

ACH POLICY

It will be the policy of _____ (Bank) to comply with all ACH rules, regulations and other related requirements. The policy specifically defines this institution's intentions regarding the requirements under ACH Rules, The Green Book, Federal Regulation E, and Uniform Commercial Code Article 4A which permits alternative handling based upon individual financial institution policies and procedures.

As an Originating Depository Financial Institution (ODFI), the Bank will offer the following ACH service products to customers:

- Direct Deposit
- Direct Payment
- Point-of Sale and Point-of-Purchase
- Cash Concentration & Disbursement
- Corporate Trade Payments
- Check Truncation
- Re-presentation of returned NSF checks
- Customer Initiated Entries
- Facsimile Initiated Entries
- Electronic Federal Tax Payment Systems (EFTPS)

The Bank will accept ACH files from the following input resources:

- Paper Listing
- Facsimile Advice
- Computer Disk

An ACH audit will be conducted annually in accordance with the minimum ACH audit requirements of the current ACH rules.

In order to maintain compliance with new as well as existing requirements under various regulatory sources for ACH activities, the Bank will implement the following procedures:

1. Assign specific responsibilities for ACH receipt and origination functions;
2. Review the ACH Association Membership Directory annually to insure that the ACH contact information is current and notify the Association of any changes;
3. Verify the receipt of the current ACH Rules and review rule revisions for the current year;
4. Provide training to ACH personnel responsible for receipt and origination activities;
5. ACH contact personnel shall maintain a reference library of primary regulation sources, such as ACH Rules, The Green Book, Regulation E, and the UCC Article 4A.

The Bank will observe the regular Federal Reserve Bank schedule of holidays and non-processing days. ACH transactions received having a settlement date of a holiday or non-processing day will be posted on the first processing day after the holiday or non-processing day.

The Bank will accept all debit and credit ACH transactions as required under the ACH rules with the following exceptions:

1. Destroyed Check Entries, which bear standard entry class code XCK, will be accepted when the entries include the serial number of the destroyed check. The Bank reserves the right to refuse XCK entries if the Origination Depository Financial Institution cannot provide a check copy, if requested by the account holder, or if other difficulties occur in obtaining entry information.
2. ACH debit transactions will not be accepted for accounts which the Bank has classified as accounts where debit activity is limited to six entries under the Federal Regulation D and the ACH debit entry represents the seventh debit entry.

The Bank will honor requests by ODFIs to return entries (using the return code R06, returned per ODFI request) when the entries are identified as erroneous and meet all of the following conditions:

1. The return of the entry will not cause an overdraft condition for the customer's account;
2. The ODFI has positively identified itself and documents its request for the return in writing;
3. The request is received within a reasonable length of time (but within 5 days of the settlement date) as to not place undue financial difficulty upon the account holder because of unexpected loss of availability of funds;
4. The return does not interfere with actions either anticipated or in process by the Bank.

The Bank will provide consumers who receive electronic payments to their accounts the following as required by Federal Regulation E:

1. Initial Reg. E disclosure at the time the account is opened;
2. Periodic statements detailing account transaction activity monthly;
3. Abbreviated error resolution notice monthly.

Bank personnel will use procedures which clearly indicate the difference between requests for stop payments of ACH entries and requests for the return of payments which are unauthorized by reason or either revocation of a once valid authorization or notice by the consumer that a valid authorization was not given for the payment(s) specified. The Bank will obtain a signed written affidavit from the customer prior to returning an entry, which the customer claims, is unauthorized or for which the authorization has been revoked.

In the case of unauthorized debit entries, the Bank will provide immediate credit to the consumer, when the consumer has notified the Bank in accordance with procedures disclosed in the error resolution notice.

The bank will encourage the use of the simplified enrolment procedures offered by the Social Security Agency for direct deposit enrollment effected by the beneficiary directly through the government agency via the use of the automated enrollment process (ENR) or enrollment accessed through the 800 telephone facility provided by the appropriate U.S. Treasury agency. The Bank will retain the SF1199-A forms until after receipt of the first successful direct deposit of a receiver's federal government benefit payment.

In the event the Bank decides to close an account due to undesirable activities and the account holder receives government benefit payments, the Bank will notify the account holder of its intent to close the account at least 30 days in advance, as required by federal code. The customer will be notified by a letter to the address currently on file. The 30-day advance notice may be eliminated where the Bank has reason to suspect fraudulent activity of the part of the account holder.

The Bank will investigate and return all Federal Government payments received after the knowledge of the death of a recipient in order to limit the financial institution's liability.

In regard to the Choice of Law disclosure, the Bank will disclose New York as the default choice of law to both Originators and Receivers of ACH transactions where such disclosure is required for origination and receipt of wholesale credit ACH transactions. UCC-4A disclosures for electronic wholesale credit entries received will be provided to all account holders. The disclosures will contain the following statements:

- (1) the entry may be transmitted through the ACH;
- (2) credit given by us to you with respect to an ACH credit entry is provisional until we receive final settlement for such entry through a Federal Reserve Bank. If we do not receive such final settlement, you are hereby notified and agree that we are entitled to a refund of the amount credited to you in connection with such entry, and the party making payment to you via such entry (i.e. the originator of the entry) shall not be deemed to have paid you in the amount of such entry;
- (3) under the operating rules of the National Automated Clearing House Association, which are applicable to ACH transactions involving your account, we are not required to give next day notice to you of receipt of an ACH item and we will not do so. However, we will continue to notify you of the receipt of payments in the periodic statement we provide to you;
- (4) we may accept on your behalf payments to your account which have been transmitted through one or more Automated Clearing Houses (ACH) and which are not subject to the Electronic Fund Transfer Act and your rights and obligations with respect to such payments shall be construed in accordance with and governed by the laws of the state of New York as provided by the operating rules of the National Automated Clearing House Association, which are applicable to ACH transactions involving your account.

The Bank will notify business account holders of ACH wholesale credit and debit transactions (corporate payments) through the periodic account statement, unless special arrangements are negotiated between the account holder and the Bank and detailed in a formal written agreement. The Bank understands its obligation to provide all payment information, including addenda information, to account holders. Payment related remittance information contained in addenda records of CCD and CTX entries will be provided to account holders upon request.

Binding agreements will be obtained for all originating customers before ACH activity is originated. The agreements will address the issues recommended in the Operating Guidelines of the ACH Rules. Also, the agreements will contain the following language:

“It shall be the responsibility of the Company that the origination of ACH transactions complies with the laws of the United States. This includes, but is not limited to sanctions enforced by the Office of Foreign Assets Control (OFAC). It shall further be the responsibility of the Company to obtain information regarding such OFAC enforced sanctions. (This information may be obtained directly from the OFAC Compliance Hotline at (800) 540-OFAC.)” and
“The Company will obtain written authorizations for consumer entries in accordance with ACH Rules and U.S. law and shall retain the original or a microfilm record for two (2) years after termination or revocation of such authorization.”

Customers originating ACH activity will be informed of their responsibilities on a continual basis. Originating customers will be provided annually:

1. The conditions (if any) that the bank will require Originators to send prenotifications;
2. That prenotes are sent at least six banking days prior to the origination of the first live entry;
3. That returned prenote entries are reported to the Originators in a timely manner;
4. That Originators are advised of the reasons for Returns;
5. That upon the receipt of Returns coded R07- Customers Advises Not Authorized, R08-Stop Payment and R10-Customer Advises Not Authorized, Originators cease initiating entries unless the Receiver has re-instated entry authorization or corrective action is taken.
6. That upon receipt of Returns relating to prenotifications indicating that the RDFI cannot accept such entry, Originators cease initiating live entries;
7. That Notifications of Change are reported to Originators within two banking days;
8. That action is taken by the Originator to make requested changes to account information within six banking days of receipt of the NOC information or before initiating subsequent entries, whichever is later;
9. That the bank continually advises Originators of these responsibilities;
10. That Originators are advised that they must notify Receivers when reversing entries will be originated no later than the settlement date of the reversing entry and that they must provide the reason the original entry is being reversed; and
11. That the bank provides Originators with rule change information annually.

The Board of Directors will establish exposure limits annually. The limits will consider net settlement position, and limits will be reviewed periodically for necessary adjustments. Exposure limits will be monitored and exceptions reported to management.

NOCs and corrected NOCs will be received when received from RDFIs. The Originator will be notified either orally or in writing of the information contained in the NOC or Corrected NOC.

All pre-notifications received will be reviewed for accuracy. A NOC will be sent to the ODFI when necessary.

The conditions outlined in this policy shall be in effect upon approval by the Board of Directors.