

Getting Started With
FedACH™ Origination

A Manual for Financial Institutions

Provided by the Federal Reserve System



“Our customers have found that Direct Payment takes the worry and hassle out of making loan payments by offering a reliable, on-time, and confidential method of payment. It gives everyone greater control over finances while providing important record keeping information and convenience.”

–*Wells Fargo Bank, Minneapolis, MN*

“Our Direct Payment program offers our customers great convenience and reduces our payment processing costs. It’s a service our customers have embraced enthusiastically. They seem to appreciate having multiple payment options.”

–*Ameren Corporation, St. Louis, MO*

“Direct Payment and electronic commerce enable companies to reduce costs, improve customer service and, in certain case, increase revenues. I’m a big advocate.”

–*Mortgage Bankers Association of America*

“For many, this (Bank representatives meeting individually with employees at the workplace) was the first time that they had ever had a chance to talk privately with a bank representative for more than a few minutes...The response to this particular aspect of our program was great.”

–*First Claiborne Bank, New Tazewell, TN*



Preface

The Federal Reserve System has offered Automated Clearing House (ACH) services to financial institutions (FIs) since the inception of the ACH in the early 1970s. Over the years, the services have evolved to include many types of ACH payments. As an ACH Originating Financial Institution, you will have the flexibility to offer many types of services to your customers. Your use of ACH may give you a competitive advantage in cementing customer relationships and may provide you with an opportunity to increase fee income.

In an effort to assist you with implementing a successful ACH program, the Federal Reserve has compiled this step-by-step origination manual. This manual is designed to give you an overview of the ACH, provide an implementation plan for your operation, address documentation and risk issues, as well as provide suggestions for marketing ACH to your corporate and consumer customers. The manual also provides ideas on how to use ACH within your own operation, so that your institution can benefit from its many advantages.

This manual was created to assist you in implementing a successful FedACH™ origination program by summarizing the rules and processing procedures contained in other documents listed below. All ACH participants should obtain a copy of the National Automated Clearing House Association (NACHA) Operating Rules, commonly referred to as the *ACH Rules*, which contains all of the rules and provisions governing commercial ACH transactions. Since rules may be updated or modified each year, you will want to retain a current copy in your operation for reference. An updated version can be obtained through NACHA-The Electronic Payments Association (www.nacha.org) or through your regional payments association. NACHA and regional payment associations also provide materials that focus on specific areas and issues of ACH processing, such as a corporate version of the *ACH Rules* which you can provide to your corporate Originators.

Your Federal Reserve Business Development representative can provide you with the appropriate Federal Reserve [Operating Circulars](#), which contain the supplemental terms and conditions applicable to the processing of ACH transactions through the Federal Reserve. They can also be obtained by visiting the FedACH or Industry Topics sections of the Federal Reserve Financial Services Internet site located at www.frbservices.org. Your Federal Reserve Business Development representative can also assist you in implementing a successful FedACH origination program.

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Getting Started With
FedACH Origination

General Information

Revised 4/2001

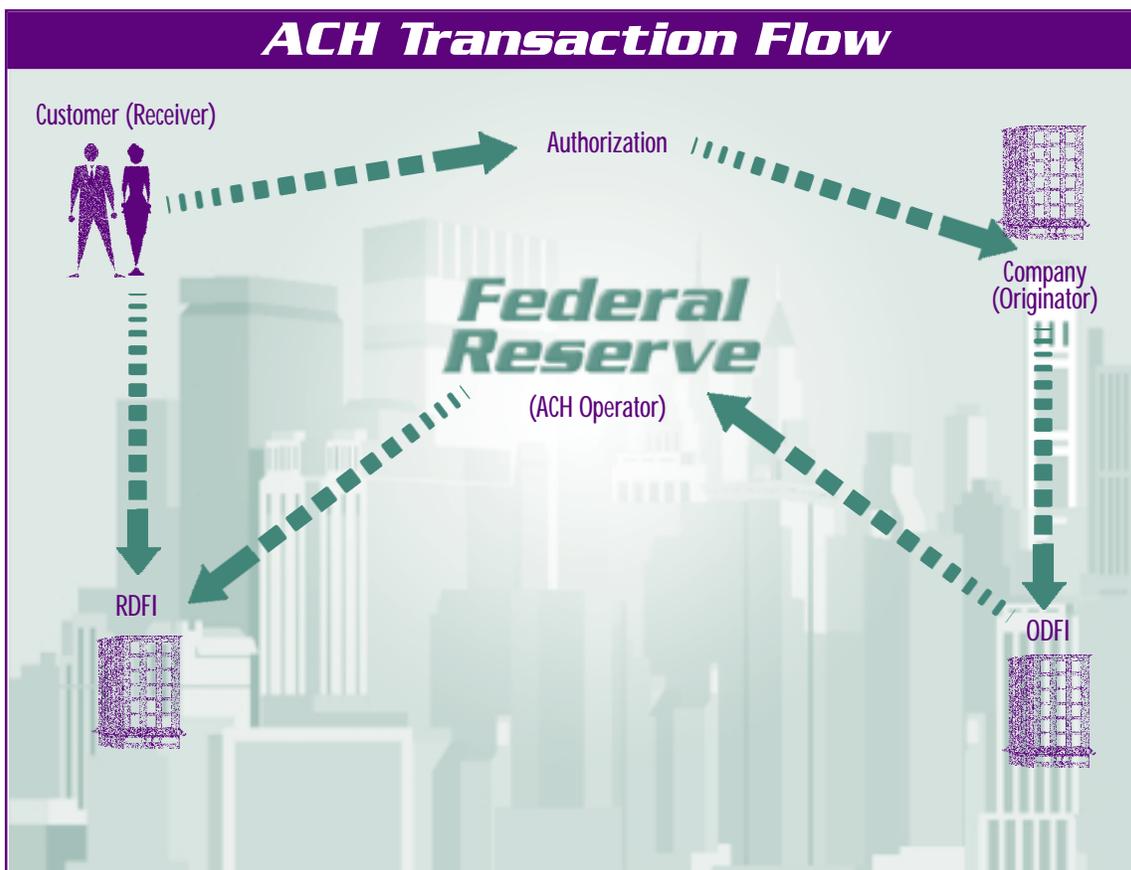




Overview

What is the ACH?

The Automated Clearing House (ACH) is a payments mechanism that replaces paper payments with electronic transactions. It is a more cost-effective and efficient alternative to writing and processing checks. ACH transactions are processed through the ACH Network, a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the *ACH Rules*, which provides for the interbank clearing of electronic payments for participating financial institutions. While there are private sector ACH Operators, the assumption is made throughout this document that the ACH Operator is the Federal Reserve.



ACH offers financial institutions, corporations, and consumers an efficient alternative payment method to writing, collecting, and processing paper checks. Transactions are created by a company (the Originator) and are delivered to the Originating Depository Financial Institution (ODFI) or a third party processor. The sending point then electronically transmits the information in a file to the Federal Reserve. The file is made up of batches, with each batch representing a series of transactions pertaining to one company and payment type. Transactions are individual electronic debits or credits formatted to meet National Automated Clearing House Association (NACHA) standards. Once received by the Federal Reserve, transactions are sorted and transmitted to the Receiving Depository Financial Institution (RDFI) or its third party processor. These transactions are then posted to the Receivers' accounts.



ACH System Participants

ACH Operator: The Federal Reserve Bank which receives transactions from an Originating Depository Financial Institution (ODFI) or its sending point, distributes the entries to appropriate Receiving Depository Financial Institutions (RDFIs) or their receiving points, and performs the settlement functions for the affected financial institutions.

Originator: A person or organization that agrees to initiate ACH entries into the payments system according to an arrangement with a Receiver. The Originator is usually a company that originates an ACH item to a consumer's account or another company's account. The Originator is responsible for obtaining and retaining any required authorization from the Receiver. The term "company" is intended to be representative of the Originator of electronic ACH entries and does not imply exclusion of other types of organizations.

Originating Depository Financial Institution (ODFI): A financial institution that receives the payment instructions from Originators and forwards the entries to the Federal Reserve.

Receiver: A person or an organization that has authorized an Originator to initiate an ACH entry to the Receiver's account at their RDFI.

Receiving Depository Financial Institution (RDFI): A financial institution that receives ACH transactions from the ACH Operator and posts them to the accounts of its customers (Receivers).

Receiving Point: The point to which files from the Federal Reserve are delivered for the RDFI. A RDFI may designate itself or another entity as the receiving point.

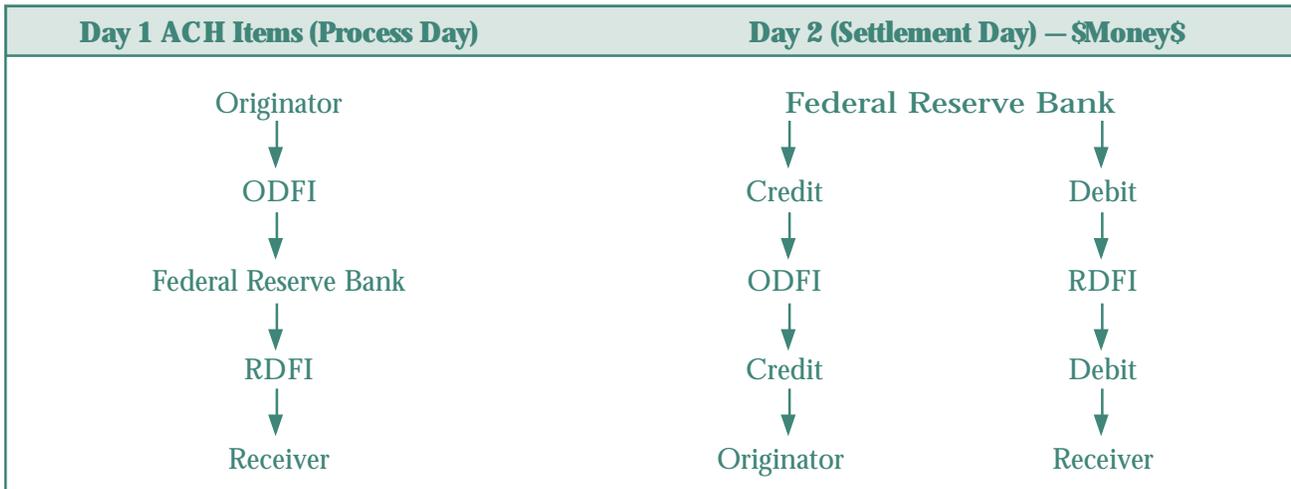
Sending Point: The actual point from which a file is deposited with the Federal Reserve for the ODFI. The ODFI may designate itself or another entity as its sending point. (The ODFI may have numerous sending points.)

Settlement Flow

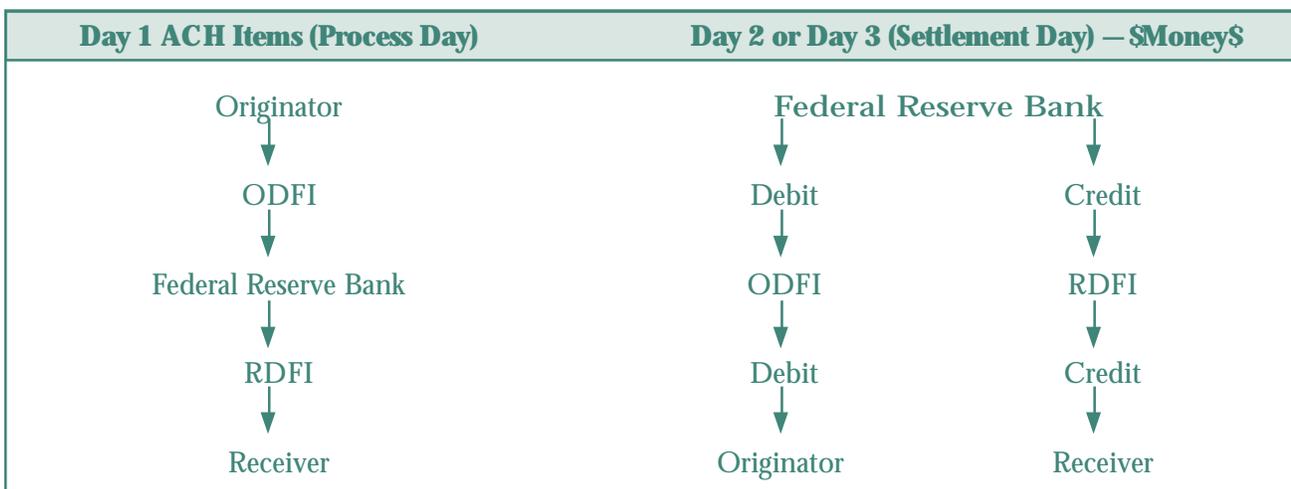
Unlike wire transfers, ACH items can be debits or credits and the settlement for those items are processed on different days. An ACH item is processed on Day 1. The value of those items is settled on Day 2 or 3, depending on the type of ACH transaction. The tables on the preceding page provides you with a breakdown of the flow of ACH items and the flow of ACH settlement. Note that an ACH item is classified as a debit or credit based on the settlement occurring to the receiver.



ACH DEBITS



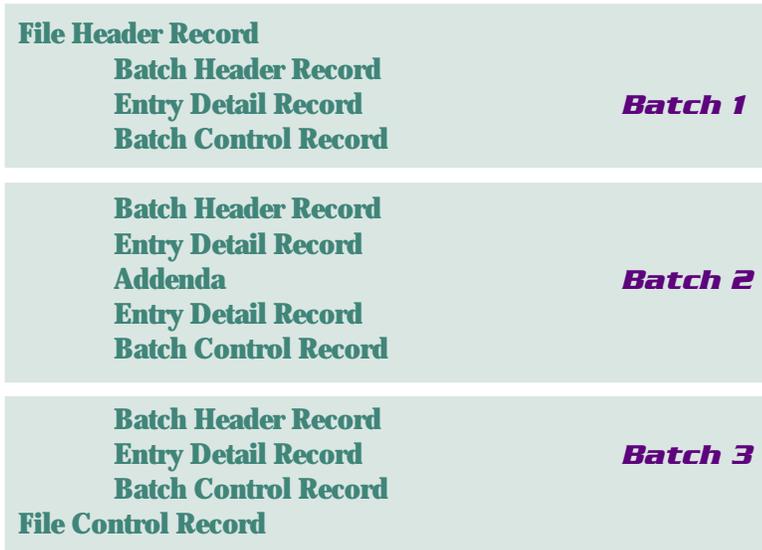
ACH CREDITS





Anatomy of an ACH File

ACH files contain groups of ACH items in batches that must be in a specific sequence or the file will not be processed by the ACH Operator. The following picture outlines the sequence of an ACH file with three batches. Definitions of the various records are defined below.



File Header Record

Each ACH file has one File Header Record, which primarily contains ODFI information. For FedLine® users, the File Header Record is automatically generated. Fields in this record include the local Federal Reserve routing number, sending point routing number, file date, file time, record block, destination name (Federal Reserve) and origin name (the ODFI's name).

Batch Header Record

There is one Batch Header Record for each batch of similar ACH items in an ACH file. ACH files can contain more than one batch. Depending on who creates the file, either the ODFI or the Originator will enter the data contained in the Batch Header Record. Fields in this record include the ODFI routing number, company name, company entry description (which prints on the customer statement), Originator identification, batch number, effective entry date, and standard entry class code.

Entry Detail Record

An Entry Detail Record is an individual ACH item. The number of Entry Detail Records per ACH file can be up to 999,999 entry records per batch. Depending on who creates the file, either the ODFI or the Originator will enter the information contained in the Entry Detail Records. Fields in this record include the dollar amount, the receiver's RDFI account number and name, the transaction code for the receiver's type of account, trace number, and RDFI routing number.

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Addenda

The Addenda Record is an additional ACH record connected to an ACH entry detail record. The addenda carries supplemental data supporting a payment, such as a remittance advice or beneficiary data.

Batch Control Record

The Batch Control Record announces the end of a batch. It contains totals for the batch such as number of items, total dollar amounts, and a summation (algorithm) of account numbers. Each batch must have a control record before another batch can begin. FedLine automatically generates this record.

File Control Record

The File Control Record is located at the end of the last batch in an ACH file. It is a control record which announces the end of the file and is automatically generated by FedLine. The File Control Record includes a summary of all the batch control records.

For more information on records in the ACH file and other ACH file specifications, please see the *ACH Rules*.

Other Information Related to ACH Files:

- All ACH origination software (including FedLine) automatically creates most fields in an ACH file; variable data, such as contained in the entry detail record, is completed through user friendly screens.
- Files are comprised of 94 byte records (lines) in 10 record (10 line) blocks (often referred to as 94/940 format).
- Files are comprised of batches.
- Batches are comprised of items (entry detail records plus addenda).
- Items can be processed with or without addenda records.
- Records in the file are identified by their position from the left of the record line, for example:
 - The 1 record = file header
 - The 5 record = batch header
 - The 6 record = detail entry
 - The 7 record = addenda
 - The 8 record = batch control (end of batch)
 - The 9 record = file control (end of file)
- Each file header record (1 record) includes only one sending and receiving point; one of these always being the ACH Operator.
- Files may include one or more ODFIs (5/6 records).
- Files may include numerous RDFIs (6 records).
- Each batch (5 records) includes only one company's set of entries.
- Input batches, which are being sent to the Operator by the ODFI, contain items for multiple RDFIs.
- Output batches, which are coming from the Operator, contain only one RDFI.



Advantages of ACH

Advantages to Consumers/Receivers

Direct Deposit (forwarding funds to a Receiver by crediting the Receiver's account through ACH) benefits the consumer by:

- Eliminating the possibility of lost or stolen checks;
- Reducing the time and cost involved in depositing, processing, and clearing checks; and,
- Delivering consistent and convenient availability of funds on a timely basis, even during vacation, illness, or business trips.

Direct Payment (obtaining payment from a Receiver by debiting the Receiver's account through the ACH) benefits the consumer by:

- Allowing for bills to be paid on time, which avoids late charges and establishes excellent payment and credit records;
- Providing a secure and efficient method of payment;
- Offering a review period before a bill is actually paid; and,
- Eliminating check writing, postage expense and the risk of late payments.

Advantages to Companies/Originators

ACH applications benefit companies by:

- Saving time and increasing efficiency;
- Saving money by reducing administrative and operating expenses;
- Reducing clerical cost for account reconciliation;
- Eliminating time lost by employees who deposit checks during working hours;
- Eliminating stop payment charges and check reissue costs;
- Reducing remittance processing (paper handling) costs since there is no check stub;
- Providing a possible reduction of bank service charges;
- Increasing reliability as it provides certainty of delivery;
- Improving cash management forecasting;
- Accelerating the availability of funds;
- Utilizing the latest technology;
- Increasing control over when the bill is paid;
- Improving business relationships with customers;
- Reducing mail costs; and,
- Providing a means to increase customer retention.



Advantages to the ODFI

ACH applications benefit the ODFI by:

- Reducing costs through increased automated processing.
- Providing potential profit for services provided.
- Providing new opportunities for increased business with existing customers or new relationships through expanded services.
- Supplying the technology needed to reduce the cost of processing deposits and payments.
- Providing a means to increase customer retention.

Advantages to the RDFI

ACH applications benefit the RDFI by:

- Reducing costs through the automated processing of electronic entries and eliminating the handling of individual items.
- Alleviating congestion at teller lines during peak periods (particularly on payday).
- Providing the ability to offer improved services to both consumer and corporate account holders.
- Supplying the technology needed to reduce the cost of processing deposits and payments.
- Providing a means to increase customer retention.

Getting Started With
FedACH Origination

Step-By-Step
Revised 4/2001





Implementing a Successful FedACH Origination Program Quick Reference Guide for Financial Institutions

➤ Three Steps to FedACH Origination

(additional information regarding these steps follow this checklist)

➤ Step One: Gather Information

- Visit with Other Originating Financial Institutions
- Review Reference Materials
- Identify Potential Internal Uses of the ACH
- Consider Membership in a Regional Payments Association
- Develop Workplan

➤ Step Two: Establish Operating Procedures

- Administrative Support Assignments
 - ↪ Establish Your Fee Schedule
 - ↪ Develop Proper Authorizations
 - ↪ Corporate Originator Agreement
 - ↪ Participation Agreement
 - ↪ Assess Risk Issues
- Operational Procedures
 - ↪ Establish Connection with the Federal Reserve Bank
 - ↪ Establish Information Delivery with Corporate ACH Originators
 - ↪ Develop Deposit Deadlines
 - ↪ 2001 Processing Calendar
 - ↪ Documentation and Controls
 - ↪ Assign Responsibilities
 - ↪ Document All Procedures
 - ↪ Establish Controls for Originator's Diskette/CD
 - ↪ Evaluate and Implement Procedures to Reduce Risk
 - ↪ Daily Procedures Checklist
 - ↪ ACH Control Log
 - ↪ ACH Transmittal Register
 - ↪ Establish Contingency Plan
- Beginning Origination

➤ Step Three: Develop a Marketing Plan

(An "ACH Marketing Step-by-Step" list can be found on 4-6)



Gather Information

Visit with Other Originating Financial Institutions

The best way to explore the use of ACH is by talking to financial institutions that are currently originating ACH payments for their customers. You can learn about the products that they provide their customers, the software they use, and how they have priced the service to their customers. To assist you in this phase of information gathering, please contact your local Federal Reserve Business Development representative. Your representative may be able to provide references of institutions currently originating ACH.

Review Reference Materials

Before you begin processing ACH transactions, you will want to obtain and carefully review the following materials.

Federal Reserve Publications

Regulation E: Electronic Funds Transfer

This publication establishes the rights, liabilities, and responsibilities of financial institutions and consumers in electronic funds transfers.

Operating Circular No. 4, No. 5, and No. 9

These Operating Circulars establish Federal Reserve Bank operating guidelines and time schedules for: 1) clearing and settling ACH items, 2) electronic access, and 3) Federal tax payments, respectively.

You may request these publications by obtaining them online through the Industry Topics section of the Federal Reserve Financial Services Internet site located at www.frbservices.org or by contacting your local Federal Reserve Bank.

Regional Payments Association Publications

ACH Rules

This publication contains rules and guidelines for originating, receiving, and processing ACH items. The *ACH Rules* is available from any of the regional associations or from NACHA-The Electronic Payments Association (www.nacha.org).

Note: The *ACH Rules* includes a copy of [Regulation E](#).

State Labor Laws

-  Identify additional requirements that may affect Direct Deposit program. Some state labor laws allow employers in those states to mandate Direct Deposit of payroll for their employees. Originators should contact their state's Department of Labor to determine applicable state labor laws.



Identify Potential Internal Uses of ACH

Before identifying customers that might be prospective ACH Originators, take a look around for ACH applications within your own organization. This can be a great way to begin FedACH origination.

For example, you might offer your customers the convenience of having their monthly installment or mortgage loan payments automatically deducted from their checking accounts. Also, a payroll Direct Deposit program could be established for your employees. Other possibilities to consider are savings transfers, trust funds, ATM operations, tuition reimbursements, travel and expense settlements, pensions, sales bonuses/commissions, dividend and interest payments, and annuities. By beginning with these applications, your staff will become more comfortable with ACH and recognize its benefits. If your own employees like the features of ACH, they are more likely to encourage external customers to use it.

With successful programs in-house, it will be a natural progression to seek out business customers that may have applications appropriate for FedACH origination. By recommending a service that can save your customers money and help them retain their customers, you promote your organization as a full-service financial institution. It is a great way to create and maintain customer relationships. Methods of creating customer relationships and identifying prospective customers are covered in Section 4.



Consider Membership in a Regional Payments Association

Prior to beginning your FedACH origination operation, investigate membership in your regional payments association. Regional payment associations provide educational publications, workshops and seminars. They are a marketing resource and will provide materials for your use or assistance in setting up your individual program. Many associations have newsletters with information on the latest technology and on proposed rule changes. They also assist NACHA in enforcing the rules. Membership in a regional payments association is optional. For information about a regional payments association in your area, visit the NACHA at www.nacha.org or the Direct Deposit/Direct Payment Coalition at www.directdeposit.org or www.directpayment.org.



Develop a Workplan

To successfully implement an origination program using FedACH, you will want to create a workplan, which clearly outlines the tasks that need to be accomplished. This plan will include specific dates for tasks to be completed and will identify who is responsible for each phase of the workplan. A workplan should be put in writing, made available to all involved in implementing the project, and updated regularly. The following sections are designed as a framework you may use in developing your workplan.

You may want to have several people from your organization working on this project. Having the project team composed of people from many departments with a stake in your institution offering FedACH origination will ensure that input is obtained from all areas that may be affected by an operational change. Meshing different departments also will ensure that a “buy-in” to support the program comes from a broad cross-section of the organization.



Establish Operating Procedures

Administrative Support Assignments

Establish Your Fee Schedule

Prior to offering your customers FedACH origination, you will want to develop a fee schedule for this service. As you develop this fee schedule, there are two types of costs you will want to keep in mind: set-up costs and ongoing costs.

Set-up Costs

If you do not already have FedLine, there will be a moderate charge for installation (please check the Federal Reserve Financial Services Internet Site for the latest [fee schedule](#)). If you will use a third party processor or correspondent bank to originate ACH items, you may incur set-up costs for that connection. If you choose to purchase vendor software, that will also be a set-up cost. The initial set up on any software, including FedLine, will be a labor cost to you if you choose to enter items manually. Similarly, sending prenotes for the initial payrolls will be a cost you may incur. In addition, you may choose to perform a credit analysis on any new corporate Originators. Finally, education and training costs may be part of the initial set up. This includes both internal and external education.

Transaction Costs

You will want to consider ongoing costs that include processing and servicing fees paid to the Federal Reserve Bank, correspondent, or third party. If you will be manually updating items in FedLine, you will incur internal labor costs. If you purchase vendor software, there may be software maintenance fees charged by the software vendors. Any marketing (including internal and external education and training) you choose to do for your FedACH origination service will be an ongoing cost.

Each step of the FedACH origination process should be evaluated and considered as part of the costs to be recovered by established fees. For example, you may want to include a file handling fee to recover any costs for handling the diskette (logging in the receipt of the diskette, ensuring the control totals balance, etc.). Following is a list of some of the fees you may choose to incorporate into your fee schedule.

Set-up Fees

This is a one-time charge covering the processes required to set up a new Originator. This fee covers the cost of performing a credit analysis and providing education, training, and software set up. If you are trying to “sell” your corporate Originator on the service, you may not want to charge anything at all.



➔ *File Fees*

Your institution will incur a Federal Reserve file fee on each file sent to the Federal Reserve Bank. You may choose to charge your Originator a file fee every time a file is processed, regardless of the number of transactions included in the file. You may want to pass along the Federal Reserve file fee or charge more. You may choose to charge two different fees: one for those that you enter manually on FedLine and a lower file fee for those that you upload directly into FedLine.

➔ *Transaction Fees*

These fees are charged by the Federal Reserve on each FedACH transaction originated to recoup the cost of FedACH processing. You may want to charge a different fee for debits and credits, although some institutions charge the same for both. Once again, you might want to pass along the Federal Reserve fees. Just remember that you do not want to charge a fee higher than your check fee, as this would discourage ACH usage.

You will also want to consider the labor involved with manually entering items on FedLine. Another option is charging a higher file fee to cover these expenses, rather than transaction fees. This eliminates the need to track the number of items originated. You may choose not to charge for prenotes to encourage Originators to send them.

It is appropriate to include fixed file fees in transaction fees charged to customers.

➔ *Return Fee*

As ACH transactions are returned (i.e., NSF, Account Closed, etc.), a return fee can be charged similar to a returned check charge. This will cover the labor associated with crediting or debiting the returns back to your corporate Originators. It is a good idea to make the ACH return charge less than the check return charge to encourage ACH usage.

➔ *Notification of Change Fee*

RDFIs send ODFIs Notifications of Change (NOCs) detailing data elements that need correction. ODFIs are required to deliver all NOCs to their Originators in a timely fashion. You may choose to pass along the fee you incur from the ACH Operator to recoup your costs or to charge a higher fee than the operator's fee to encourage your corporate Originators to fix the item and not ignore the NOC.



↪ *Administrative Fee*

This fee covers the ongoing costs of maintaining an Originator. This monthly charge covers software maintenance, continuing education, customer support, and necessary publications.

Sample cost calculations are provided on the following page for your review. These calculations reflect a sample scenario where the ODFI chooses to enter ACH items manually on FedLine. If you choose to use or provide customers with ACH vendor software and/or customers deliver items via diskette/CD or electronic transmission, you will want to modify these calculations accordingly. For example, you will want to include any software costs and adjust times required for ODFI processing. Specific times shown in this example reflect reported averages for manual entry. If a customer delivers items via diskette/CD or electronic transmission, it is estimated to require approximately 10 minutes per file to receive, log, upload, verify, and transmit a file via FedLine. Return item handling is estimated to require 3 minutes per item.

↪ *Develop Proper Authorizations*

↪ *Corporate Originator Agreement*

An agreement or contract should be executed between the Originator and the ODFI which binds the Originator to the *ACH Rules*. In addition, in the agreement you will want to define the responsibilities of each party, identify the processing requirements for specific applications, and establish liability and accountability for the processing procedures. In some instances, sections of the agreement may be superseded by applicable federal or state law (e.g., [Uniform Commercial Code Article 4A](#) or the [Electronic Funds Transfer Act](#)). Corporate versions of the *ACH Rules* are available through NACHA or your regional payments association.

Following is a list of issues that you may want to define in the agreement, depending on the ACH application addressed. Some items may not be applicable due to the type of payment originated by the company. Always make sure you have current Corporate Originator Agreements on file. Sample agreements can be obtained from the *ACH Rules* or from your regional payments association.

↪ *ODFI Responsibilities*

- Establish the time and place that the Originator will deliver ACH information.
- Determine the day and time when funds will be available to the Originator (debit entries) or when the Originator will fund credit entries, making funds available to the ODFI.
- Establish exception processing deadlines for the Originator to provide information to the ODFI (e.g., reversals or corrections).



- Indicate any fees or related charges for providing FedACH origination service to the Originator.
- Determine what situations warrant the use of a third party processor.
- Outline necessary steps for terminating the agreement.
- Document the responsibility of the ODFI if any delay in processing an item occurs at the Federal Reserve.
- Establish optional processing methods for late payments.

↪ *Originator Responsibilities*

- Establish the method by which the Originator will deliver ACH information to the ODFI and the format in which it will be delivered.
- Identify the role the Originator will play in originating prenotes.
- Outline the Originator's responsibilities for obtaining written authorizations from its employees/customers, storing the authorizations, and providing copies of the authorizations upon the request of the ODFI.
- Outline the Originator's responsibilities in handling the return of prenotes, ACH returns, and notifications of change received by the ODFI.

↪ *ODFI and Originator Responsibilities*

- Indicate the ACH application for which the agreement is drawn. (i.e., debits, credits, or both).
- Outline each party's responsibility for file remakes and reversals.
- Outline each party's responsibility for processing returns and notifications of change.
- Determine procedures for ensuring security of ACH information during delivery from the Originator to the ODFI.

In addition, you will want to maintain several additional pieces of information that may be included as attachments to the agreement. These attachments might include an:

- ↪ *ACH Authorized Signature Form*
- ↪ *ACH Deposit Schedule*
- ↪ *ACH Fee Schedule*

You will want to consult with your legal counsel prior to developing your own agreement or using any sample agreement. A complete list of responsibilities can be found in the Federal Reserve [Operating Circular #4](#), as well as in the *ACH Rules*. The Federal Reserve [Operating Circular #4](#) can be located in the Industry Topics section of the Federal Reserve Financial Services Internet site (www.frbservices.org).



↪ *Participation Agreement*

↪ *ACH Processor Agreements*

In addition to establishing agreements with your customer, you will want to complete or revise agreements with your ACH Operator. When processing with the Federal Reserve Bank, contact your Business Development representative or your Federal Reserve's ACH Department for assistance in completing any agreements necessary for FedACH origination. The participation agreement can be located in the FedACH section of the Federal Reserve Financial Services Internet site (www.frbservices.org).

↪ *Assess Risk Issues*

As with any new service, you will want to evaluate any risk associated with offering FedACH origination. As the transactions and dollar volumes in ACH grow, there is increasing concern with payments system risk. As a result, no discussion of participation in the ACH would be complete without discussing related risks and methods to reduce that risk.

For a more complete discussion of risk issues, please refer to the NACHA publication, *ACH Risk Management Handbook*. To obtain a copy, please contact NACHA or your regional payments association.

↪ *Credit Risk*

Credit risk is the risk that a participant in a transaction cannot provide the necessary funds, as contracted, in order for settlement to take place. Typically, credit-risk-related losses arise from the failure or bankruptcy of a company. This type of risk can be associated with both ACH credit and debit transactions.

↪ *ACH Credit Risk*

The ODFI is exposed to credit risk between the time it releases the FedACH file to the Federal Reserve until the Originator funds its account. Generally, the Originator will fund its account on the day of settlement (1 or 2 business days after origination). Because the *ACH Rules* do not allow you to reverse ACH credits for failure of the Originator to fund its account, you are financially responsible for payment of these items for up to two days or until you receive funding from the Originator.



ORIGINATION OF AN ACH CREDIT FILE

DAY 1	DAY 2/3
An ACH credit file is sent from the Originator to the ODFI.	The ODFI's account is charged by the Federal Reserve Bank.
↓	↓
The ODFI processes the file and delivers transactions to the Federal Reserve Bank.	The Originator declares bankruptcy.
↓	↓
ACH credits are delivered to the RDFIs by the Federal Reserve Bank.	The ODFI has an unsecured claim against the Originator for the entire amount of the ACH credit file.

(Shaded areas represent ODFI's Credit Risk Exposure)

The origination of ACH credit items results in debit settlement for the total value of the file. Because needed funds may not be available from the Originator on settlement day, the risk is equal to the total amount of the file. There are two approaches that limit your ACH risk. For unestablished or weak credit accounts, prefunding may be used. With this approach, the Originator pre-pays the full amount of their credit origination file before it is transmitted. Overnight interest can be paid to compensate the Originator or interest can be accrued to offset processing fees. A second, more common approach is to qualify the Originator for a line of credit equal to their maximum credit exposure.

➔ **ACH Debit Transactions**

When you process ACH debit transactions, the items settle one business day after the day of origination. As a result, you will make funds available to the Originator for the total value of the file on settlement date. Because items can be returned, the ODFI experiences credit risk from the time it grants the Originator credit for the total value of the file until the time frame for returns has expired.

Like checks, ACH items can be returned for several reasons such as “insufficient funds,” “account closed,” “unauthorized transaction,” “payment stopped,” etc. The most common return reason is “insufficient funds.”



ORIGINATION AND RETURN OF AN ACH DEBIT ITEM

DAY 1	DAY 2	DAY 2/3	DAY 3/4	DAYS 4-60
<p>An ACH debit file is sent from the Originator to the ODFI.</p> <p>↓</p> <p>The ODFI processes the file and delivers the transactions to the Federal Reserve Bank.</p> <p>↓</p> <p>ACH debits are delivered to the RDFIs by the Federal Reserve Bank.</p>	<p>The ODFI credits the Originator's account for the total amount of the ACH debit file.</p> <p>↓</p> <p>The RDFI's account is debited by the Federal Reserve Bank.</p>	<p>The RDFI returns the ACH debit for insufficient funds.</p>	<p>The ODFI receives an ACH debit return.</p> <p>↓</p> <p>The Originator claims bankruptcy.</p> <p>↓</p> <p>The ODFI has an unsecured claim against the Originator for the value of the ACH debit returned.</p>	<p>Receiver signs affidavit for unauthorized or revoked authorization and RDFI returns the the ACH debit.</p>

(Shaded areas represent ODFI's Credit Risk Exposure)

In general, returns are due back to the ODFI by opening of business on the day following the original settlement date. Consumer ACH debit items returned as “unauthorized” or “revoked authorization” must be returned within 60 days, which is the time frame established by the *ACH Rules*.

When you receive a returned ACH debit, you will charge the item back to the Originator's account. If the account is closed, has a negative balance, or is frozen due to bankruptcy, you may suffer a loss for the amount of the returned entry. The most significant factor determining the amount of risk you will assume for ACH debit transactions originated is the amount of the individual entries.

The risk associated with ACH transactions is the same that you experience with checks - when a check that your customer has deposited is returned, there is the risk that your customer may not have sufficient funds to cover the returned check. You may suffer the loss of the returned check. The origination and return pattern of an Originator should be assessed in detail to determine relative risk. In some cases, it may be appropriate to allow partial access to credits associated with debit Originators.



➔ *Controlling Credit Risk*

As a participant in the ACH, it is important to realize that there is potential credit risk and then take action to manage this risk. Originator default is the primary cause of credit risk. One way to minimize this risk is to develop methods to monitor your ACH origination customers and establish controls over the operation. Suggestions in the *ACH Risk Management Handbook* include developing methods for customer ratings, establishing specific credit limits by application, instituting supervised exception reporting, and processing agreements between participants which comprehensively address risk-related issues. The general rule for risk reduction is “Know Your Customer.”

As a means of controlling credit risk, *ACH Rules* now require each ODFI to establish exposure limits for each of its corporate Originators prior to the release of ACH credit and debit entries for that Originator. The *ACH Rules* also require ODFIs to annually audit these limits.

➔ *Operational Risk*

Operational risk is the risk that a transaction will be altered or delayed due to an unintentional error. Examples of operational risk include loss due to clerical error or hardware and software failures. As a result, the timing of ACH processing may be altered. To decrease operational risk, you should review your procedures, identify areas of potential risk, and establish procedures to reduce risk. For more comprehensive information, we recommend that you refer to the *ACH Risk Management Handbook*.

➔ *Fraud Risk*

Fraud risk results from a transaction being initiated or altered to misdirect or misappropriate funds. Fraud risk may result from employees or corporate customers’ employees attempting to embezzle money, or from an external source gaining unauthorized access to the System.

There are several ways to reduce the risk of fraudulent activities being perpetrated by a customer’s employees. One method is to place specific limits on the dollar amount an Originator is authorized to originate. Another method is to confirm control totals with someone at the Originator other than the person(s) who created and sent the file.

You can reduce the chance that fraudulent activities can take place in your institution by ensuring that no single employee is responsible for the receipt, handling, and transmission of files. FedLine has built-in controls that allow the separation of duties between the employee who originates the file and the employee who establishes host communications to transmit the file to the Federal Reserve. Responsibilities should always be rotated among employees and all changes made to a file must be authorized by the customer, documented by employees, and approved by management. The implementation of sound personnel practices; maintenance of good physical security over computers, communications, and operations areas; as well as the establishment of stringent data security procedures are also ways to control fraud risk.



↪ *Systemic Risk*

Systemic risk is best defined as the “domino effect.” It is the risk that an ACH participant’s inability to settle its commitments will cause other participants to be unable to settle their commitments. This type of risk is not unique to the ACH Network; both check and wire transfer payments expose financial institutions to systemic risk. Unlike credit, operational, and fraud risk, individual financial institutions alone cannot control their exposure to systemic risk.

For a more complete discussion of risk issues, please refer to the *ACH Risk Management Handbook*. To obtain a copy, please contact NACHA or your regional payments association.

↪ **Operational Procedures**

↪ *Establish Connection With The Federal Reserve Bank*

ACH items must be delivered to the Federal Reserve via an electronic connection. This electronic connection can be established one of two ways. A FedLine connection provides an inexpensive method of connection to the Federal Reserve Bank for low to medium volume institutions. A Computer Interface (CI) connection provides an efficient method of transmitting large volumes of data. In addition to using FedLine or a CI connection for FedACH origination, you also may use these connections to initiate funds transfers or book-entry securities transfers and monitor your Federal Reserve account. Alternate methods of processing include originating your ACH items through a correspondent bank or third-party processor that is electronically connected to the Federal Reserve Bank. This manual is written under the assumption that the reader processes their ACH through FedLine.

↪ *Processing Options*

↪ *FedLine*

FedLine is the Federal Reserve Bank’s PC-based information and processing system. Financial institutions of all sizes can originate and receive FedACH debits, credits, return items, and notifications of change (NOCs) electronically. Information can be entered into FedLine via key entry, or information can be downloaded (imported) from either your in-house ACH software or direct from the corporate customer’s software into FedLine for transmission to the Federal Reserve Bank. It is easy to further justify the cost of FedLine because you can automate other operational functions beyond FedACH, such as funds and securities transfer.

If you have a FedLine connection, but are not currently using the FedACH origination feature, call your Business Development representative for help on how to begin using the feature. If you are not currently a FedLine user, please call your Business Development representative for more information about establishing a FedLine connection. For information regarding connection prices, please refer to the [fee schedule](#) located in the Electronic Access section at the Federal Reserve Financial Services Internet Site (www.frbervices.org).



↪ *Computer Interface*

Computer Interface (CI) is a direct computer-to-computer connection between your institution and the Federal Reserve Bank. It offers the fastest method of delivery and receipt of FedACH files and is recommended for high-volume customers. You may choose to use the Federal Reserve Bank's Bulkdata transmission utility or write your own software using the Federal Reserve's Computer Interface Protocol Specifications (CIPS).

A CI connection allows you to transmit large encrypted files to ensure data integrity over high-speed lines. A CI connection also can provide access to other Federal Reserve services.

Call your Federal Reserve Bank Business Development representative for more information about establishing a CI connection or for help on how to add the FedACH origination feature to your CI connection.

↪ *Correspondent Bank or Third Party Processor*

An alternative to a direct connection to the Federal Reserve is to process ACH transactions through a correspondent bank or third party processor that is electronically connected to the Federal Reserve Bank. If you currently process your daily work through a correspondent bank or third party processor, you may want to contact them to provide you with more information regarding ACH origination through their system. In addition, third party processors that specialize to certain payments such as payroll and loans may be a good alternative for you and your corporate customer to review as an option for ACH origination.

➤ *Establish Information Delivery With Corporate ACH Originators*

↪ *Delivery Options*

Your next step in establishing operating procedures is to determine how you will receive the ACH information from your corporate customer, which will depend on your customer's processing capabilities and your operating restrictions. You may want to establish guidelines on how the information will be accepted, or you may want to work with each customer individually to address their particular needs.

↪ *First:*

Determine if the customer will deliver information to you via paper (fax), diskette/CD, or electronic transmission.

↪ *Second:*

If data delivery from your corporate customers is via electronic transmission or diskette/CD, determine if the information is in the proper NACHA format:



If so, no additional handling is necessary by your staff. Information is ready to be imported into FedLine and transmitted to the Federal Reserve, or processed through a correspondent bank or third party processor.

If not, the information must be converted to NACHA format (specified in the *ACH Rules*) by one of the following methods:

- Reformat the file by using specially programmed software that will convert information into the NACHA format. This software can be purchased from an external ACH software vendor.
- Offer software to your customer for the creation of properly formatted files. Some ACH software vendors offer a multiple licensing fee, which will enable you to copy a program and offer it to your customers for processing ACH transactions. In most cases, this software will allow the customer to transfer information from its processing system (i.e., payroll) to this software for conversion to the proper format. Information also can be included via key entry. Once converted, the information can be transmitted or saved to diskette, and delivered to your operation for further processing. The cost of providing this software can be recovered by factoring it into your ACH pricing. See below for more information about choosing ACH vendor software.

If the information is received on paper:

- Key the information into FedLine for transmission to the Federal Reserve. FedLine will format this information into the required NACHA format. You may want to store this information as a recurring batch on FedLine so that only the items that change will need to be key entered each time.
or
- Key the information into your in-house system which will create a file for electronic transmission to the Federal Reserve.
or
- Follow other arrangements as instructed by your correspondent bank or third-party processor.



➤ *ACH Software Vendors*

ACH software vendors can be helpful if you plan to do FedACH origination for multiple customers. The software provides the following features that may be beneficial to your business:

- Item Warehousing
- Agreement Tracking
- Prenote Tracking
- “On-Us” Item Shipping

When choosing ACH software vendors, you should focus on your long-term ACH operating needs. Because ACH processing and regulatory environments change, it is best to choose software that can easily adapt to regulatory changes. It also is important to make sure your software vendor has a track record of promptly providing software updates when necessary due to processing or regulatory changes. Here is a checklist of steps to assist you in the ACH vendor software selection process:

- Develop a software selection team
- Determine the capabilities/restrictions of existing system and software
- Determine the required and desired software features, including:
 - automated features
 - batch processing features
 - editing features
 - reformatting features
 - security features
- Identify potential software resources
- Determine the maximum software expenditure allowed
- Qualify software vendors based on product features as well as initial and ongoing product costs (see below)
- Qualify software vendors through contacts with current users
- Analyze results and make your decision

➤ *Vendor Questionnaire*

Here is a sample of some questions you may want to use when you contact and qualify software vendors.

- What applications does your ACH software support?
- Is the software stand-alone or is it a module in another program?
- Is this a PC, minicomputer, or mainframe program?
- What operating system do you support? (e.g., Windows 95, Windows NT)
- What programming language do you support?



- Do you support all ACH payment formats/applications? (Please list the ones you support.)
- Do you specialize in a particular ACH application?
- Do you provide 24-hour production support?
- Who should be contacted for more information?
- What is the price of your software package?
- Do you offer multiple licensing fees? If so, how is this priced?
- Please provide any additional information you feel is applicable.

➤ *Develop Deposit Deadlines*

A deposit schedule should be provided to your corporate Originators indicating the time of day and how many days prior to settlement you must receive the file to process the information in a timely manner. To ensure timely processing at the Federal Reserve Bank, credit items must be originated one or two days prior to settlement day; debits must be originated one day prior to settlement day. The day of receipt should be clearly defined in “business days” and bank holidays should be noted as non-processing days. A sample deposit schedule may be found on page 2-19. You will want to:

- Allow time to verify and consolidate company batches;
- Allow time to recreate unreadable transmissions or diskettes/CDs;
- Allow time to recreate rejects from the Federal Reserve; and,
- Review the Federal Reserve’s deposit schedule (see below) and determine at what time or times you will deposit FedACH files (this may fluctuate from day to day).

You may want to have those corporations that originate ACH transactions at regularly scheduled times provide you with a processing schedule for the year. By outlining the processing year, you can easily identify those processing days that may fall on a non-business day or holiday and reschedule processing as appropriate. A sample ACH processing calendar is provided on page 2-18.



➤ *Federal Reserve Deposit and Delivery Schedule (Eastern Time)*

Following are the Federal Reserve's FedACH deposit deadlines:

Deadline	Deposit Deadlines
Immediate Settlement Date (returns only)	2:00 P.M. ET
One-day credits for opening of business availability	
Close of Business	3:00 A.M. ET

➤ *Immediate Settlement Deadline (2:00 P.M. ET)*

All return items delivered electronically prior to this deadline will receive immediate settlement. All items deposited by this deadline will be available to the receiving institution in time to meet the NACHA funds availability deadline for posting and availability to the recipient account by opening of business the following day. By depositing one-day credits by this deadline, the consumer will have funds available at the opening of business.

➤ *Close-of-Business Settlement Deadline (3:00 A.M. ET)*

All one-day items deposited prior to this deadline will settle that morning (or the next day if the item is a two-day item).

As an ACH originator, you will be required to be an RDFI. Receipt and handling of returns and NOC's are critical to origination obligations. Please reference Federal Reserve [Operating Circular #4](#), Appendix B for the current schedule, which can be found on the Industry Topics section of the Federal Reserve Financial Services Internet site at www.frbservices.org.

The following times reflect the Federal Reserve delivery schedule:

Delivery Schedule			
1:00 P.M. ET	4:00 P.M. ET	10:00 P.M. ET	6 A.M. ET

If you receive only one file per day, you receive the 6 A.M. ET delivery. If you receive two files per day, you receive the 4 P.M. ET (contains immediate settlement items and one-day credit items that qualify for NACHA's funds availability deadline) and 6 A.M. ET deliveries. You may also receive all four scheduled file deliveries.



➤ *Sample Deposit Schedule (for Corporate Originators)*

<i>Delivery Method</i>	<i>Day/Time of Delivery¹</i>
<i>Consumer Debit Transactions</i>	
Paper	<i>Two Business Days Prior to Effective Date; Noon</i>
Diskette/CD	<i>One Business Day Prior to Effective Date; 2 PM</i>
Transmission	<i>One Business Day Prior to Effective Date; 5 PM</i>
<i>Consumer Credit Transactions</i>	
Paper	<i>Two-Three Business Days Prior to Effective Date; Noon</i>
Diskette/CD	<i>One or Two Business Days Prior to Effective Date; 2 PM</i>
Transmission	<i>One or Two Business Days Prior to Effective Date; 5 PM</i>

¹ *Deadlines: Select a time best suited for your processing needs.*



➤ Cost of FedACH Origination Worksheet

**Manual Entry on FedLine
(Per Cycle & Monthly)**

Set Up Cost¹

Recurring Batch Set-up on FedLine

Time Required in Hours:

$(\# \text{ items}) \times (2 \text{ minutes per item}) / 60 \text{ minutes}$ _____

Cost:

$(\text{Time required in hours}) \times (\text{average hourly wage})$ _____

Total _____

Per Cycle Cost

Federal Reserve Processing Fees

Per-Item Fees for Forward Items

$(\# \text{ items per cycle}) \times (\text{Federal Reserve Per-item fee})$ _____

Per-Item Fees for Return Items

$(\# \text{ items per cycle}) \times (\% \text{ returns}) \times (\text{Federal Reserve Per-item fee})$ _____

File Fees

$(\# \text{ files per cycle}) \times (\text{Federal Reserve file fee})$ _____

Total _____

ODFI Processing Costs

Item Receipt/Handling & Log Maintenance

Time Required in Hours:

$(\# \text{ ACH batches per cycle}) \times (\text{minutes per batch}) / 60 \text{ minutes}$ _____

Cost:

$(\text{Time required in hours}) \times (\text{average hourly wage})$ _____

Updating Recurring Batch on FedLine

Time Required in Hours:

$(\# \text{ changes per cycle}) \times (1 \text{ minute per item}) / 60 \text{ minutes}$ _____



Return Handling

Time Required in Hours:

$(\# \text{ items per cycle}) \times (\% \text{ returns}) \times (5 \text{ minutes per item}) / 60 \text{ min}$

Cost:

$(\text{Time required in hours}) \times (\text{average hourly wage})$

Total

Total Per-Cycle Cost

Total Cost Per Month

$(\text{Number of cycles per month}) \times (\text{total per-cycle cost})$

plus:

FedLine monthly fee (prorate based on usage for FedACH origination)

plus:

account servicing fee (prorate based on items originated vs. received)

Total

¹ Prenotification costs are not included. Prenotification entries are considered optional for all SEC codes and payment types effective September 20, 1996.

FedACH Fee Schedule

For more information regarding FedACH fees, please review the [fee schedule](#) in the FedACH section of the Federal Reserve Financial Services web site, (located at www.frb services.org).

Develop Documentation and Controls

Assign Responsibilities

Any successful operation is based on assigning specific responsibilities and identifying time frames to complete various operational functions. The ACH operation is no different. It is essential that someone or some group be assigned responsibility for monitoring and controlling the operational aspects of ACH activity. Your institution may want to consider the following as possible assignments:

- Identify who is authorized to perform certain functions (for example, assign passwords to software, etc.).
- Identify who ensures that ACH files are processed promptly.
- Identify who is responsible for ensuring that all transmissions have successfully been made.
- Identify who handles entries that have been returned to you.
- Identify who notifies the Originator of exception items.
- Identify who handles customer inquiries.
- Identify who will complete ACH annual audits.



↳ *Document All Procedures*

A number of periodic tasks must be completed to maintain an efficient ACH operation. To ensure that all tasks are completed, you should document all procedures by:

- ↳ Establishing a Daily Procedures Checklist that identifies all steps your staff must follow in processing ACH information. A sample Daily Procedures Checklist is provided on page 2-23.
- ↳ Designing an ACH Control Log to record selected information for incoming ACH files. The Log provides a daily summary of expected ACH activity. Your staff should compare all incoming files against the log to receive to ensure that all files have been received. A sample ACH Control Log is provided on page 2-24.
- ↳ Designing an ACH Transmittal Register to be completed by the Originator and submitted with ACH files (paper, diskette/CD, electronic transmission). The Register summarizes the Originator and ACH information contained in the file (item count, number of debits, number of credits, etc.) and can be used to balance the file once it has been processed. A sample ACH Transmittal Register is provided on page 2-25.
- ↳ Providing Originators with reports of ACH settlement amounts and notices of any return items or Notifications of Change.

↳ *Establish Controls for Originator's Diskette/CD*

If your corporate Originators provide ACH items on diskette, you will want to:

- ↳ Ensure that the diskette is accounted for and returned to the Originator in a timely manner. This will prevent this information from getting into unauthorized hands.
- ↳ Scan all diskettes to detect any viruses prior to importing the information into your system.

↳ *Evaluate and Implement Procedures to Reduce Risk*

It is important to identify the risks associated with FedACH origination. You can then implement procedures to reduce those risks. Please refer back to page 2-8 in this Manual to review the types of risks associated with FedACH origination as well as ways to control these risks.



Daily Procedures Checklist

TIME/

INITIALS/

DATE/

- Enter all files received for processing on ACH Control Log.
- Compare files received to files scheduled for receipt according to processing calendar; call Originators whose files have not been received.
- Record file and item counts for billing purposes.
- Process file and enter totals on Control Log; compare these to Transmittal Register totals.
- Transmit files to the Federal Reserve.
- Verify receipt by the Federal Reserve using the ACH file acknowledgment. Compare the item and dollar totals received to the ACH log of items transmitted.
- Report verification of item and dollar totals to the Originator; send the item and dollar totals to a contact at the Originator other than the person who originated the file (for audit control).
- Post funds to Originator's account on settlement date.
- Log Return Items and Notifications of Change received for Originators.
- Report Return Items and NOCs to Originator and follow up to resolve outstanding items.
- Post returned items to Originator's account.
- Reconcile total item counts by category, Originator, and billing period. Create ACH billing for your Originators.



<p>(Name of ODFI)</p> <p>ACH Transmittal Register</p>	
Immediate Destination RT/ABA Number (Your Routing/Transit Number)	Immediate Destination Name (Your Institution Name)
Company Name	Company Application ID#
Processing Date	File Media Effective Date
-Total Debits \$-	-Total Credits \$-
Authorized Signature	Date Released Time & Date Received
	-Total Items-



ACH Authorized Signature Form

Date _____

Company Name _____

Company ID# _____

The____ Signatures Below Are The Signatures Of Employees Vested By Our Board Of Directors With Full Authority To Sign Transmittal Registers Used In Conjunction With The Deposit Of ACH Files.

Name Signature

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.

Authorized Signature

Title



↳ *Establish Contingency Plan*

You will want to establish contingency plans to handle exceptional conditions in a timely, accurate, and efficient manner. A number of circumstances require contingency plans. The following list highlights some circumstances that you should anticipate and consider in contingency planning. This list is not intended to provide all of the answers, but rather to help you think of situations that could arise, so that you may develop procedures for such occurrences. Developing a contingency plan will help ensure uniformity and quick response by your staff. For more information about Federal Reserve contingency plans, contact your local Federal Reserve ACH department. District-specific contingency plans can also be found on your local Federal Reserve's Internet site.

↳ *Exception Processing*

Be prepared to handle the following:

- ↳ Duplicate files that are received from the Originator.
- ↳ Files that are originated twice.
- ↳ ACH information that is delivered late from Originators.
- ↳ Disks or paper listings of ACH items that are lost.
- ↳ Entries, batches, or files that are rejected at the Federal Reserve.
- ↳ On-site computers that do not operate properly.

↳ *Operations Issues*

↳ *Originator considerations*

- ↳ Review re-deposit options.
- ↳ Create schedules that allow time for re-deposits.

↳ *ODFI considerations*

- ↳ Review options to resend the file.
- ↳ Ensure capability to create a reversal file in the event of a duplicate or erroneous file. The Federal Reserve can also provide this service.
- ↳ Evaluate batch-level rejects as an option.

↳ *Back-up considerations*

- ↳ Review the capability of back-up systems, in case of a power outage.
- ↳ Establish a local alternate access point (another financial institution with a FedLine connection) for submitting files to the Federal Reserve. Ensure proper agreements are completed and the process is periodically tested.

↳ *Missed Deadlines*

- ↳ Verify who the correct contacts at the originating company are when a deadline is missed.
- ↳ Review alternative methods to deliver funds (i.e., wire transfer).
- ↳ Determine who (company, ODFI) should adjust settlement totals, if necessary.



↪ *On-Site Computer Failure*

- ↪ Establish short-term back-up plans (evaluate the time-critical nature of the payments – one-day vs. two-day credits).
- ↪ Establish long-term back-up plans (use of alternate access point or “hot-site” location).



Begin Origination

Test File

Prior to sending your first FedACH file, you may want to have your corporate customer send you a test file. This provides an opportunity to verify technical connectivity, format and process procedures. Then you may want to test with the Federal Reserve Bank. You can create and send a test file or use the file your company originated to submit to the Federal Reserve in a test mode. This process would allow you to check the file format as well as connectivity and also get a feel for how the process with the Federal Reserve would work. For more information on this process, please call your local Federal Reserve ACH Department.

In addition, prenotes can be originated to test specific detail about the payments being made. A prenotification (prenote) is a zero-dollar entry sent through the ACH to the RDFI for a recurring ACH transaction. It conveys the same information as a normal entry, with the exception that it is a zero-dollar transaction. Prenotes require that the RDFI verify the accuracy of the account number and the account type for the future transaction. A prenote may be originated at any time; however, you may not initiate an entry that creates a dollar value transfer until six banking days after the date of the related prenote.

What to Expect on Your First Day of Production

Your first day of FedACH origination is sure to be one of much anticipation. Many questions are likely to arise as to whether or not you are ready. Because this is a new and unfamiliar process, please do not hesitate to contact your local ACH Department of the Federal Reserve Bank if you have any questions or need extra assistance. After sending your first file, you can expect to immediately receive an acknowledgement on your printer from FedLine letting you know that the file is in the queue. This acknowledgement (“Your file AH...., has been successfully received and queued on the HOST at {date} {time}”) shows you that the first step has been completed successfully.

The second item that you will receive should come within an hour of sending the file. It is an acknowledgement from the Operator that the file has been received and edited. This acknowledgement tells you the status of the file and details any errors found within the file. If you do not get this acknowledgement within approximately an hour, call the ACH Department at your local Federal Reserve Bank.

What to Expect as Follow-up Actions to Origination

The day after you send a file, you can expect to receive an advice. The advice is a document that indicates the settlement of the file sent the previous day. This settlement tool will be useful to your bookkeeping department, as well as confirmation to you of origination totals.

Within the next few days, you may receive Returns or NOCs from the RFI's. The original forward item trace number is located in the addenda record of the return/NOC to help you tie this to the forward items you originated. More details on Returns can be found on 3-24.

Getting Started With
FedACH Origination

FedACH Origination Applications
Revised 4/2001





SEC Codes

ACH payment types are identified by Standard Entry Class (SEC) Codes. These three-letter codes are used within an ACH Company/Batch Header Record to designate the payment types contained within the batch. The following SEC codes are defined (in this section) for your use as a new Originator.

CBR.....	Cross Border Entry (Corporate)
CCD.....	Cash Concentration or Disbursement
COR.....	Automated Notification of Change
CTX.....	Corporate Trade Exchange
PBR.....	Cross Border Entry(Consumer)
POS.....	Point-of-Sale Entry
PPD.....	Prearranged Payment and Deposit Entry
POP.....	Point-of-Purchase Entry
RCK.....	Re-presented Check Entry

A detailed description of these SEC codes and others also can be found in the most recent *ACH Rules*.

Direct Deposit

Direct Deposit is the most widely used application of the ACH. It provides a company with the ability to credit its employees', customers', and beneficiaries' accounts with funds due to them. Direct Deposit is often used for the deposit of payroll, but it also can be used to distribute funds for the additional applications listed below. Both recurring and one-time deposits are appropriate for the Direct Deposit application.

Direct Deposit Provides:

-  Convenience
-  Safety
-  Efficiency
-  Reduced payroll processing time and costs
-  Elimination of lost, stolen or stop-payment checks
-  Increased employee productivity
-  Reduced mail-related problems
-  Reduced time and cost of checks
-  Valuable employee benefits
-  More accurate prediction of cash outflow
-  Greater control over entire cash flow process



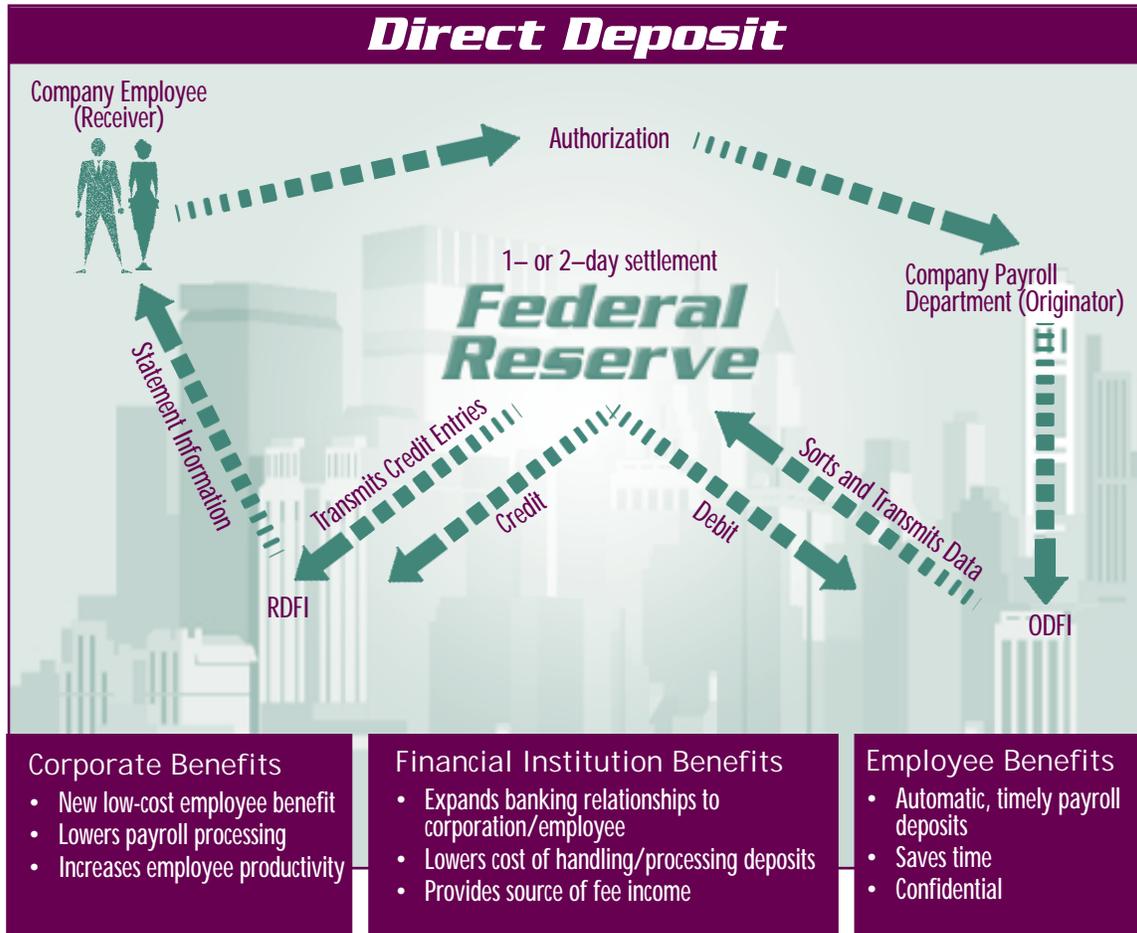
Direct Deposit Applications Include:

- Payroll
- Commissions
- Annuities/IRAs
- Dividends/interest
- Expense reimbursements
- Healthcare/prescriptions
- Benefits
- Pensions

How Does Direct Deposit Work?

See the flowchart on page 3-3

- Direct Deposit uses the SEC code, PPD (Prearranged Payment and Deposit).
- The company obtains written authorization from the employee/customer to initiate credits to the employee's/customer's checking or savings account.
- The company may create test items called prenotifications (prenotes) based on the account information provided by the employee/customer through a written authorization. The ODFI processes the prenotes through the ACH to verify that the account information is correct. The RDFI verifies the accuracy of these items and notifies the ODFI of any changes.
- The Direct Deposit information is delivered to the ODFI via electronic transmission, diskette/CD, or paper listing as agreed upon with the ODFI.
- The ODFI processes the Direct Deposit information received by electronically delivering the information to the Federal Reserve or to its third party processor. The Federal Reserve electronically distributes the items to the RDFIs.
- The Federal Reserve debits the ODFI's account on settlement day for the value of ACH credits deposited, and credits the RDFIs' accounts for ACH credit items received. The ODFI will debit the Originator's account for the total value of ACH transactions originated; the RDFIs will credit customers' accounts for the value of the ACH items received.
- The RDFI will include in periodic statements to its customers a record of any ACH transactions received. The Originator may choose to notify its employees or customers of Direct Deposit by providing a payroll stub or paper notice.





(Payroll) Direct Deposit for Corporations Checklist

- Get approval from management to proceed with Direct Deposit.
- Announce Direct Deposit to all department heads and seek suggestions for implementation.
- Meet with employees to explain Direct Deposit and distribute promotional materials. Ask all new employees to sign up on their first day of employment.
- Place information stuffers and Direct Deposit sign-up forms in employees' pay envelopes.
- Begin employee sign-up for Direct Deposit. Obtain authorization from the employee to credit his/her account with the net pay.
- Enter employee data into your FedACH origination software.
- Send sample transactions to ODFI to test file compatibility.
- Send a payroll file representing all planned Direct Deposit payments to the ODFI so the ODFI can transmit a prenote file six banking days prior to sending the "LIVE" payroll file.
- Place stuffers in pay envelopes of participating employees to remind them that on the next payday their earnings will be automatically deposited into their accounts. Remind others that they can still sign up for Direct Deposit.
- Place notices in conspicuous work areas reminding employees that the first Direct Deposit payday is coming. Again, remind non-participating employees of the convenience, safety, and reliability of Direct Deposit.
- Send "LIVE" payroll file to your ODFI.
- Verify that employees receive their first Direct Deposit.



Direct Payment

Direct Payments are electronic payments that are created when the consumer gives the Originator authorization to debit his/her account on a regular basis. The average person spends about three 24-hour days per year paying bills, thus Direct Payment drastically reduces the time spent writing checks every month. Not only can Direct Payment save time, it can save money as the cost of stamps, checks, and possible late fees are eliminated. Direct Payment is simply the most reliable, accurate, on time and confidential means of paying balances due.

Direct Payment Provides:

- Convenience
- Time savings
- Predictable cash flows
- Increased customer retention
- Reduced delinquencies
- Faster collections
- Reduced billing & collections costs
- Accurate and confidential transactions

Direct Payment Applications Include:

- Utility payments
- Mortgage or rent payments
- Automobile loan payments
- Charitable contributions
- Insurance premiums
- Membership dues
- Tuition payments
- Non-profit organization fees

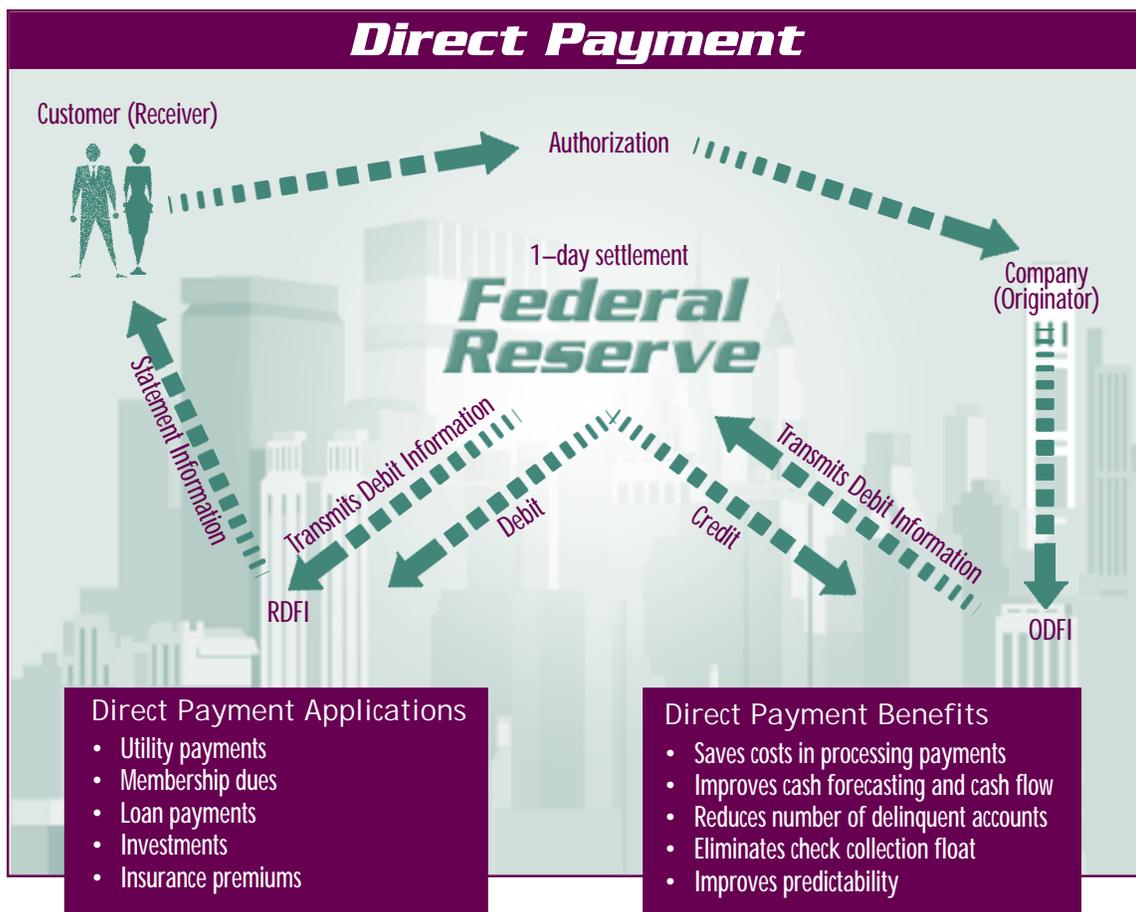
How Does Direct Payment Work?

See the flowchart on page 3-6

- Direct Payments uses the SEC code, PPD (Prearranged Payment and Deposit).
- The company obtains written authorization from the customer to debit his/her checking or savings account.
- The company may create test items called prenotifications (prenotes) based on the account information provided by the customer through a written authorization. The ODFI processes the prenotes through the ACH to verify that the account information is correct. The RDFI verifies the accuracy of these items and notifies the ODFI of any changes.



- The originating company will send the customer a monthly statement ten calendar days prior to the due date (as required by the *ACH Rules* and [Regulation E](#)), if the amount due is variable. The statement will show the amount due and the date the amount will be deducted from his/her designated account. If the amount due is constant, no notification from the company is required, according to the *ACH Rules* and [Regulation E](#).
- The company runs its billing cycle and prepares Direct Payment information that is delivered to the ODFI via electronic transmission, diskette/CD, or paper listing as agreed upon with the ODFI. This information will be provided to the ODFI at least one business day prior to the effective date, or sooner if agreed upon with the ODFI.
- The ODFI processes the Direct Payment information received by electronically delivering the information to the Federal Reserve, or to its third-party processor. The Federal Reserve electronically distributes the FedACH items to the RDFIs.
- The Federal Reserve credits the ODFI's account on settlement day for the value of all ACH debits deposited, and debits the RDFIs' accounts for the value of ACH items received. The ODFI will credit the Originator's account for the ACH items originated; the RDFIs will debit their customers' accounts for the ACH items received.
- The customer will be notified of ACH transactions on their periodic statement from the RDFI.





Direct Payment for Corporations Checklist

- Get approval from management to proceed with Direct Payment.
- Announce Direct Payment to all department heads and seek suggestions for implementation.
- Decide on advertising material desired to assist in promotion. Materials are available from the Federal Reserve Bank, NACHA, and regional payment associations.
- Decide on approach to use in order to get customers to switch to ACH.
Options include:
 - requiring all payments to be automated.
 - allowing each customer to choose a payment method and offering a discount to encourage Direct Payment.
- Create a mailing to customers explaining the benefits of Direct Payment. Include an authorization form for the customer to complete, authorizing you to debit his/her account for the payment due.
- Send the first mailing to customers.
- Place additional promotional materials at payment locations and into each customer's monthly statement.
- Implement Direct Payment for all new customers who have signed and returned authorization forms.
- Send test transaction(s) to the ODFI.
- Send an initial batch of Direct Payment customer prenotes to the ODFI six banking days prior to sending the "LIVE" file.
- Send "LIVE" transactions of payment data to the ODFI for each payment cycle. Continue to send promotional materials to those customers not yet signed up for Direct Payment.



Check Conversion

Point-of-Purchase

Point-of-Purchase gives consumers and businesses the ability to convert paper checks into electronic payments at the point-of-purchase. The MICR information from the paper check is captured by a MICR reader and the information is used to process an ACH debit to the consumer's account.

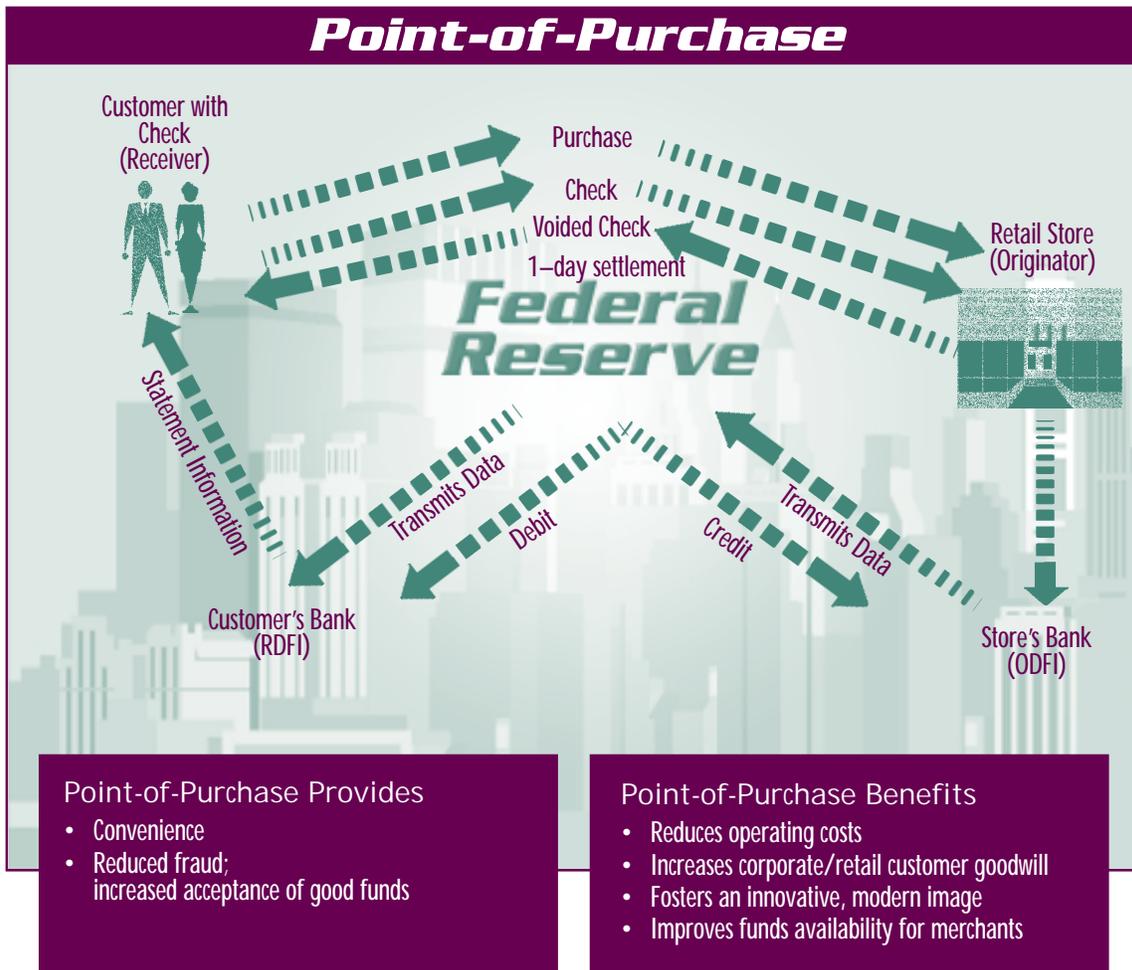
Point-of-Purchase provides:

-  Convenience
-  Efficiency
-  Reduced costs
-  Faster and more effective redeposit and return item processing
-  Simplified reconciliation
-  Detailed settlement and transaction reporting
-  Improved customer information flow
-  Lower incidence of fraud

How Does Point-of-Purchase Work?

See the flowchart on page 3-9

-  Point-of-Purchase transactions fall beneath the SEC Code, POP.
-  Consumer presents a merchant with a check.
-  Merchant runs the check through a MICR reader, capturing all pertinent information.
-  Merchant key enters the amount of the transaction and other pertinent consumer data.
-  Authorization is printed, similar to the authorizations printed in a Point-of-Sale transaction.
-  Consumer signs the authorization and keeps a copy as a record of the purchase (the authorization and the receipt may be combined into one document).
-  Merchant returns the check to the consumer marked or stamped "VOID, Not Negotiable".
-  Merchant initiates a nonrecurring ACH debit transaction.





Point-of-Sale

Point-of-Sale (POS) gives consumers the ability to use debit cards to make purchases from retail stores. The amount of the purchase is then deducted from the consumer's account via the ACH.

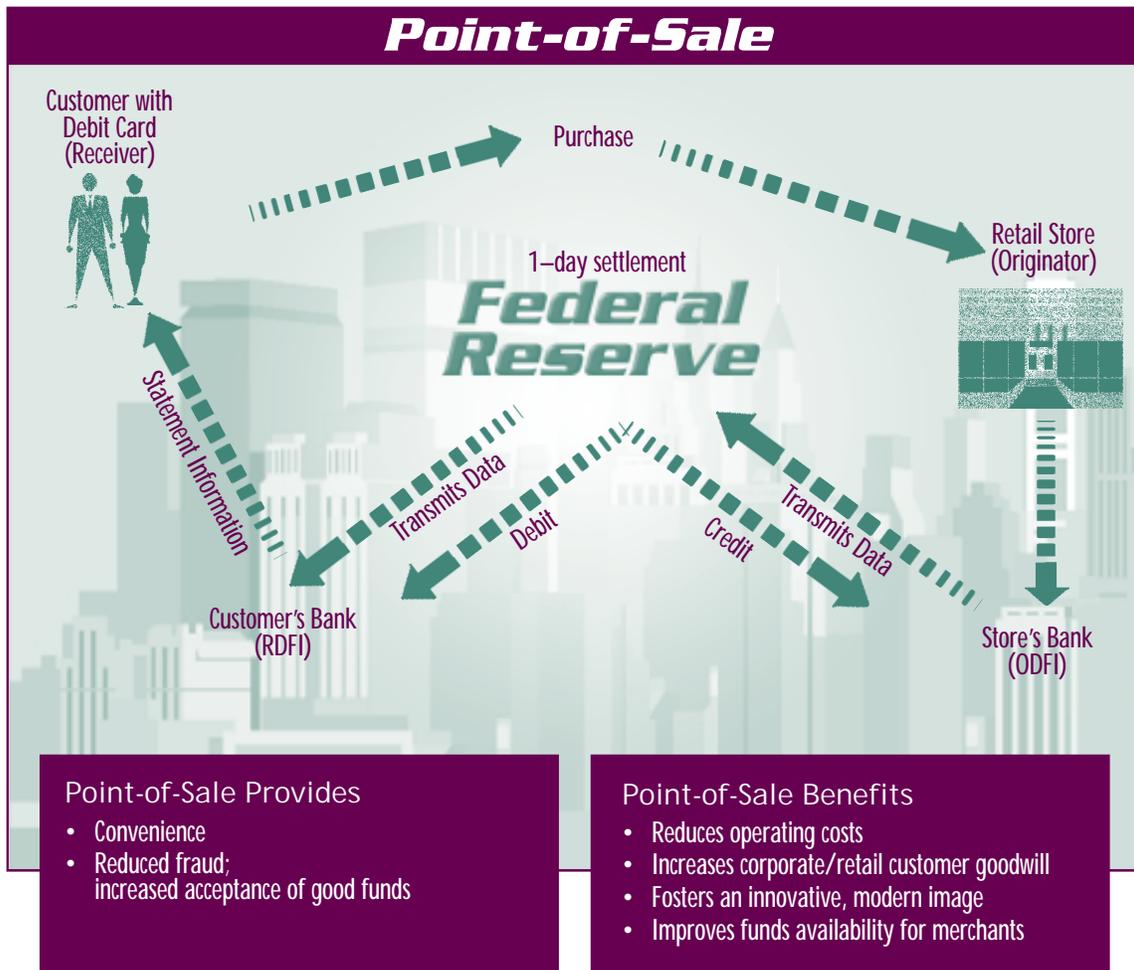
Point-of-Sale Provides:

-  Convenience
-  Efficiency
-  Reduced processing charges for retail stores
-  Saved time at checkout with no identification process (as required with checks)

How Does Point-of-Sale Work?

See the flowchart on page 3-11

-  The POS (Point-of-Sale) SEC code identifies a Point-of-Sale transaction.
-  The consumer applies for a debit card from his/her financial institution or store. The consumer signs an authorization form permitting the financial institution/store to debit his/her account for ACH transactions originated by the debit card.
-  The consumer purchases merchandise from a retail store. The debit card is swiped through a POS terminal, capturing account data from the magnetic strip on the back of the debit card. Using the ATM network, an authorization of available funds is received. The consumer is given a receipt for his/her purchase.
-  The retail store collects total POS information from the day's sales and transmits the information to its financial institution (ODFI). The ODFI processes the information and electronically delivers transactions to the Federal Reserve, or its third-party processor, for distribution to RDFIs.
-  The Federal Reserve Bank credits the ODFI's account and debits the RDFIs' accounts on settlement day. The ODFI credits the account of the retail store for the total value of FedACH items; the RDFIs debit the consumers' accounts for the amount of purchase.
-  The RDFI reports transactions on customers' monthly statements.





Re-presented Check

A re-presented check is an ACH entry that is initiated in lieu of a paper check that has been returned for insufficient or uncollected funds. Consumers can only be debited for the face value of the check. The Originator can only initiate a debit to collect fees if written authorization has been obtained from the consumer, and the debit for fees must be originated as a separate PPD transaction. Re-presented checks can only be sent through the system a maximum of three times - twice on paper and once electronically, or once on paper and twice electronically. To be eligible to be re-presented, an item must be for an amount less than \$2,500.

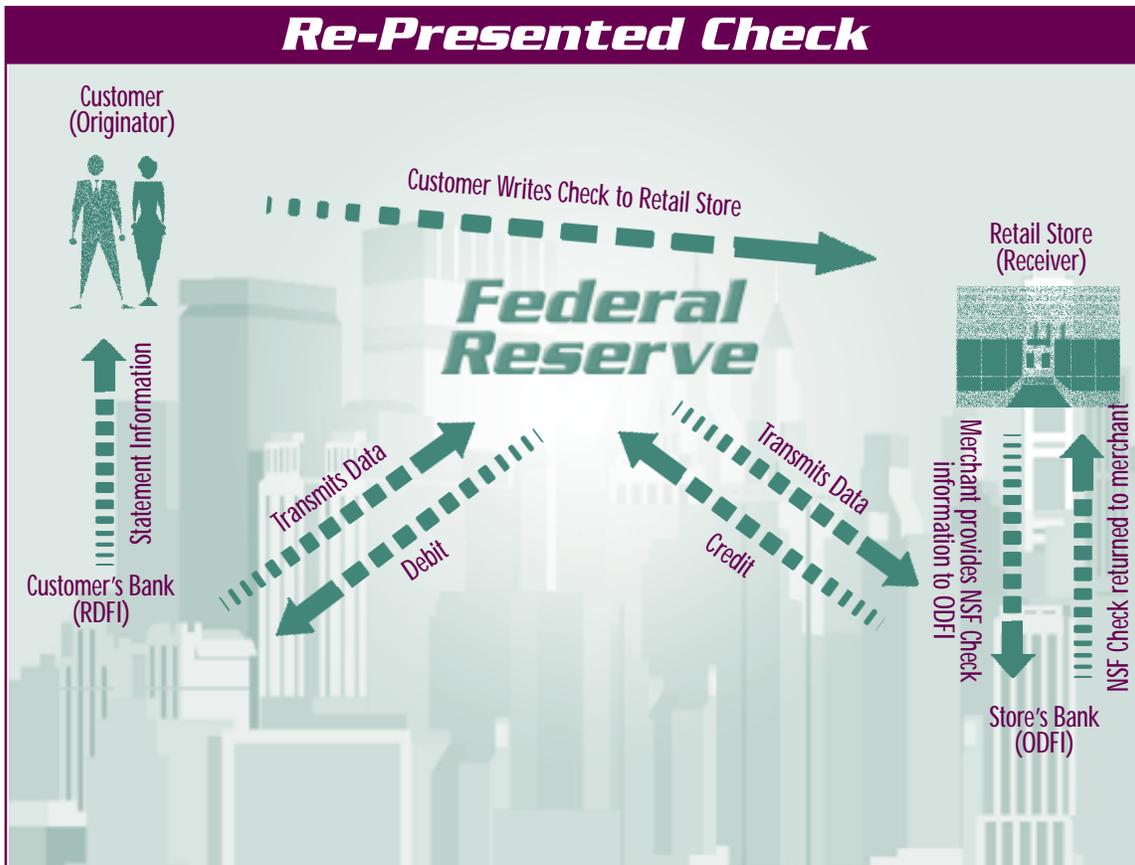
Re-presented Checks Provide:

-  Increased collection of funds
-  Enhanced ability to predict funds availability
-  Added convenience
-  Improved efficiency
-  Reduced processing charges

How Does a Re-presented Check Transaction Work?

See the flowchart on page 3-13

-  The RCK SEC code identifies Re-presented Check transactions.
-  The original check is returned to the merchant as having insufficient funds.
-  The merchant creates an RCK using the information obtained from the paper check.
-  The ACH transaction can be timed to meet the expected pay period of the consumer, increasing the opportunity of available funds.
-  With proper authorization, the merchant collects the amount of the check and any fees imposed for NSF checks.





Corporate Payments

Corporate payment applications (Corporate Trade Exchange {CTX}) provide the ability to collect and disburse funds and send payment information between companies through the ACH network. These applications may also incorporate the use of Financial Electronic Data Interchange (Financial EDI).

Corporate Payments Provide:

- Automated flow of information and payments between businesses
- Controlled and predictable cash flow
- Reduced cost of handling and mailing for purchasing, invoicing, and payment
- Defined payment dates

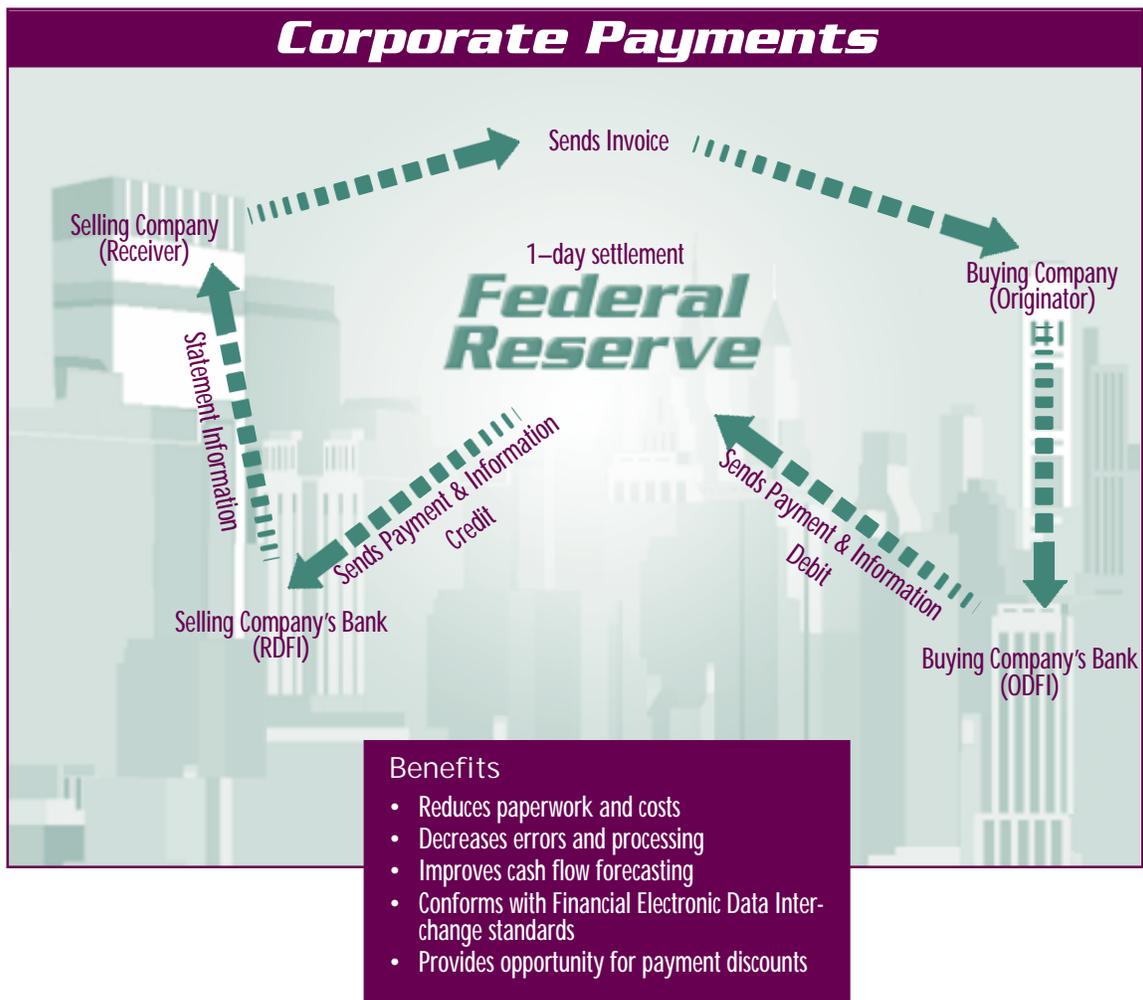
Corporate Payments Applications Include:

- Vendor payments
- Corporate tax payments
- Invoice payments
- Lease payments
- Trade payments
- Royalty payments
- Membership/subscription payments
- Debt repayment

How Do Business-to-Business Payments Work?

See the flowchart of a credit application on page 3-15

- The CTX (Corporate Trade Exchange) SEC code identifies a corporate payment with multiple addenda.
- The CCD SEC Code can be used for corporate payments with only one addenda.
- The company obtains signed authorizations from customers and suppliers to initiate ACH transactions (credits and/or debits) to their accounts.
- The company receives invoices from suppliers.
- The company delivers corporate payment information to the ODFI via electronic transmission, diskette/CD, or paper listing as agreed upon with the ODFI.
- The ODFI processes the corporate payment information received by electronically delivering the information to the Federal Reserve, or to its third-party processor. The Federal Reserve electronically distributes the items to the RDFIs.
- The Federal Reserve Bank debits the ODFI's account on settlement day for the value of the FedACH items deposited. This entry is offset by credits to the RDFIs' accounts for the value of the FedACH items received. The ODFI will debit the Originator's account for the total value of FedACH transactions originated; the RDFIs will credit customers' accounts for these FedACH items received.
- The RDFI forwards payment related data in the addenda to the Receiver for receivables updating.





Cash Concentration & Disbursement

Corporations with multiple locations may simplify their cash management by concentrating funds into one central account via the ACH. This benefits the corporation by putting all of its available cash to work, thus eliminating idle funds. Corporations also may disburse funds via the ACH, providing a low cost alternative to funds transfer. The Cash Concentration and Disbursement transactions available via the ACH provide the corporation with the options of using either debits or credits to concentrate funds.

Cash Concentration & Disbursement Provides:

- Enhanced ability to predict funds availability
- Improved collections
- Reduced cost alternative to funds transfer
- Improved control over cash disbursements

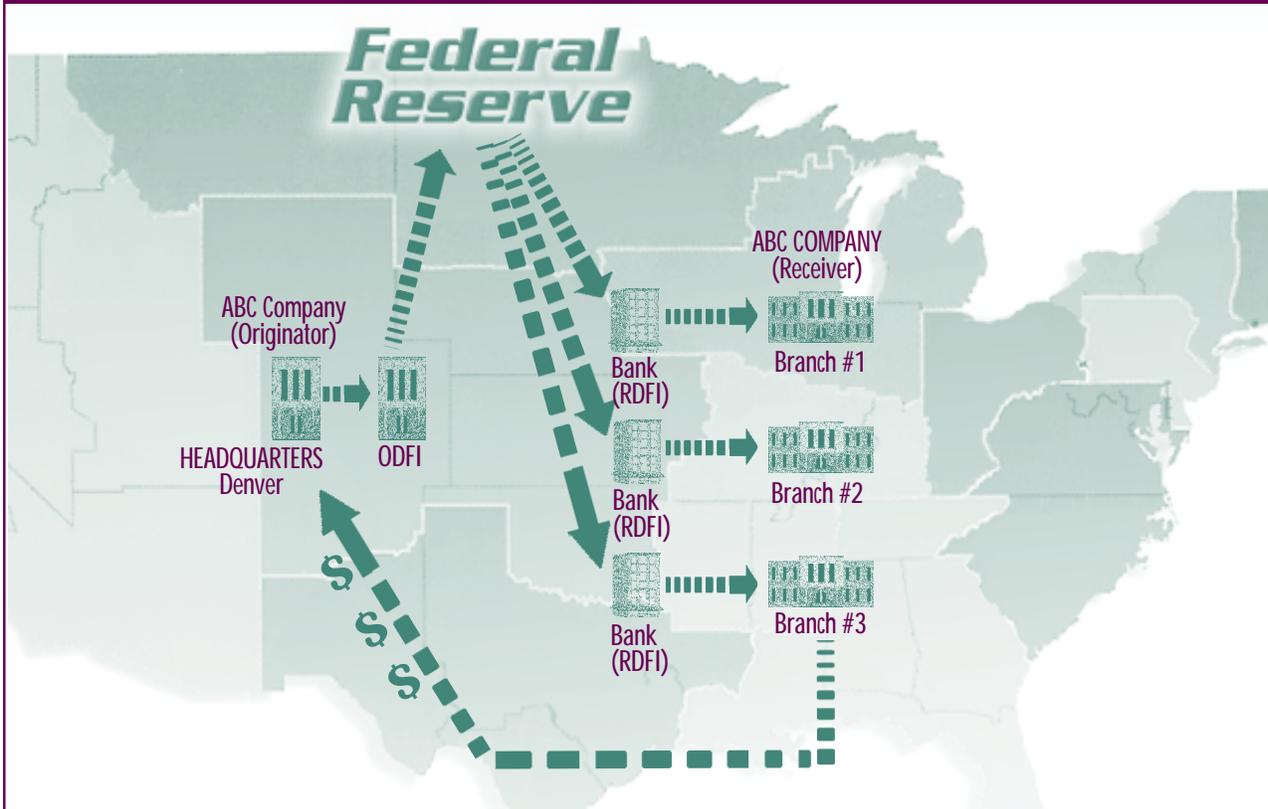
How Does Cash Concentration & Disbursement Work?

See the flowchart on page 3-17

- The Cash Concentration or Disbursement (CCD) SEC code identifies a corporate cash concentration or disbursement transaction.
- The ODFI obtains an authorized agreement from the company.
- The company gathers balance information from its outlying locations to concentrate funds. For disbursement, the company determines how much to send to which outlying locations.
- The company delivers its concentration or disbursement information to the ODFI via electronic transmission, diskette, or paper listing as agreed upon with the ODFI.
- The ODFI processes the cash concentration or disbursement information received by electronically delivering the information to the Federal Reserve, or its third-party processor. The Federal Reserve electronically distributes the items to the RDFIs.
- The Federal Reserve debits/credits the ODFI's account on settlement day for the value of the FedACH items deposited. This entry is offset by debits/credits to the RDFIs' accounts for FedACH transactions received. The ODFI will debit/credit the Originator for the total value of ACH transactions originated; the RDFI will debit/credit its customers' accounts for the value of debit/credit items received.
- The company's outlying locations will receive ACH information from their RDFIs.



Cash Concentration and Disbursement



Cash Concentration & Disbursement Provides

- Method for consolidating funds
- Method for controlling disbursements
- Reduced Costs

Handles

- Funds transfer to and from divisions, affiliates and franchises in different geographic areas
- Vendor payments

Benefits

- Improves internal funds transfers
- Increases funds investment opportunities
- Improves cash flow and funds management
- Offers alternative to depository transfer or wire transfer



Tax Payments

Electronic Federal Tax Payment System

For up-to-date EFTPS information, go to the Electronic Services section of the Department of Treasury and Internal Revenue Internet site located at www.irs.treas.gov.

The Electronic Federal Tax Payment System (EFTPS) is the initiative by the Internal Revenue Service (IRS) to automate the reporting and collection of Federal tax payments. EFTPS gives corporate taxpayers the ability to make tax payments through the ACH network.

As a new ACH ODFI, you may want to assist your customers with their electronic Federal tax payments. Unlike the paper-based Federal tax payment system, all financial institutions may participate in EFTPS; you do not have to be a TT&L depository.

EFTPS provides your institution with an opportunity to market your new ACH service, as well as the ability to create and maintain customer loyalty by meeting a customer need.

IRS Compliance Requirements

Companies with total deposits in excess of \$200,000 per calendar year are required to use EFTPS beginning in the second succeeding calendar year. For example, if you had more than \$200,000 in total deposits in calendar year 2000, you will be required to use EFTPS beginning January 2002.

EFTPS Tax Payment Process

When required to comply with this initiative, your corporate customers will receive enrollment information from the IRS. You also may have corporate customers that choose to voluntarily participate in EFTPS. For EFTPS participants, the primary method of the tax payment is through ACH debits or ACH credits. Your customers will be able to choose one of these remittance methods.

Two financial institutions have been selected to serve as EFTPS Treasury Financial Agents (TFAs): Bank One and Bank of America. The role of these TFAs is to coordinate the enrollment of taxpayers, coordinate the payment reporting, originate the ACH debits, and provide customer service for FIs and corporate taxpayers.

ACH Debit Option

For the debit option (see page 3-21), your corporate customer will provide its FedLine taxpayer deposit (FTD) data to the appropriate TFA through a personal computer, voice response system, or other similar mechanism. The TFA will then originate an ACH debit in a standard CCD format to your corporate customer's account for the amount of taxes due.

ACH Credit Option

For the credit option (see page 3-21), your corporate customer will need a financial institution to originate the credit on their behalf to the appropriate TFA. If your corporate customer is not able to create a NACHA-formatted file of their tax payments, you will need to be able and willing to create the ACH credit in the CCD format with an addenda using theTXP format for them. You can create this on FedLine.



The addenda record must be in the TXP format as required by the IRS. The chart on the bottom of this page contains an example of the type of information the TXP addenda record would contain for an employer's quarterly Federal tax payment (Form 941). The chart also shows how this information would look once it is in the TXP format. In this example, the corporate taxpayer has a total of \$300 in employer's quarterly Federal tax payments. Of this \$300, \$100 is for social security, \$50 is for Medicare, and \$150 is for withholding taxes. This is just one example of how an addenda might look. Formats may vary depending on the type of tax being paid. The addenda formats will be provided to the taxpayer with the enrollment information. Additional information about the TXP format can also be found in the EFTPS FedLine Training Manual, FedLine Supplemental Guide, and EFTPS Handbook. If you have not received a copy of these publications, you may contact your local Federal Reserve Bank.

EMPLOYER'S QUARTERLY FEDERAL TAX

(Form 941)

Taxpayer ID:	123456789
Tax Type:	94105
Tax period:	96031
Social Security:	1
Amount Owed:	\$100.00
Medicare:	2
Amount Owed:	\$50.00
Withholding:	3
Amount Owed:	\$150.00

The above information is formatted in the TXP Addenda Record:

705TXP*123456789*94105*960301*1*10000*2*5000*3*15000\

Once all the appropriate information is in the CCD TXP format, you will be able to submit this ACH credit. Regular Federal Reserve FedACH deposit deadlines apply to these electronic tax payments. After receiving your ACH file, the Federal Reserve will pass the FedACH items containing tax payments to the appropriate TFA.

The following are some operational issues you will want to consider if you choose to offer ACH credit origination for Federal tax payments:

- Your institution will need to create the CCD with a formatted TXP addenda record. If your corporate customer does not possess the ability to create a NACHA-formatted file of their tax payments, the ODFI must assume the responsibility for making sure all the tax information is entered correctly in the ACH item. Just as the case with paper tax coupons today, your corporate customer may incur penalties if an underpayment occurs. If the customer can prove it was the error of the ODFI that caused the underpayment, the ODFI can be assessed a penalty based on the lost value resulting from the delay in tax payment.

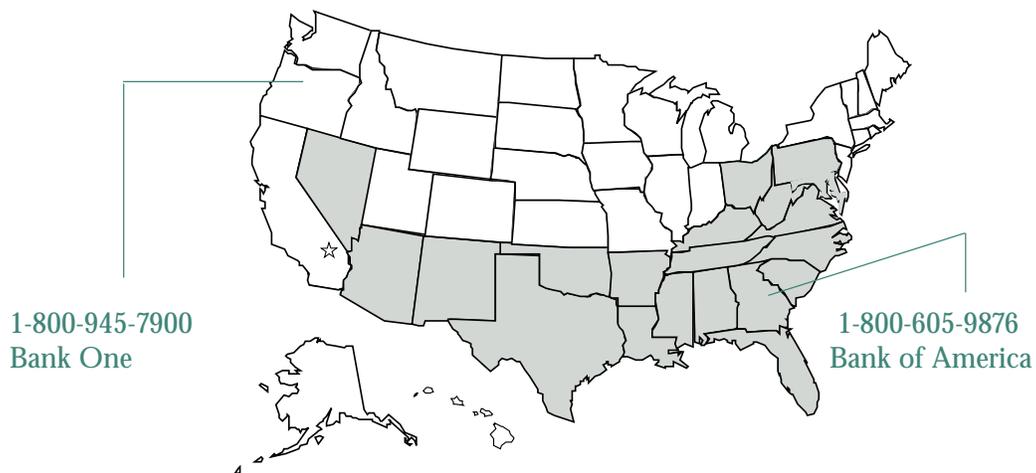


- Use the same risk issues that apply to any ACH item you originate with the origination of ACH credits for Federal tax payments. The ODFI cannot reverse an item if you subsequently realize your corporate customer does not have sufficient funds in its account.
- Take measures to reduce your risk. Keep in mind the risk information on page 2-8 of this Manual.
- Have an ACH agreement on file.



Additional Information and Assistance

The numbers listed on the chart below are financial institution helplines which you may call for assistance. If you are in the non-shaded (top) region, you will call (800) 945-7900. If you are in the shaded (bottom) region, you will call (800) 605-9876.

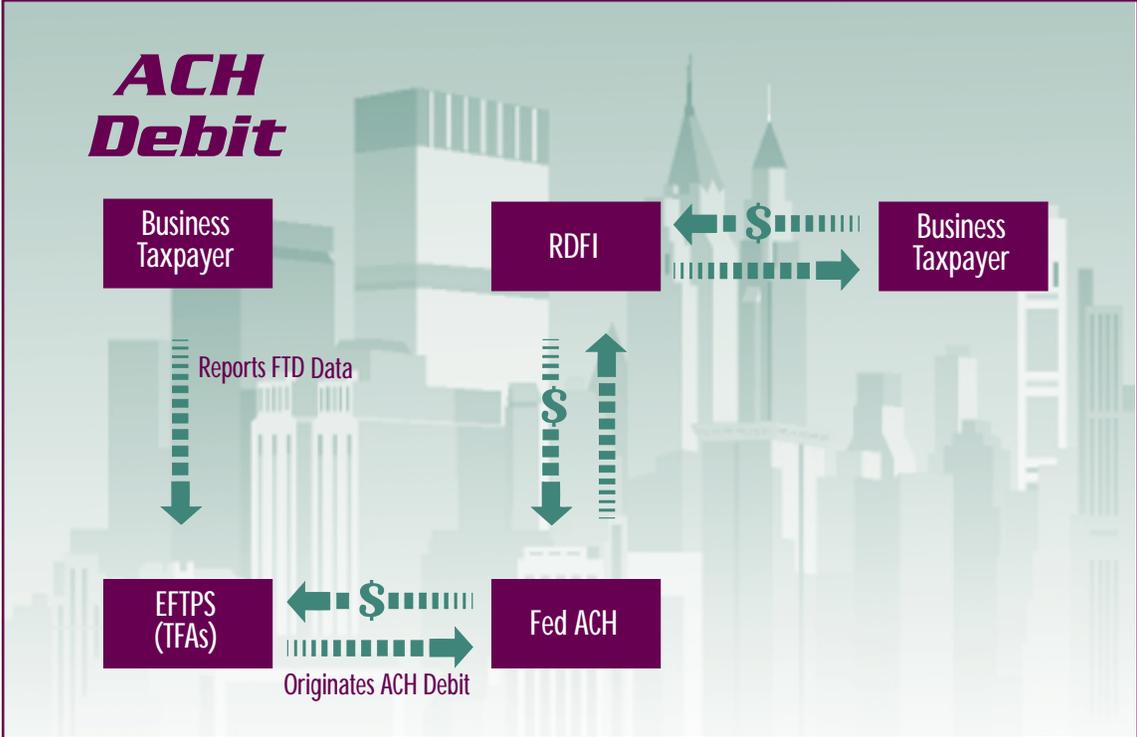


* Imperial, Los Angeles, Orange, Riverside, San Bernardino, and San Diego counties in California should call (800) 605-9876

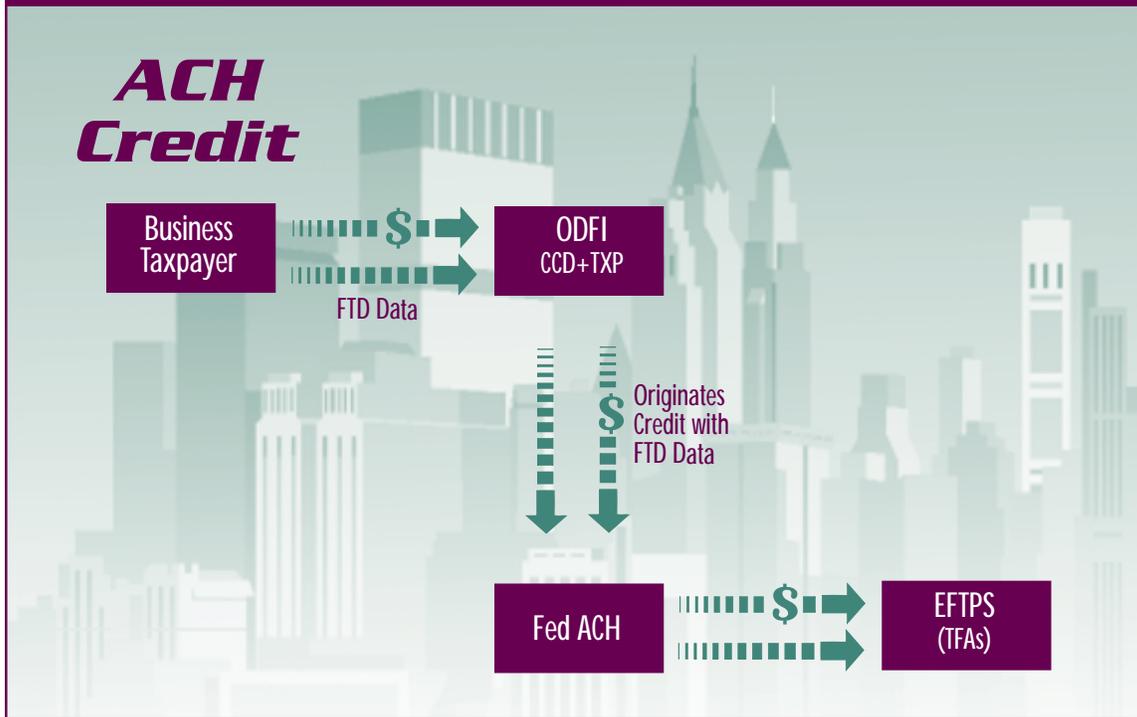
For more information, visit the Department of Treasury/Financial Management Service Internet site located at www.fms.treas.gov.



Electronic Federal Tax Payment System Process



Electronic Federal Tax Payment System Process





International ACH (Cross-Border)

As technology continues to eliminate geographical barriers, ACH participants have asked for a payment application that can traverse national boundaries. International ACH transactions allow for this to occur. The cross-border payment environment is unique in that there are two new participants in the transaction: the Originating Gateway Operator and the Receiving Gateway Operator. The Gateway Operator assumes responsibilities for foreign currency exchange, formatting issues, and other miscellaneous responsibilities associated with the exchange of ACH items with international entities. The *ACH Rules* do apply to the transaction between the U.S. financial institution and the U.S. Gateway Operator. A complete listing of the specific regulations regarding International ACH payments can be found in the *ACH Rules* and [International FedACH \(Cross-Border\) guidebook](#).

International ACH Provides:

- Automated flow of payments between international businesses
- Controlled and predicted cash flow
- Defined payment dates
- Automated currency exchange mechanism

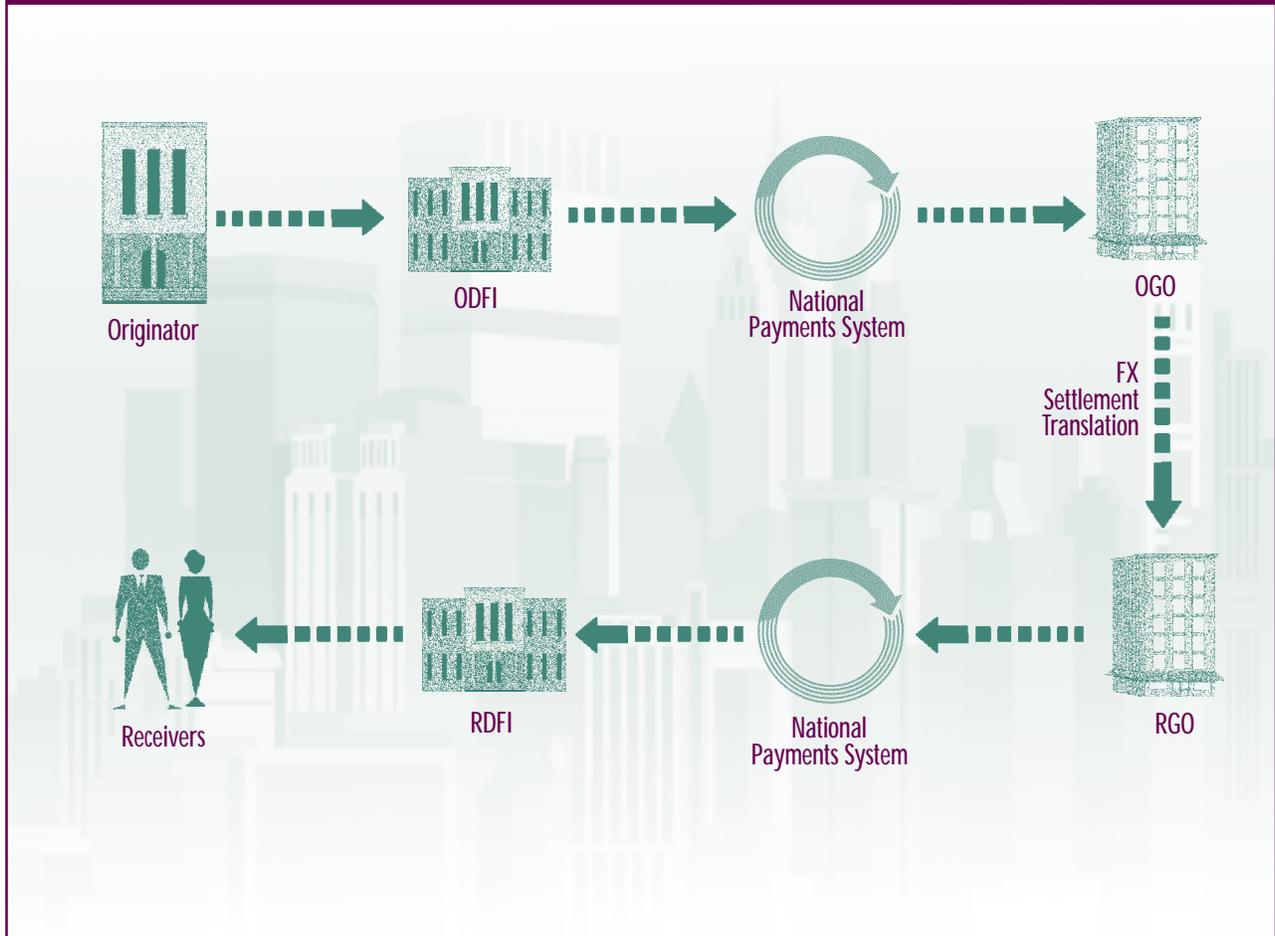
How do International ACH (Cross-Border) Payments Work?

See the flowchart on page 3-23

- The CBR and PBR SEC codes identify corporate and consumer cross-border payments, respectively.
- The originating company submits the transaction to their financial institution (ODFI).
- The ODFI transfers the items through the ACH Network to the Originating Gateway Operator (OGO).
- After receiving cross-border entries from an ODFI, the OGO transmits the entries to a Receiving Gateway Operator (RGO) in the receiving country.
- The RGO determines the financial exchange (FX) value and settles with the OGO.
- The RGO subsequently transmits the entries into its national payments system for delivery to participating RDFI's.



International ACH Payment Process





Special Transactions

Prenotifications (Prenotes)

A prenotification (prenote) is a zero-dollar entry sent through the ACH by an Originator to an RDFI. It conveys the same information (with the exception of the dollar amount and transaction code) that will be carried on subsequent entries, and it allows the RDFI to verify the accuracy of the account data. A prenote may be originated at any time; however, an Originator may not initiate an entry which creates a dollar value transfer until six banking days after the date of the related prenote.

Prenotes are optional for all Standard Entry Class (SEC) codes and payment types, however, if the Originator does elect to transmit a prenote prior to initiating a live payment, rules governing prenotes must be followed. Prenotes are not required prior to the transmission of the first live entry.

Returns

Any entry (including prenotes) initiated into the ACH system by the Originator may be returned by the RDFI if it cannot be posted. There are a number of reasons an entry cannot be posted. For example, the RDFI may not be able to post an item to the Receiver's account due to "Insufficient Funds" or "Account Closed." A Receiver also may choose to have an item returned due to "Revocation of Authorization" or because it is an "Unauthorized Consumer Debit." Each return is assigned a Return Reason Code. A complete list of Return Reason Codes is included in the current *ACH Rules*. It is the ODFI's responsibility to promptly notify the Originator of the receipt of returns.

If a return item has incorrect information or is untimely, the ODFI could dishonor the return. The RDFI would then correct or contest the dishonored return.

Notifications Of Change (NOC)

A Notification of Change (NOC) is a non-dollar entry sent by the RDFI to the Federal Reserve Bank for distribution back to the Originator through the ODFI, even though an item has been posted. An RDFI will send an NOC when a prenotification or a live entry is received that contains incorrect information. A Notification of Change:

-  Identifies the entry that has been received at the RDFI;
-  Pinpoints the specific information in the entry that is incorrect; and,
-  Provides the correct information in a precise format so the Originator can make the appropriate change.

NOCs are initiated when a prenotification or a live dollar entry is received that contains incorrect information. However, enough information was available for the RDFI to post the item. Each reason for initiating NOCs is assigned a specific Change Code. A complete list of Change Codes is provided in the *ACH Rules*. It is the ODFI's responsibility to forward NOCs to the Originator within two banking days from the settlement date. The Originator must then make the requested change within six banking days from the date of receipt or prior to transmitting the next entry, whichever is later. An ODFI can send a refused NOC for two reasons: 1) The information in the forward item is in fact correct; or, 2) The NOC contained incorrect data. These must be sent within 15 banking days.



Reversals

Once an entry or file is deposited into the ACH system, it cannot be recalled. However, if a duplicate or erroneous file is processed, the file can be reversed within five banking days of the settlement date and within 24 hours of discovering the error. It is the responsibility of the party that originated the duplicate or erroneous file to reverse the file. If a single entry has been duplicated or originated erroneously, the ODFI may send a single reversing entry or you may request the RDFI to return the entry.

Regardless whether the error is a file or a single entry, it is the ODFI's responsibility to notify the RDFI that there is the possibility that information may have been duplicated or transmitted erroneously through the ACH.

Rejects

Once ACH files are received by the Federal Reserve Bank, they are processed by editing the data to ensure that specific information in the file is accurate, complete, and in proper NACHA format. After the edit process is completed, the Federal Reserve will forward an acknowledgment to the sending point indicating that the file has been received and identifying whether the file, batches, and/or items have errors. It is the responsibility of the ODFI or its sending point to review the acknowledgment.

When file-level errors occur, the entire file is either pended for further action or rejected. The Federal Reserve contacts the ODFI/sending point about pended files (e.g., suspected duplicate file) to determine if these files should be released or rejected based upon direction from the ODFI. For rejected files, the ODFI or sending point is responsible for correcting errors and resending the file.

When batch-level errors occur (e.g., a batch with a service class code in the Company/Batch Header Record that is not valid), the batch or entire file can be pended or rejected, depending upon which option the sending point has selected. The Federal Reserve will contact the ODFI/sending point about pended batches to be rejected or released. For rejected batches, the ODFI/sending point will need to remake and resend the erroneous batches.

Items with errors are returned (rejected back) to the ODFI/sending point. For example, the check digit for a routing number that is not valid on an Entry Detail Record will reject. The ODFI or sending point must determine how to handle these rejected items.

On-Us Items

When an ODFI receives an ACH file for processing from the Originator, it is very likely that some of their customers are also the ODFI's customers. Therefore, some of the transactions contained in the ACH file may be destined for accounts at the ODFI. The ODFI has three alternatives for processing these items. They can:

-  Continue to process the file as they normally would. The items destined for the ODFI's account holders will be sent to the Federal Reserve and then rerouted back to the ODFI.
-  Use software that features a tool that can extract those transactions destined for their customers' accounts and not forward them to the Federal Reserve. The ODFI can either memo post the extracted items immediately or warehouse them until the settlement date.
-  Memo-post the items manually, if the ODFI manually enters items into FedLine.

Getting Started With
FedACH Origination

Developing a Marketing Plan

Revised 4/2001





Developing a Marketing Plan

Now that you have successfully gathered information and established operating procedures, you are ready to market FedACH origination to your customers. Although a few customers may contact you to see if you offer FedACH origination services, the majority of your customers will not know that you have such a service unless you tell them about it. Your marketing plan can target present customers as well as businesses and consumers outside of your institution. The major account characteristics represented by Originators of ACH items include companies that maintain high balances, have a high check writing volume, maintain multiple related accounts, have accounts with distant main or branch offices, and/or currently receive ACH payments. When prospecting for new customers, you should look for the above characteristics.

Other ways to find new customers include bidding on municipal or utility accounts, as well as establishing relationships with accounting firms and other service organizations for referrals. These are great opportunities for financial institutions because businesses look to them as a trusted service provider. Overwhelmingly, businesses feel that their primary source of information regarding ACH transactions is their financial institution. Just as important is that consumers feel the combined efforts of the financial institution and the company provides them with the necessary information to get involved with Direct Deposit and Direct Payment. There are a variety of materials available to assist you in your implementation of a marketing strategy. These materials can be obtained through the Industry Topics section of the Federal Reserve Financial Services Internet site located at www.frbservices.org, the Direct Deposit and Direct Payment Coalition Internet Site at www.directdeposit.org or www.directpayment.org, your regional payments association, and/or the NACHA Internet site located at www.nacha.org.

Marketing ACH Origination to Business Customers

When you are ready to offer ACH origination to your corporate clients, you will want to target certain prospects. You may want to look at your customer base by industry type. Some of the most common Direct Deposit and ACH transactions include:

- Payroll, Social Security, retirement/pension, and travel/expense reimbursements
- Monthly, quarterly, or annual insurance premiums
- Mortgage payments
- Recurring loan payments on automobiles or other consumer goods

A very small percentage of businesses currently offer Direct Payment as an option. This is an excellent opportunity for the financial institution to point out the benefits to both the business and the consumer.

Marketing your new service is the most important part of getting a successful program off the ground. In addition to the usual marketing literature, you may want to consider the following marketing options:

➤ Officer Calling Program

On-site calls can be used to sell ACH origination when a successful officer calling program is already in place. On-site calls may be most effective when the prospective customer has received some material for review prior to the visit.



Obtain Marketing Materials For Potential Originators

-  View existing brochures and obtain informational packets on-line at www.nacha.org, www.directdeposit.org, or in the FedACH section of the Federal Reserve Financial Services Internet site located at www.frbservices.org.
-  Request for seminar handouts/overheads
-  Write sample letters

Implement Marketing Strategy

-  Employ direct mailing and advertising
-  Hold seminars
-  Schedule customer calls/visits

Help Originators Promote ACH Services To Their Employees/Customers

-  Offer new account set up on-site
-  Offer free/reduced service charge/checks/ATM cards for employees/customers
-  Offer incentive packages
-  Provide sample letters

Involve Operations For Customer Transition

-  Include your operations staff in all discussions of operational issues (how the customer will deliver the information, frequency of origination, etc.) when a corporate customer is interested in establishing an Origination program.



In-House Seminar

Seminars are a good alternative to one-on-one meetings. They allow you to bring in prospective customers and explain your ACH offering in detail. By controlling the environment, you capture the attendees' attention for a few hours, since they are away from the interruption of their work environment. By planning an informative and entertaining seminar, you will send them back to their workplace with a positive feeling about your product. The Federal Reserve offers a Corporate Outreach Kit designed to help you plan a seminar.

Cross-Selling

Verbal Cross-Selling

By training your staff, you may be able to generate a list of additional/potential ACH Originators. Cross-selling can be done effectively by everyone, including:

-  Tellers
-  Customer service representatives
-  Loan Officers
-  Other officers
-  General staff
-  President/CEO
-  Board of Directors

Cross-Selling By Mail

In addition to the contacts made inside your facility, you can reach out to your existing customer base. An effective way to find interested Originators is to mail letters to a select group of business customers. The Federal Reserve has conducted research that reports the primary characteristics of an ACH user. For more details, visit the Marketing Research link in the Industry Topics section of the Financial Services Internet site (located at www.frb.services.org).

You can follow up with those who respond by making specific proposals to help them understand the financial benefit FedACH origination can provide. Sample proposals are available on page 4-4. Marketing materials could be distributed with any of the marketing options chosen.

As you work with business customers to establish an origination program using FedACH, you will want to offer them some marketing ideas for promoting ACH to their employees/customers. You may want to offer your time to assist them in presenting ACH information to their employees/customers through a seminar, or you may want to offer special financial services to those employees/customers who choose to use ACH. This may be a mutually beneficial way to promote ACH.



Sample Proposal for ACH Debits

For: {Originator Name}
{Address}
{City, State, Zip}

{Originator Name} wishes to offer its customers an option to have charges for pest control services debited directly from their checking account at a financial institution located in the U.S. {FI Name} will provide software and administrative support services in addition to originating the transactions into the national ACH network. The investments of Originator Name are as follows:

Monthly Investment

Monthly Administration Fee \$50.00
(includes PC software that allows (Originator Name) to create recurring transactions, file specifications to extract transaction information directly from a host system, and communications software to send and receive transactions to and from {FI Name})

Transaction Fees

File Transmission Fee \$2.00
(cost to send a file into the ACH system regardless of number of transactions)

Per Transaction Fee \$.10 – \$.25 per Debit or Credit

Investment Analysis

Expenses
(Originator Name) Direct Payment Customers

500 Customers per month @ \$0.50 \$250.00
Data Transmissions (4 times per month @ \$2.00) 8.00
Monthly Administration Fee 50.00

Total Monthly Fee \$308.00

Savings

Elimination of invoicing and check processing for 500 Direct Payment Customers

500 @ \$3–\$6 per invoice \$1,000.00
(Nationwide estimated cost to send, collect, and post, is \$3.00 to \$6.00, depending on the number of exceptions and cost of labor.)



Marketing ACH Origination to Consumers

Perhaps the most important step of marketing ACH is to get the consumer informed and involved in ACH transactions. If your staff is knowledgeable about ACH and able to answer consumer questions, the majority of the consumers' concerns may be eliminated. Conveying their rights by referencing [Regulation E](#), which contains consumer's rights involving Electronic Funds Transfer, is important. Since you are the experts that consumers and businesses look to as the most reliable source of information, it is imperative that your staff be well informed. The best place to begin marketing ACH is with your current retail customer base. For example, you may choose to encourage customers to ask their employer about Direct Deposit, offer Direct Deposit options to your customers receiving interest income (from CDs), and offer Direct Payment options to loan customers and/or safe deposit box customers (for the rental fee). Many companies do not offer Direct Deposit and Direct Payment until the service is requested. Therefore, by communicating the benefits of using ACH applications, your customers will be more likely to discuss the services with their employer, as well as their billers.

Promotional Support

In order to call your customers' attention to their ACH options, you may choose to use a variety of promotional methods. There are a variety of materials available to assist you in your implementation of a marketing strategy including: informational brochures, lobby promotions, signs at the teller windows, messages on ATM screens/receipts, statement messages/stuffers, and telephone "hold" messages. These materials can be obtained through your regional payments association, the FedACH section of the Federal Reserve Financial Services Internet site located at www.frb services.org, the Direct Deposit/Direct Payment Internet site (www.directdeposit.org, www.directpayment.org), or NACHA (www.nacha.org). Of course, cross-selling by tellers, customer service representatives, and other retail staff also can encourage the use of the ACH.

Benefits

Users of Direct Deposit state that the most significant benefits of the service include ease and convenience, as well as reliability. Direct Deposit saves consumers repetitive trips to their financial institution as deposits are made directly into their account. Consumers know exactly when their money will be deposited into their accounts, giving them greater control over their finances. These benefits should be stressed throughout all marketing materials. Examples of possible marketing strategies include gathering and displaying testimonials from highly satisfied users. Referral programs also provide a means of allowing satisfied users to portray their satisfaction with other consumers. The products and messages should address reliability and security, problem resolution, cost reduction, and immediate funds availability. Based on results from the Federal Reserve's National Customer Satisfaction Survey (conducted in 1999), 95% of Direct Deposit users were very satisfied and believed their needs are being met very well. As a result, the challenge becomes getting the consumer to use Direct Deposit for the first time. For specific information regarding ACH Marketing Research, please visit the Marketing Research link in the Industry Topics section of the Financial Services Internet site (www.frb services.org)

Marketing Direct Payment varies somewhat from that of Direct Deposit. Direct Payment is much more complex for consumers to understand. Therefore, not only do they have to become aware of the service, they need access to information and must develop trust in the system. This is why it is imperative for the financial institution to stay informed about Direct Deposit and Direct Payment issues in order to support their customers. Presently, just over one-third of all households utilize Direct Payment for at least one payment. The main features that should be addressed when marketing Direct Payment are reliability, privacy/security, control, and convenience. Oftentimes, incentive programs prove very helpful in getting consumers to sign up for Direct Payment. Discounts or value added services are examples of such incentive programs. The different approaches mentioned above can and should be shared with your business customers to assist them in marketing to their customers.



After you have become familiar with Direct Deposit and Direct Payment, there are many other services you may want to market. Such services include Returned Check Entry (RCK), Point-of-Purchase (POP), and Cash Concentration and Disbursement (CCD), for example. The marketing techniques for the different services may vary slightly, but once you are familiar with marketing the ACH to your customers, gathering additional ACH customers may become much easier.

ACH Marketing Step-By-Step

To promote FedACH origination to your business customers, you will want to consider the following suggestions for marketing your product:

Build Awareness with your Staff

Train Staff For Cross-Selling Opportunities

Target Selected Customers

- Identify characteristics of a “good” Originator
 - Companies with more than 100 employees have the highest Direct Deposit penetration.
 - Companies who outsource payroll processing often offer Direct Deposit.
 - Businesses with a large number of customers are more likely to offer Direct Payment.
 - Companies that have been in existence for a number of years are more likely to offer Direct Payment.
 - Businesses most likely to offer Direct Payment include utility companies, communication companies, and finance/insurance/real estate companies.
- Target board members
 - Board members are usually business owners and may be prospective ACH Originators.

Develop and Write A Marketing Strategy

- Prepare a procedure to respond to customer inquiries.
- Develop advertising strategies and materials.
- Develop direct mailing campaign.
- Schedule customer visits.
- Conduct seminars.



Aiding Marketing Efforts of the Originator

Convincing employees and clients that electronic transactions are a positive step is a challenge for many ACH Originators. An Originator may look to you for assistance. The best way to handle this obstacle is to provide your Originators with as many tools as possible to educate their employees and clients. NACHA and the regional payment associations provide brochures and informational pieces that your customers can use to inform employees and clients of the benefits of ACH. Your local Federal Reserve Bank also has ACH materials available for use by you or your Originators. In addition, you can host on-site seminars and provide ACH expert advice to beginning Originators.

The major benefits of ACH for both consumers and companies are safety and security, reliability, ease and convenience, and potential cost reductions. These benefits should be marketed with whatever means of marketing you choose to utilize.

➤ Safety and Security

- Direct Deposit protects deposits from theft/loss/fraud.
- Direct Deposit and Direct Payment minimizes the chance of errors.
- Direct Deposit and Direct Payment keeps account information private.

➤ Reliability

- Direct Deposit allows employees to know exactly when a deposit will be made.
- Direct Deposit allows funds to be available immediately and eliminates worry about slow mail, etc.
- Direct Payment ensures timely payments for individuals.
- Corporate Payment ensures timely payments for companies.
- Direct Payment helps consumers establish good credit records.

➤ Ease and Convenience

- Direct Deposit and Direct Payment saves time for participants.
- Direct Deposit saves trips to the financial institution.
- Direct Deposit and Direct Payment ensures that funds are available and bills are paid if the participant is ill or out of town.

➤ Potential Cost Reductions

- Direct Deposit and Direct Payment may reduce a company's overhead costs for mailing, collecting, and reconciling statements.
- Direct Deposit and Direct Payment assists customers with making timely payments, thus avoiding late payment penalties and eliminating postage expense.
- Direct Payment provides some companies to offer discounts to customers; the customers benefit and the companies gain a competitive edge.



Customer Education and Assistance

Your ACH origination customers will look to you for guidance as they implement their new ACH program. You may be asked to provide your customers with a step-by-step implementation plan, examples of authorization forms, or marketing pieces. To assist you with these requests, the following pages offer examples of many documents you may want to share with your corporate customers. Additional materials can be obtained either from the Federal Reserve or your regional payments association. The samples provided need to be customized to fit your circumstances. Any legal documents need to be reviewed by your legal counsel.



Sample Consumer Authorization Form for Direct Deposit

AUTHORIZATION AGREEMENT FOR DIRECT DEPOSIT

COMPANY NAME _____ COMPANY ID NUMBER _____

I (we) hereby authorize , hereinafter called COMPANY, to initiate credit entries to my (our) Checking Savings account (select one) indicated below and the depository named below, hereinafter called DEPOSITORY, to credit the same to such account.

DEPOSITORY NAME _____ BRANCH _____

CITY _____ STATE _____ ZIP _____

TRANSIT/ABA NO _____ ACCOUNT NO _____

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 in such manner as to afford COMPANY and DEPOSITORY a reasonable opportunity to act on it.

NAME(S) _____ ID NO _____

DATE _____ SIGNED _____

* Sample also available in ACH Rules.



Sample Consumer Authorization Agreement for Direct Payment

AUTHORIZATION AGREEMENT FOR DIRECT PAYMENT

COMPANY NAME _____ COMPANY ID NUMBER _____

I (we) hereby authorize , hereinafter called COMPANY, to initiate debit entries to my (our) Checking account indicated below and the depository named below, hereinafter called DEPOSITORY, to credit the same to such account.

DEPOSITORY NAME _____ BRANCH _____

CITY _____ STATE _____ ZIP _____

TRANSIT/ABA NO _____ ACCOUNT NO _____

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

NAME(S) _____ ID NO _____

DATE _____ SIGNED _____

** Sample also available in ACH Rules.*



“Invite to Seminar” Sample Letter

Date

Mr./Ms. Business Owner
Business Name
1675 Center Ave
Any Town, USA 12345

Dear _____:

To stay competitive in a fast-paced global economy, businesses are constantly seeking to improve efficiency, cut costs, advance technology and retain quality employees. Many companies, however, have been overlooking an important service that will help them improve in each of these areas.

Despite the tremendous benefits of the Automated Clearing House (ACH), many employers and employees are not taking advantage of them. To increase the use of these services, we have embarked on an educational campaign, attempting to promote the benefits that the ACH offers to all participants. Speaking to organizations like yours is an important component of that mission.

As a representative from [name of financial institution], I would welcome the opportunity to speak to your organization about the safety, confidentiality, reliability and convenience of various ACH applications. I will also explain how to begin using the ACH for things such as payroll checks, Direct Payment options, corporate payments, etc.

I will follow up with you soon to see if I can book a date with your or at one of your upcoming meetings or events. If you have any questions, please call me at (XXX) XXX-XXXX.

Sincerely,



“Get Debit Originator Interested” Sample Letter

Date

Mr. Business Owner
Business Name
1675 Center Avenue
Any Town, USA 12345

Dear _____:

Every time you send a bill to your customers for your services, it costs \$3.00 to \$5.00 for you to invoice, send, collect, post, and follow up on one of your customer’s accounts. For your customer base of _____, that is over \$_____ per year. However, we can process the same invoices for you for only \$_____ per year.

How can we do it? <Name of DI> has installed the latest in Automated Clearing House (ACH) technology. This service allows us to create Direct Payments on your behalf for posting to any customer’s bank account in the U.S. Because of the volume of transactions moving through the ACH, the per-item cost is minimal. Transactions post on the designated day, and you never have to wait for and post checks. Direct Payment will allow you to save time and you can operate more efficiently, save money, reduce late and delinquent payments, and enhance your level of customer service. Best of all, it’s available through your institution, as part of our overall service package.

Will your customers allow you to debit their accounts? What is needed to start transactions? Are there any authorization documents they must sign? How will transaction information get from you to the bank? These questions can be easily answered by any of our operations officers at <Name of DI>.

Call us today at _____ to schedule a meeting specifically to discuss ACH transactions. It may be the most profitable call you make this year.

Very truly yours,



“Ask Customer to Convert to ACH” Sample Letter

Date

Mr./Ms. Consumer
1501 Main Street
Any Town, USA 12345

Dear _____:

<Name of Business> has been keeping your dwelling free from pests for the past years. During that time, we have attempted to keep our fees as low as possible. We feel that you are important to us, and we constantly strive to maintain the highest quality and service.

However, due to dramatic increases in our overhead and base costs, we find that we need to increase our fee for basic service from \$20.00 per month to \$25.00 per month. At this new price, we are still among the best values in our area. Still, we think we have a way for you to save even more.

We have implemented a new billing service that will allow us to debit your checking or savings account instead of sending you a monthly bill. On a designated day, we will send a debit for our service fee from our bank to your bank. Your bank will charge your account and send a credit back to us. The charge will appear on your statement. Best of all, because our overhead is reduced, we can offer you a 20% discount by paying in this manner. This means your bill would remain at the current \$20.00 level, a \$60.00 per year savings!

This Direct Payment is just like the ones you probably already make for your insurance premiums, utility bill, or mortgage payments. You will know that your bills are always paid on time, avoiding the costly late fees and ensuring that your credit rating stays in good shape. The payment is secure since your account information remains very private. You can discontinue the service whenever you like, so you control access to your account. Best of all, you will save lots of time and money as paying your bill requires little or no effort on your part. The bill is paid even if you are out of town.

End your worry over paying bills on time. Sign up for our Direct Payment debit plan and start saving today. We won't tell you how to spend your extra \$60.00, but we will continue to provide you with the very best in pest control services.

Very truly yours,

<Business Owner>
President



Marketing Q & A

Now that you have developed an ACH marketing program and started originating, the next step is to grow your ACH business. At this point, two elements are critical - customer segmentation and promotional messages. No combination of marketing tools is effective, regardless of how much you spend or the creativity of your materials, unless your campaign communicates the right message to the appropriate audience.

Much of the information in this section reflects findings from an extensive ACH market research study the Federal Reserve initiated in 1997. One of the most significant findings from that study is the important role financial institutions play in educating their customers about electronic payments. This statement came through loud and clear: both consumers and businesses claimed their financial institution as the primary source for relaying information on Direct Deposit and Direct Payment. This market intelligence is invaluable for helping your institution develop more effective sales messages for your promotional and educational materials.

What does this finding mean? You are viewed as a trusted and reliable resource - customers listen to your messages! You can leverage this reputation when talking about electronic payments with business and consumer customers. The two sections below offer some pointers for selling Direct Deposit and Direct Payment. Backing up your promotional efforts with this market intelligence and your credibility is an integral factor in growing your ACH business.

Selling to Business Customers

Some business customers offer more potential than others for offering Direct Deposit and Direct Payment to their employees and customers. To avoid wasting valuable resources, it's important to focus your marketing efforts on those organizations most likely to use electronic payments. How do you identify those companies? What drives companies to offer ACH services? What obstacles are standing in their way?

Direct Deposit

What Segment of the Business Customer Offers the Most Potential?

The greatest potential for using Direct Deposit exists among small companies because penetration is low. However, medium and large companies are often more likely to readily adopt Direct Deposit. A common misconception is that Direct Deposit is not appropriate for smaller companies, but this is not true! Your marketing materials should emphasize that Direct Deposit is a valuable payment offering for companies of all sizes. However, attitudes differ by company size. Although smaller companies are more inclined to be satisfied with their current payment methods, all businesses indicated a desire to cut costs. An area of particular concern for medium companies is providing a paper trail, whereas large businesses with bigger staffs view Direct Deposit as more of an employee benefit. Both medium and large organizations are willing to examine other payment alternatives.

In addition to these attitudes, the research found that companies who outsource payroll are more likely to offer Direct Deposit. These customers may be an easier "sell" for your FedACH origination services.



➤ *What's the Value for the Company?*

Research shows companies already using Direct Deposit overwhelmingly feel that Direct Deposit outperforms checks when it comes to guaranteeing that the correct amount goes to employees, minimizing chances for errors, protecting deposits from loss and theft, maintaining an accurate cash management system, keeping financial information private and saving money. The underlying theme in all these attributes is safety and accuracy. It is clear these are very important factors to businesses when it comes to payment methods. Your promotional efforts will be more persuasive if you emphasize these Direct Deposit benefits in your marketing materials.

➤ *What Barriers Prevent Companies from Offering Direct Deposit?*

Many businesses that don't offer Direct Deposit perceive a lack of demand among their employees, or they feel it's too costly to implement a program for the number of employees who would use it. Other reasons for not offering Direct Deposit include the lack of deposit accounts by some employees and high employee turnover as well as timing issues with weekly or hourly payrolls.

It's important to emphasize to your business customers that their employees are interested in Direct Deposit. In fact, 42% of employees who work for a firm that already offers Direct Deposit expressed interest in using it. This number almost doubles when incentives are offered, such as free checking or earlier deposits! And offering Direct Deposit doesn't have to be expensive. Inform your business customers that there are affordable software packages available that are compatible with their current systems. In fact, many payroll processors already offer Direct Deposit services, eliminating the need altogether to purchase new software. These software options easily allow updates due to employee data changes that can ensure timely creation of payroll files for any employee type.

➤ *Direct Payment*

➤ *What Business Payments Offer the Most Potential?*

Companies commonly use Direct Payment for taxes, payments to financial institutions and financial securities/401K. Businesses also express interest in using Direct Payment to make utility payments, equity lines, mortgages and rent. When talking with your business customers, be sure to explain the full range of payments they can pay electronically. Interest typically does not vary by the type of payment (fixed or variable amounts).

➤ *What Companies Offer the Most Potential for Using Direct Payment to Make Their Own Payments?*

More than half the companies surveyed in our study use Direct Payment to pay their bills and suppliers, which shows the market is ripe for more companies to get on board. One interesting finding from the research indicated companies that outsource their payroll (especially small and medium companies) and large companies with more full-time employees are particularly likely to use Direct Payment. You may want to focus your marketing efforts towards these customers.



➤ *What Barriers Prevent Companies from Using Direct Payment?*

Maintaining control over accounts and cash flow, the perception that it's too much time and trouble to implement, plus a lack of understanding, are just some of the reasons stopping many companies from using Direct Payment. Explaining to your business customers how Direct Payment works and its benefits should alleviate some of these concerns.

➤ **Selling to Consumers**

This section builds on ideas presented in the "Marketing ACH Origination to Consumers" section on page 4-5 by offering some additional insight on the drivers and barriers surrounding consumer usage of electronic payments. Having a clear understanding of this market intelligence will help ensure your financial institution directs its sales efforts to the customers that offer the greatest potential for using Direct Deposit and Direct Payment.

➤ *Direct Deposit*

➤ *How Can I Best Market Direct Deposit to Consumers?*

Make sure you promote the availability of Direct Deposit and its benefits. Your messages should address reliability and security, problem resolution, cost reduction, and immediate funds availability. Highlight the strengths of Direct Deposit – simple, safe and secure.

Another way to increase your Direct Deposit sign-ups is through the use of incentives, such as offering free checking or depositing ACH payments two to three days earlier than check payments. Develop compelling promotions that stress the accuracy of Direct Deposit verification and reinforce the ease of problem resolution. Finally, use testimonials to highlight the high levels of satisfaction among users.

➤ *Where Does the Greatest Growth Potential Lie?*

Direct Deposit is most commonly used for payroll and Social Security payments, where marketing efforts have been the greatest. In fact, research shows that 35% of consumers whose employers do not currently offer Direct Deposit for payroll would probably use it if available. This statistic illustrates that interest definitely exists for electronic payroll payments.

However, the desire to use Direct Deposit for other payments also exists, especially for expense and travel reimbursements, dividends and profit sharing. Promotional materials for your financial institution should emphasize these types of payments as being good candidates for Direct Deposit.

➤ *What Barriers Prevent Consumers from Trying Direct Deposit?*

Consumers who have never tried Direct Deposit don't consider it a secure, trustworthy payment method and are concerned about resolving any problems that could arise. A clear lack of understanding about the receipt process, and perceptions that Direct Deposit doesn't save time are all barriers hindering acceptance.



How can you break down these barriers? Build trust, ensure security and provide easy problem resolution. These are the first steps. Also, make sure your staff is prepared to discuss these issues with consumers in order to improve their overall understanding of the payment method and increase your sign-up rates.

NACHA, the regional payment associations, and the Federal Reserve Banks have developed many promotional materials you can use to educate consumers on the merits of Direct Deposit. (Refer to the Reference Section of the manual for contact information on these organizations).

➤ *Direct Payment*

➤ *Where Does the Greatest Growth Potential Lie?*

Interest in Direct Payment exists for both fixed and variable payments. Bills for cable TV services, leases, mortgages and utilities are just a few payment types that offer substantial opportunity for adoption of Direct Payment. Many consumers aren't aware that some companies offer Direct Payment, so encourage your customers to ask their service providers if Direct Payment is a bill payment option.

➤ *What Are the Drivers That Encourage People to Try Direct Payment?*

Research shows that among people who already use Direct Payment, the four drivers for trying this payment method are low cost, reliability, convenience, and privacy and security. Highlight these strengths in your promotional materials and use customer testimonials.

➤ *What Barriers Prevent Consumers from Using Direct Payment?*

One of the biggest hindrances is the lack of knowledge about Direct Payment. When participants in our study were asked if they understand Direct Payment well enough to describe the service to a friend or colleague, 22% of users said no. This represents a tremendous opportunity for educating your customers about Direct Payment.

Other barriers to Direct Payment acceptance include a perceived lack of reliability, people preferring to pay bills themselves, and safety concerns (unknown people having access to the account or discomfort with others knowing the account number). Understanding these perceived barriers will help your staff be better prepared to discuss these issues with customers and explain how Direct Payment really works.

Getting Started With
FedACH Origination

Reference

Revised 4/2001





Sources of Information

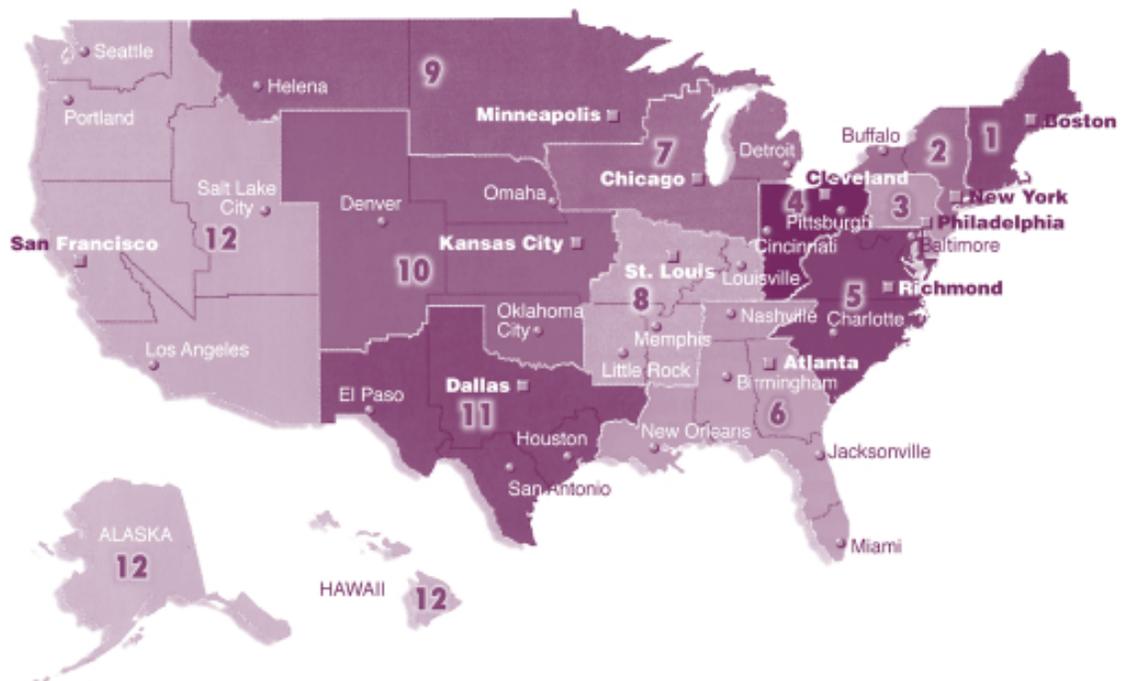
Helpful Internet Sites

- *Federal Reserve Financial Services:*
www.frbservices.org
- *Direct Deposit Coalition:*
www.directdeposit.org
- *Direct Payment Coalition:*
www.directpayment.org
- *NACHA- The Electronic Payments Association:*
www.nacha.org
- *US Treasury:*
www.fms.treas.gov



Federal Reserve Internet Sites and Phone Number Contacts

Boston www.bos.frb.org 800-426-7224	New York www.ny.frb.org 877-447-1779	Philadelphia www.phil.frb.org 877-574-1776
Cleveland www.clev.frb.org 800-232-2241	Richmond www.rich.frb.org 800-322-0570	Atlanta www.frbatlanta.org 877-553-9735
Chicago www.chicagofed.org 888-372-2446	St. Louis www.stls.frb.org 800-333-0865	Minneapolis www.mpls.frb.org 888-333-7010
Kansas City www.kc.frb.org 800-333-2801	Dallas www.dallasfed.org 800-333-4460 Ext. 6119	San Francisco www.frbssf.org 800-422-4990





Regional Payments Association Contacts



NACHA- The Electronic Payments Association

(National Automated Clearing House Association)

13665 Dulles Technology Dr., Suite 300

Herndon, VA 20171

Phone: 800-487-9180

www.nacha.org



Regional Payment Associations

Regional Payment Associations are located on most Federal Reserve District web sites or listed on the back cover of the ACH Rules. They can also be found by visiting the Companies and Employers section of the Direct Deposit Internet site, located at www.directdeposit.org.



Publications



ACH Rules

This publication is available through NACHA, regional payment associations, or on-line at www.nacha.org.