



## Nacha ACH Rule Highlights

Nacha is an organization that oversees and governs the electronic payment system in the United States. Nacha has developed a set of rules and regulations that financial institutions and businesses must follow when processing ACH (Automated Clearing House) payments. Nacha regulations are designed to promote efficiency, safety, and security in the electronic payment system. Compliance with these regulations is mandatory for financial institutions and businesses that process ACH payments.

1. The SEC (Standard Entry Class) code is a critical component of an ACH (Automated Clearing House) authorization. It is a three-letter code that identifies the type of transaction being processed. ACH items to **Consumer** accounts may use the SEC codes of PPD, WEB, TEL, RCK, BOC, etc. and the consumer's name in the file. ACH items to **Business** accounts **MUST** use CCD and the business name in the file.

**\*\*Please see the attached Authorization Requirement document\*\***

2. Do not split transactions due to limit restrictions. Temporary or permanent limit increases may be obtained by contacting [merchantservices@payliance.com](mailto:merchantservices@payliance.com).
3. Only items that return R01 or R09 should be resubmitted. If a debit returns R01 or R09 and you wish to reinitiate another collection attempt, you **MUST** enter **RETRY PYMT** in the Entry Description field to identify that transaction as a resubmission of a previously returned entry.
4. Do not resubmit transactions that have returned with an Admin return code. Admin returns will require updating/correcting information prior to submitting another debit. Resubmitting Admin returns without making corrections to the account information may result in higher return rates which are monitored monthly.
5. Do not resubmit transactions that have returned with an Unauthorized return code. Once an unauthorized return is received the account will be blocked to all future ACH items. New ACH authorization will be required in order to unblock the bank account. Upon receipt of new authorization from your customer you can submit to [merchantservices@payliance.com](mailto:merchantservices@payliance.com) for review and Payliance can unblock so new transactions will process.
6. NOC Returns (Notice of Change) this is not a return of funds, the item was processed to the bank account but the bank is supplying new information. The new information will be indicated on the return report. This may be a new routing number, new account number or account type. This information must be updated prior to submitting the next ACH item to the account.

**\*\*Please see attached Common Return Codes\*\***

7. Nacha return rate thresholds are:
  - a. Overall returns 15% (all return codes)
  - b. Admin returns 3% (R02, R03, R04)
  - c. Unauthorized returns 0.5% (R05, R07, R10, R11, R29, R51)
8. Documents pertaining to the ACH authorization, contract, recording, etc. must be retained for 2 years.
9. Please report **any** changes in business name, tax ID, DBA name and customer service phone number to [merchantservices@payliance.com](mailto:merchantservices@payliance.com). The name and the information your customer will see on their bank statement is very important to minimize returns and calls.

### Commonly Received Return Codes

CODE	REASON	DESCRIPTION
R01	INSUFFICIENT FUNDS	Available balance is not sufficient to cover the value of the debit.
R02	ACCOUNT CLOSED (ADMIN)	Previously active account has been closed.
R03	NO ACCOUNT (ADMIN)	Acct # structure valid but doesn't match individual or not open
R04	INVALID ACCOUNT NUMBER (ADMIN)	Acct # structure not valid. Check digit/number of acct digits failed
R06	RETURNED PER ODFI	ODFI has requested RDFI to return a duplicate or erroneous entry
R07	AUTHORIZATION REVOKED (UNAUTH)	Acct holder has revoked authorization from the originator
R08	PAYMENT STOPPED	Acct holder requests stop of a single entry
R09	UNCOLLECTED FUNDS	Value of uncollected items brings avail. bal. below debit entry amount
R10	NO AUTHORIZATION (UNAUTH)	Account holder advises that entry is not authorized
R14	DECEASED	The account holder is deceased; cease future payments
R15	BENEFICIARY DECEASED	Beneficiary entitled to benefits is deceased; cease future payments.
R16	ACCOUNT FROZEN	Funds not available due to action by RDFI or legal action
R20	NON-TRANSACTION ACCOUNT	Policies and/or regulations restrict activity to account indicated
R22	INVALID INDIVIDUAL ID	The ID number used to identify the account is not correct
R23	PAYMENT REFUSED	Acct holder refuses transactions because amount is disputed
R24	DUPLICATE ENTRY	Transaction appears to be a duplication
R29	CORPORATE NOT AUTHORIZED (UNAUTH)	Receiver has notified RDFI that corporate entry is not authorized
R30	RDFI NOT IN TRUNCATION PROGRAM	RDFI not in check truncation program
R31	ODFI PERMITS LATE RETURN	ODFI agrees to accept a return
R38	PAYMENT STOPPED ON BOC ITEM	Acct holder requests stop of a single entry on the source document
The following return codes require the Correction Notice information to be used in the next ACH entry.		
C01	INCORRECT ACCOUNT NUMBER	Change account number
C02	INCORRECT TRANSIT ROUTE	Change transit routing number
C03	INCORRECT ACCT & ROUTE	Change transit routing number and account number
C05	INCORRECT TRANS CODE	Change account type
		22 = Credit to Checking
		32 = Credit to Savings
		27 = Debit to Checking
		37 = Debit to Savings
C06	INCORRECT ACCT & ACCT TYPE	Change account number and account type
C07	INCORRECT ACCT /ROUTE/TYPE	Change transit routing number, account number and account type
	Other Definitions =	
	ODFI = Originating Depository Financial Institution, is the transaction SENDING institution	
	RDFI = Receiving Depository Financial Institution, is the transaction RECEIVING institution	
	RECEIVER = The account holder at the RECEIVING institution.	
	ORIGINATOR = Business that originates the transaction	
	ADMIN = CATAGORIZED AS AN ADMIN RETURN FOR MONITORING RETURN RATES	
	UNAUTH = CATAGORIZED AS AN UNAUTHORIZED RETURN FOR MONITORING RETURN RATES	

### Payliance Compliance Monitoring

Payliance has internal processes to monitor ACH processing for Nacha compliance and may from time-to-time request information to this end. A few of the monitoring processes are highlighted below.

1. Proof of Authorization (POA) – This request will require the documents that support an authorization for a specific debit(s). The documentation required will depend on Nacha SEC code. For example, if the SEC code is TEL a recording of the authorization would be needed. (See the attached ACH Payment Authorization Requirements).
2. WEB Certification - For any merchants using the Nacha SEC code of WEB (online, App, etc.) an **annual** WEB Certification form will need to be completed. The form pertains to the security protocols in place to protect data online.
3. Enhance Due Diligence – For certain business models an **annual** review will be required to validate how ACH authorization is obtained and request samples of each type of authorization.
4. Return Rates – Compliance with Nacha return rates thresholds are monitored monthly.

**AUTHORIZATION REQUIREMENTS: PPD AND RCC**

PPD TRANSACTIONS	
<b>Description</b>	PPD applies to ACH authorizations signed by a consumer, most commonly in a face to face environment. PPD can also apply in scenarios where the consumer signs the agreement electronically and emails it to you, the Merchant.
<b>Requirements</b>	<p>Authorization: Verbiage that clearly shows the customer is authorizing the debit</p> <p>Date/s: A clear description of when the debit will be debited</p> <p>Amount: A clear description of the amount to be debited</p> <p>Revocation: Verbiage that clearly shows the customer can cancel or revoke authorization</p> <p>Method of Revocation: A phone number or email that the customer can use to revoke authorization</p> <p>Period of time: Provide an appropriate timeframe to cancel the transaction</p>
<b>Sample Template</b>	I hereby authorize <i>[Merchant Name]</i> to initiate ACH debits to my bank account in the amount of <i>&lt;Dollar Amount&gt;</i> on the date of <i>[Date of Transaction]</i> . I understand I may revoke this authorization by calling/emailing <i>[Customer Service Phone Number or Email Address]</i> within 3 business days prior to the authorized processing date.

RCC TRANSACTIONS	
<b>Description</b>	PPD applies to RCC authorizations signed by a consumer, most commonly in a face to face environment. RCC can also apply in scenarios where the consumer signs the agreement electronically and emails it to you, the Merchant.
<b>Requirements</b>	<p><b>Tender Type:</b> Verbiage that specifically states that the method of payment is a Remotely Created Check (RCC), demand draft, or paper draft.</p> <p><b>Authorization:</b> Verbiage that clearly shows the customer is authorizing the debit</p> <p><b>Date/s:</b> A clear description of when the debit will be debited</p> <p><b>Amount:</b> A clear description of the amount to be debited</p> <p><b>Revocation:</b> Verbiage that clearly shows the customer can cancel or revoke authorization</p> <p><b>Method of Revocation:</b> A phone number or email that the customer can use to revoke authorization</p> <p><b>Period of time:</b> Provide an appropriate timeframe to cancel the transaction</p>
<b>Sample Template</b>	I hereby authorize <i>[Merchant Name]</i> to initiate Remotely Created Check debits to my bank account in the amount of <i>[Dollar Amount]</i> on the date of <i>[Date of Transaction]</i> . I understand I may revoke this authorization by calling/emailing <i>[Customer Service Phone Number or Email Address]</i> within 3 business days prior to the authorized processing date.

## AUTHORIZATION REQUIREMENTS: CCD AND WEB

### CCD TRANSACTIONS

<b>Description</b>	CCD applies to authorizations from businesses.
<b>Requirements</b>	<p>If there is a contractual relationship between you (Merchant) and the business entity, and that contract contains language explaining that ACH payments will be used, the contract itself is sufficient as authorization.</p> <p>If there is no contractual relationship between you (Merchant) and the business entity, the authorization requirements for PPD should be utilized. (see above "PPD Transactions").</p>

### WEB TRANSACTIONS

<b>Description</b>	WEB applies to authorizations digitally signed by the consumer in an online environment.
<b>Requirements</b>	<p><b>Authorization:</b> Verbiage that clearly shows the customer is authorizing the debit</p> <p><b>Date/s:</b> A clear description of when the debit will be debited. If the customer is initiating the transaction, and thus choosing the debit date, this can be omitted from authorization language.</p> <p><b>Amount:</b> A clear description of the amount to be debited. If the customer is initiating the transaction, and thus enters the amount to be debited, this can be omitted from authorization language.</p> <p><b>Revocation:</b> Verbiage that clearly shows the customer can cancel or revoke authorization</p> <p><b>Method of Revocation:</b> A phone number or email that the customer can use to revoke authorization</p> <p><b>Period of time:</b> Provide an appropriate timeframe to cancel the transaction</p>
<b>Sample Template</b>	I hereby authorize <i>[Merchant]</i> to initiate ACH debits to my bank account. I understand I may revoke this authorization by calling/emailing <i>[Customer Service Phone Number or Email Address]</i> within 3 business days prior to the authorized processing date.

## AUTHORIZATION REQUIREMENTS: TEL

TEL TRANSACTIONS	
<b>Description</b>	TEL applies to authorizations provided by a customer over the phone.
<b>Method of Authorization</b>	<p><u>One-Time Debits</u></p> <p>An audio recording of the authorization <b>OR</b> a written confirmation of payment which is sent to the customer <b>in advance</b> of the debit</p> <p><u>Recurring Debits</u></p> <p>An audio recording of the authorization <b>AND</b> a written confirmation of payment which is sent to the customer. The written notice is to confirm the recorded authorization; a signature is not required.</p>
<b>Requirements</b>	<p><b>Authorization:</b> Explicit consent from the customer during the recorded conversation (not needed for written notice requirements)</p> <p><b>Identity:</b> The customer's full name</p> <p><b>Date/s:</b> A clear statement of when the debit will be debited</p> <p><b>Cadence:</b> The timing (including the start date) and/or frequency of debits</p> <p><b>Amount:</b> A clear description of the amount to be debited</p> <p><b>Bank Account:</b> The bank account number of the account to be debited</p> <p><b>Revocation:</b> Verbiage that clearly shows the customer can cancel or revoke authorization</p> <p><b>Method of Revocation:</b> A phone number or email that the customer can use to revoke authorization</p>
<b>Sample Template: Audio Recording</b>	<p>"At this time, we will need your voice authorization. <i>[Customer Name]</i>, by providing your bank account information and verbal authorization today, <i>[Date of Recording]</i>, you are authorizing <i>[Merchant Name]</i> to create a <i>[One-Time or Recurring]</i> ACH debit to your bank account ending in <i>[Last 4 Digits of Customer Bank Account]</i> on <i>[Date of Debit]</i> in the amount of <i>[Dollar Amount]</i>.</p> <p>You may revoke this authorization by calling <i>[Customer Service Phone Number or Email Address]</i> 3 business days prior to the authorized processing date. Do you authorize <i>[Merchant Name]</i> to proceed with this payment?"</p> <p>* [GET A VERBAL YES]</p> <p>"Thank you, you can call us at <i>[Customer Service Phone Number or Email Address]</i> with any questions or concerns about this authorization."</p>
<b>Sample Template: Written Notice</b>	<p><i>[Customer Name]</i>, by providing your bank account information and verbal authorization on <i>[Date of Recording]</i>, you have authorized <i>[Merchant Name]</i> to create a <i>[One-Time or Recurring]</i> ACH debit to your bank account ending in <i>[Last 4 Digits of Customer Bank Account]</i> on <i>[Date of Debit]</i> in the amount of <i>[Dollar Amount]</i>.</p> <p>You may revoke this authorization by calling <i>[Customer Service Phone Number or Email Address]</i> 3 business days prior to the authorized processing date.</p>



## AUTHORIZATION REQUIREMENTS

It is recommended, but not required, that the below verbiage be included in any authorization:

### RECOMMENDED VERBIAGE

<b>Sample Template</b>	The debit may occur on a date later than the scheduled date if the scheduled date falls on a non-banking day. If the electronic debit is returned for insufficient or held funds, it will be represented automatically. My account will be debited for the payment plus the state-allowed fee. If there is a fee associated with the returned debit, I understand I will be liable for that fee.
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### POA RETENTION

<b>NACHA Retention Rules</b>	The Originator must retain either the original or duplicate audio recording and/or signed document authorization confirming the Receivers authorization for two years from the date of the authorization for single debit entries. If recurring entries the Originator must retain authorization for two years from the termination, revocation of the payment authorization. (Sec 5, Ch. 47)
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