

NACHA Standard Entry Class (SEC) Codes

The National Automated Clearing House Association (NACHA) is an association of banks and payment processors responsible for making and enforcing all regulations regarding the processing of electronic transactions through the Federal Reserve. Federal and state governments rely on NACHA to create, regulate and enforce rules that protect both consumers and merchants in an electronic check transaction. These regulations carry great weight when law enforcement or civil litigation becomes necessary and should be taken very seriously. The purpose of this document is to define and explain the proper use of "SEC Codes" in SpeedChex as put forth by the NACHA regulations.

NACHA requires that when a transaction is submitted to the Federal Reserve for processing, the transaction must include something called a Standard Entry Class (SEC) Code to communicate exactly how the customer gave you authorization to debit/credit their bank account. There are only a few authorization methods allowed by NACHA, so this list of SEC Codes is very short.

The following table shows the proper SEC Codes to use depending on how you obtained the authorization to debit/credit an individual or company's bank account:

Authorization Method	SEC Code
Document Signed by Individual	PPD
Document Signed by Company*	CCD
Via the Internet	WEB
Recorded Telephone Call	TEL
Check Converted to Electronic Transaction at the Point-of-Sale	POS
Check Received via Mail/Courier and Converted to Electronic Transaction	ARC

* All transactions from a business bank account must be CCD. Please see the CCD definition below for further explanation.

If NACHA decides to audit a merchant or processor, as part of the audit process they may require proof of the authorization method (SEC Code) specified for any given transaction. Failure to properly comply and provide proof of the authorization can result in fines up to \$10,000 for each transaction in violation, so it is important that you correctly indicate the SEC Code and maintain good records of your authorizations.

Please read the SEC Code definitions starting on the next page as quoted from NACHA's ACH rules to gain a better understanding about the regulations governing the proper use of SEC Codes.

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ARC - Accounts Receivable Truncated Check Debit

An ACH debit of a check received in the U.S. Mail and converted to an electronic item. The definition of U.S. Mail includes mail delivered by the United States Postal Service as well as mail delivered via courier service, including but limited to, federal Express, United Parcel Service, or other local courier service and does not include items personally delivered or deposited in a merchants night drop. These checks are not considered to have been delivered by U.S. Mail and are not eligible for truncation. Corporate checks are not eligible for truncation.

CCD - Cash Concentration or Disbursement

Cash Concentration or Disbursement can be either a credit or debit application where funds are either distributed or consolidated between corporate entities. This application can serve as a stand-alone funds transfer, or it can support a limited amount of payment related data with the funds transfer.

Special note: Anytime you debit/credit a business bank account, a signed authorization must be obtained either on a separate document or as part of your contractual agreement with the business customer before the transaction occurs.

POP - Point-Of-Purchase

This ACH debit application is used by Originators as a method of payment for the in-person purchase of goods or services by consumers. These Single Entry debit entries are initiated by the Originator based on a written authorization and account information drawn from the source document (a check) obtained from the consumer at the point-of-purchase. The source document, which is voided by the merchant and returned to the consumer at the point-of-purchase, is used to collect the consumer's routing number, account number, and check serial number that will be used to generate the debit entry to the consumer's account.

PPD - Prearranged Payment and Deposit

Direct Deposit

Direct deposit is a credit application that transfers funds into a consumer's account at the Receiving Depository Financial Institution. The funds being deposited can represent a variety of products, such as payroll, interest, pension, dividends, etc.

Preauthorized Bill Payment

Preauthorized payment is a debit application. Companies with billing operations may participate in the ACH through the electronic transfer (direct debit) of bill payment entries. Through standing authorizations, the consumer grants the company authority to initiate periodic charges to his or her account as bills become due. This concept has met with appreciable success in situations where the recurring bills are regular and do not vary in amount -- insurance premiums, mortgage payments, and installment loan payments being the most prominent examples. Standing authorizations have also been successful for bills where the amount does vary, such as utility payments.

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TEL - Telephone-Initiated Entry

This Standard Entry Class Code is used for the origination of a Single Entry debit transaction to a consumer's account pursuant to an oral authorization obtained from the consumer via the telephone. This type of transaction may only be originated when there is either (1) an existing relationship between the Originator and the Receiver, or (2) no existing relationship between the Originator and the Receiver, but the Receiver has initiated the telephone call. This SEC Code facilitates access to the ACH Network by providing an alternative authorization method, oral authorization via the telephone, for certain types of consumer debit entries.

Special Note: All TEL transactions must be recorded and the recordings must be kept on file for at least 2 years after the transaction date.

WEB - Internet-Initiated Entry

A debit entry to a Consumer Account initiated by an Originator pursuant to an authorization that is obtained from the receiver via the Internet. There are two components of the definition that are important to address:

- the WEB SEC Code is only appropriate to use when initiating debit entries that have been authorized by the receiver via the Internet. An authorization that was obtained from the receiver in person, through the mail, or over the telephone in order to effectuate an Internet payment is not to be initiated as a WEB transaction.
- credit entries cannot be initiated except for reversals of WEB debit entries.

The above SEC Codes are the most commonly used. If your business has other needs, please contact us and we will help you with the proper agreements and documentation to accomplish your objectives.