

Hello and welcome to the Adelfi overview of the Automated Clearing House, also known as ACH

Agenda

The agenda for today's PowerPoint presentation is to review product resources, a product overview, explanation of the ACH participants, some terms and definitions, a review of the Payments Origination Application, file import methods, the ACH Calendar and processing deadlines, NOCs and Returns, authorization retention and storage, data security best practices, terms commonly used for fraud schemes, and a quick overview of the less commonly used Standard Entry Class Codes.

Product Resources

The product resources available include a Getting Started User Guide (this is a reference for Online Banking Administrators to add users and assign permissions), the ACH User Guide, and a demonstration training video of how ACH is processed in Online Banking. You can always call Adelfi as well – we can be reached Monday – Friday from 8:30 a.m. – 4:30 p.m. PST at 800.921.1130. Adelfi provides the ACH Rulebook the first year your organization is underwritten to process ACH. The rulebook is updated each year due to rule changes. After the first year it is your responsibility, as an ACH Originator, to purchase a rulebook. The rulebook may be purchased at www.wespay.org and selecting the Store menu/tab.

ACH Overview

ACH (Automated Clearing House) can be an excellent banking resource for increasing your organization's effectiveness. ACH is a fast and efficient way to move funds into or out of your organization's accounts. Some common uses for ACH include direct deposit of payroll, vendor payments – also known as accounts payable, consumer collections – examples would be tuition payments or donations, consumer payments – examples would be a reimbursement or refund, and cash concentration and disbursement – which is your business-to-business ACH transactions.

ACH Participants

The ACH Network has five participants. The first participant is a Receiver which is a person or entity giving you authorization to debit or credit their bank account electronically. Your organization would be the second participant, the ACH Originator – the entity that is initiating entries into the ACH Network. The third participant is the ODFI - Originating Depository Financial Institution which is Adelfi. Adelfi is originating the ACH entries that your organization has requested us to process based on the files you submit in Online Banking. The fourth participant is the ACH Operator. The ACH Operator is the central clearing facility financial institutions use to transmit or receive ACH entries. The final and fifth participant is the RDFI – Receiving Depository Financial Institution. The RDFI is any financial institution that receives ACH files and posts the entries that are in the files to their account holder's accounts.

Terms and Definitions

Some terms and definitions associated with ACH include:

- NACHA – National Automated Clearing House Association – NACHA was formed in 1974 and regulates how ACH transactions should be performed and how ACH data should be safeguarded
- Effective Entry Date – is the date within an ACH file that an ACH Originator would like funds to either debit or credit a Receiver's account
- Settlement Date – the date that the funds are actually exchanged between the ODFI & RDFI by the ACH Operator

- ACH Credit – A credit or deposit entry to a Receiver’s account
- ACH Debit – A debit or withdrawal to a Receiver’s account
- SEC or Standard Entry Class Code is a three-character code within the file used by the RDFI and ODFI to identify the type of ACH entry

Terms and Definitions Continued

- OFAC – The Office of Foreign Assets Control. This is a department of the US Treasury that administers and enforces economic sanctions and embargo programs that require assets and transactions involving interests of target countries, target country nationals, and other specifically designated companies or individuals to be frozen. These companies, nationals, countries or individuals are referred to as “Specially Designated Nationals and Blocked Persons” and are maintained by OFAC on a master list called the SDN List. US individuals, financial institutions, and entities are not to do business with anything or anyone that is on this SDN List.
- Unauthorized ACH – a debit entry that a Receiver never authorized or the entry was not in accordance with the terms of the authorization
- Revoked Authorization – Receiver has requested an ACH Originator to stop an ACH debit entry
- Stop Payment – Request from a Receiver to stop a debit entry before it clears the Receiver’s account

When you receive an unauthorized or authorization revoked return you should not initiate another entry unless you connect with the Receiver and they provide you with a brand-new authorization and give you permission to begin debiting the account once again. A stop payment should not be reinitiated until you have connected with the Receiver to determine why the stop payment was placed on the ACH entry.

Payments Origination Application

The payment types that Adelfi offers include Payroll, ACH Collections and ACH Payments. Examples of the payment types were discussed in a previous slide - in the ACH Overview.

Adelfi accepts credit risk when acting as an ODFI and to manage and mitigate this risk ACH Originators are underwritten and approved with an exposure limit. Your organization’s financial and operational capacity is taken into consideration as part of the underwriting process. Please discuss any questions you may have regarding this approval process or the approved exposure limit with your Relationship Manager.

Online Banking will not allow you to exceed your approved exposure limit. If you are going to be processing a file that will exceed your exposure limit, we ask that you contact us at least three business days before your scheduled process date and request a temporary limit increase. The Online Banking Administrator or a Master Signer, if the Online Banking Administrator is not available, can call Adelfi and request a temporary increase. The number is 800.921.1130 ext. 1546

A permanent limit increase request would need to be submitted in writing signed by the Online Banking Administrator or a Master Signer or sent via an Online Banking email message. The request should include the reason for the permanent increase and the desired amount. Your request will be forwarded to your Relationship Manager and they will initiate the process.

The data input methods available in Online Banking include Templates, Quick ACH, CSV Upload and Nacha Pass-Thru.

CSV / Nacha Pass-Thru Import

A third-party software will generate a Nacha formatted file or CSV file. These files must meet Adelfi specifications which can be found in the ACH User Guide. File names cannot contain special characters and the CSV file should not include an offset entry. A CSV file is a comma delimited file and the comma is what determines the column separations. The CSV columns should be in the following order:

- Column 1 or A – Transaction Code (2 digits)
- Column 2 or B – 9 Digit Routing Number
- Column 3 or C – Account Number (not to exceed 17 digits)
- Column 4 or D – Amount – no comma allowed (not to exceed 10 digits)
- Column 5 or E – Receiver Identification Number – this is optional and if not assigning ID numbers to your receivers a 0 must be entered in this column. If using ID numbers they are not to exceed 15 digits
- Column 6 or F – Receive Name – no comma, periods or apostrophes (not to exceed 22 spaces)

See the ACH User Guide or the ACH Rulebook for a list of transaction codes. A sample of what your CSV file should look like when opened with Notepad is included on the PowerPoint slide.

NACHA Pass-Thru

Pass-Thru is used when your organization is utilizing ACH software to generate a Nacha formatted file and will need to be a balanced file. The offset entry setting should be a configuration setting within the software. Other settings to update include the Company ID which is your organization's Tax ID number preceded by the number 1 and the Company Name which should match your organization's legal name and be recognizable to your receivers. The effective date is the banking day you intend your file to settle and must be valid banking day (no weekends or holidays). The process date is the banking day prior to the effective date and is the day you would like Adelfi to process the ACH file.

ACH Calendar and Deadlines

The ACH Calendar can be found under Quick Links > Forms and Documents on the Home page of Online Banking. The Calendar is a tool for you to schedule the dates that your organization will be submitting ACH files to Adelfi for processing. Adelfi uses the calendar for risk assessment – we will have a schedule of when to expect your files. Adelfi will contact your organization to confirm the authenticity of any unscheduled files received. We ask that you notify us of any unscheduled files at least three banking days prior to the process date of the file. Adelfi will also contact you if a file has been scheduled and not received.

The cutoff time for ACH is 12:00 noon PST on your scheduled process date. We will accept batches until 2:00 pm PST however if you miss the initial 12:00 cutoff there will be a fee imposed. The final cutoff is 2:00 pm PST and your file will no longer be processed after this time.

Returns and NOCs

Access to the ACH NOC & Returns Report requires that the Online Banking Administrator assign user permission to Positive Pay and ACH Controls located in the Account Services Tab. The Online Banking Administrator will also need to advise Adelfi which users have been assigned this access for us to

complete the back-office linking to the report. An Insufficient Privileges error will be received until both pieces have been completed.

An ACH Originator Return is an ACH entry that a Receiving Financial Institution could not post to the account holder's account.

An NOC - Notification of Change is an ACH entry that had incorrect account information and the Receiving Financial Institution is providing the correct information so you may complete the needed change prior to initiating the next entry.

NOCs and returns can be received up to two business days after file settlement. An email notification can be sent to specified users when an NOC or return is received. Please contact Adelfi If you are interested in receiving an email notification.

Revoke Authorization, Customer Advises not Authorized, and Customer Advises Entry is Not in Accordance with the Terms of the Authorization have a 60 day return timeframe. Revoke Authorization and Customer Advised Not Authorized returns should not be reinitiated until a new authorization has been obtained from the receiver. A new entry containing corrected information for the errors associated with the R11 return may be submitted without obtaining a new authorization. The new entry must be submitted within 60 days of the R11 return settlement date.

Sample Originator Return and Sample NOC (Notification of Change)

A sample screenshot of an Originator Return and NOC are included for your review.

The Return includes the Return Code and Return Reason, the account number and name of the receiver, the date of the ACH file and the transaction amount.

The NOC includes the NOC Change Code and the Corrected Data, the account number and name of the receiver, and the effective date for the ACH file.

The corrected data should be updated before initiating the next ACH entry.

Receiver Authorizations

The retention for ACH authorizations is two years from the termination or cancellation date. Once a receiver notifies you that they are cancelling their authorization or a revoke authorization or customer advised not authorized return is received the retention period begins for the authorization on file.

When requested you would need to provide a copy of an authorization within ten banking days. To be in compliance with this ACH rule authorizations should be stored in a locked fire-proof file cabinet or scanned and stored electronically with regular back-ups. With either storage method access to the authorizations should be restricted to staff that have a business need to this information. Authorizations contain account information which is considered sensitive information and not all staff have a need to access this information.

Destroying your authorizations, after the retention period, should be completed by using a commercially reasonable method which includes shredding them. Adelfi recommends handling authorizations in dual control to reduce the risk of someone writing down account information with fraudulent intentions.

Data Security – Best Practices

Use a dedicated PC for banking transactions – a computer with no general Internet usage or a computer that is strictly used for banking/payment transactions. The PC should have antivirus software with virus definitions that are updated regularly. Security patches should be completed as soon as they become available. All electronic payment related documents should be stored securely by saving on a Network location with restricted access or encrypting data file. Paper documents should be stored in a locked fire-proof file cabinet or safe with limited staff access.

Key Terms Commonly used for Fraud Schemes

Fraud is becoming increasingly common and some key terms that you should familiarize yourself with include:

- Malware - Malicious software including viruses, ransomware, and spyware, typically consisting of code designed to cause extensive damage to data and systems or to gain unauthorized access.
- Money Mule - Someone who transfers or moves illegally acquired money on behalf of a fraudster. Fraudsters recruit money mules to help launder proceeds derived from different fraud schemes.
- Social Engineering - The use of deception to manipulate individuals into providing confidential or personal information.
- Spear-phishing - Sending emails supposedly from a known or trusted sender to induce the recipient to reveal confidential information.
- Spoofing - Disguising an email from an unknown source as being from a known, trusted source.

TEL – Telephone Initiated Entries

The TEL ACH payment type is used when an ACH authorization is received orally over the phone for a consumer account holder. If you are approved to process TEL entries Adelfi would connect with you and review all the requirements needed to process this payment type.

WEB – Internet Initiated Entries

The WEB ACH payment type is used when an ACH authorization is obtained via the Internet or a wireless network. If you are approved to process WEB entries Adelfi would connect with you and review all the requirements needed to process this payment type.

This concludes the overview of ACH. I hope that you found this information to be helpful. Please do not hesitate to call us if you should have any questions. We are available Monday through Friday from 8:30 a.m. thru 4:30 p.m. Pacific Standard Time. The number 800.921.1130.

There is another training video available to you that covers a demonstration of how ACH works in Online Banking.

Thank you and have a wonderful day.