Originator Rules Education Letter (2024)

Dear D.L. Evans Bank Business Online Customers,

As part of our commitment to keeping our customers informed of their responsibilities under the Nacha Operating Rules (“the Rules”), we are providing you with the following summary of your obligations under the Rules. This summary does not address all ACH Rule requirements but highlights key topics for businesses to consider when initiating ACH entries. It is not intended to replace the detailed analysis needed to determine the impact the Rules have on your specific organization.

If you have any questions about these requirements, please call D.L. Evans Bank at 208-678-2552. We have provided a link to NACHA a corporate resource center for questions regarding Nacha Rules www.nacha.org/corporates

Key ACH Rules

The Rules prescribe several requirements that originators of ACH entries must follow. This includes ACH entries submitted by businesses using third-party senders or third-party service providers.

Authorizations

- Authorization for consumer credit entries or business-to-business entries can be obtained “in any manner permitted by applicable legal requirements. (Subsections 2.3.2.1 and 2.3.3.1 of the Rules). This means that such entries can be authorized online, via phone, or in writing. However, the originator must ensure it obtains authorization from the intended receiver. It is a best practice to retain authorizations and evidence of the receiver providing their account number in the rare instance there is a dispute over the receiving account number established for the payment. ACH credit entries are a common target for fraud as they can be used to steal money from your business (see the Fraud Trends and Prevention section of this document for further information).

- Authorizations for consumer debit entries include the following information:
    - The number of entries authorized (one-time, recurring, etc.)
    - The dollar amount of entries or how the dollar amount will be determined.
    - The timing of entries (such as the date of the first entry and the frequency of future entries)
    - Receiver’s name
    - Account that will be debited
    - The date of the authorization
    - How the receiver can revoke the authorization with the originator

Notifications of Change (“NOCs”)

The Rules provide receiving institutions the opportunity to correct a received entry and transmit a corresponding NOC to the originating institution.

- Originators are required to make the change prescribed in the NOC within six banking days of receiving the NOC or before sending a subsequent entry, whichever is later.
- Originators who receive an NOC in response to a one-time entry are not required to make changes to future entries.

Return Entries

Administrative returns must be received by the originator within two banking days of the entry's original settlement date. Unauthorized consumer entries can be returned for up to sixty calendar days.

Each return entry includes a code that specifies the reason for the return. The most common Return Reason Codes are:

Code	Description
R01	Insufficient Funds
R02	Account Closed
R03	No Account / Unable to Locate Account
R04	Invalid Account Number
R05	Unauthorized Debit to Consumer Account Using Corporate SEC Code
R06	Returned Per ODFI Request
R07	Authorization Revoked by Customer
R08	Payment Stopped
R09	Uncollected Funds
R10	Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account
R11	Customer Advises Entry Not in Accordance with the Terms of the Authorization
R29	Corporate Customer Advises Not Authorized

Originators should consider taking action based on the type of return received as summarized below:

- Insufficient or Uncollected Funds (R01 and R09)
  - Originators can reinitiate entries that are returned for these reasons, but should be aware of restrictions when doing so (ACH Rule Subsection 2.12.4)
- Incorrect Entry
  - The receiver is claiming that the entry is incorrect (e.g., typically dollar amount or date errors). The Rules allow the originator to reinitiate the corrected entry when receiving an R11 return.
- Administrative Returns (R02, R03, and R04)
  - These return codes indicate an issue with the account number used; the originator should review the authorization and work with the receiver to determine the cause of the error and correct the account number for future entries.
- Unauthorized Returns (R05, R07, R10, R29)
  - Originators must stop future entries after receiving an unauthorized return and work with the receiver to determine why the entry was disputed. Originators can obtain a new authorization from the receiver but should take extra steps to ensure future entries are properly authorized and the receiver has the right to debit the account specified.
- Stopped Payment and Revoked Authorization (R08 and R07)

- Originators should work with their receiver to determine if there was an error in the entry (such as wrong amount) or if the receiver stopped the payment or claimed they revoked the authorization.

General Originator Requirements

In addition to the key Rules above, all originators, third-party senders and third-party service providers are required to comply with the general origination requirements of the Rules including:

- Retaining the original or copy of each written authorization of a receiver, or a readily and accurately reproducible record evidencing any other form of authorization for at least two years from the termination or revocation of the authorization. (*Subsection 2.3.2.5- Retention and Provision of the Record of Authorization)*
- Providing proper and timely notice to receivers for changes to the amount or scheduled date of recurring debits. (*Subsection 2.3.2.6- Notices of Variable Debits to Consumer Accounts)*
- The proper way to initiate prenotification entries. (*Section 2.6- Prenotifications*)
- The proper way to reverse files or entries. (*Section 2.8- Reversing Files and Section 2.9 Reversing Entries)*

The originator should also be aware of the unique provisions for the specific types of entries it originates:

- CCD (Corporate Credit or Debit) provisions are included in Subsection 2.5.3
- CIE (Consumer Initiated) provisions are included in Subsection 2.5.4
- CTX (Corporate Trade Exchange) provisions are included in Subsection 2.5.5
- PPD (Prearranged Payment and Deposit) provisions are included in Subsection 2.5.12

Fraud Trends and Prevention

Fraud schemes and attacks represent a serious threat to your business and your customers. Fraud volumes continue to grow year-over-year and electronic methods of generating payments are increasingly targeted. Scams such as fake invoices, business or government impersonation, tech support, and fake checks continue to grow, and perpetrators continue to target businesses. The Federal Trade Commission (FTC) has a resource page for small businesses with details on these scams and tools that your staff and customers can use to help protect themselves.

The ACH Network and Operating Rules continue to evolve to meet the needs of businesses, governments and consumers that use the network to initiate transaction. We can assist with questions to help your company better utilize the ACH Network. Feel free to call D.L. Evans Bank Processing Center at 208-678-2552 Opt. 6.

Sincerely,

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