Each company sending ACH entries through Republic Bank using its business online banking system must comply with the NACHA Operating Rules as stated within the ACH agreement between Republic Bank and the Corporate Customer. The National Automated Clearing House Association (NACHA) is the rule making body governing the ACH network and therefore all participants of the ACH network must comply with these Rules. To ensure that Republic Bank communicates effectively, we have provided specific Originator (Corporate Customer) requirements of the Rules. As you may be aware, these Rules are updated with changes, additions, and deletions on an annual basis. Republic Bank will ensure that annually it communicates these Rules changes to ensure that our companies are educated on those Rules and make any necessary changes to its daily process as a result of these changes. Below, we have included not only the Originator responsibilities but also included those changes that have been made to the Rules which will have impact on the Originator. Annually, you may purchase a copy of the updated NACHA Operating Rules & Guidelines by visiting www.nacha.org or you may obtain free limited access to the basic NACHA Operating Rules in read-only format by visiting www.achrulesonline.org.

**Data Security:** For all ACH transactions that involve the exchange or transmission of banking information must be transmitted at a minimum of 128-bit RC4 encryption. Any transmission of banking information less than this requirement is considered an Unsecured Electronic Network. The business online banking system allows for the appropriate security; however, if the Originator sends entries to Republic Bank outside of this communication facility, it will hold the liabilities of this unsecured transmission of entries. In addition, it is the responsibility of the customer to protect its current business online banking system and implement best business practices to assist in the protection of its account. Some best business practices may include (1) ensuring it updates its computer regularly (2) initiates ACH entries under dual control (with two systems) – one individual inputs the ACH debit and/or credit while another individual approves the debit and/or credit from another PC (3) implements a security policy that enforces “red-flag” activity (i.e. the business online banking system’s color structure not looking the same as before, “system down” warnings, etc.) (6) educates staff on how to protect the business online banking system (7) takes reasonable steps to maintain the confidentiality and security of the security procedures and any passwords, codes, security devices, including but not limited to the Security Token and (8) utilization of C.O.P.S. (if applicable) and the Trusteer Software.

**Company Name Identification:** The Originator is required under the Rules to ensure there is clear identification of the source of an ACH transaction. Specifically, the Rules require the Originator to populate the Company Name Field with the name by which it is known to and readily recognized by the Receiver of the entry. As this company name appears on the account holder's statement, it should be easily recognized by the account holder/receiver of the debit/credit.

**Minimum Authorization Requirements/Proper Use of Standard Entry Class Code:** The authorization requirements specified within the Rules address the minimum requirements needed for authorization of various types of ACH transactions. In the case of Republic Bank customers, we allow that our Originators send PPD (Prearranged Payments and Deposits) for entries hitting consumer accounts and CCD (Corporate Credits and Debits) for entries hitting corporate accounts. Any other types of standard entry class codes would require approval from Republic Bank prior to its use.

**Authorization Retention:** The signed or similarly authenticated authorization must be retained by the Originator for a period of two years following the termination or revocation of the authorization. In the case of a paper authorization that has been signed by the consumer, the Originator must retain either the original or a copy of the signed authorization. This authorization may be obtained in an electronic format (1) accurately reflects the information in the record, and (2) is capable of being accurately reproduced for later reference, whether by transmission, printed or otherwise. At the request of its ODFI (Republic Bank), the Originator must provide the original, copy or other accurate Record of the Receiver’s authorization to the ODFI for its use or for the use of a receiving depository financial institution requesting the information. The Originator must provide in such time and manner as to enable the ODFI to deliver the authorization to a requesting receiving depository financial institution within ten (10) banking days of the receiving depository financial institution’s request.

**Authorization Requirements for Consumer Entries:** For consumer entries (those entries hitting a consumer account and not a corporate account), Originators should ensure that the authorization is clear and readily understandable by the account holder/receiver. The authorization should include account number and routing number which should be clearly stated (i.e. a copy of the account holder’s check stapled to authorization ensures the numbers are clearly obtained), the consumer must date and either sign or similarly authenticate (must prove that you had the account holder’s authorization to debit the account), should include what type of account it is debiting and/or crediting (demand deposit account, savings account), company identification is easily understandable (see below under company identification), and the Originator must obtain authorization for both consumer credit and debit entries. Originators need to ensure its authorizations are clear and readily understandable in order to be a valid authorization. A review of its authorizations should be performed to make sure it meets the requirements of the NACHA Operating Rules. If the company is unaware if the authorization is clear and readily understandable, it may contact its account officer for guidance. Originators can expect the return of consumer entries that were not properly authorized. An unauthorized debit entry is an entry in which (1) the authorization requirements have not been followed in accordance with the NACHA Operating Rules or invalid under applicable legal requirements; (2) a transaction was initiated in an amount different than that authorized by the Receiver; (3) a transaction was initiated for settlement earlier than authorized by the Receiver. In general, consumer debit entries must be returned by the receiving depository financial institution in such time and
manner that the return is made available to the ODFI (Republic Bank) no later than the opening of business on the banking day following the sixtieth (60) calendar day following the settlement date of the original entry. This return deadline also applies to the return of debit entries for which the consumer Receiver had previously revoked his authorization.

Authorization Requirements for Corporate Entries: As with consumer entries, the business Receiver (Company) must authorize all ACH credits and debits to its account. The Receiver of CCD (Corporate Credit and Debit), CTX (Corporate Trade Exchange) entries, and IAT (International ACH Transactions to a corporate customer account) must enter into an agreement with the Originator to which the Receiver has agreed to be bound by the NACHA Operating Rules. This agreement for credits and/or debits to the corporate customer account should be clear to the corporate customer as to what the credit/debit represents. Unlike consumer entries, in general, the non-consumer receiver of a CCD, CTX or IAT entry must return entries no later than the opening of business on the second banking day following the settlement date requiring prompt review of transactions to detect any unauthorized entries.

Notice of Change in Amount/Change in Debiting Date for Recurring Debits: For recurring debits, when the debit amount varies, the Rules require the Originator to notify the account holder/receiver within ten (10) calendar days before the scheduled transfer date. If an Originator changes the date in which it debits the account holder/receiver, it must notify the account holder/receiver in writing of the new date of the entry at least seven (7) calendar days before the first entry to be affected by the change is scheduled to be debited to the Receiver's account.

Prenotifications: Prenotifications are zero dollar entries generated to validate the account held at the receiving financial institution. Originators may originate a prenote; however this is not required under the Rules. If the Originator initiates a prenotification, it must wait three (3) banking days prior to initiating the live dollar amount.

Notifications of Change Requirements: Notifications of Change (NOC) are zero dollar entries sent by the receiving depository financial institution to the originating depository financial institution to alert the Originator that a change to its transaction should be made. Under the NACHA Operating Rules, the corporate customer is required to change its information (the information requested to be changed by the receiving financial institution) within 6 banking days of receipt of the NOC or the next time the transaction is generated, whichever is later.

Receiving ACH Returns and Reinitiation of Entries: The NACHA Operating Rules require that only NSF and Uncollected Funds (Return Reason Code R01 and R09) may be reinitiated. Under the NACHA Operating Rules, a returned entry may not be reinitiated unless (1) the entry has been returned for insufficient or uncollected funds; (2) the entry has been returned for stopped payment and reinitiation has been authorized by the Account Holder, or (3) the ODFI (Republic Bank) has taken corrective action to remedy the reason for the return. As a corporate customer, any returns received should be resolved immediately and no reinitiation of the same entry should be transmitted unless one of the three reasons above has occurred.

Stop Payments Made by Consumer: This affects Originators as a stop payment may be placed on the receiving financial institutions system for all future transactions relating to the one Originator for the payment. Originators need to train its internal staff to ensure they understand that there may be multiple stop payments returned. These should not be reinitiated into the system until resolved.

Reversing an ACH File: An Originator may reverse a file if the file is erroneous or duplicate. The Originator may transmit the reversing file within 5 banking days after the Settlement Date for the entries within the duplicate or erroneous file. The word “REVERSAL” must be placed in the Company Batch Header Field and if the file is reversing an erroneous file, the Originator must initiate a correcting file with the reversing file.

Reversing an ACH Entry: An Originator may reverse an entry if the entry is erroneous or a duplicate entry. Only an Originator may reverse an entry. The Originator should notify the account holder/receiver of the reversing entry and reason of the reversing entry no later than the Settlement Date of the reversing entry.

Erroneous File or Entry: A file or entry that (1) is a duplicate of an entry previously initiated by the Originator or ODFI; (2) orders payment to or from a Receiver different than the Receiver intended to be credited or debited by the Originator; (3) orders payment in an amount different than was intended by the Originator; or (4) is a PPD credit entry satisfying each of the following criteria: (i) the PPD credit entry is for funds related to a Receiver's employment; (ii) the value of the PPD credit is fully included in the amount of a check delivered to the same Receiver at or prior to the Receiver's separation from employment; or (iii) the PPD credit entry was transmitted by the Originator prior to the delivery of the check to the Receiver.

International ACH Transactions (IAT): Certain ACH payments that were classified as domestic transactions may be classified as international payments, or IAT transactions today. As a result, an ACH transaction that is originated today may need to be originated as an IAT transaction under this Rule. The ACH transaction may be classified as an international payment (IAT transaction) if your company (1) is a subsidiary of a multi-national corporation; (2) has foreign subsidiaries; (3) buys or sells to organizations or individuals outside of the territorial jurisdiction of the United States; or (4) sends payroll, pension or benefit payments via the ACH Network to individuals that have permanent resident addresses outside the territorial jurisdiction of the United States. To assist you in determining if you have a situation that warrants the item be identified as an IAT, we have provided questions below. If you answer yes to any of the following questions, you may be affected by the requirement:

1. Is your company a subsidiary of a multi-national company?
2. Does your company have foreign subsidiaries?
3. Does your company buy or sell to organizations or individuals outside the territorial jurisdiction of the United States?
4. Does your company send payroll, pension or benefit payments via the ACH Network to individuals that have permanent resident addresses outside the territorial jurisdiction of the United States?

Origination of the IAT standard entry class code would require approval from Republic Bank prior to its use.

Laws Regarding the Office of Foreign Asset Control (OFAC): As a Corporate Originator, the Rules may affect you as a corporate customer. Corporations are required to comply with OFAC obligations, and the penalties for ignoring those obligations can be both criminal and civil and include both jail time and fines
ranging from $10,000 to $10,000,000 per occurrence. If these fines are levied against the financial institution they may be passed back to the corporate originator depending on the specifics of the case and the details of their contract with the financial institution. The fines are levied by the U.S. government and funds collected are the property of the government, not the financial institution. Additional information on OFAC obligations and fines can be found at the following link: http://www.treas.gov/offices/enforcement/ofac/. Republic Bank does not allow the origination of IAT transactions.

**General Audit Requirements for Third-Party Senders:** A third-party sender is an intermediary between the bank and the entity’s (Third-Party Sender’s) customers. The Rules require that all Third-Party Senders conduct an internal or external audit of its ACH operation and compliance with the Rules no later than December 31 of each year. Documentation supporting the completion of an audit must be (1) retained for a period of six years from the date of the audit, and (2) provided to NACHA upon request. As this is a Rule requirement, Republic Bank will request confirmation of such an audit each year. This applies only to Third-Party Senders.

**Risk Management and Assessment Requirements of Republic Bank:**

Originators need to understand the necessity of risk management practices regarding the following (1) The performance of the due diligence with respect to Originators and Third-Party Senders; (2) The assessment of the nature of the Originator’s or Third-Party Sender’s ACH activity and the risks it presents; and, (3) The establishment of procedures to monitor an Originator’s or a Third-Party Sender’s origination and return activity, and to enforce exposure limits and restrictions on the types of ACH transactions that may be originated.

Republic Bank as an ODFI may establish additional risk management procedures such as requiring an audit of its Originators activity be performed, closely monitoring the return volume of its originators, and assessing the risk associated with the type of ACH activity performed by each Originator. Republic Bank may also limit the types of standard entry class codes for which can be originated using Republic Bank’s routing number.

Below are revisions to the 2015 Rules which became effective throughout the 2015 year. It is important that you as an Originator or a Third-Party Sender utilizing the ACH network to process debit and credits make note of these Rules changes and make appropriate changes to your internal processes as necessary. If you have any questions regarding the impact of these Rules, please do not hesitate to contact your Republic Bank Treasury Management Officer.

**REVISIONS TO THE 2015 NACHA RULES**

**Compliance and Operational Topics/Minor Rules Issues - Effective January 1, 2015**

This Rule amends seven specific areas of the NACHA Operating Rules to address minor topics:

- Point-of-Sale (POS) Entries – Clarification of General Rule
- Return Fee Entry Formatting Requirements
- Entry Detail Record for Returns – Clarification Regarding POP Entries
- Clarification of RDFI’s Obligation to Recredit Receiver
- Clarification on Prenotification Entries and Addenda Records
- Clarification of Audit Requirements for Participating DFIs Reporting Network Administration Fees
- Clarification on Company Identification for P2P WEB Credit Entries

**Notification of Change: Removal of Change Code C04 (Incorrect Individual Name/Receiving Company Name) Rule - Effective March 20, 2015**

Previously, RDFIs used Change Code C04 to request a correction to the Receiver’s name indicated in an ACH entry, obligating the Originator to make the requested change. Unfortunately, a problem sometimes arose if a Receiving Depository Financial Institution (RDFI) instructed an Originator to change the Receiver’s name on future Entries: in some cases, the billing company was unable to make that change, leading to the Originator then being unwilling or unable to adjust the name. That could lead to filing a Rules violation report, creating challenges and conflict for both the RDFI and Originating Depository Financial Institution (ODFI). To address the risk created by C04—essentially, that an RDFI warrants an accurate name change, while the Originator’s copy of the Receiver’s authorization reflects a different name—this Rule will eliminate C04 from the Rules.

**IMPACT TO CORPORATE USERS:** Rely on contracts and records to properly identify the name of the Receiver being credited or debited, without relying on a Notification of Change (NOC) from the RDFI.

**Dishonored Returns and Contested Dishonored Returns Related to Unintended Credit to a Receiver Rule - Effective March 20, 2015**

This Rule permits an ODFI to dishonor a return entry relating to an erroneous transaction provided that it can substantiate that it had also originated a reversing entry to correct the erroneous transaction. To support this ability this Rule defines a new dishonored return reason code – R62 – for use by the Originator/ODFI when the reversal process has resulted in an unintended payment to and enrichment of the Receiver.

This Rule also defines a new contested dishonored return reason code – R77 – for use by the RDFI, when appropriate, in response to such dishonored returns when the RDFI has returned both the erroneous entry and the reversal.

**IMPACT TO CORPORATE USERS:** When sending a reversing credit for a debit that was unintentionally sent, an Originator/Third-Party should be aware of their right to dishonor the return of the unintentional when the corresponding reversing credit entry is not returned.

**ACH Operator Edit for Returns – Effective September 18, 2015**

This Rule requires ACH Operators to reject any batch of Return Entries in which RDFI returns and ACH Operator returns are commingled.

This reflects current processing requirements for RDFIs. To make the change, the Rule incorporates an additional ACH Operator edit within the listing of ACH Operator file/batch reject edit criteria. Both ACH Operators and Receiving Depository Financial Institutions (RDFIs) are responsible for generating returns, but this can potentially create a problem when trying to identify the sender of the batch if returns from both parties are included in the same batch.

To address this problem, this Rule requires ACH Operators to reject any batch of Return Entries in which RDFI returns and ACH Operator returns are commingled. This reflects current processing requirements for RDFIs. To make the change, the Rule incorporates an additional ACH Operator edit within the listing of ACH Operator file/batch reject edit criteria.
**IMPACT TO CORPORATE USERS:** None; ACH Operators are the only party affected by the Rule.

**ACH Network Risk and Enforcement Topics – Effective September 18, 2015**

This Rule will improve the overall quality of the ACH Network by reducing the incidence of returned Entries and the associated costs, both financial and reputational, that such returned Entries impose on the ACH Network and its participants.

The approach to reducing risk with this Rule is multi-fold, as described by the various topics below. These changes are also expected to increase customer satisfaction with the ACH Network by reducing the volume of transactions subject to customer disputes.

**IMPACT TO CORPORATE USERS:** Originators with unauthorized debit return rates above the new threshold may be required by their ODFIs, and, in the case of some Originators, their Third-Party Senders, to take action to reduce their return rates, and will incur costs in doing so. Originators whose practices do not comply with the limitations on and requirements for reinitiating returned Entries are likely to incur additional costs associated with the development and implementation of better policies and procedures to ensure compliance with the Rules. Originators will incur some cost in modifying systems to include the “RETRY PYMT” description in Reinitiated Entries.

**UPCOMING REVISIONS TO THE 2016 NACHA RULES**

**Same Day ACH: Moving Payments Faster – Effective September 23, 2016**

The Rule will enable the same-day processing of virtually any ACH payment.

Currently, most ACH payments are settled on the next business day. There are many uses of ACH payments, however, for which businesses and consumers could benefit from same-day processing. A NACHA rule change will enable ACH Originators that desire same-day processing the option to send same-day ACH transactions to accounts at any receiving financial institution (RDFI). The Rule includes a “Same Day Fee” on each Same Day ACH transaction so that RDFIs would recover, on average, their costs for enabling and supporting Same Day ACH.

The Rule will enable the option for same-day ACH payments through new ACH Network functionality, without affecting existing ACH schedules and capabilities:

Originating financial institutions (ODFIs) would be able to submit files of same-day ACH payments through two new clearing windows provided by the ACH Operators (Note: The actual ACH Operator schedules are not determined by the NACHA Operating Rules, and the inclusion of ACH Operator schedules and other functions in this Rule should not be interpreted as an endorsement by either ACH Operator):  
- A morning submission deadline at 10:30 AM ET, with settlement occurring at 1:00 PM.  
- An afternoon submission deadline at 3:00 PM ET, with settlement occurring at 5:00 PM.

Virtually all types of ACH payments, including both credits and debits, would be eligible for same-day processing. Only international transactions (IATs) and high-value transactions above $25,000 would not be eligible. Eligible transactions account for approximately 99 percent of current ACH Network volume.

All RDFIs would be required to receive same-day ACH payments, thereby giving ODFIs and Originators the certainty of being able to send same-day ACH payments to accounts at all RDFIs.

RDFIs would be mandated to make funds available from same day ACH credits (such as payroll Direct Deposits) to their depositors by 5:00 PM at the RDFI’s local time.

To allow financial institutions and businesses to acclimate to a faster processing environment, as well as to ease the implementation effort, these new capabilities would become effective over three phases beginning in September 2016.

**CHANGES FROM THE ORIGINAL PROPOSAL IN THE REQUEST FOR COMMENT ARE:**

The morning same-day window has been modified. The estimated ACH Operator deadline would be 10:30 AM ET, instead of 10:00 AM ET as originally proposed. The settlement time associated would be at 1:00 PM ET, instead of at 12:00 noon ET as originally proposed; and would become effective in Phase 1, instead of in Phase 3 as originally proposed.

The methodology for calculating the Same Day Entry fee has been modified, resulting in an estimated Same Day Entry Fee of 5.2 cents for each same-day transaction, instead of 8.2 cents as originally proposed.

In addition to using the Effective Entry Date, an optional, standardized method is provided for ODFIs to use, at their discretion, with their Originators in identifying intent for same-day settlement.

Supplemental material clarifies the processing of Entries with invalid or stale Effective Entry Dates, and clarifies aspects of processing returns.

**IMPACT TO CORPORATE USERS:** Talk to your FI to determine if Same Day is appropriate and cost effective. Discuss new file submission and exception resolution cut-off times.

**Improving ACH Network Quality – Unauthorized Entry Fee – Effective October 3, 2016**

This Rule is intended to improve ACH Network quality by reducing the incidence of ACH debits that are returned as unauthorized.

Under this Rule, an ODFI would pay a fee to the RDFI for each ACH debit that is returned as unauthorized (return reason codes R05, R07, R10, R29 and R51). Under the Rule, ODFIs will have an economic incentive to improve the quality of the ACH transactions they originate. RDFIs will be compensated for a portion of the costs they bear for handling unauthorized transactions, and will experience reduced costs due to a reduction in unauthorized transactions over time.

**IMPACT TO CORPORATE USERS:** Originators will likely bear at least some of the costs initially borne by their ODFIs, such as through transaction, returns, and other serve fees. Originators can avoid some of these costs; however, by reducing the number of transactions they originate that result in unauthorized returns.