACH Rules at www.nacha.org.

Change Codes Used by RDFI	Description of Error	Action Requested by Originator (You)
CO1	**Account Number**- The account number is incorrect or is formatted incorrectly.	Change the Receiver's account number so the correct information is entered.
CO2	**Routing Number**- A once valid routing number must be changed.	Change the Receiver's financial institution routing number so the correct information is entered.
CO3	**Routing Number & Account Number**- The routing number and account number are incorrect.	Change the Receivers' financial institution routing number and account number so the correct information is entered.
CO5	**Transaction Code**- An incorrect transaction code is causing the entry to be routed to the wrong type of account	Change the type of account. The account type is indicated on the ODFI's report by a two-digit transaction code. Contact you ODFI if clarification is needed.
CO6	**Account Number & Transaction Code**- The account number is incorrect and the transaction is being routed to the wrong type of account.	Change the Receiver's account number and type of account so the correct information is entered.
CO7	**Routing Number, Account Number, and Transaction Code**- The routing number, account number, and account type are incorrect.	Change the Receiver's financial institution routing number, account number, and type of account so the correct information is entered.

- Your ODFI is required to report *NOC* information to your company no later than 2 banking days from the Settlement Date of the *NOC* and is required to report minimum *NOC* information as outlined in Article 2 of the ACH Rules.
- For the recurring payments, the **ACH Rules require your company to make the requested changes within 6 banking days of the receipt of the NOC or prior to the initiation of another ACH Entry**. Changes related to one-time payments may be made at your company's discretion.

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What is an ACH Return?

An ACH return is an ACH entry that the RDFI is unable to post for reasons defined by the return codes listed in the table below. An RDFI may use the return process for valued ACH entries as well as prenotifications (zero-dollar entries). The RDFI must transmit the return in time for your ODFI to receive it by opening business on the second banking day following the settlement date of the original Entry. Some return reasons allow extended deadlines. Your company should receive prompt advice of *all* return entries from your ODFI with a code that describes the reason for the return. The table below indicates the appropriate action that should be taken depending upon the reason for each ACH return

Reason for Return	Return Code	SEC Code	RDFI Return Timeframe	Action Required by Originator
Insufficient Funds- Available balance not sufficient to cover amount of debit entry.	R01	All	2 Banking Days	Originator may initiate a new ACH entry; must be initiated within 180 days of original entry. May not be reinitiated more than two times after original entry. *(Article 2.12.4 of ACH Rules)*
Account Closed- Previously active account has been closed.	R02	All	2 Banking Days	Stop initiation of entries. Contact customer to obtain authorization for another account.
No Account- Account number structure is valid but does not match individual or open account.	R03	All	2 Banking Days	Stop initiation of entries. Customer should be contacted for correct account information.
Unauthorized Debit to Consumer Account Using Corporate SEC Code-CCD or CTX debit Entry was Transmitted to a Consumer Account of the Receiver and was not authorized by the Receiver	R05	CCD, CTX	60 Calendar Days	Stop initiation of entries. Contact customer concerning authorization. If the authorization is not revoked, reinitiate entry using PPD SEC Code.
Authorization Revoked- Customer who previously authorized an entry claims authorization has been revoked from the Originator.	R07	PPD, TEL, WEB	60 Calendar Days	Stop initiation of entries until new consumer authorization is obtained. Depending on the terms of the original authorization, the Originator may have recourse for collection outside the ACH Network.
Payment Stopped- The customer has requested the stop payment of a specific ACH debit entry.	R08	All	2 Banking Days	Contact the customer to identify the reason for the stop payment and obtain authorization before reinitiating the entry.
Uncollected Funds-A sufficient ledger balance exists to satisfy the dollar value of the transaction, but the available balance is below the dollar value of the debit Entry.	R09	All	2 Banking Days	Originator may initiate a new ACH entry; must be initiated within 180 days of original entry. May not be reinitiated more than two times after original entry. *(Article 2.12.4 of ACH Rules)*
Customer Advises Unauthorized, Improper, Ineligible, or Part of an Incomplete Transaction. Receiver does not know the identity of the Originator, has no relationship with Originator.	R10	ARC, BOC, IAT, POP, POS, PPD, TEL, WEB	60 Calendar Days	Stop initiation of entries.
Account Frozen or Entry returned per OFAC instruction	R16	All	2 Banking Days	Stop initiation of entries.
Non-Transaction Account – ACH entry to a non-transaction acct	R20	All	2 Banking Days	Stop initiation of entries.
Corporate Customer Advises Not Authorized- Corporate customer has notified RFDI that a specific entry is not authorized.	R29	CCD, CTX	2 Banking Days	Stop initiation of entries until subsequent authorization has been obtained.