

In an effort to keep you safe and informed, Lincoln Savings Bank offers updates and reminders regarding the ACH network and best-practices. The information included herein is intended as informative only. Please consider your own internal guidance, policies, or procedures, as well as legal advice that your business has received.

2019 ACH Rules Changes Same-Day ACH (SDA) - Faster Funds Availability

Effective September 20, 2019

RDFIs will be mandated to make funds available from SDA credits (such as payroll Direct Deposits) that are initiated in the first SDA window to their depositors by 1:30 PM at the RDFI's local time.

Funds from SDA processed in the second window will be made available to the recipient no later than 5:00 PM RDFI local time.

Additionally, funds from any non-SDA that are received by 5:00 PM the day prior to the effective shall be made available to the recipient no later than 9:00 AM RDFI local time on the effective date.

Source: NACHA.org - NACHA Operating Rules

Impact to you

If you are initiating SDA, then your recipient may have quicker access to funds that are sent in the first window (by 1:30 PM local time for RDFI).

The other changes to availability may allow your recipients quicker access to funds. However, as a recipient of any ACH funds, please note that Lincoln Savings Bank already provides credit by 9:00 AM on the effective date, so no change will be seen.

If you feel you may benefit from the advanced settlement windows offered by SDA, please contact LSBpro to learn more.

E-mail: LSBproSupport@myslb.com

2019 ACH Rules Changes Same Day ACH Dollar Limit Increase

Effective March 20, 2020

SDA entry limits will increase from \$25,000 per entry to \$100,000 per entry. This change will apply to both SDA credits and debits.

Source: NACHA.org - NACHA Operating Rules

Impact to you

The increased capacity may allow the option for SDA for larger transactional needs to expedite funds flow for both B2B and B2C. Additionally, this will allow quicker execution of reversals for large transactions if utilized.

Same-Day ACH Processing Window

Effective September 18, 2020

A third window will be added to allow an additional two hours of SDA-origination. The new window will allow Lincoln Savings Bank to submit files until 3:45 PM CST to the ACH operator.

Source: NACHA.org - NACHA Operating Rules

Impact to you

Extending the last cutoff window will allow for more time to prepare and execute same-day transactions, potentially eliminating business cutoffs requiring next day settlement where appropriate and enabling funds to be moved "same day" for all transactions.

2019 Same Day ACH Processing Cutoff Times

First Processing Window Cutoff:

9:00 AM CST

First Processing Window Cutoff:

1:00 PM CST

\$493,398,473

ACH Dollars originated
by Lincoln Savings Bank
Businesses in 2018

Corporate Account Takeover

“Corporate Account Takeover” occurs when cyber criminals take control of a business’ bank account through stolen credentials and access point manipulation. There are a great number of ways these criminals can gain access to systems, but the most prevalent model stems from the presence of malware received through e-mail or websites.

The most common source of malware in today’s environment is through social media sites. Cyber criminals create a number of videos, photos, or articles with the goal of generating interest to click through. As soon as a victim clicks on an infected link, malware is then installed on the machine and can then spread across a business’ internal network. Also common are e-mails that appear to be from respected organizations. These e-mails contain links or attachments that deploy the infectious code when opened.

The malware typically installs key-logging software, and potentially the ability to alter the functionality of the user’s browser. The software logs all key strokes and potentially even token-generated passwords. The data is then retrieved by a cyber criminal to ascertain the user’s online banking credentials.

Target: Businesses Small and Large

Historically, cyber criminals have targeted large business with the greater chance of a large strike and quick loot. But the tide has changed and business of all size and stature are at risk, even shifting the greater focus to small businesses for the following reasons:

- With the advancement of Cash Management services, many small businesses now have access to do online funds transfers, initiate ACH transactions, and potential wire activity; plus,
- Small businesses typically lack the resources to provide sufficient oversight and internal controls, which leads to single-user access to all systems and approval methods. As small businesses opt for “ease of access” and lowest cost options, they typically elect to waive dual-control scenarios, or the purchase of password-generating tokens.
- Additionally, IT departments may be minimal, or on small budgets leading to less complex firewalls and malware detection and prevention methods.

Our Commitment to Help

While there are several things that Lincoln Savings Bank cannot do to ensure that best practices are followed in preventing Corporate Account Takeover, we do pro-actively take steps to encourage our customers to take preventative steps as well as perform behind-the-curtain actions to prevent fraud.

- Lincoln Savings Bank requires multi-factor authentication for access that requires:
 - o Login Name

- o Login Password
- o Out-of-Bank Temporary Access Code (Typically via phone or text)
- Strongly encourage dual control for all “risky” (Funds moving to or from accounts outside of Lincoln Savings Bank) transactions
- Provide alerting services for authorization of “risky” transactions
- Establishing limits for number of transactions and transactions amounts based on true customer needs and expectations
- Use of our back-end Risk & Fraud Analytics analysis tool to review 30+ transaction variables and inspect them against historical values to determine and flag unusual activity.

Sound Business Practices

Good business practices in preventing Corporate Account Takeover include:

- Utilizing Dual- Control for all online transactions.
- Use and keep all anti-virus and malware detection and prevention software up to date.
- Restrict Online banking access to within business networks and firewalls. Avoid public networks.
- Minimize computer use where Online banking is performed. Do not use this computer for general online navigation and avoid social networks.
- Employ “safe browsing” software that prevents malware and key-logging software from running.
- Monitor and reconcile your accounts daily and be diligent in detecting anomalies.
- Use the alerts provided by Lincoln Savings Bank’s online banking system to notify of transaction creation.
- Utilize out-of-bank authentication at login and also at transaction creation.
- Keep account limits as close to business needs as possible.
- Utilize additional fraud-prevention services like positive pay and ACH block to pro-actively prevent fraud.



Fraud and Phishing

Phishing scams are typically fraudulent e-mails or messages that appear to come from legitimate sources. The e-mails may contain malware as discussed in the “Corporate Account Takeover” section, or may contain links to impersonated websites (phishing). The phony website appears to be a website that you may otherwise use in all facets; however, when entering login credentials, it will generally present a page that indicates the site is down or unavailable. At this point, fraudsters have already logged your credentials to the real site and can begin attempting access.

It is important to stay diligent in monitoring for these types of e-mails to help protect against unintentionally exposing securing data. Some of the things you can look for are:

Unauthenticated E-mail Addresses

Because e-mail addresses can be spoofed, you need to authenticate the legitimacy of the sender. Some Internet service providers have stronger filters than others and will check the sending IP against an authenticated IP address and domain name server.

Typos and Grammatical Mistakes

Fraudulent e-mails are often mass-generated- possibly even translated using software from foreign languages- and contain nonsensical grammatical flows or incorrect syntax or use of pronouns. It is also commonplace to intentionally use incorrect spelling to bypass industry-standard spam filters.

Awkward Greetings

Generic greetings that are not referring directly to the recipient. May be generally stated such as “Client.”

Sense of Urgency

Many phishing e-mails use compelling language for an immediate call to action. They will encourage you to act immediately for the sake of security or to prevent fraud or loss.

Randomly Generated Numbers

Phishing e-mails may seem to have included account numbers or reference numbers to try and add “legitimacy” to their message.

Links

Many Phishing e-mails rely on external links to direct you to a spoofed website, where they will gather information that you willfully enter. Some phishing website are blatant enough to ask you to enter account numbers, debit/credit card numbers, security codes, and PINs. By hovering over the link in an e-mail, you can occasionally view the source code to where the link is directed and this may be an obvious indicator of nefarious intentions.

Use of Logos, Websites, and Addresses

In an attempt to seem legitimate, phishing e-mails may contain authentic business logos, addresses and phone numbers to help lower your initial skepticism of the e-mail.



Allowed Standard Entry Class (SEC) Codes

PPD - Pre-arranged Payment or Debit

- Most commonly used for direct deposit
- For business to consumer use only
- Written agreement must be on file with recipient if you are debiting their account.
- Written agreement suggested to be on file, but verbal ok for credit entries.

CCD - Cash Concentration or Disbursement

- For business to business use only
- Can be used for moving funds between a business' own accounts at different institutions
- Used for payments or debits to other businesses
- Agreements are handled by contract authorization between companies.

RETURN REASON CODES

Return Code Description

- R01 Insufficient funds
- R02 Account closed
- R03 No account found
- R04 Invalid account number
- R05 Unauthorized debit using corporate SEC
- R06 Returned/ODFI's request
- R07 Authorization revoked by customer (non-POP, TEL, or WEB)
- R08 Payment stopped (non-RCK)
- R09 Uncollected funds
- R10 Customer advises not authorized (non-RCK)
- R11 Check safekeeping entry return
- R12 Account sold to another DFI
- R13 Invalid ACH routing number
- R14 Representative Payee deceased or unable to continue in capacity
- R15 Beneficiary or account holder (other than representative payee deceased)
- R16 Account is frozen
- R17 File record edit criteria
- R20 Non-transaction account
- R21 Invalid company identification
- R22 Invalid individual ID number
- R23 Credit entry refused by receiver
- R24 Duplicate entry
- R29 Corporate customer advises not authorized
- R31 Permissible return entry
- R33 Return of XCK entry
- R37 Source document presented for payment (ARC, BOC, and POP)
- R38 Stop payment - source doc (ARC and BOC)
- R39 Improper source document (ARC, BOC, and POP)
- R50 State law affects RCK acceptance
- R51 RCK item is ineligible
- R52 RCK stop payment
- R53 Item and ACH entry presented for payment (RCK only)
- R80 Cross-border payment coding error
- R82 Invalid foreign receiving DFI ID
- R83 Foreign receiving DFI unable to settle
- R84 Entry not processed by Gateway Operator

Notification of Change (NOC)

A NOC is a non-dollar entry sent by a Receiving Deposit Financial Institution (RDFI) to notify the Originating Deposit Financial Institution (ODFI) (Lincoln Savings Bank) that information provided for a recipient is no longer valid. NOCs allow the RDFI to return information to the ODFI, and subsequently the originator, without returning the initiated ACH. Upon receipt of a NOC, we shall notify the originator, who shall be required to make the requested change within six banking days of receipt, or prior to the next transmittal to the recipient, depending on which is later.

*Note: This is not a complete listing of return codes. For more codes, please refer to your NACHA ACH Rules book.

RETURNED ITEMS

Returned entries may not be re-initiated unless returned for insufficient funds (R01) or uncollected funds (R09) and are limited in number to two and must be initiated within 180 days of the original entry date. An entry returned for stop payment (R08), or an authorization issue may only be re-initiated if the originator has received appropriate authorization to re-initiate the payment.

When re-initiating a returned item, the words "RETRY PYMT" in all capitalized letters are required in the Company Entry Description field. Identical content is required in the following fields: Company Name, Company ID, and Amount. Modifications to other fields are permitted but only to those necessary to correct an administrative error made during processing.

We will report return information to originators within two banking days from the settlement date.

REVERSALS

If an originator creates erroneous ACH entries or files, corrections may be made by initiating reversing entries or files.

An erroneous entry or file is defined as:

- a duplicate of an entry previously initiated by the originator or ODFI
- orders payment to or from receiver not intended to be credited or debited
- orders payment in a dollar amount different than was intended
- originated within five banking days following settlement date of the erroneous entry.

Enter REVERSAL (must be in all capitalized letters) in the description field of the Company Batch Header Record.

- Will need to build a new Batch Record
- Change the transaction codes to offset entries (i.e., debits reverse credits)
- The effective date should be the same date as the original entry/file date for future dated files

Notify the receiver of the reversal by the settlement date.

In the case of an erroneous file, transmit a correcting file with the reversing file.

Note: We recommend that originators use an authorization agreement (credits) with their receivers that states they are authorized to debit/reverse any entries made in error. This is good business practice and will help with any disputes in the future.

Meet Matt Jenkins



We are excited to announce our most recent addition to the growing LSBpro team, Matt Jenkins. Matt has over 20 years of Banking Industry experience and has taken on the role of Treasury Management Sales Manager. Matt will work with our Treasury Management officers to ensure we're delivering customer-focused service and industry expertise.

I believe honesty and sincerity is the best way to build a relationship and that excellent service is more memorable than prices. Every positive moment with our customers is essential to building a lasting connection.

Matt Jenkins
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Important Reminders

Entry Types by SEC Code

You **cannot** combine different recipient types (consumer, business) within a single batch. As noted on page 4, different SEC codes are required based on the recipient type.

Example: You cannot generate an "ACH Batch" that contains employees for weekly payroll and also businesses you are paying for invoices or other payment needs. You would need to originate one PPD batch containing all of the employee transactions, and one CCD batch containing all of the B2B transactions.

Subsidiaries

If your online banking supports more than one legal entity, and more than one legal entity does any type of ACH or Wire origination, you **must** utilize the appropriate subsidiary when generating the transaction to ensure compliance with NACHA regulation. The subsidiary fills in the required fields such as Business Name and Company ID. Failure to do so is a breach of NACHA regulations and may result in a recipient dispute of the transaction.

Failure to comply with either of these may result in removal of origination capabilities.

Access to 2019 NACHA Rules

In addition to the NACHA Operating Rules and Guidelines you were provided initially, it is expected that you are staying up to date with the annual publication. While the rules may be purchased from a number of vendors, including directly from NACHA.org, we would be happy to provide a copy for you upon request at a discounted rate. The publication is available in digital format, or as the printed book. If you would like to request pricing, or to order a copy of the publication, please contact us at LSBprosupport@mylsb.com.



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Jon has been in the banking industry for over a decade, and with Lincoln Savings Bank for five years. He currently oversees our Treasury Management Department as well as Business Banking and Online Services.