


ACH 102

Who We Are and What We Do

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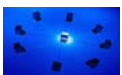
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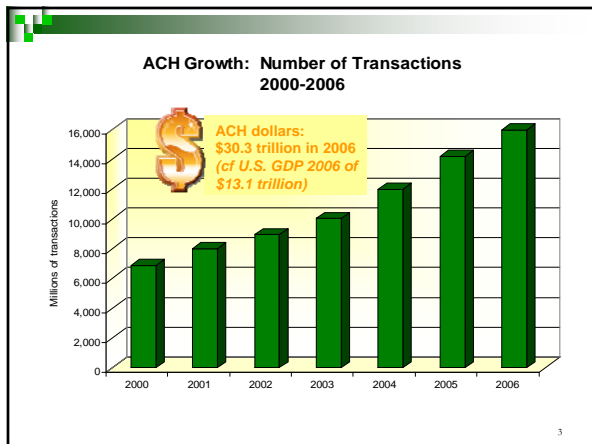
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What is ACH and the ACH Network?

- ACH = Automated Clearing House
“Processing and Delivery system that provides for the distribution and settlement of electronic debits and credits among financial institutions”
- The ACH Network is a batch-oriented electronic processing system (not online, not real time).
- Links to just about every one of the ~20,000 depository financial institutions in the country
- Transmits transactions on a schedule
- Has been operational since the early 1970s.



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Facts about the ACH Network

- Includes commercial (consumer and business) interbank and on-us transactions and government
- Typical uses include:
 - Direct deposit of pay, employee benefits, gov't payments, pensions, annuities, reimbursements
 - Direct debit of bill payments (from mortgages to cable TV providers)
 - "eCheck" services, such as check conversion and transactions initiated by telephone or through the Internet
- Different types of transactions are identified by three-letter Standard Entry Class (SEC) Codes, such as PPD Debit, WEB, TEL, CCD, etc.



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ACH Participants: The Originator

ACH transactions are technically called "entries."

- Initiates the ACH transaction (debit or credit)
- Can be a company, a government agency, a natural person
- Must have Authorization from the Receiver (the entity whose account receives the transaction) for debits
- Typical payments:
 - Utility company initiates debit to a customer's account to pay the electric bill
 - An employer initiates a credit (Direct Deposit) to an employee's account to cover salary or wages or even travel expense reimbursement
 - Federal government initiates a credit for Social Security payment to a recipient's account

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ACH Participants: ODFI

- ODFI = Originating Depository Financial Institution
- The Financial Institution that originates the ACH transactions (credit or debit) – that is, transmits the transactions to the ACH Network – after receiving payment instructions from an Originator.
- There is an agreement between the ODFI and the Originator (or, in some cases, a third party processor).
 - Exception: Consumer initiated transactions do not require an agreement.

Highest volume ODFIs:
• JPMorgan Chase
• Bank of America
• Wells Fargo
• Citigroup
• Wachovia

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
ACH Participants: ODFI

- ODFI warrants to the ACH Network that the transactions (entries) it transmits to the Network are in compliance with the rules.
 - This differs from the check world, where the Paying Bank (the bank on which the check is drawn) assumes this responsibility
- Acting as an ODFI is voluntary; an FI does not have to originate transactions... but -
- Every ODFI *must* also act as an RDFI.

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ACH Participants: ACH Operator

- ACH Operators provide the central clearing facility (switch) for the financial institutions, receiving transactions from ODFIs and routing them to the appropriate RDFIs.
- There are 2 ACH Operators:
 - Federal Reserve
 - Electronic Payments Network (EPN)
- Some transactions flow through both networks.
- Operators handle interbank transactions and, in a few situations, on-us transactions.



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ACH Participants: RDFI

- RDFI = Receiving Depository Financial Institution
- The Financial Institution that receives an ACH transaction (credit or debit) for posting to the Receiver's account.
- RDFIs do not have to act as an ODFI, and most RDFIs are not ODFIs.

Highest volume RDFIs:

- Bank of America
- Wells Fargo
- Wachovia
- JPMorgan Chase
- Washington Mutual

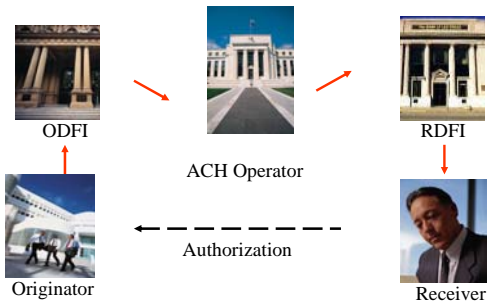
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ACH Participants: Receiver

- The party that receives the ACH transaction (credit or debit)
- Has authorized the Originator to initiate the ACH entry
 - Exception: Destroyed Check entry
- Can be a company, individual or government agency
- When you receive your pay in your account electronically, or when you authorize your mortgage company to debit your account monthly, you are a Receiver

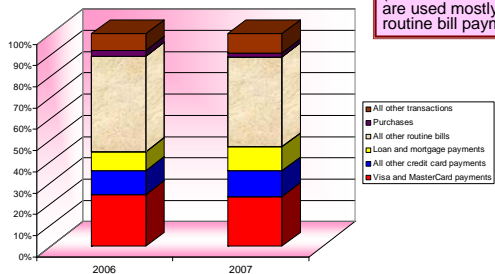


ACH Transaction Flow



What's the ACH Network Used For?

ARC, PPD, TEL and WEB:
Summary of Use 2006 and 2007



Source: ACH Operator Semi-annual Transaction Samples

Where does NACHA – The Electronic Payments Association Fit In?

- Develops and enforces the rules for the ACH Network
- Voting members include:
 - Financial Institutions that are direct members of NACHA
 - Regional Payment Associations
- Serves as national ACH trade association
- Develops new ACH services
- Provides education and marketing services
- Studies and aims to resolve industry issues

NACHA does not:

- Operate the ACH Network
- Process any transactions

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The image is a collage featuring several elements: a group of four people in athletic wear running; a red question mark icon; a blue question mark icon; a yellow question mark icon; a yellow question mark icon with a zigzag pattern; a photograph of a man and a woman in business attire talking; and the NACHA logo with the text "The Electronic Payments Association™" and the number "14".

Questions & Discussion Points
