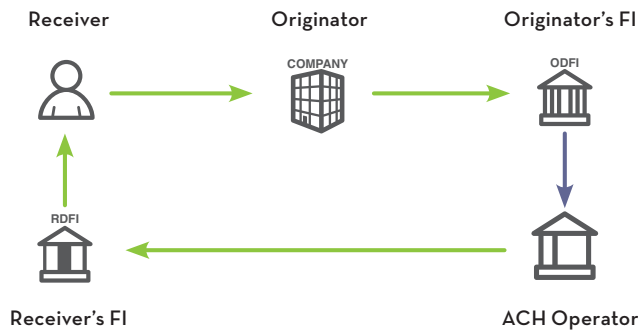# ACH Basics

What is the ACH Network?

The Automated Clearing House (ACH) Network is the backbone for the electronic movement of money and other related data, providing a safe, secure, reliable network for direct consumer, business and government payments. The ACH Network is governed by fair and equitable *Rules* that guide risk management and create certainty for all participants. As the migration from paper to electronic payment continues, the cost-effective ACH Network grows and enables innovation that strengthens the industry with creative payment solutions.

Who Are the ACH Participants?

There are five key participants that contribute to the successful completion of an ACH transaction:

- The **Receiver** can be either an individual or a company that has authorized the Originator (your company) to credit or debit their account. An employee is the Receiver if their company is initiating a payroll credit. A business partner is the Receiver if the Originator is sending a credit to pay for goods or services.

- The **Originator** is the company or business that has been authorized by the Receiver to either credit or debit their account. Your company is the Originator when you are initiating credit transactions to an employee's account for payroll or when you are initiating debit transactions to a consumer or business account for payment of goods or services.

- The **Originating Depository Financial Institution** (ODFI) is the financial institution with which your company has a contractual relationship for ACH Services.

- The **ACH Operator** is the central clearing facility for ACH transactions, which could be the Federal Reserve (FedACH) or The Clearing House (EPN).

- The **Receiving Depository Financial Institution (RDFI)** is a financial institution with which the Receiver has an account relationship.

Account & Receiver Verifications: Prenotes vs. Micro-Entries

Prenotifications (or "prenotes") are optional non-monetary entries ($0.00) used by an Originator to verify the Receiver's account number at an RDFI is valid. Originators of prenotes should wait at least 3 banking days to transmit valued monetary entries to await any returns or notifications of change (NOC) sent within that timeframe.

Micro-Entries are optional offsetting credit and debit entries less than $1 each (should not result in a Net Debit) sent at the same time to a Receiver's account by an Originator with "ACCTVERIFY" as the company entry description. Receiver should see amounts on statement and report to Originator, who would consider this process to be successful or not.

Transaction Codes

ACH entries may be directed to a variety of account types. Both credit and debit entries may be transmitted to demand accounts (a.k.a. checking, NOW and sharedraft), savings accounts and financial institution general ledger accounts. Only credit entries may be transmitted to loan accounts, unless a debit entry with "REVERSAL" as Company Entry Description is sent within 5 days of the settlement to correct an erroneous entry.

Demand (Checking) Credits		Savings Credits		Financial Institution General Ledger Credits	
Code	**Description**	**Code**	**Description**	**Code**	**Description**
21	Notification of Change or Return	31	Notification of Change or Return	41	Notification of Change or Return
22	Deposit	32	Deposit	42	Deposit
23	Prenotification	33	Prenotification	43	Prenotification
24	Zero dollar with remittance data	34	Zero dollar with remittance data	44	Zero dollar with remittance data

Demand (Checking) Debits		Savings Debits		Financial Institution General Ledger Debits	
Code	**Description**	**Code**	**Description**	**Code**	**Description**
26	Notification of Change or Return	36	Notification of Change or Return	46	Notification of Change or Return
27	Payment	37	Payment	47	Payment
28	Prenotification	38	Prenotification	48	Prenotification
29	Zero dollar with remittance data	39	Zero dollar with remittance data	49	Zero dollar with remittance data

Loan Credits		Loan Debits (Reversal Only)	
Code	**Description**	**Code**	**Description**
52	Loan Account Credit	55	Loan Account Debit (Reversal)

ACH Applications

What is an ACH Application?

ACH applications are payment types used by Originators, such as your company, to identify ACH debit and/or credit entries transmitted to a corporate or consumer account at the RDFI. Each ACH application is identified and recognized by a specific Standard Entry Class (SEC) code. The SEC code also identifies the specific record layout that will be used to carry the payment and payment-related information. Refer to Appendix 3 of the *ACH Rules* for specific formatting requirements.

ACH APPLICATION	SEC CODE	APPLICATION USE	DEBIT/ CREDIT	CONSUMER/ CORPORATE	AUTHORIZATION REQUIREMENT
Accounts Receivable Entries	**ARC**	Convert checks received via the U.S. mail, drop box or manned bill payment location and collect the funds via the ACH Network. Check must be in an amount of $25,000 or less.	Debit	Consumer/ Corporate	Notification
Back Office Conversion	**BOC**	Convert checks received at the point-of-sale or manned bill payment location to ACH transactions in the back office. Check must be in an amount of $25,000 or less.	Debit	Consumer/ Corporate	Notification
Corporate Credit or Debit	**CCD**	Make regular payments or distribute or consolidate funds between corporate entities.	Credit or Debit	Corporate	Agreement
Corporate Trade Exchange	**CTX**	Transfer funds within a trading partner relationship, including payment-related information. CTX payments may have up to 9,999 attached Addednda records	Credit or Debit	Corporate	Agreement
International ACH Transactions	**IAT**	Entry that involves a financial agency's office that is not located in the territorial jurisdiction of the U.S.	Credit or Debit	Consumer/ Corporate	For Consumer credit entries: Oral or non-written means; For Consumer debit entries: Written; For Corporate entries: Agreement
Point-of-Sale	**POS**	ACH entry typically initiated by the use of a merchant-issued plastic card to pay an obligation at the point-of-sale.	Credit or Debit	Consumer	Written
Point-of-Purchase	**POP**	Convert checks received at the point-of-sale or manned bill payment location to ACH transactions upon receipt. Check must be in an amount of $25,000 or less.	Debit	Consumer/ Corporate	Notification and Written
Direct Deposit	**PPD**	Payroll, expense reimbursement, etc.	Credit	Consumer	Oral or non-written means
Direct Payment	**PPD**	Preauthorized bill payment.	Debit	Consumer	Written
Re-presented Check Entries	**RCK**	Collect funds via the ACH Network for consumer checks returned insufficient or uncollected funds. Check must be in an amount less than $2,500.	Debit	Consumer	Notification
Telephone-Initiated Entries	**TEL**	ACH entry initiated pursuant to an oral authorization obtained via the telephone.	Debit	Consumer	Verbal or Standing
Internet-Initiated/ Mobile Entries	**WEB**	ACH entry initiated pursuant to an authorization obtained via the Internet or mobile device.	Debit	Consumer	Similarly Authenticated

- Written authorizations may be in accordance with the Electronic Signatures in Global and National Commerce (E-Sign) Act. Electronic signatures include, but are not limited to, digital signatures and security codes.
- An RDFI may request, in writing, proof of authorization for all entries. For **consumer** entries, your company **must** provide a copy of the authorization. For **corporate** entries, you are required to provide your ODFI with either a copy of the authorization or contact information, including a contact name and phone number or email address for inquiries. Your ODFI must be able to provide proof of authorization for all entries to the RDFI within 10 banking days of the RDFI's request.

ACH Returns

What is an ACH Return?

An ACH return is an ACH entry that the RDFI is unable to post for reasons defined by the return codes listed in the table below. An RDFI may use the return process for valued ACH entries as well as prenotifications (non-monetary entries). The RDFI must transmit the return in time for your ODFI to receive it by opening of business on the second banking day following the Settlement Date of the original entry. Some return reasons allow extended deadlines. Your company should receive prompt advice of ALL return entries from your ODFI with a code that describes the reason for the return. The table below indicates the appropriate action that should be taken depending upon the reason for each ACH return.

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Insufficient Funds—Available balance not sufficient to cover amount of debit entry.	R01	ALL	2 Banking Days	May initiate a new ACH entry; must remain within reinitiation limits outlined in Article 2 of the *ACH Rules* and be reinitiated within 180 days of the Settlement Date of the original entry.
Account Closed—Previously active account has been closed.	R02	ALL	2 Banking Days	Stop initiation of entries. Contact customer to obtain authorization for another account.
No Account—Account number structure is valid, but doesn't match individual or open account.	R03	ALL	2 Banking Days	Stop initiation of entries. Customer should be contacted for correct account information.
Invalid Account—Account number structure not valid; edit of check digit or number failed.	R04	ALL	2 Banking Days	Stop initiation of entries until account number/structure is corrected.
Unauthorized Debit to Consumer Account Using Corporate SEC Code—A debit entry that uses a corporate SEC code was transmitted to a consumer account but was not authorized by the consumer.	R05	CCD, CTX	60 Calendar Days	Stop initiation of entries.
ODFI Request for Return—ODFI requested that the RDFI return an entry.	R06	ALL	Undefined	Accept requested return.
Authorization Revoked—Consumer who previously authorized an entry claims authorization has been revoked.	R07	ALL but ARC, BOC, POP, or RCK	60 Calendar Days	Stop initiation of entries until new consumer authorization is obtained. Depending upon the terms of the original authorization, your company may have recourse for collection outside the ACH Network.
Payment Stopped—The customer has requested the stop payment of a specific ACH debit entry.	R08	ALL	2 Banking Days	Contact the customer to identify the reason for the stop payment and obtain authorization before reinitiating the entry.
Uncollected Funds—Sufficient ledger balance exists, but value of uncollected items brings available balance below amount of debit entry.	R09	ALL	2 Banking Days	May initiate a new ACH entry; must remain within limits for reinitiating entries outlined in Article 2 of the *ACH Rules* and be reinitiated within 180 days of the Settlement Date of the original entry.
Customer Advises Not Authorized—No authorization provided by customer.	R10	ALL but CCD or CTX	60 Calendar Days	Stop initiation of entries.
Customer Advises Entry Not in Accordance with Terms of the Authorization—Authorization obtained, but error in payment (e.g. wrong amount; debit date before authorized; incomplete transaction; improper source document or exceeds reinitiation attempts).	R11	ALL but CCD or CTX	60 Calendar Days	Your company may initiate a new entry to correct the underlying error without obtaining a new authorization. Corrected entry must be originated within 60 days of the Settlement Date of the R11 return entry.
Account Sold to Another DFI—Account has been sold to another financial institution.	R12	ALL	2 Banking Days	Stop initiation of entries. Contact customer to obtain correct routing number information for initiation of subsequent entries.

REASON FOR RETURN	RETURN CODE	SEC CODE	RETURN TIMEFRAME	ACTION BY ORIGINATOR
Account Frozen/Entry Returned Per OFAC Instruction—Access to the account is restricted due to action by RDFI or by legal action.	**R16**	ALL	2 Banking Days	Stop initiation of entries. Terms of authorization may offer recourse outside the ACH Network. OFAC may have instructed the payment be returned.
File Edit Record Criteria/Entry with Invalid Account Number Initiated Under Questionable Circumstances /Improperly-Initiated Reversal—Fields edited by the RDFI cannot be processed or RDFI suspects payment may be fraudulent or initiated under false pretenses.	**R17**	ALL	2 Banking Days	Identify and correct errors prior to initiation of further entries. Errors are identified in the Addenda Information field of the Addenda Record. If this field contains 'QUESTIONABLE,' investigate validity of transaction.
Non-Transaction Account—RDFI policies or regulations restrict activity to account indicated.	**R20**	ALL	2 Banking Days	Stop initiation of entries. Contact customer for new account information.
Credit Entry Refused by Receiver—Customer declines transaction because amount is inaccurate, results in overpayment, account is in litigation or Originator is not known to the Receiver.	**R23**	ALL CREDIT ENTRIES	Dependent Upon Notification by Customer	Obtain customer authorization prior to reinitiating the entry.
Duplicate Entry—Entry is a duplication. The trace number, date, dollar amount, etc. match another entry.	**R24**	ALL	2 Banking Days	If entry is a duplication, accept the return. If the entry has already been reversed, your company should work with your ODFI to contact the RDFI to determine a solution.
Corporate Customer Advises Not Authorized—Corporate customer has notified RDFI that a specific entry is not authorized.	**R29**	CCD, CTX	2 Banking Days	Stop initiation of entries until subsequent authorization has been obtained. If a valid authorization exists, your company may have recourse outside the ACH Network.
Permissible Return Entry—ODFI agrees on behalf of the Originator to accept a return after the deadline for an unauthorized corporate entry.	**R31**	CCD, CTX	Undefined	Accept return as agreed upon with RDFI. If your company or ODFI has not given permission for the untimely return, the return may be dishonored as R70.
Source Document Presented for Payment—The source document to which an ARC, BOC or POP entry relates has also been presented for payment.	**R37**	ARC, BOC, POP	60 Calendar Days	Accept return. The source document (i.e. check) may not be presented for payment if ACH debit is initiated.
Stop Payment of Source Document—A Stop Payment has been placed on the source document to which the ARC or BOC entry relates.	**R38**	ARC, BOC	60 Calendar Days	Contact the customer to identify the reason for stop payment and obtain authorization from the customer before reinitiating the entry.
Improper Source Document/Source Document Presented for Payment—The RDFI determines the source document used for the ARC, BOC or POP entry is not an eligible item or was presented for payment.	**R39**	ARC, BOC, POP	2 Banking Days	Stop initiation of entries.
State Law Affecting RCK Acceptance—RDFI is located in a state that has not adopted Revised Article 4 of the UCC or RDFI is located in a state that requires all canceled checks to be returned to the Receiver.	**R50**	RCK	2 Banking Days	Stop initiation of entries.
Item is Ineligible, Notice Not Provided, Signatures Not Genuine, Item Altered or Amount of RCK Not Accurately Obtained from the Item.	**R51**	RCK	60 Calendar Days	Do not reinitiate the entry. Your company may attempt collection of item outside the ACH Network.
Stop Payment on Item—A Stop Payment has been placed on the item to which the RCK entry relates.	**R52**	RCK	60 Calendar Days	Contact the customer to identify the reason for stop payment before reinitiating the entry.

- Your company should immediately stop initiation of entries returned using R07 or R10. Disagreements regarding authorization should be handled OUTSIDE the ACH Network.
- Reinitiated payments must contain RETRY PYMT in the Company Entry Description field.
- RDFIs must obtain a signed Written Statement from the Receiver that details the claim before returning the entry to your ODFI when using return reason codes R05, R07, R10, R11, R37, R51, and R53. Your company may request a copy of this Statement for up to one year from the Settlement Date of the return. The RDFI has 10 banking days from the written request to provide a copy of the Written Statement.
- Your company must maintain a return rate below 0.5% for entries returned as unauthorized (R05, R07, R10, R11, R37, R51, and R53).
- Your company may reverse an entry/file up to 5 banking days after the Settlement Date of entry/file for the following reasons: Duplicate file or entry, Payment in wrong amount, Payment destined to wrong Receiver, and Error in Effective Entry Date.
- Reversals may **NOT** be done when an Originator or Third-Party Sender failed to fund the entry/file or when you are outside of the 5 banking days to do so.

Dishonored Returns

What is a Dishonored Return?

A dishonored return is an ACH return entry transmitted by your ODFI in response to a returned ACH entry that was mishandled by the RDFI.

Dishonored returns may either be initiated by your company or your ODFI. If your ODFI receives a misrouted return, they will initiate a dishonored return. However, if your ODFI receives an untimely return, the decision to dishonor the return may be made by your company. Depending on the software features of your ODFI's system, your company may be allowed to give prior instructions in regard to dishonoring returns.

To dishonor a return, your ODFI, on your company's behalf, must transmit a dishonored return within **5 banking days** of the Settlement Date of the return entry. For additional information regarding Dishonored Returns, refer to the *ACH Rules*.

DISHONOR CODE	REASONS FOR DISHONORING A RETURN
R61	**Misrouted Return**—Return was received by wrong financial institution due to incorrect routing number.
R62	**Return of Erroneous or Reversing Debit**—The use of the reversal process resulted in, or failed to correct, an unintended credit to the Receiver.
R67	**Duplicate Return**—More than one return entry has been sent for the same entry.
R68	**Untimely Return**—The return entry was not sent within the appropriate return timeframe.
R69	**Field Errors**—Return contained one or more input errors. Codes will be used in the Addenda Record to indicate the field(s) in error. Codes to be used are: 01-Account Number 02-Trace Number 03-Amount 04-Individual ID 05-Transaction Code 06-Company ID 07-Invalid Effective Entry Date
R70	**Permissible Return Not Accepted/Return Not Requested by the ODFI**—RDFI initiated a return as "R31—Permissible Return Entry" without ODFI permission or "R06-Returned per ODFI's Request" when the ODFI did not make such a request.

What is a Contested Dishonored Return?

A contested dishonored return is an ACH return entry transmitted by an RDFI to your ODFI in response to a dishonored return entry that the RDFI disputes. A contested dishonored/corrected return must be transmitted within **2 banking days** after the Settlement Date of the dishonored return entry.

Your ODFI must accept a contested dishonored/corrected return entry transmitted by the RDFI that complies with the *ACH Rules*. For additional information regarding Contested Dishonored Returns, refer to the *ACH Rules*.

CONTESTED DISHONORED CODE	REASONS DISHONORED RETURNS ARE CONTESTED
R71	**Misrouted Dishonored Return**—Dishonored Return was received by wrong financial institution due to incorrect routing number.
R72	**Untimely Dishonored Return**—Dishonored Return was sent outside of the 5 banking day return time frame.
R73	**Timely Original Return**—Return was sent within the prescribed return timeframe, but ODFI erroneously dishonored it.
R74	**Corrected Return**—Return was dishonored as "R69 – Field Errors," and RDFI corrected the errors.
R75	**Return Not a Duplicate**—Return was dishonored as "R67 – Duplicate Return," but return was not a duplicate.
R76	**No Errors Found**—Return was dishonored as "R69 – Field Errors," but the RDFI could not identify noted errors.
R77	**Non-Acceptance of R62 Dishonored Return**—RDFI returned both the erroneous entry and related reversing entry; or RDFI was unable to recover the funds related to the entry in error from the Receiver.

What is a Notification of Change (NOC)?

An NOC is a non-monetary entry transmitted by an RDFI to notify your ODFI that previously valid information contained in a posted entry has become outdated or is erroneous and should be changed. NOCs allow the RDFI to return information to the ODFI and Originator without returning the value of the entry. Many NOCs are the result of a merger or consolidation at the RDFI, which requires changes in Receiver account information.

When the RDFI is able to recognize the intended account, NOCs provide a means for the RDFI to post the entry to the Receiver's account and to notify your company of necessary changes. Upon receipt of an NOC, your ODFI must report NOC information to you. You are required to make the changes noted in the NOC. For additional information regarding NOCs, refer to the *ACH Rules*.

CHANGE CODES USED BY RDFI	DESCRIPTION OF ERROR	ACTION REQUIRED BY ORIGINATOR
C01	**Account Number**—The account number is incorrect or is formatted incorrectly.	Change the Receiver's account number record so the correct information is entered.
C02	**Routing Number**—A once valid routing number must be changed.	Change the Receiver's financial institution routing number so the correct information is entered.
C03	**Routing Number and Account Number**—The routing number and account number are incorrect.	Change the Receiver's financial institution routing number and account number so the correct information is entered.
C05	**Transaction Code**—An incorrect transaction code is causing the entry to be routed to the wrong type of account.	Change the type of account. The account type is indicated on the ODFI's report by a two-digit transaction code. Contact your ODFI if clarification is needed.
C06	**Account Number and Transaction Code**—The account number is incorrect and the transaction is being routed to the wrong type of account.	Change the Receiver's account number and type of account so the correct information is entered.
C07	**Routing Number, Account Number and Transaction Code**—The routing number, account number and account type are incorrect.	Change the Receiver's financial institution routing number, account number and type of account so the correct information is entered.
C08	**Incorrect Individual ID Number**—Receiving DFI ID in an IAT is incorrect.	Enter correct Receiving DFI ID in first 34 positions of the Corrected Data Field.
C09	**Individual ID Number**—Individual ID Number is incorrect.	Change the Individual ID Number so the correct information is entered.
C13	**Addenda Format Error**—The Entry Detail Record was correct, but the information in the Addenda Record was unclear or formatted incorrectly (i.e. not formatted in ANSI or Nacha-endorsed banking conventions).	Review the formatting in the Addenda Record that accompanied the original ACH entry to determine errors and make corrections using only ANSI standards or Nacha-endorsed banking conventions.
C14	**Incorrect SEC Code for Outbound IATs**—Used by Gateway to let ODFI know that future entries should be identified as IAT.	IAT in the first three positions of the Corrected Data Field identifies the payment as international. Further payments must use the IAT format.

- RDFIs choosing to send an NOC are required to do so within 2 banking days of the original ACH entry (except for mass changes). When an RDFI is faced with the need to make mass changes, they often will contact companies that initiate large volumes of ACH payments. Your company and the RDFI may negotiate an alternative method for the processing efficiencies that may be better facilitated outside the regular NOC process.

- An RDFI that transmits an NOC warrants the information contained in the NOC is correct. RDFIs are liable for the accuracy of account information indicated in the NOC.

- Your ODFI is required to report NOC information to your company no later than 2 banking days from the Settlement Date of the NOC and are required to report minimum NOC information as outlined in Article 2 of the *ACH Rules*.

- For recurring payments, the *ACH Rules* require your company to make the requested changes within 6 banking days of the receipt of the NOC or prior to the initiation of another ACH entry. Changes related to one-time payments may be made at your company's discretion.

Same Day ACH

What is a Same Day ACH Payment?

A Same Day ACH payment is a credit, debit or non-monetary entry that will process and settle in the same day. Same Day ACH provides an optional enhancement designed to address gaps in traditional payment methods. The *ACH Rules* require all RDFIs and Receivers to accept Same Day ACH.

Same Day ACH Eligibility Requirements

In order to be eligible for same day processing and settlement, each ACH credit or debit must meet all of the following criteria:

- $1,000,000 or less per entry
- Any SEC codes except IAT
- Transmitted by the ODFI to its ACH Operator prior to 4:45 p.m. ET

If an entry fails to meet any one of the criteria, it will not be eligible for same day processing and settlement. For example, if your company tries to originate ($4,000,000 after March 18, 2022) CCD credit, the ACH Operator will not assign a same day Settlement Date because the amount exceeds the per-transaction limit.

The only identifier of a Same Day ACH entry is the **Effective Entry Date** in the Company/Batch Header Record. The Effective Entry Date is the date your company intends for a batch of entries to settle. Therefore, if you intend for a payment to qualify for same day settlement, the Effective Entry Date should be the same day as the date on which the entry is transmitted to your ODFI.

Since traditional one-day and two-day payments are still available, those payments should have an Effective Entry Date that is one or two days in the future. However, if your company enters a stale or invalid date in the Effective Entry Date field, the entry will settle at the earliest available opportunity, which could occur on the same day.

Can my company opt-out of Receiving Same Day ACH?

The *ACH Rules* require all RDFIs and Receivers, including your company to accept Same Day ACH payments.

Same Day ACH and Account Management

Your company is encouraged to monitor its accounts throughout the day. The receipt of Same Day ACH credits may provide more investment opportunities while Same Day ACH debits could potentially cause your account to be overdrawn. Your company should also be monitoring for unauthorized debits.

How can my company take advantage of Same Day ACH?

Primary uses of Same Day ACH include urgent business to consumer payments, such as emergency payroll or dispersing other urgent claims. Same Day business to business credits will not only allow for faster funds delivery, but also faster delivery of critical payment-related information.

Other uses include using Same Day ACH to receive payment prior to delivering a service or product and providing a solution for expedited bill payments. Same Day payments can also benefit cash management practices by allowing for same day transfers between accounts. Contact your financial institution to learn more about whether Same Day ACH is appropriate for your business and about its Same Day ACH product offering.