ACH ORIGINATION

WHAT YOU NEED TO KNOW IN ORDER TO BEGIN ORIGINATING ELECTRONIC PAYMENTS TO OR FROM YOUR BUSINESS

What is ACH?

ACH is a banking term used for the Automated Clearing House. The Automated Clearing House was formed in 1978 to provide a nationwide network for distributing electronic transactions. The National Automated Clearing House Association (NACHA) has 23 participating regional associations, all of which use the same format for ACH transactions. Since all financial institutions are required to accept ACH, transactions can be posted to any bank, credit union, or savings and loan within the Federal Reserve System. Tens of billions of transactions representing several trillion dollars flow through the ACH system each year. Millions of Americans use direct deposit for payroll or government benefits.

What is ACH Origination?

ACH origination allows any business customer to create electronic payments and deposits. Organizations that create these transactions are called Originators. As a business expressing interest in starting ACH, you would be the Originator. Transactions can either be debits or credits. Examples of debit transactions include utility payments, account drafts, membership fees, dues, insurance premiums, etc. If you are a business that wants to debit customer accounts for a credit to your account, you would be originating debit transactions.

Credit transactions are usually for Direct Deposit of payroll or for you as a business paying some other individual or entity.

Who can participate?

Any company can participate. We have systems in place that allow us to act as the Originating Depository Financial Institution (ODFI) on behalf of you, the Originator.

How will I get the transaction information to you?

Due to the popularity of ACH transactions, most payroll and billing software programs already have ACH file creation as a standard feature. There is an ACH file format that is standard throughout the United States, and your existing software might already have the capability to create this type of file. If you do not have the

capability to create an ACH file, there are several companies that can provide ACH file creation software to you. These software systems allow you to enter transaction information, such as dates, amounts, financial institution routing numbers, account numbers, and information relating to the term and frequency. Transaction files are generated from the software and are formatted in a way that allows us to process them electronically. This format is usually referred to as NACHA-formatted.

Where do I get software to produce an ACH file?

NACHA has a website – www.nacha.org. Once there, click on the NACHA e-Store tab. Then click Buyer's Guide. After you then click on Automated Clearing House Services, a list of companies that provide ACH software will be shown.

We would suggest, however, that you first contact your payroll software provider, your accounting system software provider, or your CPA for their recommendations.

How will payments be settled to my account?

The offset of the transactions you originate will be posted to any Demand Deposit or Savings account held at our institution. For example, if you originate $5,000 in Direct Deposit credits, your account will be debited for $5,000. If you originate $5,000 in debit transactions, your account will be credited for $5,000.

What about returned items?

ACH transactions can be returned just the same as checks. However, studies show that ACH transactions are returned at a lower rate than paper checks. Incoming ACH returns will be communicated to you on a daily basis, as they happen. You can either reinitiate the transaction or handle it as you would a returned check.

What rules, policies, or procedures will I need to develop and put into practice?

As a participant in the ACH payments system as an Originator, you are required to follow the rules as set forth for Originators in the ACH Operating Rules book. As such, you will need to purchase a copy of the Rules book. That book can be purchased through NACHA's website mentioned earlier.

Many of these rules will be outlined in the contract that you will be required to sign with us, the Originating Depository Financial Institution. But the Rules book will spell out in detail all that will be required of an Originator. Don't be alarmed when you see the size of the Rules book. Only specific sections apply to Originators.

The Rules book and the ODFI contract will outline things such as:

- Transmission deadlines
- Acceptable methods of transmission
- File total limits
- File total confirmations
- Return item processing
- Prenotification Entries
- Notifications of Change

Once you make a request to us in writing to start ACH Origination, there is an evaluation process that will need to take place. We will evaluate your business relationship, how long you have been a customer, the type of business you operate, what types of ACH you are requesting to originate, etc. Once approved, the contract will be drawn up and signed.

Do I really want to become an ACH Originator?

Only you can make that determination. There is a bit of work to do in setting up an ACH origination program. It will require a commitment of time and resources to ensure compliance will all applicable rules and procedures and possibly some pc and/or software expense. But there is considerable savings to be realized as well through reduced postage, decreases in paper checks