

Automated Clearing House (ACH) Service Originator Requirements and Responsibilities

Overview

This document outlines the fundamental responsibilities of the Originating Company with respect to the ACH Service provided by Camden National Bank; the Originating Financial Institution for such ACH Service. The full ACH rules can be found online, <https://www.nachaoperatingrulesonline.org/>.

The Automated Clearing House (ACH) System

The ACH system is this country's largest Electronic Funds Transfer (EFT) network. The network is composed of local ACH Associations across the country who direct electronic payments to financial institutions in their own area of responsibility and to financial institutions in other areas of the country as well.

There are five basic participants in the ACH system:

Originator – The Company, employer or customer originating an ACH File.

ODFI – The Originating Financial Institution acting on behalf of the originator to sort and transmit the ACH File.

ACH Operator – Settlement facility that distributes ACH Files to RDFI.

RDFI – The Receiving Financial Institution that makes funds available to the receiver.

Receiver – The company, employee or customer that authorized the originator to process an ACH entry to their account.

ACH Payments include the following:

- ✓ Direct Deposit of Payroll, Social Security, other government benefit payments and tax refunds
- ✓ Direct Payment of consumer Bills such as loans, utility bills and insurance premiums
- ✓ Federal, State and local Tax Payments
- ✓ Business to Business payments

Advantages and Benefits of ACH Service

The advantages and benefits of the ACH service are many. The company can reduce lost time employees take on payday to conduct banking business. Administrative costs associated with payroll, such as distribution and reconciliation, or with preparing an advance pay, are reduced. The company can also reduce losses due to stolen, forged or lost checks. And, the company needs only to deal with one financial institution to make this employee benefit possible.

The employee benefits significantly as well. Employees may designate any financial institution to receive their pay. They continue to receive a pay voucher, but their pay is already in their account on payday, even if the employee is on vacation or out sick. Payments and deposits are reflected on the account statement individuals receive each month from their financial institution.

There are also significant benefits that accrue to participants in the debit/preauthorized payment applications. (See the NACHA ACH Rules - <https://www.nachaoperatingrulesonline.org/>)



Relationship of Originating Company with Receivers of Entry Transactions

The receiver is the employee or customer. The originating company must obtain the name and routing number of the individual's financial institution as well as the individual's account number at that financial institution. This is best done by asking the individual for a voided personal check. (See Originating Company Legal Requirements) Some Financial Institutions may have a separate routing number for ACH entries.

Relationship of Originating Company with Receiving Financial Institutions

This is the employee or customer financial institution. In most instances, the originating company will not deal directly with the receiving financial institution. Should it become necessary for you, as the originating company, to contact the receiving financial institution, you can obtain the name and telephone number of the ACH coordinator at the receiving financial institution by speaking with your ACH service coordinator at Camden National Bank, or by entering the receiving institutions Routing Number (aka ABA number) at <https://www.frb services.org/EPaymentsDirectory/search.html>.

Originating Company Legal Requirements:

Agreement.

As an originating company you have elected to initiate ACH entries through a relationship with Camden National Bank. That relationship is established by the execution of the ACH Service Agreement/Contract. By signing the agreement, your company agrees, among other things, to abide by the ACH Rules.

Authorizations.

PPD entries: These are transactions originated to accounts owned by individuals. The ACH Rules require that your company have a signed authorization on file, whereby the individual authorizes the initiation of debit entries to his/her account at a receiving financial institution. While a written authorization is not required for credit entries to individuals, you must have an authorization from the individual prior to initiating debit entries. Therefore, it is suggested that you obtain a written authorization for credits as well. If requested, Camden National Bank will provide you with a sample layout of the authorization format. The completed/signed authorization must be retained for two (2) years after termination. You must provide Camden National Bank with a copy of the authorization upon our request. Data for completing the authorization is best obtained by asking the individual for a voided personal check.

CCD & CTX entries: These are transactions originated to accounts owned by corporate entities. The ACH Rules require that your company have a signed authorization on file, whereby the individual authorizes the initiation of debit entries to his/her account at a receiving financial institution. If requested, Camden National Bank will provide you with a sample layout of the authorization format. The completed/signed authorization must be retained for two (2) years after termination. You must provide Camden National Bank with a copy of the authorization upon our request. Data for completing the authorization is best obtained by asking the individual for a voided personal check.

Prenotification.

This is a zero dollar entry originated for most types of ACH entries. The purpose of a prenotification entry is to allow the receiving financial institution to verify account information. Prenotes



are recommended for most new receivers and may be originated at any time; however, live dollar entries should not be initiated until 3 calendar days after the date of the prenote. The effective date used for a prenote is a date that will fall within the processing window for other entries in that specific file.

Originating Company Processing Responsibilities:

Preparation. The record formats, specifications, file structure and sequence of records in ACH files are spelled out in detail in the ACH Rules. (See the NACHA ACH Rules - <https://www.nachaoperatingrulesonline.org/>). These requirements must be followed explicitly by the company or files/entries may be rejected/returned, causing delays. Camden National Bank will accept ACH files only on the media specified in the ACH Appendix to Online Banking or Treasury Management Master Service Agreement.

Testing. Prior to the initiation of the first file of entries, the company may create a test file utilizing the same software and hardware that will be used for the creation of the actual ACH files. The test file may be forwarded to Camden National Bank for review and certification prior to initiation of actual transactions. In the event the software /hardware the company is using should change or be modified, the company may submit a new test file.

Processing Windows. Camden National Bank processes ACH files multiple times each day until 7pm. Debit files will be processed one day prior to the effective date. Credit files will be processed up to 2 days prior to the effective date and until 7pm one day prior. The exception to this rule is 'Passthru' files where the company selects the process date; this is the date that Camden National Bank will process the 'Passthru' file. The effective date of any ACH file authorized by the company *must* be one banking day into the future (an ach file authorized on Tuesday must have an effective date of Wednesday or after). In general, there is a one and a half day processing window for debit entries, and either a one and a half day, or two and a half day processing window for credit entries. The processing windows are based on the effective entry date in the ACH file (Field 9 Company/Batch Header Record). The effective entry date is the date on which the company expects the payment to be completed. The effective entry date cannot exceed the limit of the processing windows.

Funds Availability and Settlement of Transactions. Under normal conditions, funds for credit entries are available to the receiver, and settlement is made with the originating company, on the effective entry date for the transaction. The reverse is the case for debit transactions (funds are taken from the receiver and passed to the originator on the settlement date). Normally, the effective entry date and the settlement date for the transaction will be the same. However, there could be a different settlement date (See exception situations). Credit Entries are considered provisional until the RDFI receives full settlement.

Company Settlement for ACH Transaction Files and Bank Processing Charges.

CREDIT Files (Payroll, ACH Payment) –Refer to the company ACH Agreement to determine which method is utilized for your company.

- **Prefunding** – Depending on the ACH Agreement Camden National Bank may prefund the Credit ACH file when a file is processed. When this process is used the total amount of the file will



be withdrawn from the company's account at the time of processing. This may be up to 2 days prior to the effective date.

- **Hold** - Camden National Bank may place a Hold on the offset account for the total amount of the ACH Credit file. This hold may be up to 2 days prior to the effective date.
- **Other** – refer to the Camden National Bank ACH Agreement

DEBIT Files (Receipt, Collections)

Camden National Bank will credit the company for the total amount of a transaction file on the ACH effective date for that file. The company shall provide immediately available funds to Camden National Bank on the settlement date for a transaction file.

Camden National Bank will charge the company for processing fees per the ACH Service Fee Schedule, RFP or Account Analysis Pricing Proforma.

Returns, Notification of Change, and Rejected Entries. ACH entries may be returned by the receiving financial institution, or a request for change in entry data (Notification of Change) may be sent back to the originator. Also, the ACH operator may reject entries that do not meet certain requirements. The company must have in place procedures to handle any of the foregoing, should the situations come about. (See the NACHA ACH Rules - <https://www.nachaoperatingrulesonline.org/>).

- **Returns** are ACH transactions that cannot be posted to the Recipient account at the receiving institution. Camden National Bank will post the return transaction to the company offset account. Funds for return entries will be deposited to or withdrawn from the offset account.
- **Rejects** are ACH transactions that cannot be processed by the ACH Operator. Company will receive notification from Camden National Bank and funds will be deposited to or withdrawn from the offset account.
- **Notification of Change (NOC)** are non-monetary entries transmitted by the receiving financial institution. The NOC identifies the entry that was received and provides correcting data such as account number or account type. Company should access the NOC report to determine the reason for the return. The company *must* correct the data within 6 banking days of receipt of the NOC or before initiating another entry to the Recipient, whichever is later.

Return reports and NOC's are delivered by Camden National Bank via secure messaging through online banking , by the Fed secure email service or others means designated by the bank.

Return Rate Levels – NACHA has set acceptable return rate thresholds (see below). Companies that exceed these levels may be subject to further scrutiny.

- **Overall Return Rate (15%)** – debit entries returned for any reason
- **Administrative Return Rate (3%)** –debit entries that are returned for administrative reasons such as account closed or account not found (Return reason codes R02, R03 and R04).
- **Unauthorized Return Rate (.5%)** – debit entries that are returned on the basis that they were not authorized (Return reason codes R05, R07, R10, R29 or R51)

Exception Situations. Companies may not authorize an ACH file effective entry date that falls on a non-business day or holiday. Company should review the Holiday Calendar and adjust your processes accordingly to ensure the files are submitted in a timely manner. Recurring ACH entries



where the effective date falls on a weekend or holiday will be processed 2 banking days prior to the effective date, the transaction will be settled (available) on the day following the effective date.

Warehousing of Entries. Warehousing of transactions is the storage of entries that fall outside the ACH processing window. When warehousing is used by the company, the transactions can only be released to Camden National Bank when the effective entry date would fall within the processing window for such entries. ACH transactions authorized by the company more than 2 days in advance of the effective date will remain in the activity center with the status 'Authorized'. Credit entries will be processed by Camden National Bank 2 days in advance of the effective date; and debits 1 day in advance. 'Authorized' transactions can be cancelled by the company. Once the status has changed to 'Processed' entries cannot be cancelled.

Security and Control. The company will establish adequate security and control procedures addressing the creation and delivery of ACH files. NACHA Operating Rules (section 1.6) require ACH Participants to protect the security and integrity of ACH data. These requirements consist of 1) protection of sensitive data and access controls 2) self-assessment and 3) verification of Third-Party Senders and Originators. Refer to NACHA Rules Operating Guidelines chapter 4 section 1 for more detail.

Contingency Procedures. In the event a transaction file will not be delivered to Camden National Bank as scheduled, the company will advise Camden National Bank of that fact, together with the time, and date, for the delivery of the file. The company shall maintain the capability to remake a file should a file be rejected by the ACH operator.

Reversals. In the event that a transaction is inadvertently processed, a reversal file for the same amount of the original transaction can be processed within 24 hours of when the error was discovered and must arrive at the Receiving Financial Institution by midnight of the fifth day after the original settlement date. An entry description of 'REVERSAL' must be included.

Originating Financial Institution Responsibilities:

Education and Training. If requested, Camden National Bank will provide education and training for the company addressing the operation of the ACH, as well as, the requirements and procedures contained in the ACH Rules. This activity will be in the form of orientation sessions for company processing personnel dealing with the creation/initiation of transaction entries and files and also, the handling and processing of return entries, notification of change, and rejected entries.

ACH Service Agreement/Contract. Camden National Bank will provide the company with an ACH Service Agreement or Treasury Management Master Agreement which, when executed, will provide the legal basis by which both parties will perform.

Customer/Employee Authorization. If requested, Camden National Bank will provide the authorization form/form layout, to be used and signed by the employee or customer.

Originating Financial Institution Processing Responsibilities:

Preparation. Camden National Bank has been certified as an originating financial institution by the New England Automated Clearing House Association (NEACH), Boston, MA. As such, Camden National Bank has the requisite software, hardware and ACH expertise to perform as an originating financial institution for the company.



ACH Service Coordinators. Camden National Bank will furnish the company with names and telephone numbers of personnel at Camden National Bank who will function as ACH service coordinators for the company.

File Specifications. Camden National Bank will accept only ACH files that meet the requirements and specifications of the ACH Rules.

Media. Camden National Bank will accept ACH files only on the media specified.

Testing. Prior to the initiation of the first file of entries, the company may submit a test file utilizing the same software and hardware that will be used for the creation of the actual ACH files. The test file will be reviewed and approved by Camden National Bank prior to initiation of actual transactions by the company. In the event the software or hardware the company is using should change or be modified, the company may submit a new test file to be reviewed and approved by Camden National Bank.

Company Input Delivery Schedule. Company may authorize debit and credit files effective dated for the next day until 7pm. Camden National Bank processes ACH files multiple times throughout the day.

Receipt and Review of Company Input Files. Camden National Bank will establish procedures for the receipt and review of each file submitted by the company. In the event bank discovers a problem with a company file, Camden National Bank will advise the company by telephone, of the nature of the problem.

Processing Windows. Camden National Bank processes ACH files multiple times each day until 7pm. Debit files will be processed one day prior to the effective date. Credit files will be processed up to 2 days prior to the effective date and until 7pm one day prior. The exception to this rule is 'Passthru' files where the company selects the process date; this is the date that Camden National Bank will process the 'Passthru' file. The effective date of any ACH file authorized by the company *must* be one banking day into the future (an ach file authorized on Tuesday must have an effective date of Wednesday or after). In general, there is a one and a half day processing window for debit entries, and either a one and a half day, or two and a half day processing window for credit entries. The processing windows are based on the effective entry date in the ACH file (Field 9 Company/Batch Header Record). The effective entry date is the date on which the company expects the payment to be completed. The effective entry date cannot exceed the limit of the processing windows.

Returns, Notification of Change and Rejects. All return entries, notification of change and rejected entries will be forwarded by Camden National Bank to the company for appropriate action. Camden National Bank will provide training for company personnel involved with the handling of such entries.

Warehousing. Camden National Bank does not perform warehousing of entries. If warehousing is used by the company, transactions can only be released to Camden National Bank when the effective entry date would fall within the processing window for such entries.

Security and Control of Company Input Files. Camden National Bank will establish security and control procedures to safeguard company transaction files while such files are in the possession of Camden National Bank.



Contingency Procedures. Camden National Bank will establish procedures to advise the company should a contingency situation arise either at Camden National Bank or with the ACH operator. As a minimum, these procedures will address the following situations:

- Rejection of files or batches by the ACH operator;
- Submission or creation of a duplicate or erroneous file by the company;
- The creation of a duplicate or erroneous file by the ACH operator; and/or
- Nonoperating software, equipment and/or communications.