

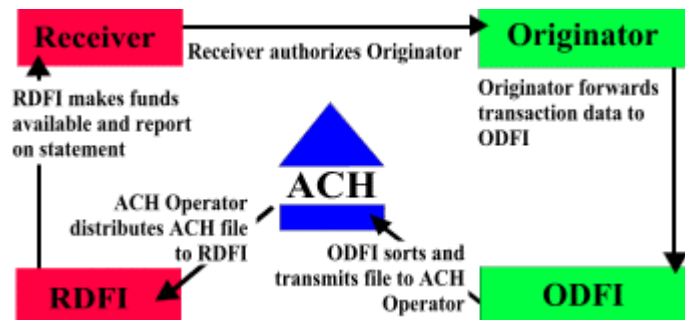
## What is ACH?

**The Automated Clearing House (ACH) Network-** The **ACH Network** is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the NACHA OPERATING RULES which provide for the interbank clearing of electronic payments for participating depository financial institutions. The Federal Reserve and Electronic Payments Network act as ACH Operators, central clearing facilities through which financial institutions transmit or receive ACH entries.

ACH payments include:

- Direct Deposit of payroll, Social Security and other government benefits, and tax refunds;
- Direct Payment of consumer bills such as mortgages, loans, utility bills and insurance premiums;
- Business-to-business payments;
- E-checks;
- E-commerce payments;
- Federal, state and local tax payments.

The number of ACH payments originated by financial institutions increased to 8.05 billion in 2002, up 13.6 percent from 2001. These payments were valued at \$21.7 trillion. Including payments originated by the Federal government, there were a total of 8.94 billion ACH payments in 2002 worth more than \$24.4 trillion.



### Originator

Any individual, corporation or other entity that initiates entries into the Automated Clearing House Network

### Originating Depository Financial Institution (ODFI)

A participating financial institution that originates ACH entries at the request of and by (ODFI) agreement with its customers. ODFI's must abide by the provisions of the *NACHA Operating Rules and Guidelines*

### Receiving Depository Financial Institution

Any financial institution qualified to receive ACH entries that agrees to abide by the *NACHA Operating Rules and Guidelines*

### Receiver

An individual, corporation or other entity who has authorized an Originator to initiate a credit or debit entry to a transaction account held at an RDFI.

## ACH ENTRY CLASS CODES

The advent of electronic check conversion has made it possible for consumers to electronically deposit and process all types of checks transactions from any remote location, thus eliminating the need to physically go to the bank for deposit. This process is commonly known as remote deposit or capture. ECC is defined more specifically by NACHA as an E check or a process in which your check is used as a source of information--for the check number, your account number, and the number that identifies your financial institution. The information is then used to make a one-time electronic payment from your account--an electronic fund transfer. The check itself is not the method of payment. The image and information is however used for additional representations or IRD/Check 21 transactions if needed. NACHA furthermore classifies ACH transaction types into the following categories:

### PPD

*Predetermined Payment & Deposit entries are contractual electronic payments or deposits to a consumer account.*

#### **Basic Rules - PPD**

- Electronic transactions must be authorized in writing.
- Authorization must contain information about the amount and dates of the transaction(s).
- Authorization must be maintained for two years and be made available to the receiving (checkwriter's) bank within 10 banking days upon request.

### CCD

*Cash Concentration or Disbursement entries are contractual electronic payments or deposits to a corporate account.*

#### **Basic Rules - CCD**

- Electronic transactions must be authorized in writing.
- Authorization must contain information about the amount and dates of the transaction(s).
- Authorization must be maintained for two years and be made available to the receiving (checkwriter's) bank within 10 banking days upon request.

## **POP**

*Point-of-Purchase entries are electronic check entries created using a paper check that is scanned at the point of purchase.*

### **Basic Rules - POP**

- Only consumer checks are eligible.
- Route and Account information must be scanned electronically.
- The check must be marked VOID and returned to the consumer.
- The check must have a preprinted serial number.
- The check may not be a third party check.
- A signed receipt authorizing electronic check conversion is required. Authorization must be maintained for 2 years.

## **ARC**

*Accounts Receivable entries are electronic entries created from checks received through the mail or at an unattended drop box.*

### **Basic Rules - ARC**

- Checks must be consumer checks.
- Route and account information must be electronically scanned from the MICR line of the check.
- Third party checks are not allowed.
- The check must contain a preprinted serial number.
- A copy of the front of the check must be maintained for two years.
- Notice must be provided to the checkwriter prior to presenting the check that the check will be converted into an electronic transaction.

## **TEL**

*Telephone Initiated entries are single entry electronic payments or deposits to a consumer account initiated by the consumer via telephone.*

### **Basic Rules – TEL**

- These transactions must be authorized verbally and the authorization recorded.
- Authorization must contain information about the amount and dates of the transaction(s).
- Authorization must be maintained for two years and be made available to the receiving (checkwriter's) bank within 10 banking days upon request.

## IRD/C21

*Image Replacement Documents or Check 21's are NOT ACH transactions.*

C21 is for Check 21 items that are usually processed as Image Replacement Documents (IRD's). These are items that would normally be deposited as checks, but are not eligible to be processed through the Automated Clearing House. Examples of these items are business checks, money market checks, paper drafts not having a signature, money orders, etc.

*Exception: Beginning in September 2006, small sized business checks can be processed as ARC transactions.*