

Intro to the ACH Network

The ACH Network is a batch processing, store-and-forward system, governed by *The NACHA Operating Rules*, which provide for the interbank clearing of electronic payments for participating depository financial institutions. Transactions received by the financial institution during the day are stored and processed later in a batch mode. Rather than sending each payment separately, ACH transactions are accumulated and sorted by destination for transmission during a predetermined period. This provides significant economies of scale. It also provides faster processing than paper checks, which must be physically handled. Instead of using paper to carry necessary transaction information, ACH transactions are transmitted electronically between financial institutions through data transmission.

ACH payments include:

- Direct Deposit of payroll, Social Security and other government benefits, and tax refunds
- Direct Payment of such consumer bills as mortgages, loans, utility bills, and insurance premiums
- Business-to-business payments
- e-Checks
- e-Commerce payments
- Federal, state, and local payments

The number of ACH payments for 2008 topped 18.2 billion, representing an increase of 1.2 billion over 2007.

Participants

Originator

Any individual, corporation or other entity that initiates entries into the Automated Clearing House Network

Originating Depository Financial Institution (ODFI)

A participating financial institution that originates ACH entries at the request of and by (ODFI) agreement with its customers. ODFI's must abide by the provisions of *The NACHA Operating Rules*.

Receiving Depository Financial Institution (RDFI)

Any financial institution qualified to receive ACH entries that agrees to abide by the *NACHA Operating Rules*.

Receiver

An individual, corporation or other entity that has authorized an Originator to initiate a credit or debit entry to a transaction account held at an RDFI.

ACH Operators

The Federal Reserve and Electronic Payments Network act as ACH Operators, central clearing facilities through which financial institutions transmit or receive ACH entries.

Third-Party Service Providers

A Third-Party Service Provider is an entity other than the Originator, ODFI, or RDFI that performs any function on behalf of the Originator, ODFI, or RDFI with respect to the processing of ACH entries.

ACH Transaction Flow

In ACH terminology, Originator and Receiver refer to the participants that initiate and receive the ACH entries rather than the funds. Unlike a check, which is always a debit instrument, an ACH entry may either be a credit or debit entry. By examining what happens to the Receiver's account, one can distinguish the difference between an ACH credit and an ACH debit transaction. If the Receiver's account is debited, then the entry is an ACH debit. If the Receiver's account is credited, then the entry is an ACH credit. Conversely, the offset to an ACH debit is a credit to the Originator's account and the offset to an ACH credit is a debit of the Originator's account.

Automated Clearing House Network

The ACH Network is a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by the NACHA OPERATING RULES, which provide for the interbank clearing of electronic payments for participating depository financial institutions.

ACH Network Payment Flow

