

National Automated Clearing House Rules (NACHA) Rules Awareness for Corporate Clients

Each company originating ACH entries through Affinity Bank must comply with the *NACHA Operating Rules* as stated within the ACH agreement between Affinity Bank and the Corporate Client. The National Automated Clearing House Association (NACHA) is the rule making body governing the ACH network and therefore all participants of the ACH network must comply with these *Rules*. To ensure that Affinity Bank communicates effectively, we have provided specific Originator (Corporate Client) requirements of the *Rules*. As you may be aware, these *Rules* are updated with changes, additions, and deletions on an annual basis. Affinity Bank will communicate these *Rules* changes annually to ensure that our companies are educated on these *Rules* and appropriate changes are made to your internal processes. Below, we have included not only the Originator (Corporate Client) responsibilities but also included summary information regarding recent and upcoming rule changes. It is important that you as an Originator (Corporate Client) utilizing the ACH network to process debits and credits make note of these *Rules* changes. This document is not intended to be a replacement or substitution for the *NACHA Operating Rules & Guidelines*. Annually, it is recommended that you purchase a copy of the updated *NACHA Operating Rules & Guidelines* by visiting <http://www.nacha.org>.

Corporate Client Responsibilities

Data Security: All corporate clients must establish, implement and, as appropriate, update security policies, procedures, and systems related to the initiation, processing and storage of entries and resulting Protected Information. Security policies, procedures, and systems related to the initiation, processing, and storage of entries must: (1) protect the confidentiality and integrity of Protected Information; (2) protect against anticipated threats or hazards to the security or integrity of Protected Information; and (3) protect against unauthorized use of Protected Information that could result in substantial harm to a natural person. The *Rules* define Protected Information as the non-public personal information, including financial information, of a natural person used to create, or contained within, an entry and any related addenda record.

For all ACH transactions that involve the exchange or transmission of banking information must be transmitted at a minimum of 128-bit RC4 encryption. Any transmission of banking information less than this requirement is considered an Unsecured Electronic Network. Affinity Bank's online banking system allows for the appropriate security; however, if the Originator sends entries to Affinity Bank outside of this communication facility, it will hold the liabilities of this unsecured transmission of entries.

Company Name Identification: The Originator (Corporate Client) is required under the *Rules* to ensure there is clear identification of the source of an ACH transaction. Specifically, the *Rules* require the Originator to populate the Company Name Field with the name by which it is known to and readily recognized by the Receiver of the entry. As this company name appears on the account holder's statement, it should be easily recognized by the account holder/receiver of the debit/credit.

Minimum Authorization Requirements/Proper Use of Standard Entry Class Code: The authorization requirements specified within the *Rules* address the minimum requirements needed for authorization of various types of ACH transactions. In the case of Affinity Bank clients, we allow that our Originators send PPD (Prearranged Payments and Deposits) and CCD (Corporate Credits and Debits). Any other types of standard entry class codes would require approval from Affinity Bank prior to its use.

Authorization Retention: The signed or similarly authenticated authorization must be retained by the Originator (Corporate Client) for a period of two years following the termination or revocation of the authorization. In the case of a paper authorization that has been signed by the consumer, the Originator must retain either the original or a copy of the signed authorization. This authorization may be obtained in an electronic format that (1) accurately reflects the information in the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, printed or otherwise.

Authorization Requirements for Consumer Entries: For consumer entries (those entries hitting a consumer account and not a corporate account), Originators (Corporate Client) should ensure that the authorization is clear and readily understandable by the account holder/receiver. The authorization should include account number and routing number which should be clearly stated (i.e. a copy of the account holder's check stapled to authorization ensures the numbers are clearly obtained), the consumer must date and either sign or similarly authenticate (must prove that you had the account holder's authorization to debit the account), should include what type of account it is debiting and/or crediting (demand deposit account, savings account), company identification is easily understandable (see below under company identification), and the Originator (corporate client) must obtain authorization for both consumer credit and debit entries.

Authorization Requirements for Corporate Entries: As with consumer entries, the business Receiver (Corporate Client) must authorize all ACH credits and debits to its account. The Receiver of CCD (Corporate Credit and Debit), CTX (Corporate Trade Exchange) and IAT (International ACH Transactions) entries to a corporate client account must enter into an agreement with the Receiver to which the Receiver has agreed to be bound by the NACHA Operating Rules. This agreement for credits and/or debits to the corporate client account should be clear to the corporate client as to what the credit/debit represents.

Notice of Change in Amount/Change in Debiting Date for Recurring Debits: For recurring debits, when the debit amount varies, the *Rules* require the Originator (Corporate Client) to notify the account holder/receiver within ten (10) calendar days before the scheduled transfer date. If an Originator (Corporate Client) changes the transfer date in which it debits the account holder/receiver, it must notify the account holder/receiver in writing of the new transfer date at least seven (7) calendar days before the first entry affected by the change is scheduled to be debited to the Receiver's account.

Prenotifications: Prenotifications are zero dollar entries generated to validate the account held at the receiving financial institution. Originators (Corporate Client) may originate a prenote; however this is not required under the *Rules*. If the Originator (Corporate Client) initiates a prenotification, it must wait six (3) banking days prior to imitating the live dollar amount. Please note that this waiting period changed from (6) banking day to three (3) banking days effective September 19, 2014.

Notifications of Change Requirements: Notifications of Change are zero dollar entries sent by the receiving depository financial institution to the originating depository financial institution to alert the Originator that a change to its transaction should be made. Under the *NACHA Operating Rules*, the corporate client is required to change its information (the information requested to be changed by the receiving financial institution) within 6 banking days of receipt of the NOC or the next time the transaction is generated, whichever is later.

Receiving ACH Returns and Reinitiating of Entries: The NACHA Operating Rules require that only NSF and Uncollected Funds (Return Reason Code R01 and R09) may be reinitiated. Under the *NACHA Operating Rules*, a returned entry may not be reinitiated unless (1) the entry has been returned for insufficient or uncollected funds; (2) the entry has been returned for stopped payment and reinitiation has been authorized by the Account Holder, or (3) the ODFI (Affinity Bank) has taken corrective action to remedy the reason for the return. As a corporate client, any returns received should be resolved immediately and no reinitiation of the same entry should be transmitted unless one of the three reasons above has occurred.

Stop Payments Made by Consumer: This affects Originators as a stop payment may be placed on the receiving financial institutions system for all future transactions relating to the one Originator for the payment. Originators need to train its internal staff to ensure they understand that there may be multiple stop payments returned. These should not be reinitiated into the system until resolved.

Reversing an ACH File: An Originator (Corporate Client) may reverse a file if the file is erroneous or duplicate. The Originator (Corporate Client) may transmit the reversing file within 5 banking days after the Settlement Date for the entries within the duplicate or erroneous file. The word “REVERSAL” must be placed in the Company Batch Header Field and if the file is reversing an erroneous file, the Originator (Corporate Client) must initiate a correcting file with the reversing file.

Reversing an ACH Entry: An Originator (Corporate Client) may reverse an entry if the entry is erroneous or a duplicate entry. Only an Originator (Corporate Client) may reverse an entry. The Originator must transmit the reversing entry within 5 banking days after the Settlement Date of the entry. Only an Originator may reverse an entry. The Originator (Corporate Client) should notify the account holder/receiver of the reversing entry and reason of the reversing entry no later than the Settlement Date of the reversing entry.

Erroneous File or Entry: A file or entry that (1) is a duplicate of an entry previously initiated by the Originator or ODFI; (2) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; (3) orders payment in an amount different than was intended by the Originator; or (4) is a PPD credit entry satisfying each of the following criteria: (i) the PPD credit entry is for funds related to a Receiver’s employment; (ii) the value of the PPD credit is fully included in the amount of a check delivered to the same Receiver at or prior to the Receiver’s separation from employment; or (iii) the PPD credit entry was transmitted by the Originator prior to the delivery of the check to the Receiver.

International ACH Transactions (IAT): Certain ACH payments that were classified as domestic transactions may be classified as international payments, or IAT transactions today. As a result, an ACH transaction that is originated today may need to be originated as an IAT transaction under this new rule.

The ACH transaction may be classified as an international payment (IAT transaction) if your company:

- is a subsidiary of a multi-national corporation;
- has foreign subsidiaries;
- buys or sells to organizations or individuals outside of the territorial jurisdiction of the United States; or

- Sends payroll, pension or benefit payments via the ACH Network to individuals that have permanent resident addresses outside the territorial jurisdiction of the United States.

If you currently originate any ACH transactions that will be considered an IAT transaction, this transaction will need to be originated by you through another payment method such as a wire transfer or foreign draft. Affinity Bank, as an originating bank, will not be originating any IAT transactions on behalf of clients. Listed below is some additional information that may be helpful, we also encourage you to visit the NACHA website. [http://www.nacha.org/IAT Industry Information/](http://www.nacha.org/IAT_Industry_Information/) and review the IAT Corporate Toolkit section of that page or the Federal Reserve Bank website at www.frb services.org/eventseducation/education/iat_overview.html.

Important Information to assist you with this change on how to identify international ACH items and determine if you need to change the type of transaction you send today:

How do I know if the IAT applies to my ACH transactions? If you answer yes to any of the following questions you may be affected by the new rule:

1. Is your company a subsidiary of a multi-national company?
2. Does your company have foreign subsidiaries?
3. Does your company buy or sell to organizations or individuals outside the territorial jurisdiction of the United States?
4. Does your company send payroll, pension or benefit payments via the ACH Network to individuals that have permanent resident addresses outside the territorial jurisdiction of the United States?

Changes to the ACH formats and rules for cross-border payments were made in response to the request of the Office of Foreign Assets Control (OFAC) and the Financial Action Task Force (FATF) Special Recommendation VII, in order to align NACHA rules with the requirements of the Bank Secrecy Act.

IAT is a new Standard Entry Class code for ACH payments to identify international transactions. International transactions are those payments that have been funded internationally or are being sent to another country and a part of the transaction will be processed via the ACH Network.

IAT was developed in response to a request from the Office of Foreign Asset Control (OFAC). In its letters to NACHA, OFAC stated that it thought that the ACH Network is vulnerable to abuse due to the speed and efficiency of the Network. OFAC understands that there are currently transactions flowing through the Network that are funded by international sources. These transactions cannot currently be identified within the Network and are formatted as domestic transactions. OFAC has requested that NACHA modify the *NACHA Operating Rules* to adequately identify international transactions and have the banks review the international transactions for OFAC compliance.

As a Corporate Originator, the *Rules* may affect you as a corporate client. Corporations are required to comply with OFAC obligations, and the penalties for ignoring those obligations can be both criminal and civil and include both jail time and fines ranging from \$10,000 to \$10,000,000 per occurrence. If these fines are levied against the financial institution they may be passed back to the corporate originator depending on the specifics of the case and the details of their contract with the financial institution. The fines are levied by the U.S.

government and funds collected are the property of the government, not the financial institution. Additional information on OFAC obligations and fines can be found at the following link:

<http://www.treas.gov/offices/enforcement/ofac/>.

General Audit Requirements for Third-Party Senders: A Third-Party Sender is an intermediary between the bank and the entity's (Third-Party Sender's) customers. The Rules require that all Third-Party Senders conduct an internal or external audit of its ACH operation no later than December 31 of each year.

Documentation supporting the completion of an audit must be (1) retained for a period of six years from the date of the audit, and (2) provided to NACHA upon request. As this is a Rule requirement, Affinity Bank will request confirmation of such an audit each year. This applies only to Third-Party Senders.

Risk Management and Assessment: This rule updates the *Rules* to codify additional risk management practices regarding the following:

- (1) The performance of the due diligence with respect to Originators and Third-Party Senders;
- (2) The assessment of the nature of the Originator's or Third Party Sender's ACH activity and the risks it presents; and,
- (3) the establishment of procedures to monitor an Originator's or a Third Party Sender's origination and return activity, and to enforce exposure limits and restrictions on the types of ACH transactions that may be originated.

Originators (Corporate Clients) need to understand the necessity of the risk management changes that have been made to the Rules. Affinity Bank as an ODFI may establish additional risk management procedures such as requiring an audit of its Originators activity be performed, closely monitoring the return volume of its originators, and assessing the risk associated with the type of ACH activity performed by each Originator. Affinity Bank may also limit the types of standard entry class codes for which can be originated using Affinity Bank's routing number.

Below are recent revisions to the NACHA Rules which became effective and revisions that are anticipated. It is important that you as an Originator or a Third-Party Sender utilizing the ACH network to process debit and credits make appropriate changes to your internal processes as necessary to accommodate any *Rules* changes that may be applicable to you. For a detailed and complete list of proposed rules and amendments and rule changes, visit <https://www.nacha.org>. If you have any questions regarding the impact of these *Rules*, please do not hesitate to contact Affinity Bank.

RECENT & UPCOMING REVISIONS TO THE NACHA RULES

[Expanding Same Day ACH](#) Upcoming - Effective 09/18/2020

This new rule expands access to Same Day ACH by allowing Same Day ACH transactions to be submitted to the ACH Network for an additional two hours every business day. The new Same Day ACH processing window will go into effect on Sept. 18, 2020.

[Supplementing Data Security Requirements](#) Upcoming - Effective 06/30/2020

This change to the *NACHA Operating Rules* will enhance quality and improve risk management within the ACH Network by supplementing the existing account information security requirements for large-volume Originators and Third-Parties. This change will be implemented in two phases.

[Increasing the Same Day ACH Dollar Limit](#) Upcoming - Effective 03/20/2020

This new rule increases the Same Day ACH per-transaction dollar limit to \$100,000 and will become effective on March 20, 2020.

[Supplementing Fraud Detection Standards for WEB Debits](#) Upcoming - Effective 01/01/2020

This change to the *NACHA Operating Rules* will enhance quality and improve risk management within the ACH Network by supplementing the fraud detection standard for Internet-initiated (WEB) debits.

[Providing Faster Funds Availability](#) Upcoming - Effective 09/20/2019

This new Rule increases the speed of funds availability for certain Same Day ACH and next-day ACH credits. The faster funds availability rule will become effective on Sept. 20, 2019.

[Return for Questionable Transaction](#) Upcoming - Effective 06/21/2019

This change to the *NACHA Operating Rules* will enhance quality and improve risk management within the ACH Network by allowing RDFIs to indicate within a return that the original transaction was questionable or part of anomalous activity.

Recently implemented

[ACH Rules Compliance Audit Requirements](#) - Effective 01/01/2019

This rule changes the structure of the audit requirement within the *Rules*, but does not change the requirement to conduct a *Rules* compliance audit annually.

[Minor Rules Topics](#) - Effective 01/01/2019

These ballots amend the *Rules* to address a variety of minor topics. Minor changes to the *Rules* have little-to-no impact on ACH participants and no significant processing or financial impact.

Same Day ACH: Moving Payments Faster (Phase 3) - Effective 03/16/2018

New capabilities of Same Day ACH become effective over phases to allow financial institutions and businesses to acclimate to a faster processing environment, as well as to ease the implementation effort.

Third-Party Sender Registration - Effective 09/29/2017

DEADLINE for initial registration is March 1, 2018.

This rule requires Originating Depository Financial Institutions (ODFIs) to identify and register their Third-Party Sender customers. The registration process promotes consistent customer due diligence among all ODFIs, and serves as a tool to support NACHA's continuing efforts to maintain ACH Network quality.

Same Day ACH: Moving Payments Faster (Phase 2) - Effective 07/15/2017

New capabilities of Same Day ACH become effective over phases to allow financial institutions and businesses to acclimate to a faster processing environment, as well as to ease the implementation effort.

Improving ACH Network Quality - Unauthorized Entry Fee

This rule is intended to improve ACH Network quality by reducing the incidence of ACH debits that are returned as unauthorized.

Disclosure Requirements for POS Entries - Effective 03/18/2016

This Rule establishes an Originator/Third-Party Service Provider obligation to provide consumer Receivers with certain disclosures when providing those consumers with cards used to initiate ACH Point of Sale (POS) Entries.

ACH Network Risk and Enforcement Topics - Effective 09/18/2015

This Rule will improve the overall quality of the ACH Network by reducing the incidence of returned Entries and the associated costs, both financial and reputational, that such returned Entries impose on the ACH Network and its participants.

Please review all the above NACHA Rules requirements for the Originator (Corporate Client). Should you have any questions on your responsibilities as a participant in the ACH network, please contact Deposit Operations at (678) 742-9990.