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2022 ACH ORIGINATOR QUICK REFERENCE

Overview:

This document overviews important information you should be aware of as an originator of ACH transactions "ACH Originator."

The following information is to help you stay current with the ACH Operating Rules and keep you informed of any changes in the National Automated Clearing House Association (NACHA) rules. Changes can also be found in the Revisions to the NACHA Operating Rules section of the rule book.

Changes will cover the time period of January 1 to December 31 of that year.

Contents:

- General Information
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- 2022 Revisions to the NACHA Operating Rules
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General Information

- An ACH Originator is any entity or person that creates an ACH transaction
- ACH entries are categorized as "consumer" or "corporate"
- ACH is a batch system, not real time
- Once sent to the ACH Operator, entries are final
- ACH is capable of crediting or debiting checking or savings accounts
- Most banks and credit unions receive ACH entries

Governing Rules and Agreements

As an ACH Originator, you are required to abide by multiple rules and agreements including, but not limited to, the following when submitting ACH files and transactions:

- Nacha Operating Rules, found at www.nacha.org
- Regulation E (for consumer entries)
- UCC4A (for corporate credits)
- Stearns Bank Deposit Account Agreement
- Stearns Bank ACH Agreement
- Bank/Corporate Agreements
- Customer Authorizations

ACH Originator Responsibilities

The ACH Originator must agree to:

- Be bound by the NACHA Operating Rules
- Not originate entries that violate the laws of the United States
- Protect the banking information received
- Send entries on the proper date, according to your critical timing calendar
- Make necessary changes to payee account information within six banking days when notified by Stearns Bank
- Cease subsequent entries when appropriate
- Ensure your computer and you are protected as outlined in your original agreement

In addition, all payees must be verified against lists issued by the Office of Foreign Asset Control (OFAC).

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Technical Summary of Recent Changes to the NACHA Operating Rules

The following is meant to act as a technical and in-depth overview of the recent changes to the NACHA Operating Rules. Over the past several years, there have been a number of additions, increases, and updates made to the requirements placed on Originators and their Financial Institutions. Since the world of ACH is already a complex and often confusing arena, this year's training is meant to focus on the key areas of change that can impact you as an ACH Originator.

Enforcement (Effective January 1, 2021)

The change in the Enforcement rule defined an egregious violation within the context of rules enforcement.

The Enforcement Rule allows the ACH Rules Enforcement Panel to determine whether a violation is egregious, and to classify whether an egregious violation is a Class 2 or Class 3 rules violation.

The rule expressly authorizes NACHA to report Class 3 rules violations to the ACH Operators and to federal and state banking, consumer protection, and other appropriate regulators and agencies.

NACHA Rules Location(s):

- Appendix Nine, Part 9.1
- Appendix Nine, Subparts 9.4.1; 9.4.3; 9.4.4; 9.4.6.2; 9.4.7.4; 9.4.7.5



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New Same Day ACH Processing Window (Effective March 19, 2021)

The rule created a new processing window that enables ODFIs and their customers to originate same-day transactions for an additional two hours each banking day.

The new window allows Same Day ACH files to be submitted to the ACH Operators until 4:45pm by ODFIs and their processors.

NACHA Rules Location(s):

- Article Three, Subsection 3.3.1.2
- Article Three, Subpart 3.2.2

Supplementing Fraud Detection Standards for WEB Debits (Effective January 1, 2020)

The rule enhanced the requirement to screen WEB debits for fraud to make it explicit that “account validation” is part of a “commercially reasonable fraudulent transaction detection system.”

The supplement requirement applies to the first use of an account number, or to changes to the account number. Originators will have to perform account validations when there are updates to account numbers in existing WEB authorizations.

Validations can include (may not be limited to) prenotes, microdeposits, acquiring check copies for account number and titling

NACHA Rules Location(s):

- Article Two, Subsection 2.5.17.4



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Supplementing Data Security Requirements (Phase 1) (Effective June 30, 2021)

The rule expanded the existing ACH Security Framework to explicitly require large, non-financial institutions Originators, Third-Party Service Providers, and Third-Party Senders to protect account numbers used in the initiation of ACH entries by rendering them unreadable when stored electronically.

The rule applies only to account numbers collected for or used in ACH transactions and does not apply to the storage of paper authorizations.

Implementation of the rule began with the largest Originators, TPSPs, and TPSs where ACH volume exceeds 6 million transactions annually. A second phase will apply to those whose ACH volume exceeds 2 million transactions annually.

NACHA Rules Location(s):

- Article One, Section 1.6

Reversals (Approved September 30, 2020)

The Reversals Rule expanded the Reversal rules to specifically state that the initiation of Reversing Entries or Files for any reason other than those explicitly permissible under the Rules is prohibited.

The Reversals Rule is also explicitly defined within the Rules' non-exclusive examples of circumstances in which the origination of Reversals is improper.

NACHA Rules Location(s):

- Article Two, Subsection 2.9.1
- Article Two, Subsection 2.9.5
- Article Three, Subsection 3.12.2
- Article Eight, Section 8.38

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Meaningful Modernization (Approved September 17, 2021)

The five amendments comprising Meaningful Modernization were designed to improve and simplify the ACH user experience by facilitating the adoption of new technologies and channels for the authorization and initiation of ACH payments; reducing barriers to the use of the ACH Network; providing clarity and increasing consistency around certain ACH authorization processes; and reducing certain administrative burdens related to ACH authorizations.

Specifically, Meaningful Modernization:

- Explicitly defines the use of standing authorizations for consumer ACH debits
- Defines and allows for oral authorizations of consumer ACH debits beyond telephone calls
- Clarifies and provides greater consistency of ACH authorization standards across payment initiation channels
- Reduces the administrative burden of providing proof of authorization
- Better facilitates the use of electronic and oral Written Statements of Unauthorized Debit

Standing Authorizations

The Rule established rules for a Standing Authorization as an advance authorization by a consumer of future debits at various intervals. Under a Standing Authorization, future debits are initiated by the consumer through further actions. The Rule allows for Originators to obtain Standing Authorizations in writing or orally. The Rule also defines Subsequent Entries, which are individual payments initiated based on a Standing Authorization. Subsequent Entries may be initiated in any manner identified in the Standing Authorization.

The Rule allows Originators some flexibility in the use of consumer SEC Codes for individual Subsequent Entries. Originators may use the TEL or WEB SEC Codes for the Subsequent Entries when initiated by either a telephone call or via the Internet/wireless network, respectively, regardless of how the Standing Authorization was obtained. In these cases, the Originator does not need to meet the authorization requirements of TEL or WEB but does need to meet the risk management and security requirements associated with those SEC Codes.

NACHA Rules Location(s):

- Article Two, Subsection 2.3.2.5
- Article Two, Subsection 2.3.2.7
- Article Three, Subsection 3.12.2
- Article Eight, Section 8.107-108

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Oral Authorizations

The Rule established rules for Oral Authorizations as a valid authorization method for consumer debits distinct from a telephone call. Under the Rule, any oral authorization obtained via any channel needs to meet the requirement of an Oral Authorization. An Oral Authorization obtained over the Internet that is not a telephone call also needs to meet the risk and security requirements that currently apply to Internet-Initiated/Mobile (WEB) Entries and will use the WEB SEC Code. The Rule allows for Standing Authorization to be initiated through voice commands, instructions, or affirmations.

NACHA Rules Location(s):

- Article Two, Subsection 2.3.2.4
- Article Two, Subsection 2.3.2.7
- Article Two, Subsection 2.5.15.1
- Article Two, Subsection 2.5.15.3
- Article Two, Subsection 2.5.17.1
- Article Two, Subsection 2.5.17.2
- Article Eight, Section 8.55
- Article Eight, Section 8.64
- Article Eight, Section 8.109

Other Authorization Issues

In conjunction with the rules on Standing Authorizations and Oral Authorizations, Meaningful Modernization included the Other Authorization Issues Rule, which made other modifications and reorganized the general authorization rules for clarity, flexibility, and consistency.

- **Clarity:** The Rule reorganized the general authorization rules to better incorporate Standing Authorizations, Oral Authorizations, and other changes. The Rule defined “Recurring Entry” to complement the existing definition of Single Entry and the new definition of Subsequent Entry and to align with the term in Regulation E.
- **Flexibility:** The Rule explicitly stated that authorization of any credit entry to a consumer account and any entry to a non-consumer account can be by any method allowed by law or regulation. Only consumer debit authorizations require a writing that is signed or similarly authenticated.
- **Consistency:** The Rule applied the standards of “readily identifiable” and “clear and readily understandable terms” to all authorizations. The Rule applies to all consumer debit authorizations the minimum data element standards previously only required for TEL entries.

NACHA Rules Location(s): Varies greatly throughout the entire Rules



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Alternative to Proof of Authorization

The Rule reduces an administrative burden on ODFIs and their Originators for providing proof of authorization in every instance in which it is requested by an RDFI. By allowing an alternative, the Rule is intended to help reduce the costs and time needed to resolve some exceptions in which proof of authorization is requested. However, if the RDFI still needs proof of authorization, the ODFI and its Originator must provide the proof of Authorization within ten days of the RDFI's subsequent request.

NACHA Rules Location(s):

- Article Two, Subsection 2.3.2.7
- Article Two, Subsection 2.3.3.3

Written Statement of Unauthorized Debit via Electronic or Oral Method

The Rule reduces an administrative burden on RDFIs and their customers. The Rule clarifies and makes explicit that an RDFI may obtain a consumer's WSUD as an Electronic Record, and an RDFI may accept a consumer's Electronic Signature, regardless of its form or the method used to obtain it. These changes emphasize that WSUDs may be obtained and signed electronically, which could include the same methods permissible for obtaining a consumer debit authorization.

NACHA Rules Location(s):

- Article Three, Subsection 3.12.4

Increasing the Same Day ACH Dollar Limit to \$1 Million (Effective March 18, 2022)

The Rule will increase the per-transaction dollar limit from \$100,000.00 to \$1,000,000.00. At implementation, both Same Day ACH credits and Same Day ACH debits will be eligible for same day processing up to \$1,000,000.00 per transaction.



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Additional Information

NACHA Operating Rules available at www.nacha.org.

The Better Business Bureau offers training specifically for small businesses on how to simplify the requirements of ACH data security. Visit www.bbb.org/data-security to get further information.

For additional information contact StearnsConnect Electronic Banking Team:

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