Table of Contents

Purpose and Content ........................................................................................................2
Scope ............................................................................................................................2
Strategies ....................................................................................................................2
Risk Management .......................................................................................................3
Information Technology / Security Risk .................................................................4
ACH Programs and Objectives ...............................................................................6
Board of Directors Reporting .................................................................................6
Compliance Risk .........................................................................................................7
Credit Risk Management .........................................................................................9
High-Risk Activities .................................................................................................13
Third-Party Service Provider Risk .......................................................................16
Direct Access to the ACH Operator ..................................................................17
Transaction Risk .......................................................................................................18
RDFI Operational Risk .........................................................................................19
ODFI Operational Risk ............................................................................................25
ACH Policy

Purpose and Content
The purpose of this document is to set forth written policy adopted by [hereafter referred to as “Financial Institution”] regarding the management of activities and procedures of the Automated Clearing House (ACH) service operation. This is a living document, subject to revision in conjunction with the current NACHA Operating Rules & Guidelines, [hereafter referred to as the ACH Rules]. All employees of [hereafter referred to as “Financial Institution”] must comply with the terms of this policy.

Scope
The Board of Directors of Financial Institution defines the scope of this policy to address all areas of ACH activity, including receipt of ACH transactions (RDFI) and/or origination of ACH transactions (ODFI). It will be the policy of Financial Institution to comply with all ACH rules, regulations and other related requirements. This policy specifically defines this institution’s intentions regarding those requirements under the ACH Rules, 31 C.F.R. Part 210. Regulation E: Electronic Funds Transfers and Uniform Commercial Code Article 4A, which permits alternative handling based upon individual financial institution policies and procedures.

This policy applies to the following:
- Financial Institution employees
- Any organization or individual having a contractual relationship with Financial Institution
- Information in all forms, including oral, written, image and electronic
- Physical and logical (non-physical) security of all forms of data
- All modes of information processing, including, but not limited to, manual methods, hardware and software networks, computer systems and information disposal techniques
- Information used by Financial Institution which originates outside, including, but not limited to, vendors, contractors, customers, regulators, other enterprises and the public domain
- Financial Institution’s information resources used by, shared by or in the custody of others

Strategies
The Board of Directors realizes that with proper training and adoption of policies and procedures instituted throughout the organization, receipt of ACH transactions poses a limited amount of risk.

The receipt of ACH transactions, as well as the ACH origination portfolio, will be administered to conform to the directives of this policy and will conform to all applicable federal, state and local laws and regulations, including the ACH Rules.
ACH Policy

• To mitigate potential risk, Management shall maintain an adequate method of tracking the potential for operational losses, related to both received and originated transactions
• Management shall develop and maintain a method of performing an initial appraisal of the risk associated with each potential Originator, and will put in place the required system to track the ongoing risk of files originated from those companies and establish a continuing evaluation of the origination services portfolio
• Each Originator will be placed into a risk classification based on how well the Originator meets the established financial and risk criteria

To mitigate risk in providing ACH services, the officers of Financial Institution shall be guided by the basic standards outlined in this policy and by related operating procedures developed from this policy.

Risk Management

Systems and Controls
The systems and controls needed for an effective ACH Risk Management Program include written policies and procedures, strong internal controls and a risk-based audit program. The depth and breadth of a Financial Institution’s ACH policies and procedures will depend on the scope and complexity of those ACH activities.

Adequate policies and procedures generally include the following basic components:

• A summary of the ACH program’s objectives and its role within Financial Institution’s strategic plan
• Board-approved risk tolerances that outline the types of activities Financial Institution may originate and the types of businesses approved for ACH transactions
• Clearly defined duties and responsibilities that ensure strong internal controls over transactions
• An ACH credit-risk management program
• An effective vendor management program, including a due diligence process for selecting Third-Party Services Providers, and an oversight process for monitoring

Oversight Responsibilities

Financial Institution’s ACH Risk Management Program includes a series of effective systems and controls to monitor its ACH activities, including a risk-based audit program.

Specifically, the key elements of this program include:

• It is the responsibility of the Board of Directors and Senior Management to ensure ACH activities do not expose Financial Institution to excessive risk