ACH OVERVIEW

What is ACH?
The Automated Clearing House (ACH) payment system began as an alternative to the check payment system. Developed in the early 1970s, the ACH offers consumers, businesses, governments and financial institutions a cost-effective, efficient and secure method for exchanging payments, both debits and credits, electronically.

The ACH Network processes multiple payments together in a batch, in contrast to one payment at a time. This batch and forward process makes ACH payments less expensive than single electronic transactions, such as wire transfer. ACH is a same or next day payment system. While it is electronic, it is not an online, immediate network like some ATM and debit card systems.

The ACH Network supports a number of different payment applications. Unlike the wire transfer and check systems, the ACH is both a credit and a debit payment system. ACH transactions can be transmitted to demand (checking) accounts, savings accounts, financial institutions' general ledger accounts, and as credits to loan accounts. Like checks, ACH transactions can be returned for a number of reasons: NSF, account closed, stop payment, etc.

How is it used?
ACH transactions are categorized as either consumer payments or corporate payments; usually determined by the owner of the account being debited or credited. For example, Direct Deposit of payroll is a consumer transaction, as the credit is to the consumer employee. Trade or vendor payments made company to company are considered corporate payments.

Consumer Transactions
Consumer payments include credit applications such as payroll, retirement, dividend, interest, annuity payments, expense reimbursements, and others.

Consumer debit applications include collection of insurance premiums, mortgage, loan and rent payments, utility payments, membership dues, and other recurring obligations. Several years ago the ACH network was expanded to allow for electronic conversion of certain checks and to allow consumers to authorize ACH payments via the telephone and Internet.

Corporate Transactions
Corporate ACH applications include cash concentration and disbursement, corporate trade payments, and state and Federal tax payments. The ACH system further allows companies to include payment related information with the ACH payment, such as invoice numbers, purchase orders, etc., facilitating an automated process of updating their accounts receivable and accounts payable systems.

Federal Government Transactions
The Federal government is the single largest user of the ACH network, originating payments such as Social Security benefits, military and civilian payrolls, retirement benefits, tax refunds and disbursement for state and federal revenue sharing programs.

ACH Participants –

Each participant in the ACH payment system has its own roles and responsibilities. The following is a definition of each of the ACH participants, as defined in *The ACH Operating Rules.*

Originator:

The Originator is a Person that has authorized an ODFI (directly or through a Third-Party Sender) to Transmit, for the account of that Person, a credit Entry, debit Entry, or Non-Monetary Entry to the Receiver's account at the RDFI.

Originating Depository Financial Institution or ODFI:

The Originating Depository Financial Institution (ODFI) is a Participating Depository Financial Institution with respect to Entries (a) it Transmits directly or indirectly to an ACH Operator for Transmittal to an RDFI, and (b) on which it is designated as the ODFI in accordance with Appendix Three (ACH Record Format Specifications). An RDFI is not considered an ODFI solely by reason of its initiation of Acknowledgment Entries, Return Entries, Extended Return Entries, or Notifications of Change.

Automated Clearing House Operator or ACH Operator:

An Automated Clearing House (ACH) Operator is an entity that acts as a central facility for the clearing, delivery, and settlement of Entries between or among Participating DFIs.

Receiving Depository Financial Institution or RDFI:

The Receiving Depository Financial Institution (RDFI) is a Participating Depository Financial Institution with respect to Entries (a) it receives from its ACH Operator to the accounts of Receivers, and (b) on which it is designated as the RDFI in accordance with Appendix Three (ACH Record Format Specifications). An ODFI is not considered an RDFI solely by reason of its receipt of Acknowledgment Entries, Return Entries, Extended Return Entries, or Notification of Change.

Receiver:

A Receiver is a Person that has authorized an Originator to initiate a credit Entry, debit Entry, or Non-Monetary Entry to the Receiver's account at the RDFI. With respect to debit Entries, the term "Receiver" means all Persons whose signatures are required to withdraw funds from an account for purposes of the warranty provisions of Subsection 2.4.1 (General ODFI Warranties).

Third-Party Service Provider*:

A Third-Party Service Provider is an Organization that performs any functions on behalf of the Originator, the Third-Party Sender, the ODFI, or the RDFI (not including the Originator, ODFI, or RDFI acting in such capacity for such Entries) related to the processing of Entries, including the creation of the Files or acting as a Sending Point or Receiving Point on behalf of a Participating DFI. An Organization acting as Third-Party Sender also is a Third-Party Service Provider.

Third-Party Sender*:

A Third-Party Sender is a type of Third-Party Service Provider that acts as an intermediary in Transmitting Entries between an Originator and an ODFI, including through Direct Access, and acts on behalf of an Originator or another Third-Party Sender. A Third-Party Sender must have an Origination Agreement with the ODFI of the Entry. A Third-Party Sender is never the Originator for Entries it Transmits on behalf of another Organization. However, a Third-Party Sender of Entries may also be an Originator of other Entries in its own right.

*Pioneer does not process ACH origination transactions for any third-party senders or third-party service providers.

Standard Entry Class Codes

Each ACH application is identified by a three alpha character code, called the Standard Entry Class Code, or SEC code. The Standard Entry Class Code determines the specific file formats and rules related to the application. As an ODFI, Pioneer will offer the following ACH service products to originating customers:

PPD - Prearranged Payment & Deposit Entry

Direct Deposit (credit) - Direct deposit is a credit application that transfers funds into a consumer's account at the RDFI (Receiving Depository Financial Institution). The funds being deposited can represent a variety of products, such as payroll, interest, pension, dividends, etc.

Preauthorized Bill Payment (debit) - Preauthorized payment is a debit application. Companies with billing operations may participate in the ACH through the electronic transfer (direct debit) of bill payment entries. Through standing authorizations, the consumer grants the company authority to initiate periodic charges to his or her account as bills become due. This concept has met with appreciable success in situations where the recurring bills are regular and do not vary in amount — insurance premiums, mortgage payments, and installment loan payments being the most prominent examples. Standing authorizations have also been successful for bills where the amount does vary, such as utility payments.

CCD - Cash Concentration or Disbursement

This application, Cash Concentration or Disbursement, can be either a credit or debit application where funds are either distributed or consolidated between corporate entities. This application can serve as a stand-alone funds transfer, or it can support a limited amount of payment related data with the funds transfer.

Because of the complexity and exposure of increased risk for fraud, Pioneer Bank will not originate outbound International ACH Transactions (IAT) entries.

ACH Returns

ACH transactions can be returned for many of the same reasons a check can be returned: insufficient and uncollected funds, incorrect account information, account closed, stop payment, etc. The RDFI must return the transaction so it is available to the ODFI by open of business the second day following settlement date, i.e., open of business Wednesday for an original settlement date of Monday.
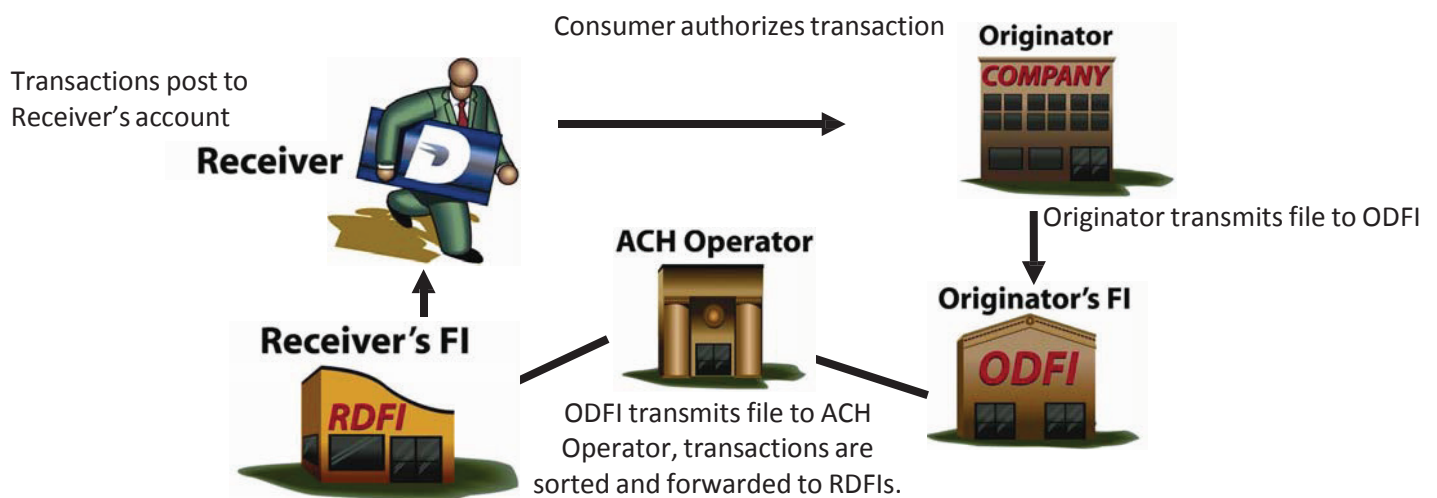
ACH transactions to consumer accounts also have an extended return time frame of 60 days if the consumer claims the transaction is in the incorrect amount or if it is not authorized, or the authorization has been revoked.

The return transaction contains a return code that indicates the reason for the return.

Legal Governance

All ACH transactions are bound by the *ACH Operating Rules.* Additionally, debits to consumer accounts have Regulation E protection, and corporate credits are governed by Uniform Commercial Code Article 4A. It is important to understand there are not additional regulations or protections for debits to corporate accounts.

ACH Process

Consumer authorizes transaction

Transactions post to Receiver's account

Originator transmits file to ODFI

ODFI transmits file to ACH Operator, transactions are sorted and forwarded to RDFIs.

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