



2023 ACH Origination Annual Disclosure

As part of your agreement for use of ACH Origination Services through Kleberg Bank, you are obligated to follow NACHA Operating Rules. In order to ensure you have the most up to date information, we are required to make you aware of where you may obtain a copy of the most current ACH operations manual, **NACHA Operating Rules and Guidelines-Corporate Edition**. This manual is published every year containing the most up to date information needed to properly use the ACH system and is currently available in multiple formats including print, CD, USB and online access. We encourage you to obtain the most current version each subsequent year when it is published.

There are currently two online sources available to obtain the manual. Each website encourages your membership in their organization but membership is not required for purchase.

The manual is available for purchase at the following two reputable websites:

<http://www.swacha.org/Web/Online/Store/Rules.aspx>

<https://www.nacha.org/estore/category/rules>

Below, for your reference are upcoming NACHA Rule Updates, recent changes, and additional information:

2023 ACH Rule Changes

March 17, 2023 Micro-Entries (Phase 2)

The Micro-Entry Rule defines and standardizes practice and formatting of Micro-Entries, which are used by some ACH Originators as a method of account validation.

Phase 2 of this Rule will be effective March 17, 2023

Originators of Micro-Entries will be required to use commercially reasonable fraud detection, including the monitoring of Micro-Entry forward and return volumes

Recent 2022 Rule Updates and Changes

March 18, 2022 Increasing Same Day ACH Dollar Limit

This rule will continue to expand the capabilities of Same Day ACH. Increasing the Same Day ACH dollar limit to \$1 million per payment is expected to improve Same Day ACH use cases and contribute to additional adoption.

This rule will apply to all Same Day ACH entries: consumer and business payments, credits, and debits. Originator and Third-Party Sender Impact A dollar limit increase would result in a larger amount of dollars settling at several times throughout the day. All ACH participants should understand and plan for these dollar flows within their organizations.

June 30, 2022 Supplementing Data Security (Phase 2)

The rule requires non-financial institution Originators, Third-Party Service Providers, and Third-Party Senders with annual ACH volume of 2 million entries or greater, to protect deposit account information by “rendering it unreadable when stored electronically.” A common solution will be to encrypt this information.

General ACH Originator Responsibilities

In addition to the new ACH Rules listed above, all Originators are required to comply with the general origination requirements of the ACH Rules including:

Obtaining Proper Authorization

Originator must obtain authorization from Receiver to originate all ACH entries to Receiver’s account, including but not limited to routing number, account number, account type and account name. Debit entry authorization must be in writing and signed or authenticated by the Receiver. Credit entry authorization is not required by NACHA Rules to be in writing, but Kleberg Bank strongly recommends obtaining written authorization from the Receiver.

Notification of Change

Should originating ACH information be incorrect, a Notification of Change (NOC) is sent by the RDFI requesting that all future entries contain correct information. NACHA Rules require that the originator make the necessary changes within 6 business days of notification from Kleberg Bank or before another entry is submitted, whichever is later.

Kleberg Bank will notify originators of all NOCs received on their behalf within 2 banking business days. If corrections to entries are not made in a timely manner, Kleberg Bank may pass along any fines based on non-compliance.

Rejected or Returned Entry

Returns must be processed by the Receiving Bank within 24 hours of settlement, with the exception of unauthorized returns which may be returned within 60 days of posting. Kleberg Bank recommends reviewing account activity daily.

Should an entry be returned unauthorized, the Receiving Bank must obtain a signed statement of unauthorized debit from the account holder. You may obtain a copy of the statement by requesting a copy through Kleberg Bank. All origination must stop once an unauthorized return is received.

A debit entry may be re-initiated twice if return reason is "NSF or Uncollected Funds" for a total of three attempts at debiting the account.

A Stop Payment return may be re-initiated if approval is received from payee. All other reinitiations for return items are a violation of NACHA rules.

Reversals

All Reversals should be directed to our Cash Management department by contacting our Cash Management Specialist at (361) 595-2967. A Reversal may only be requested for one of the following three reasons:

1. Wrong dollar amount
2. Incorrect account number
3. Duplicate transaction

Reversals must be for the full amount and sent within five (5) banking days of original entry. ACH Rules require that Originator make attempt to contact the Receiver of the error and reason for reversal no later than the Settlement Date of the reversal entry.

The Receiving Bank is under no obligation to process the reversal if the payee's account is closed or if entry will overdraw the account.

Limits and Exposures

When setting up new ACH services, the Bank will evaluate the maximum dollar amount limit of ACH entries to be processed by the Originator based on previous activity, account balances, and

information obtained from the customer. This limit will be reviewed annually and adjusted if necessary based on new information and activity. It is the Originator's responsibility to notify the Bank should the maximum dollar amount limit be exceeded in order to prevent the delay of processing files.

Data Security Procedures for Protecting Information

The Originator must implement internal control policies in regards to the initiation, processing, and storage of ACH entries to protect the confidentiality and sensitive information against data breaches. The Originator is bound through their origination agreement with Kleberg Bank to abide by NACHA Operating Rules.

NACHA Rules require that all transmissions of banking information be either encrypted or transmitted through a secure network using a technology that provides a commercially reasonable level of security that complies with applicable regulatory requirements.

Prevention and Detection of Corporate Account Takeover

Each Originator has the responsibility to protect the security of online access to their businesses' accounts. There are steps that should be taken to prevent and protect from corporate account takeover. Kleberg Bank recommends the following:

- Initiate ACH and wire payments under dual control – one person authorizes the initiation of the file and a second person approves the release of the file.
- Ensure that all anti-virus and security software on computer workstations used for online banking activity are up to date.
- Conduct online banking and payment activity on a dedicated computer workstation – one that is not used for browsing the internet or for other online activity.
- Reconcile accounts daily to identify any fraudulent activity as soon as it occurs.

ACH Standard Entry Class (SEC) Codes

NACHA requires that when an ACH entry is submitted for processing, the transaction must include the proper Standard Entry Class (SEC) Code to designate how the transaction was authorized by the originator. The incorrect SEC Code is a direct violation of the NACHA Operating Rules. Below for your reference are the most commonly used SEC Codes:

- **CCD** - credit and debit entries processed against non-consumer accounts for transactions such as payments to vendors and collections from customers.

- **PPD** - credits and debits that process against consumer accounts for entries such as payments to vendors and direct deposit.
- **WEB** – entry to initiate transaction authorized through the internet
- **TEL** - debit entry to a consumer granted authorization via telephone.

Please contact our Treasury Management Support Team at 361-595-2967 with any questions or concerns regarding NACHA Operating Rules. We appreciate your business and look forward to our continued relationship to meet your financial needs.