ACH Origination Quick Reference Guide

Mechanics Bank
Where Relationships Matter

To ensure compliance with current regulations, we strongly recommend all ACH Originators obtain a current copy of the National Automated Clearing House Association (NACHA) Operating Rules and Guidelines that is published annually. A copy of the Rules book may be purchased at Nacha(nachaoperatingrulesonline.org).

This Quick Reference Guide provides a brief summary of ACH Facts and ACH Originator Responsibilities. It is not intended to be a replacement or substitute for the NACHA Rules and Guidelines. NACHA Rules are subject to change.

Customer Service & Support

Telephone:	800.272.1876	Email:	treasuryops@mechanicsbank.com
Hours:	8:00 a.m. – 5:00 p.m. PT		
	Monday – Friday	URL:	www.mechanicsbank.com

System Availability

The system generally is available 24 hours a day, 7 days a week. The system may be unavailable during scheduled maintenance times.

Cutoff Times

The processing deadline to submit your ACH transfer to the bank is 5:00 p.m. PT Monday – Friday (except Bank holidays). If we receive your transmission after our cutoff hour, or if the transfer exceeds your established Service Limit, we may treat the transfer as received the following business day.

Service Limits

- ACH transaction limits have been pre-determined for your Company. Due to the potential risk for the various types of ACH transactions, the Bank evaluates the customer's creditworthiness prior to granting origination privileges and establishing ACH transaction limits.
- If you are submitting an ACH transfer that will exceed your preapproved transaction limits, you may contact the Bank to request a temporary limit increase.

Your Responsibilities as an Originator

- Obtain proper authorizations, dependent upon the transaction type, and retain authorizations for two years past revocation.
- Protect the banking information received in the authorizations.
- Cease subsequent entries when authorization has been revoked.
- If requested by the Bank, the Company shall immediately provide a copy of authorizations. Mechanics Bank may request to see your authorizations from time to time as part of an annual audit.
- Send entries on the proper date.
- Make necessary changes to payee account information within six (6) banking days upon receipt of a Notice of Correction or before another entry is sent.
- Company shall not violate the sanction laws administered by the Office of Foreign Assets Control ("OFAC") and shall not act on behalf of, or transmit funds to or from, any party subject to such sanctions.
- Ensure your computer and you, are protected as outlined in the Mechanics Bank Master Treasury Management Services Agreement.
- If you fail to adhere to the NACHA Operating Rules, your company may be subject to suspension or termination of ACH services. Furthermore, if the Bank receives any notice of fines due to failure to adhere to the Rules, this fine may be passed along to your company.
- Must use **PAYROLL in the Company Entry Description field** for wage, salary, and similar types of compensation-related PPD credits.
- Must use **PURCHASE in the Company Entry Description field** for e-commerce WEB debits. An e-commerce purchase is defined as debit Entry authorized by a Consumer for the online purchase of goods.

Prenotifications (Prenotes)

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify account information.
- Prenotes are optional for you to send. However, if sent, prenote rules must be followed and a prenote must precede the first live entry by at least three (3) banking days.
- The Receiving Bank is not required to validate the name of the payee on the prenote, although many do; they are only required to validate the account number.

Notice of Change

- When ACH information is incorrect, a Notification of Change (NOC) is sent by the Receiving Bank requesting that future entries contain correct information. ACH Rules require you to make the change within six (6) banking days of receiving

the information from Mechanics Bank or before another entry is sent.

- The Receiving Bank warrants that the information they provide to you is correct.
- Mechanics Bank will notify you of any NOC's received on your behalf.
- Mechanics Bank may pass along any fines received based upon your non-compliance.

Returns

- The use of consumer (PPD) or corporate (CCD) entry codes determines the applicable ACH return rules.
- Returns must be processed by the Receiving Bank within 24 hours of settlement. CCD returns that are unauthorized beyond the 24 hours are the Company's liability and any disputes may have to be settled outside of the banking network. Mechanics Bank recommends that you view your account activity daily.
- Exception to the 24-hour rule is consumer unauthorized returns, which may be returned within 60 days of posting.
- If the Receiving Bank receives a dispute claiming a debit was unauthorized, the Receiving Bank must get a signed Written Statement of Unauthorized Debit from the account holder. You may obtain a copy of that statement by requesting a copy through Mechanics Bank.
- You may re-initiate a debit entry up to two times if you receive a return entry of 'NSF or Uncollected Funds'. For further rules regarding initiating a return entry, see Article Two-Subsection 2.12.4 of the NACHA Operating Rules and Guidelines.
- A 'Stop Payment' return may be re-initiated only if you receive approval from the payee to re-send the item.
- It is a violation of NACHA Rules to re-initiate the debit entry if a return is received for any other reason.

Reversals

- If a reversing entry must be made, please contact the Bank for instructions.
- When initiating a reversal, the reversing entry must be sent within five (5) banking days of the original entry.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the payee's account or if the payee's account is closed.
- A payee must be notified if a reversing entry *debits* his or her account. However, a payee does not need to authorize the reversing debit.

OFAC (Office of Foreign Asset Control)

- OFAC list countries, groups and individuals with which U.S. Companies are not permitted to send or receive funds.
- The Bank must protect itself by informing every client that it is against the law to send debit or credit entries to OFAC-blocked entities.
- Company is strongly encouraged to obtain Specially Designated National (SDN) and other compliance information directly from OFAC. You may check the OFAC SDN list at: http//sdnsearch.ofac.treas.gov.

Chart of ACH Codes

Standard Entry Class (SEC) Codes

Code	Application Title	Application Description	Consumer/Business	Debit/Credit
CCD	Corporate Credit or Debit	Transfer of funds between business accounts or to consolidate funds from several accounts of the same	Business accounts only	Debit or Credit
CTX	Corporate Trade Exchange	Payment or collection of obligations between separate businesses.	Business accounts only	Debit or Credit
PPD	Prearranged Payment and Deposit Entry	One time or recurring entries for direct deposit payroll, pension, etc., or for direct payment of bills such as utilities, loans, insurance, etc.	Consumer accounts only	Debit or Credit

Transaction Codes

Transaction Type	Normal Forward Entry	Prenote	Return/NOC
Checking Account Credit	22	23	21
Checking Account Debit	27	28	26
Savings Account Credit	32	33	31
Savings Account Debit	37	38	36

Notification of Change (NOC) Codes

Change Code	Field(s) Needing Correction	Change Code	Field(s) Needing Correction
CO1	Account Number	**CO5**	Transaction Code
CO2	Routing/Transit Number	**CO6**	Account Number and Transaction Code
CO3	Account Number and Routing/Transit Number	**CO7**	Account Number, Routing/Transit Number and Transaction Code

Frequently Asked Questions

- **What is NACHA?**
  - The National Automated Clearing House Association manages the development, standards, rules, processes, administration and governance of the ACH Network.
- **What is ACH Origination?**
  - NACHA has adopted a standardized transaction format for moving funds electronically between financial institutions in the Federal Reserve System (the 'FED') in the United States. This specification is generally referred to as the 'NACHA format'. The Federal Reserve Bank is the primary ACH processor for inter-bank settlement entries. Financial institutions submit ACH batches to local Federal Reserve branches for distribution to the end- point financial institution. The Federal Reserve systems collect and settle all funds between the participating institutions.
- **What is an ACH Originator?**
  - An ACH Originator is any entity or person that creates an ACH transaction.
- **What is the difference between PPD (Prearranged Payment or Deposit) and CCD (Corporate Credit or Debit Entry) transactions?**
  - Every ACH transaction is contained in a 'batch', which has one or more separate transactions in the file. The NACHA file standards require that the 'batch header' record contain one of the standardized identifiers (Standard Entry Class), to distinguish what kinds of transactions are contained in the batch.
    - PPD is a consumer credit or debit entry, primarily used for payroll direct deposit or payment of a bill (utility, insurance, etc.)
    - CCD is a corporate credit or debit entry, primarily used for intra-company concentration or disbursement of funds but may also be used to make corporate trade payments (vendor payment, child support, etc.)
- **What is an ACH Transaction Code?**
  - A code that identifies various types of debit and credit transactions within a NACHA file. (See 'Transaction Codes' chart)
- **What happens if I do not have the funds available to cover the ACH Transfer?**
  - You must have available funds in your account in order for the bank to process your ACH transfer. The ACH system will do a balance verification when the transactions are scheduled to be sent out. If the funds are not available, the transfer will fail and may not originate.
- **What is a balanced file?**
  - A balanced file contains an offsetting entry that automatically debits/credits your checking account to offset the credit/debit transactions in the ACH file.

Common ACH Terms	
Addenda Record	An ACH record type that carries the supplemental data needed to provide information concerning a payment to the Receiving Depository Financial Institution and Receiver.
ACH Credit	A transaction through the ACH network originated to pay a receiver.
ACH Debit	A transaction through the ACH network originated to withdraw funds from a receivers account.
ACH Network	The Automated Clearing House Network is the funds transfer system governed by the NACHA operating rules, it provides for the interbank clearing of electronic entries for participating financial institutions
Batch	A group of records considered as a single unit for the purpose of data processing.
CCD	A Corporate Credit or Debit entry is used primarily for the intra-company concentration or disbursement of funds. May also be used to make corporate trade payments requiring minimal descriptive information.
CTX	A Corporate Trade Exchange is used primarily to include payment related remittance information with the ACH entry.
Company Batch/Header Record	The records contained within the ACH file that describes the originator of an ACH transaction. It is identified by record type code '5'.
Effective Entry Date	The date on which the originator intends for ACH transactions to be posted to the receivers account.
File	A group of ACH entries. A file may contain one or more batches.
File Header Record	The first record of an ACH file containing information necessary to route, validate and track the ACH entries contained within the file. Identified by record type code '1'.
NACHA	The National Automated Clearing House Association that establishes the standards, rules and procedures that enable depository financial institutions to exchange ACH payments.

Common ACH Terms	
ODFI	The Originating Depository Financial Institution is a participating financial institution that initiates ACH entries, at the request of, and by agreement with its customers. ODFIs must abide by the provisions of the NACHA operating rules.
Originator	An individual, corporation or other entity that has authorized an ODFI to transmit a credit or debit entry to the deposit account of a receiver.
PPD	A Prearranged Payment or Deposit is a consumer credit or debit entry initiated by an originator (usually a business entity) pursuant to a standing or single entry authorization from its customer or employee.
Prenote	Prenotification Entries are optional, non-dollar ACH transactions that may be used by an originator to verify that the account number of an entry is for a valid account at a RDFI.
Receiver	An individual, corporation or other entity that has authorized an originator to initiate a credit or debit to the receiver's account at a RDFI.
RDFI	The Receiving Depository Financial Institution is a financial institution that accepts ACH entries from its ACH operator for debit or credit to the accounts of receivers. All RDFIs must abide by the provisions of the NACHA operating rules.
Routing Number	Nine digit number (eight digits and a check digit) that identifies a specific financial institution. Also referred to as the Routing Transit Number or ABA number.
Standard Entry Class	A three character code within the company/batch header record to identity the payment types contained within an ACH batch. The standard entry class code defines the ACH formats to be used and indicates the rules and regulations that apply to the transaction.
Trace Number	A 15 digit code that uniquely identifies each entry within a batch in an ACH file. The first eight digits of the trace number are the routing number of the ODFI.
Transaction Codes	A two-digit code that defines various types of debit and credit entries and indicates the type of account to which the entry is posted to.