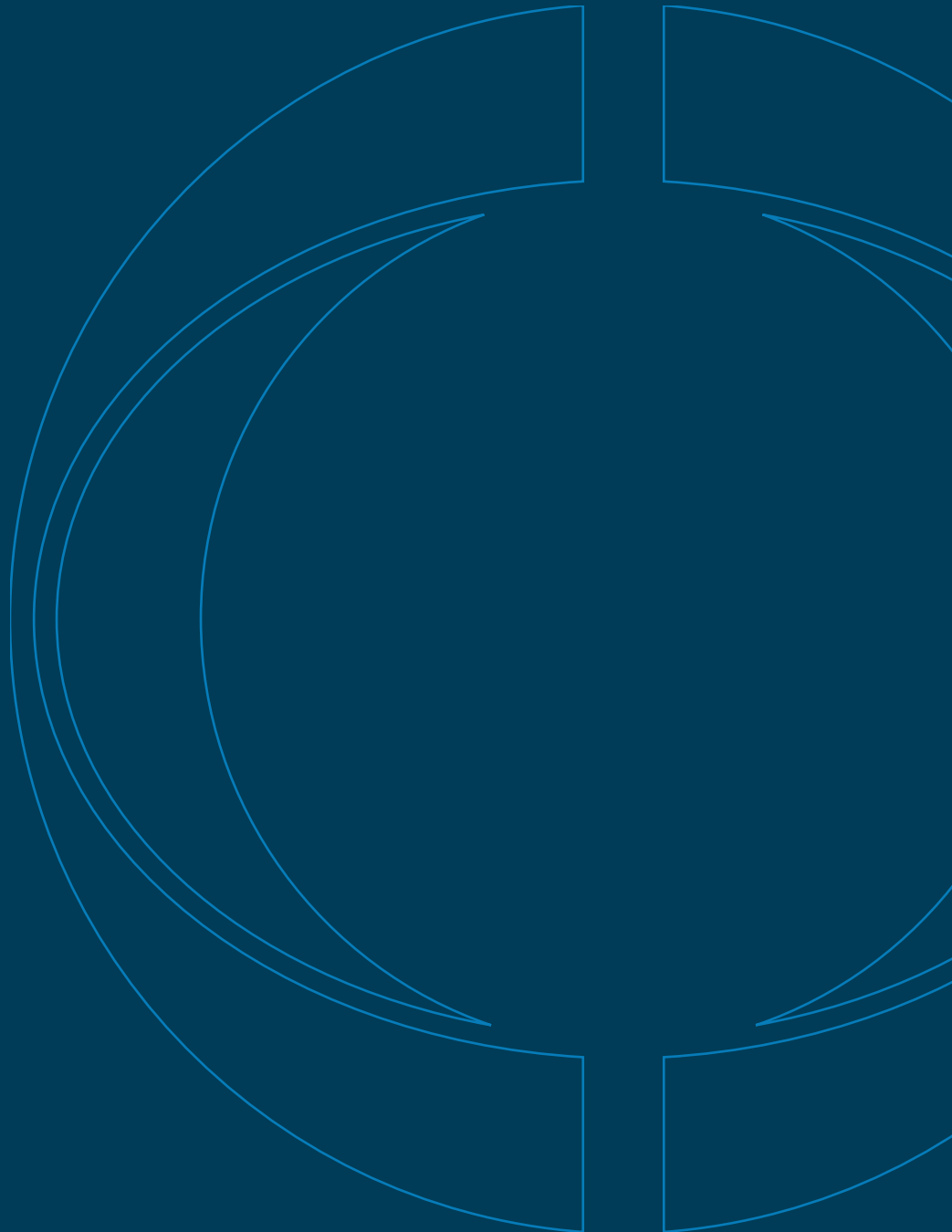


USER GUIDE:
**ACH ORIGINATION
REFERENCE GUIDE**



User Guide:

ACH Origination Reference Guide

Automated Clearing House (ACH) Rules for ACH Originators

A Treasury Management Services Acceptance and Disclosure has been executed between you and Banc of California (Bank), including the Automated Clearing House (ACH) Service Description, extending you access to ACH origination services. As a condition of this service, clients are expected to comply with National Automated Clearing House Association (NACHA) Operating Rules and Guidelines and follow security and privacy procedures that provide safe and sound ACH Originations and prevent the improper creation, approval, and submission of transactions to the Bank. Your systems and procedures must also prevent unauthorized access to the confidential information they may contain.

To ensure compliance with current regulations, all ACH Originators must obtain a current copy of the NACHA Operating Rules (Rules) and Guidelines that are published annually. A copy of the Rules book may be purchased at www.nacha.org.

This quick guide provides a brief summary of ACH facts and ACH Originator Responsibilities. It is not intended to be a replacement or substitution for the NACHA Rules and Guidelines. NACHA Rules are subject to change.

ACH Legal Framework

You are required to abide by multiple rules and agreements, including, but not limited to, the following when submitting ACH transactions. Banc of California may ask to see your agreements or authorizations from time to time, as we are audited.

- As an Originator, you are bound by NACHA Operating Rules and Guidelines, which can be purchased at www.nacha.org
- Regulation E (for consumer entries)
- UCC4A (for corporate credits)
- ACH Service Description
- Authorizations from your customers, employees and vendors

Your Responsibilities as an Originator

- Obtain proper authorizations — dependent on transaction type — and retain authorizations for two years past revocations. (See “Consumer Debit Authorizations.”)
- Obtain new authorizations when reinitiating a debit to a Recipient who previously returned an ACH as unauthorized.
 - Any unauthorized ACH debit returns voids all previous authorizations provided by receiver.
- If requested by the Bank, provide a copy of authorization within 5 banking days. Banc of California may request copies of authorizations from time to time as part of an originator audit.

- Send entries using a valid, effective entry date that matches the authorization provided or agreement signed by the receiver.
- Give appropriate notice to a Recipient prior to changing the amount or date.
- Make necessary changes to payee account information within 6 banking days upon receipt of a Notification of Change.
- Cease subsequent entries when appropriate.
- When originating transactions, you must populate the Company Name field with the name by which it is known to and readily recognized by the Receiver of the transaction.
- Monitor ACH Returns to ensure return ratios are not exceeded per the Rules.
- U.S. companies are not allowed to send or receive funds from countries, groups and individuals on the Office of Foreign Asset Control (OFAC) list. Check payees against OFAC compliance at www.treas.gov/offices/enforcement/OFAC.
- Protected Information is defined in the Rules as the non-public personal information, including financial information, of a natural person used to create, or contained within, an Entry and any related Addenda Record. As an Originator, you are obligated to establish policies, procedures and systems for the initiation, processing and storage of Entries that are designed to:
 - protect the confidentiality and integrity of Protected Information until its destruction;
 - protect against anticipated threats or hazards to the security or integrity of Protected Information until its destruction; and
 - protect against unauthorized use of Protected Information that could result in substantial hardship to a natural person.

Direct Deposit Payroll Authorizations (Consumer)

- Use a direct deposit authorization form that collects employee account information. This form should allow the company to make credit and debit entries if a payroll adjustment is necessary.
- Obtain a voided check or ACH receiving bank instructions from the employee (if possible).
- The most common SEC code for direct deposit is PPD.

Consumer Debit Authorizations

- For consumers, an authorization to debit their account must be in writing or “similarly authenticated.”
- Originators must meet the following basic authorization requirements for consumer debits: debit date, debit amount, frequency of debits, Receiver’s debit account and routing number information, and clear and readily understood terms, and instructions for the receiver in order to revoke an authorization.
- If a consumer revokes an authorization or claims an ACH debit to their account is unauthorized, the Originator must cease all future debits to the Receiver. The Originator cannot use the ACH Network as a means to settle a payment dispute. The Originator must pursue alternative paths in order to collect a payment (e.g., mailed letter notification, collections bureau, and legal action).
- The most common SEC code is PPD, used for debits and credits.

Corporate Authorizations

- For companies, there must be an agreement between the two parties. While the NACHA Rules do not define an “agreement,” it is recommended that, at a minimum, you have the company complete an authorization form.
- Before debiting a business or corporate Receiver, please ensure they have added an allowable exception or authorization

to their ACH Positive Pay or Debit Block setup. Failure to do so can result in R29 unauthorized returns, delaying your collection of funds, impacting your reconciliation process, incurring an ACH return fee and increasing your unauthorized return percentage.

- Banc of California recommends advising the Receiver upfront of this action through an authorization agreement, an FAQ document, or a purchase contract.
- The most common SEC codes for corporate transactions are CCD or CTX, depending upon quantity of addenda information associated with a transaction and the structure of this information. It is used for debits and credits.

Changing Date or Amount of Debits

- NACHA Rules require you to notify your debtors of any changes in date or amount debited under the following circumstances:
 - 7-day notice for a change of date (consumer or corporate).
 - 10-day notice for a change in amount (consumer only).
 - Sending the notice via U.S. mail is acceptable.

International ACH Transactions

- The Standard Entry Class (SEC) code, IAT, is defined as International ACH Transaction.
- Banc of California only permits IAT entries to be originated to a Mexican Receiving Bank.
- The Mexico service supports both forward ACH 1-day and 2-day credits that settle in the Receiver's account as Mexican pesos.
- Generally, IAT entries will take 2 business days for the transaction to post in the Receiver's account in Mexico regardless of the effective date of the file. However, IAT entries originated with a next-day effective date and submitted to the Bank by 6 p.m. PT may settle in 1 business day to the Receiver's account.
 - Processing delays for any reason will affect posting to the recipient account in Mexico. Delays may be the result of formatting, recipient country or destination currency errors, prefunding issues, or incorrect recipient information.
- IAT entries must be processed using one of the following foreign exchange options, which should be determined by the currency denomination of the recipient account:
 - USD to MXP (also referred to as fixed-to-variable, or FV)
 - The FV transactions are sent in U.S. Dollars and posted to the recipient account in a variable amount of Mexican pesos based upon a daily exchange rate on the day the items are processed.
- ACH items originated in the U.S. are governed by U.S. laws and rules until they cross the border into Mexico. Once they arrive in Mexico, Mexican laws and the rules of Sistema de Pagos Electrónicos Interbancarios (SPEI) apply. SPEI, as the rulemaking authority in Mexico, imposes significant financial penalties for rule violations.

Other Considerations:

- The OFAC Travel Rule requires complete address information for the Originator and the Receiver. An OFAC suspect hit may result in a processing delay.
- Debit transactions are not supported for IAT origination to Mexico.
- Same Day ACH, prenotes, NOCs and reversals are not supported in Mexico.
- Mexican financial institutions do not distinguish between checking and savings accounts.

- CLABE is the standardized bank code established by the Mexican banking system. It is an 18-digit number that uniquely identifies account holders and guarantees the correct posting of the electronic funds transfer operations throughout the SPEI processing platform. The Receiver can easily identify their CLABE number as it appears on the account statement provided by the Mexican financial institution.
- Return time periods are much shorter in Mexico:
 - Returns must be processed the same business day as the receipt of transaction.

Prenotifications (Prenotes)

- Prenotes are zero-dollar entries that precede the first live entry. The purpose of a prenote is to verify if an account is opened and the account information is correct.
- Prenotes are optional, but Banc of California highly encourages the use of them. If sent, prenote rules must be followed, and the first live entry must not be processed until at least 3 banking days following the prenote.
- The Receiving Bank is not required to validate the name of the receiver on the prenote, although many do; they are only required to check the account number.
- Prenotes can be used to validate receiver account numbers in order to comply with the WEB debit account validation rule implemented by NACHA, effective March 19, 2021.

Micro-Entries: New Rule

- “Micro-Entries” will be defined as ACH credits of less than \$1, and any offsetting debits, for account validation. Credit amounts must be equal to, or greater than, debit amounts, and must be transmitted to settle at the same time.
- Originators must wait to originate future entries until the verification process is complete, either by receiving a response from the Receiver or by receiving a return transaction.
- Effective in two phases:
 - **Phase 1 – effective September 16, 2022**
 - Formatting Requirements – must submit “ACCTVERIFY” in the Company Entry Description field.
 - Company name must be easily recognizable to Receivers and the same or similar to what we will be used in subsequent entries.
 - **Phase 2 – effective March 17, 2023**
 - Originators must use commercially reasonable fraud detection. This includes monitoring forward and return Micro-Entry volumes.

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 6 banking days of receiving the information from the Bank or prior to initiating another entry to the Receiver’s account, whichever is later.
- The Receiving Bank warrants that the information they provide is correct.
- Banc of California will notify you of any NOCs received on your behalf in Online Banking for Business.

****Non-compliance can result in NACHA Rules violations, fines and suspension in service****

Returns

- Your Receiver can request a return by their Bank within 24 hours of settlement. Returns that are unauthorized beyond the 24 hours are the company's liability, and any disputes may have to be settled outside the banking network. The Bank recommends that you view your account activity daily.
- An exception to the 24-hour rule is consumer unauthorized returns, which may be returned within 60 days of posting.
- Note – Limitation of Claims Based on Unauthorized Entries: Consumer up to 2 years and Non-Consumer 1 year.
- The use of consumer (PPD) or corporate (CCD) entry codes determines applicable ACH return rules.
- 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 from the Bank.
- You may reinitiate a debit entry up to 2 times if you receive a return entry of "NSF" or "Uncollected Funds." This gives the Originator a total of 3 attempts to debit an account.
- A debit entry may be reinitiated following a "Stop Payment" return only if you receive approval from the payee to re-send the item.
- It is a violation of ACH Rules to reinitiate the debit entry if a return is received for any other reason.
- It is a violation of ACH Rules to reinitiate the debit entry and change the amount to include fees.
- This must be completed within 180 days after the settlement date of the original entry.
- Formatting Requirements – must submit the reinitiated entry as a separate batch that contains the words "RETRY PYMT" in the Company Entry Description field of the Company/Header Record.

****NACHA enforces termination of services and fines for continued violation of rules associated with returns****

Reversals

- Reversals may only be made for the following 3 conditions: 1) incorrect dollar amount, 2) incorrect account number or 3) duplicate transaction.
- If a reversing entry must be made, please contact the Bank for instructions at 800-350-3557 Option 4.
- The reversing entry must be sent within 5 banking days of original entry settlement date.
- For the incorrect amount or incorrect account number reversing entries, a correcting entry must also be sent.
- The Receiving Bank is under no obligation to post the reversing debit if it overdraws the Receiver's account or if the Receiver's account is closed.
- A Receiver must be notified if a reversing entry debits their account. However, a Receiver does not need to authorize the reversing debit.
- A reversal cannot be processed in order to recover funds following a fraudulent ACH credit transaction.

Data Security

It is the responsibility of the company to protect its systems and implement best business practices. Some best practices may include:

- Ensuring computer anti-virus/anti-malware software and other computer patches are updated regularly.
- Initiating ACH entries under dual control.

- Implementing a security policy that describes the technical and administrative (process) controls to be employed.
- Monitoring and reconciling your accounts daily.
- Educating staff on protecting the cash management system.
- Implementing a procedure that enforces “red-flag” activity.

Red-Flag examples:

- Tech Support Fraud – Occurs when a cyber actor claims to be associated with a computer software or security company, offering technical support to the victim. Methods include cold calls, pop-ups, and search engine optimization.
- Email Spoofing – Fraudster makes subtle changes in email addresses or names to request information or changes to payment information
- Email Compromise – Fraudster has logged into an email account and sends emails that look like the true sender would send.

Same Day ACH

- Same-day Eligibility
 - All domestic ACH per-transactions up to \$1,000,000 (PPD, CCD, CTX)
 - ACH file must be received by 10:30 a.m. PT (1:30 p.m. ET) for same-day processing and have the same-day date in the Effective Entry Date field.
- Additional fees will apply for Same Day ACH service.

Cutoff Times

- Next-Day Files: Monday-Friday (excluding holidays) 5 p.m. PT (8 p.m. ET)
 - For the HOA Services Platform: Monday-Friday (excluding holidays) 1 p.m. PT (4 p.m. ET)
- Same-Day Files: Monday-Friday (excluding holidays) 10:30 a.m. PT (1:30 p.m. ET)

(Cont'd on next page)

Standard Entry Class (SEC) Codes – Section 1

Code	Application Title	Application Description	Consumer/Business	Debit/Credit
ARC	Accounts Receivable Check	Converted Checks received via the U.S. mail or at a drop box location	Consumer accounts only	Single debit only
BOC	Back Office Conversion	Converted Checks received by the merchant at the point-of-purchase or manned bill payment locations and processed during back-office operations.	Consumer accounts only	Single debit only
CCD	Corporate Credit or Debit	Transfer of funds between business accounts or to consolidate funds from several accounts of the same business	Business accounts only	Debit or Credit
CIE	Customer Initiated Entry	Credit entry initiated by an individual (usually through a bill payment service) used to pay some sort of obligation.	Consumer or Business accounts	Credit Only
CTX	Corporate Trade Exchange	Payment or collection of obligations between separate businesses.	Business accounts only	Debit or Credit
DNE	Death Notification Entry	Notice initiated by an agency of the Federal government to advise an RDFI of the death of an individual (includes addenda record details)	Consumer accounts only	Credit only (Non-dollar amount entry)
ENR	Automated Enrollment Entry	Entry submitted by Financial Institution to enroll client in direct deposit of Federal government benefit payment	Consumer accounts only	Credit only (Non-dollar amount entry)
IAT	International ACH Transaction	Transaction involving a financial agency's office that is not located in the territorial jurisdiction of the United States	Consumer or Business accounts	Debit or Credit
POP	Point-of-Purchase Entry	Converted checks received by the merchant at the point-of-sale	Consumer accounts only	Single debit only
POS	Point-of-Sale Entry	Entry initiated by an individual at a merchant location using a merchant-issued card for payment of goods or services	Consumer accounts only	Single debit only
PPD	Prearranged Payment and Deposit Entry	Recurring entry for direct deposit of payroll, pension, etc., or for direct payment of recurring bills such as utilities, loans, insurance, etc.	Consumer accounts only	Debit or Credit
RCK	Represented Check Entry	Merchant collection of checks that had been returned as NSF or Uncollected Funds	Consumer accounts only	Single debit only
TEL	Telephone Authorized Entry	Single or recurring entry submitted pursuant to an oral authorization obtained solely via the telephone	Consumer accounts only	Debit Only
WEB	Internet Authorized Entry	Entry submitted pursuant to an authorization obtained solely via the Internet or a wireless network	Consumer accounts only	Debit Only
XCK	Destroyed Check Entry	Replacement entry for check that is lost or destroyed, or for check image that is unreadable or cannot be processed	Consumer or Business accounts	Single debit only

Transaction Codes – Section 2

Transaction Codes	Return/NOC	Normal Forward Entry	Prenote
Checking Account Credit	21	22	23
Checking Account Debit	26	27	28
Savings Account Credit	31	32	33
Savings Account Debit	36	37	38
FI General Ledger Credit	41	42	43
FI General Ledger Debit	46	47	48

Notification of Change (NOC) Codes – Section 3

Change Code	Field(s) Needing Correction
C01	Account Number
C02	Routing/Transit Number
C03	Account Number and Routing/Transit Number
C05	Transaction Code
C06	Account Number and Transaction Code
C07	Account Number AND Routing/Transit Number AND Transaction Code

Return Entry Codes – Section 4

Return Code	Reason/Description	Available SEC Codes	Return Deadline
R01	Insufficient Funds – Available balance is not sufficient to cover the dollar amount of the debit entry	ALL	24 HOURS
R02	Account Closed – A previously open account is now closed	ALL	24 HOURS
R03	No Account/Unable to Locate – The account number does not correspond to the individual identified in the entry or a valid account	ALL	24 HOURS
R04	Invalid Account Number – The account number fails the check digit validation or may contain an incorrect number of digits	ALL	24 HOURS
R05	Unauthorized Debit to Consumer Account using Corporate SEC Code – A business (corporate) debit entry was transmitted to a client's consumer account, and the client had not authorized the entry	CCD, CTX	60 Days – Written Statement of Unauthorized ACH Debit
R06	Returned per ODFI's Request – The ODFI has requested that the RDFI return the entry	ALL	Not Applicable
R07	Authorization Revoked – Client who previously authorized an entry has revoked authorization with the Originator	PPD, TEL, WEB	60 Days – Written Statement of Unauthorized Debit
R08	Payment Stopped – The client had previously requested a stop payment of a single or recurring entry	ALL	24 HOURS
R09	Uncollected Funds – Available balance is sufficient, but collected balance is not sufficient to cover the entry	ALL	24 HOURS
R010	Customer Advises Originator is Not Known to Receiver and/or Originator is Not Authorized by Receiver to Debit Receiver's Account	ARC, BOC, POP, PPD, TEL, WEB	60 Days – Written Statement of Unauthorized Debit
R011	Customer Advises Entry Not in Accordance with the Terms of the Authorization	ARC, BOC, POP, PPD, TEL, WEB	60 Days – Written Statement of Unauthorized Debit
R014	Representative Payee Deceased – Representative payee is deceased or unable to continue in that capacity; beneficiary is not deceased	ALL EXCEPT CCD & CTX	24 HOURS
R015	Beneficiary or Account Holder Deceased	ALL EXCEPT CCD & CTX	24 HOURS
R016	Account Frozen – Access to the account is restricted due to specific action taken by the RDFI or by legal action	ALL	24 HOURS
R017	File Record Edit Criteria/Entry with Invalid Account Number Initiated Under Questionable Circumstances/Return of Improperly Initiated Reversal	CCD & CTX	24 HOURS
R020	Non-Transaction Account – Policies or regulations 9 (such as Regulation D) prohibit or limit activity to the account indicated	ALL	24 HOURS
R029	Corporate Entry Unauthorized – RDFI has been notified by the business account holder that a specific transaction is unauthorized	CCD & CTX	24 HOURS