



ACH Primer Module 1

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Agenda

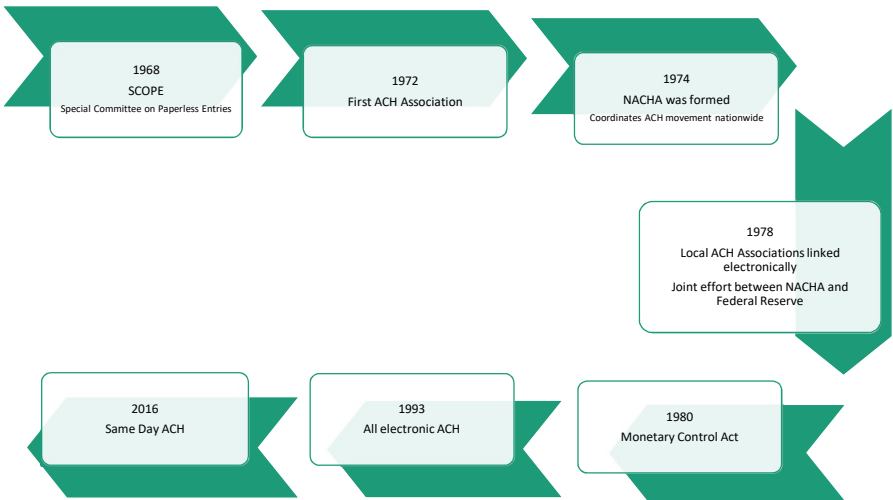
- **ACH Payments**
- **History of ACH**
- **Benefits of ACH**
- **ACH Participants**
- **Credit Flow**
- **Debit Flow**
- **Legal Framework**

ACH Payments

- Electronic method to exchange transactions
- Debit or Credit to:
 - Savings or Checking account
 - General Ledger account
 - Credit to a Loan account
- Single or Recurring Entry
- Batch process, store, and forward net settlement payment system



History of ACH



Benefits of ACH

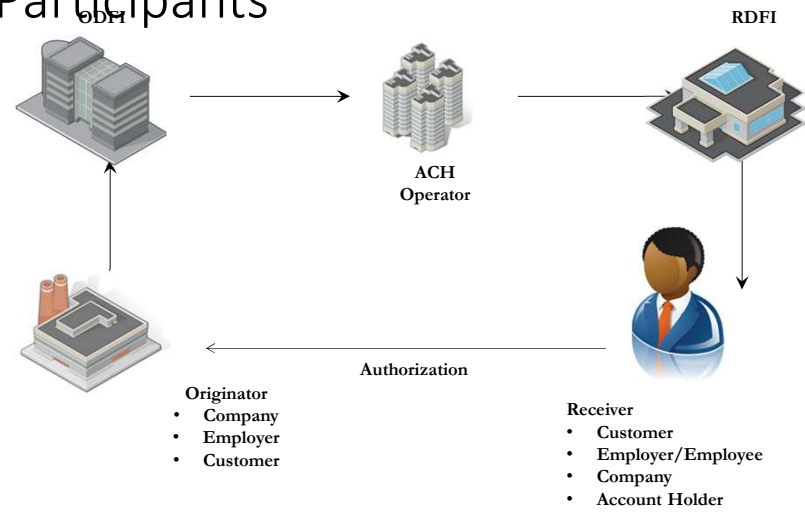
- Cost reduction
- Risk reduction
- Customer/Trading Partner retention
- Revenue Opportunities
- Value-Added Services for Customers
- Paper reduction
 - Check
 - Receipts
 - Deposit Slips
 - Postage



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ACH Participants



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Originator

- Can be individual, company, government agency
- Has relationship with Receiver
 - Requires Authorization to initiate ACH Entries
 - Debits or Credits Receiver's account
- Establishes agreement with ODFI to transmit ACH on its behalf
 - ODFI Agreement binds the Originator to the *NACHA Operating Rules*



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Originating Depository Financial Institution (ODFI)

- Carries warranties for all Entries transmitted
- Must also act as a Receiving Depository Financial Institution (RDFI)
- Has a relationship with the Originator
- Has an agreement with the Originator
- Receives payment instructions from the Originator
- Forwards payment instructions to the ACH Operator
- Retain copies of all records for six years



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ACH Operator

- Central clearing facility for ACH Entries
 - Federal Reserve Bank (FRB)
 - Electronic Payments Network (EPN)
 - Private Sector Operator
- Edit and process Entries received according to *NACHA Operating Rules*
- Establishes processing schedules
- Determines and inserts Settlement Date based on Effective Entry Date and process date
- Retain copies of all records for one year



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Receiving Depository Financial Institution (RDFI)

- Receives Entries from the ACH Operator
- Has a relationship with the Receiver
- Posts Entries accurately and timely to the account of the Receiver
- Must accept all types of Entries
- Does not have to be an ODFI
- Retain copies of all records for six years



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Receiver

- Authorizes Originator to initiate Entry
 - Written
 - Verbal
 - Notice
- Can be individual, company, government agency
- Account holder at the RDFI



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Third-Party Service Providers

- Entity other than Originator, ODFI, or RDFI that performs any function on behalf of Originator, ODFI, or RDFI
 - With respect to ACH Entries
- Third-Party Sender is type of Third-Party Service Provider
 - Originators may use for outsourcing payment services
 - ODFI has agreement with Third-Party Sender but does not have direct agreement with the Originators behind the Third-Party Sender
 - Intermediary between Originator and ODFI



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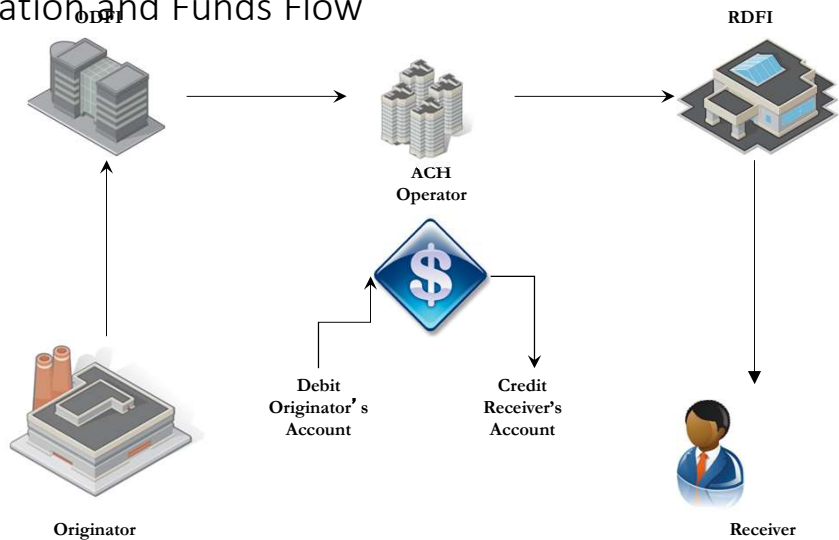
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ACH Credit Flow

- Payment instructions flow:
 - Originator
 - ODFI
 - ACH Operator
 - RDFI
 - Receiver
- Funds (credit) flow from the Originator to the Receiver
- Consumer or Corporate Payments



ACH Credit Transaction Information and Funds Flow



ACH Credit Examples

- Direct Deposit via ACH
 - Payroll
- Credit examples
 - Business-to-Business (B2B) payments
 - Person-to-Person (P2P) payments
 - Social Security payments
- May contain Addenda information
 - Payment Related Information



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ACH Debit Flow

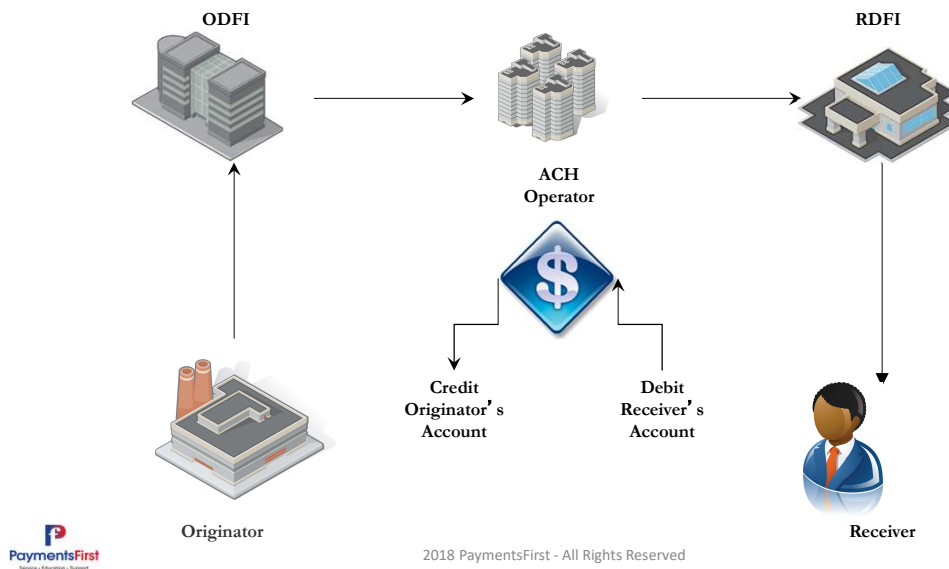
- Payment instructions flow:
 - Originator
 - ODFI
 - ACH Operator
 - RDFI
 - Receiver
- Funds (debit) flow from the Receiver to the Originator
- Consumer or Non-Consumer (corporate) payments



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ACH Debit Transaction



ACH Debit Examples

- Direct Payment via ACH
 - Association/club dues
 - Mortgage payments
 - Insurance payments
 - Bill payments
- Cash concentration
- Business-to-Business (B2B) payments

Legal Framework

- *NACHA Operating Rules*
 - Apply to all Entries transmitted through one or more ACH Operator
 - Based on contract law
- Title 31 Code of Federal Regulations Part 210
 - 31 C.F.R. Part 210
 - Federal Government Payments
 - *The Green Book*
- Federal Reserve Operating Circular 4
- Uniform Commercial Code Article 4



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Legal Framework

- Uniform Commercial Code Article 4A
 - Wholesale Credits
- Regulation D
- Regulation E
- Regulation CC
- The Right to Financial Privacy Act
- Office of Foreign Assets Control (OFAC)



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Questions?



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