

The Automated Clearing House (ACH) system allows funds to be processed quickly through an electronic network for financial institutions. ACH transfers can be from one account to another or between multiple accounts. Through the ACH network, companies can disburse funds to vendors, create direct deposits for their company payroll, and collect funds for consumer payments. ACH can also be utilized for annuities, corporate-to-corporate payments, dividends, interest payments, pensions, association dues, loan payments, and contributions to IRAs and 401(k)s.

As an ACH Originator, there are rules and guidelines that must be followed for the creation, submission, and processing of electronic files. These are set by the National Automated Clearing House Association (NACHA), an organization which manages the development, administration, and governance of the ACH Network. The NACHA Operating Rules and Guidelines (the “Rules”) can be accessed online at [www.nacha.org](http://www.nacha.org). Failure to comply with the NACHA Rules can lead to termination of services and/or fines imposed by NACHA. The Bank may contact your company periodically to verify your internal ACH procedures and policies.

This guide provides an overview of important ACH Rules as they apply to your company (the “Originator”) as a customer of First Mid Bank & Trust (the “Bank”).

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## Creating a Safer ACH Process

First Mid’s processing system incorporates vital customer fraud protection and analytics behind your company’s ACH transactions. With electronic payment fraud on the rise, the Bank has a variety of tools to help your company safely process ACH transactions. Many of these options can be used together to suit your specific needs.

- Dual control within our online banking system helps originators maintain separation of duties for conducting your ACH activity.
- Minimize the amount of funds at risk by setting ACH transaction limits on users and accounts.
- Review your ACH transactions easily by accessing online banking from your computer, tablet, or smartphone.

## Originator Responsibilities

As an ACH Originator with the Bank, there is a contractual responsibility to follow Bank and NACHA rules.

These responsibilities include:

- Obtain and maintain proper authorizations
- Comply with processing deadlines set by the Bank and NACHA
- Provide authorization to the Bank within the timeframes set forth by NACHA
- Safeguard banking information received
- Make necessary changes, as instructed from a Notification of Change (NOC), prior to the next ACH origination
- Cease subsequent entries, when appropriate
- Restrict transactions to individuals or companies who appear on the governmental Office of Foreign Assets (OFAC) list
- Ensure protection of the Originator and processing computer by following the guidelines listed in the Bank Access Agreement, including protecting system credentials

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## Authorization

As an Originator, your company must obtain authorization from the Receiver to originate one or more entries to the Receiver's account. The type of required authorization varies by the type of transaction and the Receiver. Authorizations must be retained for at least two (2) years following the termination of the authorization. As an Originator, Proof of Authorization (POA) must be provided within five (5) business days of a request. Authorization may be customized to fit your specific application needs, but it must be readily identifiable as a payment authorization and, at a minimum, include the following:

- Acknowledgement that entries must comply with laws of the United States
- Statement authorizing the Originator to initiate credit or debit entries
- Account number and routing number of accounts involved in the transaction
- Identification of account type (checking, savings, loan, etc.)
- Provisions for termination of the authorization, including any policies for automatic termination in the case of excessive returns, member abuse, or termination of loan payment debits when the loan has been paid in full
- Individual identification number
- Date and signature

Sample authorization forms and information about how the authorization rules apply to your transactions can be found in the NACHA Rules.

## Prenotification (Prenote) Process

The prenotification process can help ensure the data contained in files is accurate prior to sending live dollars. Use of the prenote process is optional; however, when an Originator initiates a prenote to a Receiver, they must do so at least three (3) business days before initiating the first live dollar electronic transaction to that Receiver.

If a response is *not* received by the end of the third day, live transactions may be initiated. If a Return or Notification of Change (NOC) is returned, the record(s) must be corrected prior to initiating live dollar transactions. Another prenote file may be submitted after making your corrections; however, this is not required.

The prenote transaction codes differ from other entry codes. The chart below includes common transaction codes by account and transaction type. Please refer to the NACHA Rules for more information on the prenotification process.

Account and Transaction Type	Return/NOC	Normal Entry	Prenotification
Checking Account Credit	21	22	23
Checking Account Debit	26	27	28
Savings Account Credit	31	32	33
Savings Account Debit	36	37	38
General Ledger Credit	41	42	43
General Ledger Debit	46	47	48
Loan Account Credit	51	52	53
Loan Account Debit	56	55	NA

## ACH File Limits

An ACH exposure limit is established for each Originator. This limit is calculated based on the company's expected volume, along with creditworthiness. If an Originator submits a file that causes the exposure limit to be exceeded, the file may be suspended, deleted, or require special approval for transmittal.

## ACH Prefunding

Based on the ACH Originator risk assessment, prefunding may be required. The purpose of ACH prefunding is to ensure that adequate funds are available for requested payments. The Bank will debit the offset account for the full amount of the batch. Prefunding is used only when the ACH Originator is processing credits (ex. Payroll).

## Same-Day ACH

The NACHA Rules provide the option to send same-day ACH transactions to accounts at any Receiving Depository Financial Institution (RDFI). All RDFIs must receive same-day ACH transactions.

ACH transactions submitted to the Bank by the same-day cutoff time, having a same-day effective date, will be processed same-day. Batches must meet the required same-day criteria. Same-day entry fees may apply.

**Please note:** ACH transactions submitted to the Bank with stale or invalid effective entry dates will be settled at the earliest opportunity, which could be same day. The Bank recommends all effective dates are reviewed prior to submitting your ACH file.

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## ACH Deletion/Edit

ACH batches should be reviewed carefully before submission. If an ACH has been submitted and an error is discovered, it may be possible to delete or modify the batch if it has not been processed by the Bank. If the batch does not have a “Completed” status within Commercial Online Banking, it may be modified or deleted. Files are picked up and processed daily at 7:00 a.m., 11:00 a.m., 1:00 p.m., and 4:00 p.m. (CT). Once a file has a “Processed” status within Commercial Online Banking, a reversal may be processed to correct the error/edit, if the error/edit meets the reversal criteria. If reversal criteria are not met, corrections may be managed outside of the ACH Network by working with the RDFI and/or Receiver.

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## ACH Reversal

ACH Originators may determine that an entry needs to be reversed after the transaction has been processed. Reversals may only be requested for the following errors: wrong dollar amount, wrong account number, or duplicate transaction. Transactions can be reversed at the batch or payee level. The word “REVERSAL” must be in the Company Entry Description Field of the Batch Header Record.

**NOTE: A reversal does not delete the initial transaction. It submits a second transaction offsetting the original transaction. Reversals do not guarantee the return of funds to the Originator. It is imperative that credit Originators take care to ensure that no transactions are sent to unintended Receivers. A reversal can only be executed within five (5) business days *after* the settlement date.**

When the reversal of a transaction is requested, the NACHA Rules require the payee of the reversing entry be notified and the reason for the reversal be provided.

Please contact Treasury Services for assistance in processing these requests.

## Notifications of Change (NOC)

A Notification of Change is a non-monetary transaction by which an RDFI (Receiving Depository Financial Institution) notifies an ODFI (Originating Depository Financial Institution) that information contained in an entry received and posted by the RDFI has become outdated or that information contained in a prenote is incorrect. The entry must be transmitted to the ODFI within two (2) business days of the settlement date of the entry. ***The Originator must make the changes specified in the NOC within six (6) business days of receipt of the NOC information, or prior to initiating another entry to the Receiver's account, whichever comes first.***

**NOTE: Non-compliance could result in NACHA Rules violations and associated fines.**

The most common NOC reasons are:

CODE	DESCRIPTION
C01	Incorrect DFI Account Number
C02	Incorrect Routing Number
C03	Incorrect Routing Number and Incorrect Account Number
C05	Incorrect Transaction Code
C13	Addenda Format Error

A full listing can be found in the NACHA Rules – Notification of Change.

## Return Entries

A return entry occurs when the RDFI (Receiving Depository Financial Institution) or Receiver rejects an originated transaction. Most returns are received within three to five (3-5) business days after the transaction's original settlement date and create a reversing entry to the Originator's account. ***Consumers may return unauthorized transactions up to sixty (60) days from the statement date.*** The most common return reasons are listed below:

CODE	DESCRIPTION
R01	Insufficient Funds
R02	Account Closed
R03	No Account / Unable to Locate Account
R04	Invalid Account Number
R06	Returned Per ODFI Request
R07	Authorization Revoked by Customer
R08	Payment Stopped
R09	Uncollected Funds
R10	Customer Advises Not Authorized, Improper, or Ineligible
R29	Corporate Customer Advises Not Authorized

A full listing can be found in the NACHA Rules – Return Entries.

ACH rules apply to reinitiating returned transactions. To review these rules, refer to the NACHA Rules.

To maintain the integrity of the ACH Payments Network, NACHA enforces termination of services and levies substantial fines for continued violations of rules associated with returns.

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## ACH Returns Reporting

If your ACH file is returned, notification will be sent via email. It will include an attached Return Report outlining the reason for the returned file, including the Code and Description of the reason.

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## Addenda Reporting

Electronic Data Interchange (EDI) reporting gathers addenda information from ACH entries and formats it into either a human-readable report or data file. If the Receiver requests addenda information, the information must be included in the addenda record. Then, the Receiver must obtain EDI reporting from their financial institution. Origination services are not required to enroll in addenda reporting.

If your company does not currently receive this reporting and is interested in this service, please contact Treasury Services.

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## Deadlines and Cutoff Times

Transactions must be submitted by the cutoff time to be processed timely.

Transactions submitted after the cutoff time will be processed in the next processing window. When possible, files should be submitted two (2) days prior to the settlement date.

Cutoff times are as follows:

- ACH credit and debit files should be submitted before **4:00 p.m. (CT)** and at least **two (2) days before** the effective date of the file.
- Transactions intended for **Same-Day settlement** must be submitted by **1:00 p.m. (CT)**.
- ACH Reversal requests must be submitted no later than **4:00 p.m. (CT)** within **five (5) business days** of the settlement date.

## Holiday and Weekend Processing

“Business days” refer to days the U.S. banking system is open for business. ACH file transfers and other online funds transfers will not be processed on days the Bank is closed; therefore, it is important that the Originator ensures that settlement dates are not set for days the Bank is closed. The Bank observes all federal holidays. Federal holidays are listed below. The processing calendar is also available in the Resource Center within Commercial Center and on the Commercial Online Banking page of the First Mid website.

- New Year’s Day
- Martin Luther King, Jr. Day
- Presidents’ Day
- Memorial Day
- Juneteenth Day
- Independence Day
- Labor Day
- Columbus Day
- Veterans’ Day
- Thanksgiving Day
- Christmas Day

If there are changes in processing days or times, you will be notified in advance.

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## Standard Entry Class (SEC) Codes

Each ACH transaction must be accompanied by a three-character identifier referred to as a standard entry class (SEC) code. An SEC code defines how authorization for the transaction was obtained. Some SEC codes may only be used for transactions sent to a consumer account; others may only be used for transactions sent to a business/corporate account. Some codes may be used for transactions sent to both types of accounts.

**NOTE: SEC codes must be used appropriately and in accordance with the NACHA Rules.**

*The chart on the following page outlines and defines the most common SEC codes being used today in the ACH network:*

SEC Code	Consumer/ Corporate	Definition	Debit/ Credit	Return Timeframe*
<b>ARC</b> – Accounts Receivable Entry	Both	A single-entry debit originated based on an eligible source document provided to an Originator via the US mail or at a drop-box location.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>BOC</b> – Back Office Conversion Entry	Both	A single-entry debit originated based on an eligible source document provided to an Originator at the point-of-purchase or manned bill payment location for subsequent conversion to an ACH transaction during back-office processing.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>CCD</b> – Corporate Credit or Debit Entry	Corporate	An entry originated by an organization to or from the account of that organization or another organization. The entry can be monetary or non-monetary.	Debit or Credit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 2 calendar days
<b>CIE</b> – Customer Initiated Entry	Consumer	A credit entry initiated by or on behalf of the holder of a consumer account to the account of a receiver.	Credit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>COR</b> – Notification of Change	Both	A non-monetary transaction that instructs the Originator of a transaction to change certain information before reinitiating another transaction to the same receiver (i.e., change the account number, change the Tran-code, etc.)	N/A	N/A
<b>CTX</b> – Corporate Trade Exchange Entry	Corporate	An entry originated by an organization to or from the account of that organization or another organization. This transaction may be accompanied by up to 9,999 lines of payment-related addenda information. CTX is most used when multiple lines of addenda are needed.	Debit or Credit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 2 calendar days
<b>IAT</b> – International ACH Transaction**	Both	A debit or credit entry that is part of a payment transaction involving a financial agency’s office that is not located in the territorial jurisdiction of the United States.	Debit or Credit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>POP</b> – Point of Purchase Entry	Both	A single-entry debit originated based on an eligible source document provided in-person to an Origination at the point-of-purchase or manned bill payment location for conversion to an ACH transaction at the point-of-purchase or manned bill payment location.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>PPD</b> – Prearranged Payment & Deposit Entry	Consumer	An entry originated by an organization to a consumer account based on a standing or single-entry authorization from the receiver of the transaction.	Debit or Credit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>RCK</b> – Re-Presented Check Entry	Both	A debit entry used to collect the amount of a check returned for insufficient or uncollected funds.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>TEL</b> – Telephone Initiated Entry	Both	A debit entry originated based on an oral authorization provided to the Originator by a receiver via the telephone.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>WEB</b> – Internet/ Mobile Initiated Entry	Consumer	A debit entry originated based on (1) an authorization that is communicated, other than by an oral communication, from the receiver to the Originator via the Internet or a wireless network; or (2) any form of authorization if the receiver’s instructions for the initiation of the individual debit entry is designed by the Originator to be communicated, other than by an oral communication, to the Originator via a wireless network.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days
<b>XCK</b> – Destroyed Check Entry	Both	A debit entry initiated to collect an eligible item that is contained within a cash letter that has been lost, destroyed, or is otherwise unavailable to the originating bank.	Debit	<i>Administrative:</i> 2 business days <i>Unauthorized:</i> 60 calendar days

\* Return timeframes listed in this table may vary depending on certain circumstances surrounding the transaction. For a complete guide on return timeframes, please refer to the NACHA Operating Rules and Guidelines.

\*\*International ACH Transactions (IAT) are possible; however, they must be kept separate from domestic transactions. For a complete list of IAT countries, please contact Digital Solutions Support. Both credit and debit transactions can be sent to Canada. The processing requirements and schedules for these transactions differ from normal domestic transactions.



## Additional Resources

To obtain a copy of *ACH Rules* for the current year or for other helpful information about ACH processing, visit the NACHA web site at [www.nacha.org](http://www.nacha.org). Purchasing a copy of *ACH Rules* entitles your company to access the rules via the Internet at [www.achrulesonline.org](http://www.achrulesonline.org). The search features of the online edition can be helpful, especially to those who are unfamiliar with the Rules. Resources are also available online at Western Payments Alliance at <http://www.wespay.org>.

*The materials available in this guide are for general informational purposes only and not for the purpose of providing specific instruction or legal advice. You are solely responsible for compliance with, and interpretation of, all NACHA rules and should contact your attorney to obtain advice with respect to any issue or problem. You are also reminded that you are solely responsible for compliance with any agreements with the Bank, including but not limited to, the Treasury Management Master Services Agreement.*