

BACKGROUND

The Automated Clearing House (ACH) Network is an electronic payments network used by individuals, businesses, financial institutions and government organizations. It allows funds to be electronically debited or credited to a checking account, savings account, financial institution general ledger account or credited to a loan account.

NACHA, The National Automated Clearing House Associations' Operating Rules and Guidelines (the Rules) serve as the definitive source of information governing the exchange and settlement of electronic funds transfers through the ACH network. To ensure compliance with the current regulations, all ACH Originators have access to the NACHA Operating Rules & Guidelines.

The Rules are published annually and can be accessed at www.nachaoperatingrulesonline.org or by contacting Westbury Bank.

This reference guide provides a brief summary of ACH Facts and ACH Originator responsibilities. This guide is not intended to be a replacement or substitution for the NACHA Rules and Guidelines.

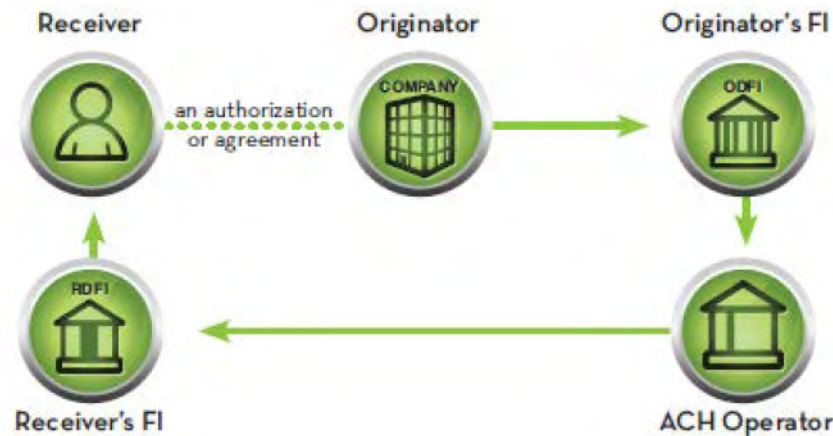
NACHA Rules are subject to change.

ACH PARTICIPANTS

- **Originator** is the company/business that has been authorized by the Receiver to either credit or debit an account. When a company initiates a credit transaction to their employee's account for payroll or to a business customer's account for payment of goods and services, it is considered the Originator. Originators may also initiate debit transactions to a consumer or business account for payment of goods or services.
- **Receiver** can be either an individual or a company that has authorized the Originator (company) to credit or debit their account. The employee is the Receiver if his/her employer is initiating a Direct Deposit payroll credit. A business partner is the Receiver if the Originator is sending a credit to pay for goods or services. The Originator can also be a Receiver, in situations where another party is initiating credits or debits to their account.
The authorization is a key component of an ACH transaction, as it gives the Originator the authority to send credit or debit transactions to the Receiver's account.
- **Originating Depository Financial Institution (ODFI)** is the financial institution with which the Originator (company) has a contractual relationship for ACH services and is responsible for sending ACH entries into the ACH Network on behalf of the Originator. Through the warranties outlined in the *ACH Rules*, the ODFI has the greatest liability of all the participants in the ACH Network. The contractual relationship between the Originator and the ODFI outlines the rights and responsibilities of the two parties with respect to the ACH transactions being originated and provides the ODFI with a mechanism to pass some appropriate liabilities to the Originator (company).
- **ACH Operator** is the central clearing facility for ACH transactions. The ACH Operator is responsible for accepting files of ACH entries from ODFIs, which are then sorted, batched and forwarded to the

Receiver's financial institution. The ACH Operator also performs some editing functions, ensuring that mandatory information required in ACH records is included.

- **Receiving Depository Financial Institution (RDFI)** is a financial institution with which the Receiver has an account relationship. Credit or debit entries sent to a Receiver's account will be received by the RDFI from the ACH Operator and then posted to the Receiver's account.



ORIGINATOR RESPONSIBILITIES

- Originator must obtain authorization from the Receiver to originate one or more Entries to the Receiver's account.
- Originators must retain the original, or a copy, of the authorization from a receiver for two years from the date of termination or revocation of the authorization.
- At the request of the ODFI, an Originator must provide a copy of the authorization to the ODFI, if such copy is requested by an RDFI (Receiving Depository Financial Institution), the ODFI must provide the copy within ten Banking days of the request. Westbury Bank may request to review your authorizations from time to time.
- Originators must protect sensitive banking information received and control access to this data.
- Originators must cease subsequent entries when appropriate.
- Proper use of the Standard Entry Class (SEC) codes by Originators is required;

SEC CODE	SEC CODE DESCRIPTION	APPLICATION USE
CCD	Corporate Credit or Debit	(Business to Business) - The code that identifies an Entry initiated by an organization to transfer funds to or from an account of that organization or another organization.
PPD	Prearranged Payment and Deposit	(Business to Consumer) - The code that identifies an entry initiated by an organization based on a recurring or single entry authorization from a receiver to

		transfer funds to or from a Consumer account of the receiver. Commonly known as Direct Deposit and Direct Payment.
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- An Originator must make the changes specified in a Notification of Change (NOC) within 6 banking days of receipt of the NOC information OR prior to initiating another entry to the receiver's account, whichever is later.
- Originators must send Entries on the proper date, an effective entry date is the date specified by the Originator on which it intends a batch of entries to be settled;
 - For credit Entries, the Effective Entry date must be either one or two Banking days following the Banking day of processing by the Originating ACH Operator.
 - For debit Entries, the Effective Entry date must be one banking day following the processing date.

CONSUMER AUTHORIZATIONS

The type of Authorization agreement entered into between the Receiver and the Originator depends on the type of transfer that is being initiated. The Rules require the use of the appropriate Standard Entry Class code (SEC) for such entries.

DIRECT DEPOSIT PAYROLL AUTHORIZATION

Use a direct deposit authorization form that collects employee account information. This form should allow the company to make credit and debit 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 and signed or similarly authenticated. The most common SEC code for consumer debits is PPD.

CONSUMER CREDIT AUTHORIZATIONS

Consumers may provide authorizations for credit entries in writing or they may be provided orally. The most common SEC code for consumer credits is PPD.

CORPORATE AUTHORIZATIONS

- As with consumer entries, corporate receivers must authorize all ACH Credits and Debits to its account. Westbury Bank recommends that you have the Receiver complete an authorization form.
- The most common SEC code for corporate transactions is CCD and is used for debit or credit entries.

- Originators must obtain all consents and authorizations required under the Rules and shall retain such consents and authorizations for two years after they expire or terminate. At the request of the ODFI an Originator must provide a copy of the authorization to the RDFI within ten Banking days of the request.

PRE-NOTIFICATIONS (PRENOTES)

- Pre-notes are zero-dollar entries that precede the first live entry. The purpose of a pre-note is to verify account information is correct.
- Pre-notes are optional. However, if sent, the pre-note must precede the first live entry by at least three banking days.
- The Receiving Bank is not required to validate the name of the payee on the pre-note, although some do, they are only required to verify the account number is valid.

CHANGING AMOUNT OR DATE OF DEBIT ENTRIES

- ACH rules require Originators to notify a Receiver of any changes in the amount or date of a debit entry:
 - If the **amount** of a debit entry changes, notification must be sent to the Receiver in writing, at least **ten (10) calendar days** prior to the date on which the entry is scheduled to be initiated. (consumer and corporate)
 - If a scheduled **date** changes, notification must be given to the Receiver in writing at least **seven (7) calendar days** before the first such entry is scheduled to be debited to the Receiver's account. (consumer only)

Sending the notice via U.S. Mail is acceptable.

NOTICE OF CHANGE

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting that future entries contain correct information. The ACH Rules require an Originator to make the change within six (6) banking days of receiving the information from Westbury Bank or before another entry is sent.
- The Receiving Bank warrants that the information they provide to you is correct.

Westbury Bank will notify you of any NOCs received on your behalf via mail or secure email.

RETURNS

- Returns are to be processed by the Receiving Financial Institution within 24 hours of settlement for CCD entries.

- An exception to the 24-hour rule is consumer unauthorized returns which may be returned within 60 days of the settlement date.
- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules.
- The ACH Rules require that Originators must cease the origination of any ACH debit transactions when a previous ACH debit is returned as unauthorized or authorization revoked by the Receiver. The Originator must obtain a new Authorization prior to re-originating any future transaction.
- An Originator may re-initiate a debit entry within 180 days up to two times if you receive a return entry of “NSF or Uncollected Funds.” Reinitiated entries must be sent in a separate batch and contain identical content in the Company Name, Company ID, and Amount field. Re-initiated entries must contain “RETRY PYMT” in the Company Entry Description Field.
- A “Stop Payment” return may be re-initiated only if you receive approval from the payee to re-send the item.
- It is a violation of NACHA Rules to re-initiate the debit entry if a return is received for any other reason.

REVERSALS

- Once an entry or file of entries has been transmitted into the ACH network it cannot be recalled but an erroneous or duplicate entry may be reversed.
- Reversals may only be made for the following three conditions:
 - 1) wrong dollar amount,
 - 2) wrong account, or
 - 3) duplicate transaction.If reversing an entry due to an incorrect amount or incorrect account, a correcting entry must also be sent.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the payee’s account or if the payee’s account is closed.
- A payee must be notified if a reversing entry debits his/her account. However, a payee does not need to authorize the reversing debit.
- If a reversing entry needs to be made, please contact Westbury Bank within five days after the settlement date.