



# Annual ACH Originator Training

This training document includes important information that every Originator should know including key terms, how to initiate entries, setting exposure limits, Same Day ACH requirements, return reason codes, etc.

## **Disclaimer**

*This document can be used by an Originating Depository Financial Institution (ODFI) to train its new Originators on NACHA rules. Content is valid as of the revision date on the document. This document is not meant to be all-inclusive. The ODFI may wish to add or change the information provided herein. IBA does not warrant any additions or deletions to this document by the Depository Financial Institution (DFI).*

# ACH ORIGINATION ESSENTIALS

## Types of Entries Commonly Originated

### *Direct Deposit Payroll Authorizations (Consumer)*

- Use a direct deposit authorization form to collect employee account information. This form should allow the company to make credit and debt entries in the event a payroll adjustment is necessary.
- Obtain a voided check from the employee (if possible).
- The most common SEC code for direct deposit is PPD.

### *Consumer Debit Authorizations*

- For consumers, an authorization to debit an account must be in writing or “similarly authenticated.”
- The most common SEC code for consumer debits is PPD.

### *Internet-Initiated/Mobile Entry*

- Can be a debit or credit and can be a single or recurring entry.
- Requires authorization from the Receiver via the internet or Wireless Network.
- The SEC code is WEB.

### *Corporate Authorizations*

- For companies, there must be a record of an agreement between the two parties.
- The most common SEC codes for corporate transactions are CCD or CTX, depending upon addenda

origination. It is used for both debit and credits.

## Pre-Notifications (prenotes)

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify account information.
- Prenotes are optional for Originators to send. However, if sent, the prenote rules must be followed and a prenote must precede the first live entry by at least three (3) banking days.
- The Receiving Bank is not required to validate the name of the payee on the prenote, although some do; they are only required to verify the account number.

### Common Return Reasons

**R01** | Insufficient funds

**R05** | Unauthorized debit to consumer account using corporate SEC code

**R07** | Authorization revoked

**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

**R15** | Beneficiary or account holder deceased

**R29** | Corporate customer advises not authorized

## Notification of Change (NOC)

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting the future entries contain correct information. The Nacha Rules require you to make the changes within six (6) banking days of receiving the information before another entry is sent.
- The Receiving Bank warrants the information they provide to you is correct.
- Your ODFI will notify you of any NOCs received on your behalf
- Your ODFI may pass along any fines received based upon your noncompliance.

## Exposure Limits

When your company enters into an agreement with your ODFI, the ODFI will establish exposure limits. An exposure limit is the maximum dollar threshold for debits and/or credits your ODFI will accept from your company – either for a single day or a multi-day period. Files submitted by your company that exceed this limit may be rejected unless an exception is approved by the ODFI.

Some ODFIs may require you (the Originator) to prefund the amount of an ACH credit file. This means the ODFI will debit or place a hold on your (the Originator) account on the date on which the file is sent to the ACH Operator to ensure funds are available to cover the file on the settlement date.

## Notification of Change Codes

### **C01 | Account Number**

The account number is incorrect or formatted incorrectly

### **C02 | Routing Number**

A once-valid routing number must be changed

### **C03 | Routing Number and Account Number**

The routing number and account number must be changed

### **C05 | Transaction Code**

An incorrect transaction code is causing the entry to be routed to the wrong type of account

### **C06 | Account Number and Transaction Code**

The account number is incorrect, and the transaction is being routed to the wrong type of account

### **C07 | Routing Number, Account Number and Transaction Code**

The routing number, account number and account type are incorrect

## OFAC Requirements

The Originator is required to check the payees/ACH recipients against the Office of Foreign Asset Control (OFAC) compliance checklists. The OFAC SDN list can be found at <http://sanctionssearch.ofac.treas.gov/>.

## Reinitiation of Return Entries

An Originator may reinitiate an entry that was returned if:

- The entry was returned for insufficient or uncollected funds (the entry cannot be reinitiated more than two times following the return of the original entry).
- The entry was returned for stopped payment and reinitiation has been authorized by the Receiver; or
- The Originator has taken corrective action to remedy the reason for the return.

All reinitiated entries must include the description **“RETRY PYMT”** in the Company Entry Description field to identify entries that are permissible resubmissions of returned entries under the rules for reinitiation.

If the Originator charges a fee for reinitiation of an entry, a notice must be provided to the Receiver at the time that the entry is authorized, or the original item is accepted. The notice must include specific language, such as “If your payment is returned unpaid, you authorize us to make a one-time electronic transfer from your account to collect a fee of (\$--);” or “If your payment is returned unpaid, you authorize us to make a one-time electronic fund transfer from your account to collect a fee. The fee will be determined (by/as follows): (----).”

Additionally, the Return Entry Fee must be submitted as a separate batch that contains the words **“RETURN FEE”** in the Company Entry Description field of the Company/Batch Header Record.

## Reversals

- A Reversal must be originated within five banking days of the effective date of the original entry to correct a duplicate or erroneous debit or credit transaction sent out in error (wrong dollar amount, account number or duplicate entry).
- The word **“REVERSAL”** must be placed in the Company Batch Header Field and if the file is reversing an erroneous file, then a correcting file must be initiated with the reversing file.
- You are required to reach out to the payment recipient to inform them the reversal is in progress.
- Your ODFI may require notification before originating a reversal entry.

## Same Day ACH

Domestic ACH debit and credit entries of \$1,000,000 or less per transaction qualify for same-day processing. Entries can be processed during three clearing windows. RDFI’s must make same-day credit entries available to the Receiver by 1:30 p.m. local time for entries processed during the first processing window, 5:00 p.m. local time for entries processed during the second processing window, and by the end of the RDFI’s processing day during the third processing window. Same-day credits and debits are perfect for time-sensitive payments and emergency payroll. Also, the ODFI can set approved transaction limits for Originators so your transaction limit may be less. If you are interested in same-day processing, please contact your ODFI.

## WEB – Risk Management and Annual Audit Requirements

Originators who initiate WEB (Internet Initiated) debit entries are required to perform account validation screening as part of a “commercially reasonable fraudulent transaction detection system.” This process is intended to validate the account to be debited for the first use of such account number and for any subsequent change(s) to the account number. A common method used to validate account information is to initiate a pre-notification.

Compromised data not only affects the Receiver, but it can also damage the Originator’s reputation. To ensure an Originator of WEB debits have adequate procedures in place to protect Receiver financial information, Nacha Rules require Originators to conduct an annual data security audit. The audit must review security practices to ensure they include adequate levels of physical security to protect against theft, tampering, or damage; administrative, technical, and physical access controls to protect against unauthorized access and use; and network security to ensure secure capture, transmission, storage, distribution and destruction of financial information. Your ODFI may ask for a copy of your audit at any time.

### Record Retention

The Originator must retain the original or reproductive copy of each written authorization of the Receiver, or a readily and accurately reproducible record evidencing any other form of authorization, for two years from the termination or revocation of the authorization and must be able to provide the

ODFI with an accurate copy or other accurate record to the RDFI within ten banking days without charge.

### Federal Holiday Schedule

*The Federal Reserve is closed on the following days:*

- New Year’s Day (Jan. 1)
- Martin Luther King, Jr. Day
- President’s Day
- Memorial Day
- Juneteenth Day (June 19)
- Independence Day (July 4)
- Labor Day
- Columbus Day
- Veterans Day (Nov. 11)
- Thanksgiving Day
- Christmas Day (Dec. 25)

*Check with your ODFI for cut-off times for receiving originated files daily.*

### Other Considerations

ACH payments are routed utilizing the routing transit number (routing number or RTN). Using outdated routing numbers can result in failed payments, causing significant customer dissatisfaction and additional exceptions and expense as well as reputation risk for originators.

The Federal Reserve Banks’ E-Payment Routing Directory is updated daily and available at the following website: [FRFS: Search for FedACH Participant RDFIs \(frb-services.org/EPaymentsDirectory/search.html\)](https://frbsearchforfedachparticipantrdfis.frb-services.org/EPaymentsDirectory/search.html)

## Staying Safe Online

Remember to never share login IDs, PIN, passwords and other forms of authentication. Passwords should be unique across accounts and always kept secure. Never use default passwords provided by a device manufacturer. Change each of your passwords frequently and use password-activated screensavers when possible. Use dual control to initiate ACH files.

Be leery of strange emails and do not open attachments or click on links from emails when the sender is not recognized. Even when you do recognize the sender, keep your guard up for unusual communication or requests that seem out of the ordinary. Cybercriminals are experts at spoofing legitimate accounts and impersonating individuals. If you receive a request to make changes, always validate the request by contacting your customer to ensure the request is legitimate.

## 2025 Rule Changes

At the time this document was published there were no rule changes affecting Originators for 2025. Your ODFI will keep you updated if any changes occur.