

ACH ENTRY NACHA REQUIREMENT GUIDE

1. Internet-Initiated (WEB) Entries: Transactions authorized by the Consumer via the Internet

- NACHA Rules allow for WEB debits to be originated for either single orders or for multiple transactions, all as allowed by the consumer authorization
- A WEB entry may be transmitted by Client pursuant to an authorization that is obtained from the Customer via the Internet to affect a transfer of funds from a Consumer Account of the Customer
- For each WEB Entry, Consumer must be able to read the authorization language
- For each WEB Entry, Client must make the Offer clear and conspicuously state its terms and conditions
- For each WEB Entry, Client must clearly state that the authorization is for an ACH debit
- For each WEB Entry, Client must provide the consumer with a method to revoke the authorization and/or cancel the service
- For each Web Entry, Client must encourage the consumer to print the authorization and order screens.
- For each WEB Entry, Client is required to employ a commercially reasonable fraudulent transaction detection system to screen each Entry.
- For each WEB Entry, Client is required to employ commercially reasonable methods of authentication to verify the identity of the Customer. This requirement is provided by TransFirst ePayment Services.
- For each Web Entry, Client is required to use commercially reasonable procedures to verify that routing numbers are valid. This requirement is provided by TransFirst ePayment Services.
- Client must establish a secure Internet session with each Customer utilizing a commercially reasonable security technology providing a level of security that, at a minimum, is equivalent to 128-bit encryption technology prior to the Customer's key entry and through transmission to Client of any banking information, including, but not limited to, the Customer's routing number, account number, and personal identification number (PIN) or other identification symbol.
- Client shall conduct or have conducted annual audits to ensure that the financial information it obtains from Customers is protected by security practices and procedures that include, at a minimum, adequate levels of (1) physical security to protect against theft, tampering, or damage, (2) personnel and access controls to protect against unauthorized access and use, and (3) network security to ensure secure capture, storage, and distribution.
- Return Items and Re-presentation (debits)

NACHA Rules allow for re-presentation of returned items (including WEB) in limited circumstances: first, the debit's return reason code must be R01 (insufficient funds) or R09 (uncollected funds). These may be represented under the WEB SEC, but only two additional times. In these circumstances it is not necessary to obtain separate oral authorization to originate the subsequent WEB transactions. In certain instances a WEB debit that has been returned for stop payment may be re-originated; however this requires a separate oral authorization from the consumer. WEB debits returned for what we characterize as chargebacks or other disputes, such as R07, R10, and R29 may not be represented.

2. Telephone-Initiated (TEL) Entries. One-time debits to Consumer Accounts authorized by Telephone

- Per NACHA rules, TEL entries are single entry transactions only. Each TEL entry must be authorized by the consumer in a separate phone call.
- Per NACHA rules, TEL entries may be initiated when the consumer initiates the telephone call to the merchant. TEL entries may not be utilized for transactions resulting from a telephone call initiated by the merchant, unless there is an existing relationship between the consumer and the merchant. TEL entries may not be originated as a result of cold-calling outbound telemarketing phone calls initiated by the merchant.
- A TEL entry may be transmitted by Client pursuant to an oral authorization that is obtained from the Customer via the telephone to affect the transfer of funds from a Consumer Account of the Customer.
- For each TEL Entry, Client must employ commercially reasonable procedures to verify the identity of the Customer.
- For each TEL Entry, Client must utilize commercially reasonable procedures to verify that routing numbers are valid.
- In the case of TEL Entries, the consumer's authorization must be readily identifiable as an authorization and must clearly state its terms. The following minimum information must be included as part of the authorization:
 - The date on or after which the ACH Debit to the consumer's account will occur;
 - The amount of the transaction;
 - Client's name;
 - A telephone number for consumer inquiries that is answered during normal business hours;
 - The date of the consumer's oral authorization; and
 - A statement by Client that the authorization obtained from the consumer is for a Single-Entry ACH Debit.
- Client must either (i) tape record the oral authorization, or (ii) provide the consumer with written notice confirming the oral authorization prior to the Settlement Date of the Entry.
- Client must retain the original or a microfilm or microfilm-equivalent copy of the written notice or the original or a duplicate tape recording of the oral authorization for two years from the date of the authorization. At the request of TransFirst or the ODFI, Client must provide the original or copy of the authorization to TransFirst and the ODFI for its use or for the use of an RDFI requesting the information.
- Unauthorized Returns and Industry Thresholds

TEL transactions can be challenged and reversed by Consumers. Such reversals are similar to credit card chargebacks. Consumers sometimes initiate a TEL reversal citing "Unauthorized" as the reason. Such "unauthorized" returns can reflect lack of a proper authorization, or can be the result of Consumer dissatisfaction with the merchant or product.

NACHA Rules specify that merchants experiencing a ratio "unauthorized" returns of greater than 2.5% as operating in a suspicious manner. This is a ratio of the number of unauthorized returns divided by the number of originated TEL debits, and is typically computed monthly. It is important to remain under the 2.5% threshold in order to avoid NACHA fines and other penalties; including possible account closure.

- Return Items and Re-presentation

NACHA Rules allow for re-presentation of returned items (including TEL) in limited circumstances: first, the debit's return reason code must be R01 (insufficient funds) or R09 (uncollected funds). These may be represented under the TEL SEC, but only two additional times. In these circumstances it is not necessary to obtain separate oral authorization to originate the subsequent TEL transactions. In certain instances a TEL debit that has been returned for stop payment may be re-originated; however this requires a separate oral authorization from the consumer. TEL debits returned for what we characterize as chargebacks or other disputes, such as R07 (authorization revoked), R10 (unauthorized), and R29 (corporate customer advises not authorized) may not be represented.

3. Preauthorization Payment and Deposit - Initiated (PPD) Entries. Transactions authorized in writing.

- A PPD entry may be used for either recurring or non-recurring transactions to a consumer's account, when the Originator has provided the consumer with a written authorization, which the consumer has signed or similarly authenticated.
- Client must retain the original or a microfilm or microfilm equivalent copy of the consumer's authorization for two (2) years from the termination or revocation of the authorization.
- In the case of PPD Entries to a Consumer Account, the authorization must be in writing and signed or similarly authenticated by the consumer. The authorization must be readily identifiable as an authorization, must clearly and conspicuously state its terms, and, for all entries except pop entries and single-entry web entries, the authorization must provide that consumer may revoke the authorization by notifying client in the manner specified in the authorization.
- Client must provide each Customer with an electronic or hard copy of the Customer's authorization for all Debit Entries to be initiated to a Consumer Account.
- See sample authorization form attached:

- Example ACH Debit Authorization Form:

**AUTHORIZATION AGREEMENT
DIRECT PAYMENTS (ACH DEBITS)**

I (we) hereby authorize _____, hereinafter called COMPANY, to debit entries to my (our) account indicated below and the Financial Institution named below, hereinafter called FINANCIAL INSTITUTION, to debit same to such account. I (we) acknowledge the origination of ACH transactions to my (our) account must comply with the provisions of U.S. law.

(Financial Institution Name) _____
(Branch)

(Address) _____
(City-State) _____
(Zip)

(Routing/Transit Number) _____
(Account Number)

Type of Acct: Checking Savings

Recurring Set Amount _____ Range: Minimum _____ Maximum _____

This authority is to remain in full force and effect until COMPANY has received written notification from me (or either of us) of its termination in such time and manner as to afford COMPANY and FINANCIAL INSTITUTION a reasonable opportunity to act on it.

(Print Individual Name)

(Print Individual ID Number)

(Signature)

(Date)

**PLEASE ATTACH COPY OF VOIDED CHECK TO THIS FORM
(Customer retains second copy)**