

# RMAG Originator Essentials

RMAG recently discussed “the top things we wish Originators knew.” Our group of risk and compliance experts decided that these items form the minimum of what an Originator must know to originate quality ACH payments and keep their Financial Institutions (FIs) and Receivers happy. These items are merely common points of misunderstanding for Originators navigating ACH payments. It is up to Originators and their FIs to ensure all ACH payments comply with the Nacha Operating Rules. More information on each topic can be found in the Nacha Operating Rules and Guidelines. Contact your FIs or an Accredited ACH Professional (AAP) in your organization if you have questions about specific Rules.

## **Authorization: Section 2.3**

- Originators must receive permission to debit or credit the Receivers’ accounts.
- Authorizations must follow specific guidelines based on how the transaction was authorized.
- The burden of proof for Authorization is on the Originator.
- For a sample ACH Debit agreement, see <https://www.nacha.org/system/files/2021-07/DP-Authorization-Form.pdf>

## **National System of Fines**

- A Rules enforcement proceeding may be initiated for any violation of the Nacha Rules.
- Nacha assesses fines to FIs. FIs may contractually pass on fines to Originators.
- Fines can be up to \$500,000 per month for egregious violations.

## **Returns Sections 2.12, 3.8, and 8.119**

- The Receiving FI may return Entries that it cannot process.
- An “R” code indicates why the Entry was returned.
- R05, R07, R10, R11, R29 and R51 are considered Unauthorized Returns. This means the Originator does not have authorization to debit the account.
- An Originator’s Unauthorized Entries may not exceed 0.5% of its Originated Entries.

## **Notification of Change: Section 2.12, 3.9 and Appendix 5**

- The Receiving FI processed an item that has something incorrect (or updated) in the payment instruction received from the Originator.
- A “C” code indicates the information that needs to be updated.
- In most cases, the Originator must make the requested changes within six banking days or prior to initiating another Entry, whichever is later.

## Processing Windows

- The ACH Network has multiple processing windows per day.
- The processing window deadlines published by the Operators are for FIs to provide ACH files to the Operators.
- FIs require time to review and process transactions before sending them to the Operator and will establish their own processing deadlines for their Originators.
- Entries dated on the same Banking Day or earlier (i.e., stale dates) will process as Same Day ACH transactions if submitted by the Same Day deadline.

## Reversing Files and Entries: Sections 2.9 and 2.10

- ACH Reversals must be made within five Banking Days of the Settlement Date.
- Reversals can only be made for specific errors.
- Failure to fund is not an error.
- A Correcting File must accompany a Reversing File unless the Erroneous File was a Duplicate.
- The Receiving FI is under no obligation to process a Reversing Entry and may return the Reversing Entry for insufficient funds.

## Account Validation: Subsection 2.5.17.4

- WEB Entries require an Originator to use a commercially reasonable method of fraudulent transaction detection.
- Commercially reasonable methods include, but are not limited to, Prenotes, Micro-Deposits, or a commercial verification system.
- More information about account validation is available at Nacha's Account Validation Resource Center: <https://www.nacha.org/content/account-validation-resource-center>

## Exposure Limits: Subsection 2.2.3

- FIs must establish exposure limits for their Originators.
- Credit and Debit exposure limits are limits set on the dollar value of Credits and Debits an Originator may send over a given period.
- Exposure limits are used to mitigate Credit and Fraud Risk.
- Prefunding typically means the Originator may not originate a credit file greater than it has in its available balance at the FI.
- Prefunding is not an exposure limit and does not control fraud risks or the risk of returns.

## Offset Transactions

- Offset transactions are the “contra” items to the ACH items sent.
  - » ACH Debit (pulling funds from the receiver) will generate a deposit/credit to the Originator account.
  - » ACH Credit (pushing funds to the Receiver) will generate a withdrawal/debit to the Originator account.
- An Originator's FI may choose to offset at the item, batch or file level.

## SEC Code Usage: Section 2.5

- SEC codes must be applied correctly based on the application and Receiver (corporate vs. consumer).
- Corporate SEC codes allow for standard right of return (two days).
- Consumer SEC codes allow for extended right of return (60 days).
- FIs may limit SEC codes to match the expected business needs of the Originator.

**The ACH Rules govern interactions with all parties in the ACH Network.**

**You can subscribe to the rules here: [nachaoperatingrulesonline.org](https://nachaoperatingrulesonline.org)**



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