

ACH Fundamentals Quick Reference Guide

This guide provides a high-level overview of Automated Clearing House (ACH) transactions, which are electronic payments and transfers processed through a nationwide network used by financial institutions across the United States.

Key Participants in an ACH Transaction

ACH payments move through a defined network of participants, each with a specific role in ensuring transactions are authorized, processed, and posted correctly. In simple terms, ACH transactions follow this path: Originator → ODFI → ACH Operator → RDFI → Receiver

- **Originator:** The individual, business, or organization that initiates the ACH transaction. This could include an employer sending payroll, a business collecting payments, or a customer authorizing a debit.
- **Originating Depository Financial Institution (ODFI):** The Originator's bank. It receives payment instructions from the Originator, formats those instructions into ACH entries, and transmits them into the ACH Network. The ODFI is responsible for ensuring entries comply with ACH rules before they are sent for processing.
- **ACH Operator:** The central clearing facility for ACH transactions. The Operator receives batches of ACH entries from ODFIs, sorts them by receiving bank, and routes the transactions to the appropriate Receiving Depository Financial Institutions. In the United States, ACH Operators include the Federal Reserve and The Clearing House.
- **Receiving Depository Financial Institution (RDFI):** The Receiver's bank. It receives ACH entries from the ACH Operator and posts the transactions to the Receiver's account in accordance with ACH rules and processing timelines.
- **Receiver:** The individual or organization whose account is credited or debited by the ACH transaction.

ACH Credit vs. Debit Transactions

- Credits: Funds are sent to an account (e.g., payroll, vendor payments).
- Debits: Funds are pulled from an account (e.g., bill payments, subscriptions).

Standard Entry Class (SEC) Codes

- PPD (Prearranged Payment and Deposit): Consumer payments and direct deposits, can be recurring or single-entry transactions.
- CCD (Corporate Credit or Debit): Business-to-business payments, can be recurring or single-entry transactions.
- CTX (Corporate Trade Exchange): Business-to-business payments with detailed remittance data.

Prenotifications (Prenotes)

A prenotification is an optional zero-dollar ACH entry used to verify account information before live transactions begin.

Authorization Requirements

Before initiating any ACH transaction, the originator must obtain authorization from the receiver. Authorizations are a requirement of the ACH Network and help ensure transactions are initiated knowingly, accurately, and in compliance with applicable rules. All authorizations must be clear, understandable, and obtained in advance of the transaction.

- Consumer debit transactions generally require written or similarly authenticated authorization. The authorization should identify whether the transaction is one time or recurring and include key details such as the amount, timing, receiver's name, account information, and how the authorization can be revoked. A copy of the authorization must be provided to the consumer.
- Consumer credit transactions (such as payroll or benefit payments) do not typically require written authorization and may be authorized orally or through an agreement.
- Business-to-Business transactions (CCD/CTX) require authorization through an agreement between the originator and the receiver.

Originators are required to retain authorization records. For consumer transactions, records must generally be kept for two years after the authorization is revoked or terminated.

Returns

In some cases, an ACH entry cannot be completed as submitted. When this happens, the receiving depository financial institution may return the entry to the originator's bank with a reason code explaining why the transaction was not processed. Common reasons for returns include:

- Insufficient funds
- Account closed or invalid
- No account/unable to locate account
- Unauthorized transaction

Returns must be sent by the RDFI within established ACH time frames. In many cases, this is by the opening of business on the second banking day following the settlement date of the original entry. Certain transaction types and SEC codes follow different return time frames.

As an originator, return information is provided by your Originating Depository Financial Institution (ODFI), typically through digital banking or ACH reporting tools. Reviewing return notices promptly helps ensure issues are addressed, and future entries are handled correctly.

Notifications of Change (NOC)

If an ACH entry is otherwise valid but contains incorrect or outdated account information, the RDFI may issue a notification of change (NOC) instead of returning the transaction. An NOC is used to notify the originator of needed corrections such as:

- An incorrect account number
- An incorrect routing number
- A change in account status or structure

NOCs must be transmitted by the RDFI within two banking days of the settlement date of the related entry. Your ODFI will provide the NOC details so you can update your records.

For recurring entries, required changes must be made within six banking days of receiving the NOC or before the next scheduled entry, whichever occurs later. For single entries and certain SEC codes, making the update is permitted but not required, at the Originator's discretion.

Reversals

A reversal is an ACH entry used to correct a transaction that was sent in error. Common reasons for reversals include a duplicate payment, an incorrect dollar amount, or a payment sent to the wrong receiver.

Reversals must be transmitted within five banking days of the settlement date of the erroneous entry. They are intended only to correct specific types of errors and are not a substitute for other dispute or return processes.

Receiver authorization is not required for reversing an entry; however, the originator should make a reasonable effort to notify the receiver of the reversal no later than the settlement date of the reversing entry.

Rules and Governance

ACH transactions are governed by the NACHA Operating Rules and applicable federal regulations.

Note: This document is intended for informational purposes only and does not replace the official NACHA Operating Rules & Guidelines or your ACH agreement with us.