ACTUM
PROCESSING

The ACH Guide for

Software
Companies

Introduction

This guide is for software companies who are considering adding a built-in payment solution to their platform or application.

ACH is an often overlooked but crucial component to digital payments. Businesses approach us every day with questions on how to directly embed ACH payment acceptance functionality into their software.

Why offer a built-in payment solution?

More and more software companies are seizing the opportunity to monetize payments processed through their platform or application.

By offering a single interface where your customers can manage their payments, your software becomes increasingly valuable and "sticky" to them. No longer will your customers need to source their ACH services from a separate provider and then manually reconcile disparate transaction data across multiple platforms. Your customers will be able to enjoy a single point of support and billing for both payments and software. Many will gladly pay a premium for the added convenience, thereby unlocking a new revenue-generating opportunity for your company with minimal startup costs, as you start to earn in-app transaction fees.

Overview

We designed this guide to provide straightforward answers to some of the most common questions we receive about ACH processing. Whether you're seeking to integrate with an ACH processor or you just want to learn more about how ACH processing works, this guide is here to help.

Towards the end of this guide, we'll discuss reasons why we think Actum stands apart and why partnering with us is the right choice. If you have additional questions or need more educational resources, reach out to us at **hello@actumprocessing.com**!

ACH Basics

What is ACH Processing?

ACH stands for Automated Clearing House, which is an electronic network made of financial institutions that process large volumes of Credit and Debit transactions.

Think: direct deposit (**ACH Credit**) and automatic bill payments (**ACH Debits**), a couple of the most common ACH payment types.

The ACH Network is managed by **NACHA**. With a few exceptions, only depository financial institutions can transmit transaction data to the Federal Reserve (or the Electronic Payments Network, another **ACH Operator**), and they do so in batches throughout the day.

NACHA is the governing body that establishes and enforces the processes and rules for ACH transactions.

How does ACH Processing work?

ACH transactions involve **Originators** (e.g., your customers) and **Receivers** (e.g., your customers' customers, vendors, or employees).

For most transactions, NACHA requires that the Originator receive authorization from the Receiver before being able to debit (or credit) the Receiver's bank account.

Once the Originator receives the proper authorization, an **ACH Entry** is created and transmitted to the ACH Operator, where the Receiving bank (**RDFI**) will ultimately settle the transaction.

Not all banks have the infrastructure in place to fully offer ACH Origination services to their banking customers. In most cases, an intermediary, or a **Third Party Sender**, with an established account at an Originating bank (**ODFI**) will process ACH Entries on the Originator's behalf.
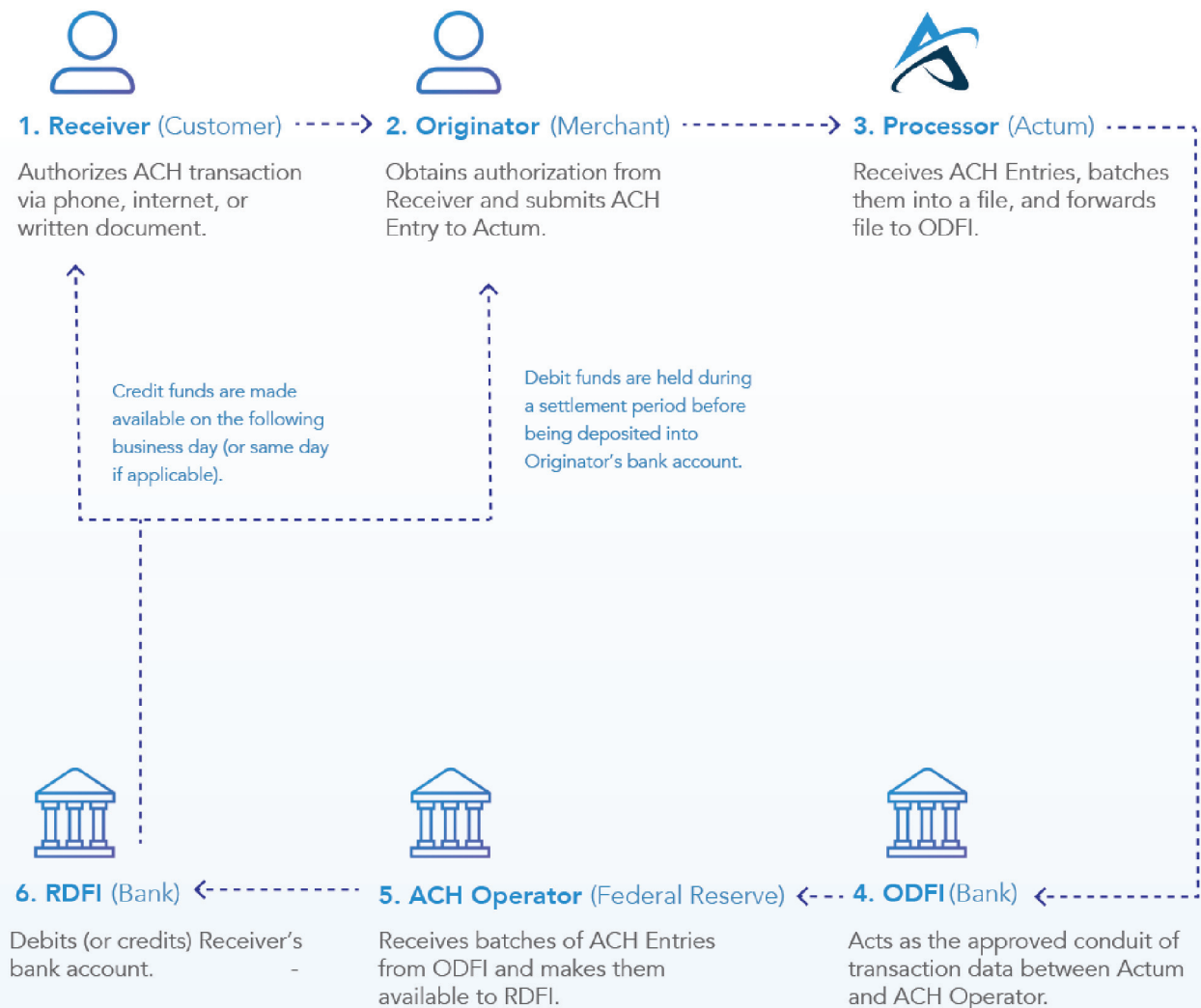
RDFI stands for Receiving Depository Financial Institution.

ODFI stands for Originating Depository Financial Institution.

As one of the industry's most established, full-service Third Party Senders, Actum streamlines this process, allowing your software platform to act as a processor by extension, simply by collecting, transmitting and reporting data. Actum manages the actual funds and banking relationships for you, eliminating the headaches of underwriting new accounts, risk monitoring, managing returns, handling payments-related customer service tickets, and building out complex accounting and compliance management systems.

Actum also provides the latest available suite of ACH services, including same-day and after-hours processing, shortening the time it takes for your customers (and/or your customers' customers) to receive their funds.

Actum's ACH Processing Flow

1. Receiver (Customer)

Authorizes ACH transaction via phone, internet, or written document.

2. Originator (Merchant)

Obtains authorization from Receiver and submits ACH Entry to Actum.

3. Processor (Actum)

Receives ACH Entries, batches them into a file, and forwards file to ODFI.

Credit funds are made available on the following business day (or same day if applicable).

Debit funds are held during a settlement period before being deposited into Originator's bank account.

6. RDFI (Bank)

Debits (or credits) Receiver's bank account.

5. ACH Operator (Federal Reserve)

Receives batches of ACH Entries from ODFI and makes them available to RDFI.

4. ODFI (Bank)

Acts as the approved conduit of transaction data between Actum and ACH Operator.

Does ACH Processing happen in real-time?

While the technology and processing times have vastly improved and accelerated since its inception in 1978, ACH is not a form of real-time payments.

This is because of two reasons:

- ACH is processed in batches throughout the day, and

- RDFIs can take up to 2 business day to reject an ACH transaction.

The beauty of ACH is in its ubiquity – all federally insured depository financial institutions are members of NACHA and maintain master accounts at the ACH Operator level. This means anybody with a bank account can pay with (or get paid through) ACH. As a result, all ACH transactions will clear automatically between banks before the Receiver's account or balance is even verified.

And so, RDFIs are allowed two business days (and sometimes up to 60 days for unauthorized consumer debits) to perform this verification and dispute the transaction based on any of 85 reasons (e.g., insufficient funds, incorrect account number, closed account, etc.). Such disputes, called **returns**, are submitted back to the ACH Network by the RDFI, using an **ACH Return Code**. Returns also clear automatically, reversing the transaction between the two banks.

ODFIs and Third-Party Senders mitigate this return risk by enforcing **settlement periods** on their merchants, while the initially-cleared funds are held. Any returns that are received during this settlement period will be deducted from the amount that ultimately settles into the merchant's own commercial bank account.

The other reason why ACH cannot be considered a real-time payment is because ACH operates by a **batch processing** system, where ODFIs wait to aggregate all incoming ACH Entries into a single batch file before transmitting it to the ACH Operator at regular intervals throughout the day.

ACH Entries that are submitted by the last transmission deadline of the day will clear by 7:30am (Central) the following business day.

Same-day ACH Entries have earlier transmission deadlines, and will clear by either 12:00pm or 4:00pm (Central) on the same day, depending on the file delivery window chosen.

*Depending on their cash flow needs, some businesses may qualify for Actum's **Accelerated Payouts** program, which shortens the traditional settlement period from 5 business days to 2, 1, or even 0 business days.*
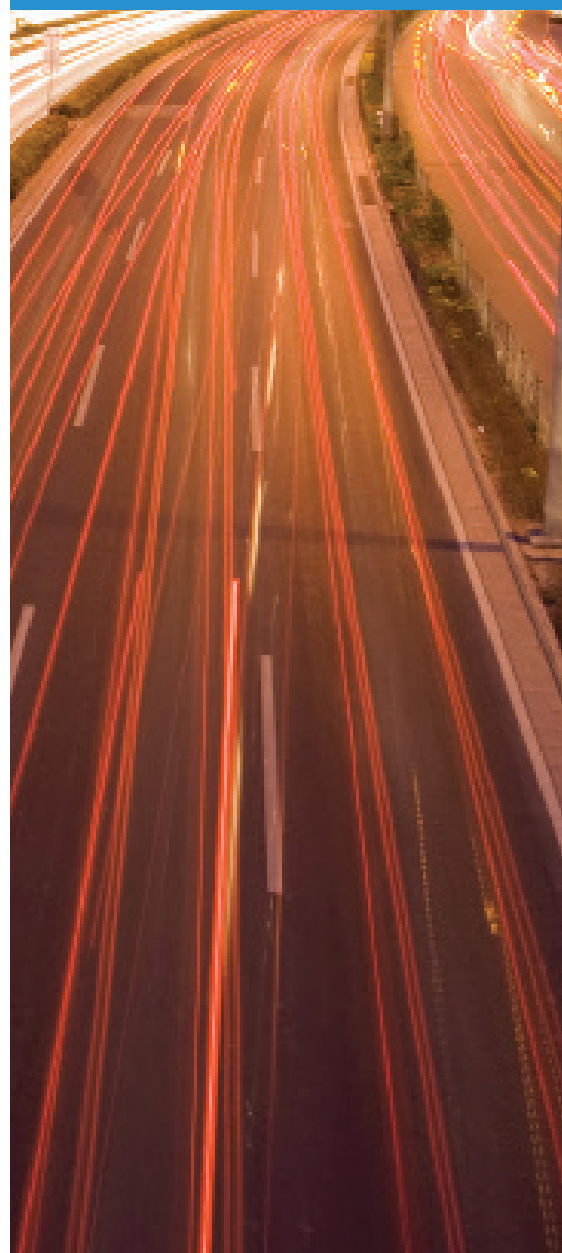
Integrating with an ACH Processor

What does it take to embed an ACH payment solution?

There are five components to offering a built-in payment solution:

Integration   **Design**   **Onboarding**   **Support**   **Security**

Integration

While you will never need to manage actual funds (we take care of that for you), you will need to collect, transmit, and reflect data.

There are two ways you can communicate data to Actum.

The most efficient way is through our API. Integration and testing can take as little as one to two full business days. Actum's APIs can be used to submit and refund transactions, validate a customer's bank account, edit or revoke a recently submitted transaction, and cancel or update a recurring transaction. The other way is via SFTP, where your platform is scheduled to upload a CSV or NACHA formatted file that includes all of the ACH Entries for that day.

Your customers will also need access to historical reports. These they can get directly from Actum's portal, but if you want to maintain the user experience entirely on your platform or application, you can automate a daily or twice-daily file import through a shared SFTP, or you can program an on-demand API call to our server to reflect the data from our standard reports.

While both ways are popular, API integration comes with some additional benefits:

• Transaction status updates are pushed to you in real-time via webhooks

• ACH submission deadlines are 30 minutes later in the day, compared to the file import method

Design

When offering a built-in payment solution, software companies will need to design and develop the graphical user interface (GUI) that your customers and/or your customers' customers use to submit the transaction data needed to create an ACH Entry (Receiver's name, bank routing & account numbers, amount, etc.).

From there, you will need to provide a way for your customers to view the status of each of their transactions. There are other customer service-related functionalities that you'll need to consider as well, such as refunds, retries, editing, revoking and canceling.

We provide our software partners with detailed design suggestions, user flow examples, and build-out specifications, to help accelerate this process.

Onboarding

Once your developers and designers have finished the integration and implementation process, you'll be nearly ready to roll out this new feature to your existing software customers. However, they will not be able to utilize it without getting credentials from Actum first.

This is where Onboarding comes in. Designing the onboarding flow to optimize conversion and UX is an important consideration for us. It's different for everyone and often requires a phone conversation.

You get to define the parameters around how your customers are referred to us to start the application process, along with how communication is handled between Actum and your customers. Some software partners prefer that we handle the entire onboarding process for them, while others prefer to act as the single point of contact between Actum and their customers.

At a high-level, the onboarding process involves:

- *Referring your customer to Actum*
- *Starting the application process*
- *Completing the application process*
- *Underwriting the application*
- *Approving the application*
- *Providing Actum credentials to you (and optionally, your customer)*

Actum has a user-friendly online application that can be either co-branded or white-labeled. Completed applications will be automatically forwarded to our Underwriting team before being approved.
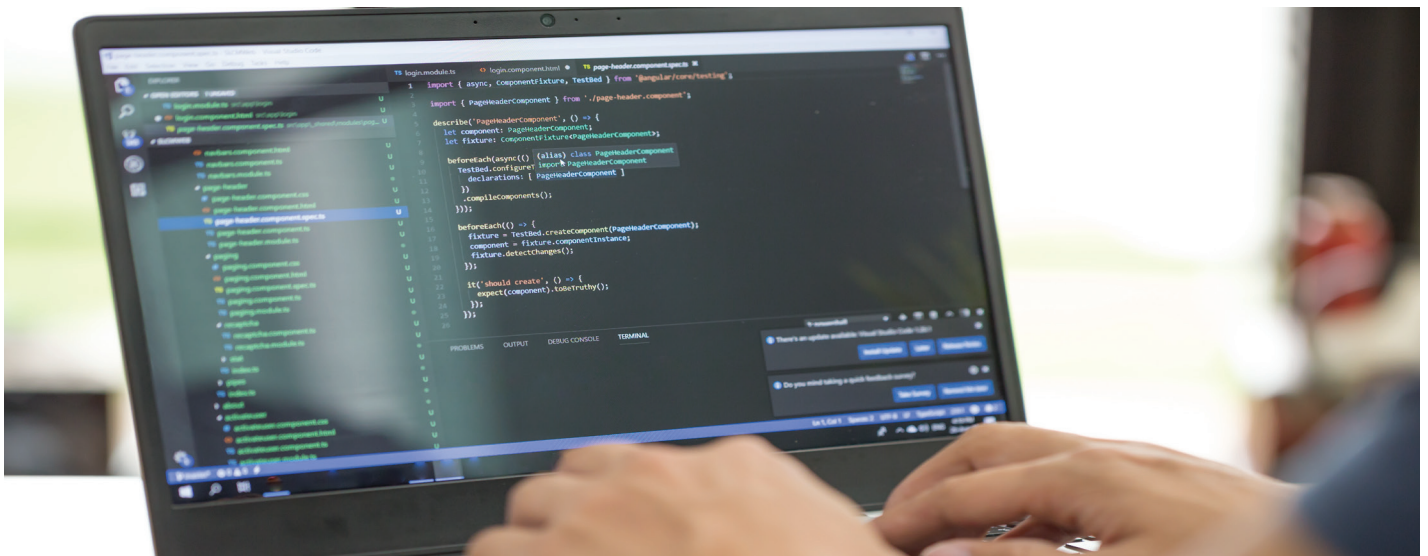
Support

Once your customers are set up to start sending and receiving ACH payments, it should be smooth sailing from there. However, your customers may have some questions or special requests, and it's important that we determine how these are taken care of ahead of time.

Here we can also customize the parameters around communication between your customers and Actum. While we can always directly field your customers' calls and/or emails during office hours, many of our partners train their own customer service team to handle most payments-related questions as they pertain to the software. If something requires specialized attention, you can always escalate it on your customers' behalf.

Security

Security is a shared responsibility between Actum and our partners. Actum follows industry-standard protocols and procedures to maintain compliance, including encryption of data in transit and offering tokenization.

Because you will now serve as a conduit for sensitive financial information after integrating ACH, you must also ensure that your hosted customer data is protected as much as possible.

Still, some software companies may not want the added information security burdens of transmitting and storing bank account numbers. If you fall into this category, Actum offers tokenization and Authent*e*check™. Authent*e*check™ is a bank verification solution that you can embed into your platform or application.

With Actum Authent*e*check™, the Receiver (your customers' customer) logs into their online bank account, granting Actum read-only access to their account details, such as routing and account numbers, personal identifying and account ownership information, current and expected account balances, etc. Actum can then generate a token (a string of randomly generated numbers and letters) that your software can use for future transactions tied to that Receiver. If your software provides decisioning services on behalf of your customers (e.g., for loan application approvals), Authent*e*check™ can also grant you access to the Receiver's personal financial information, such as historical account balances, spending behavior, income patterns, etc., to improve your own scoring algorithms.

This solution offers a new payment flow where sensitive financial data does not touch the business (or the business's software platform).

Why Actum?

Our team works with you from the very beginning to develop a game plan to maximize in-app payment utilization.

We invest heavily in the integration and implementation process, because we believe that your success is our success.

Other payment processors commonly charge for integration and developer support, whether billed by the hour or baked into a non-transparent monthly subscription fee that bundles support "access" and up to X number of transactions.

The #1 reason to go with Actum:

We offer a superior, fully customizable solution that comes with the industry's best customer service (in our humble opinion).

Integrating your software solution with Actum, however, doesn't cost you a thing (besides your developers' time to implement and test). Over the years, we have worked with enough software companies to know that unexpected developments can alter timelines, exacerbating the capital risk of taking on a new project, such as ACH integration. By offering our resources and full support to you, for free, and only realizing a return (through processing fees) once you start processing payments for your customers, we believe our incentives are more equitably aligned.

While some of you are new to the payments space and may have additional questions, we understand that others may already be integrated with another payment processor or may have been referred here by a mutual customer wanting more flexible terms and reliable processing capabilities.

Either way, we hope you found this guide helpful and educational. Please reach out to us at hello@actumprocessing.com and we'd love to get the conversation started!

ACH Processing Glossary

Actum is here to make integrating with ACH simple and easy. We understand that the industry terminology can be a bit confusing, so we've reinterpreted the standard definitions in plain English for you.

ACH – Stands for "Automated Clearing House". ACH is a common form of payment (or electronic funds transfer) only available in the United States.

ACH Credit – An ACH transaction where funds are deposited into a Receiver's account.

ACH Debit – An ACH transaction where funds are withdrawn from a Receiver's account.

ACH Entry – Used to describe a single transaction submitted to the ACH Network.

ACH Network – The electronic network where ACH Entries are settled between participating depository financial institutions (banks and credit unions).

ACH Operator – The "Clearing House" where participating depository financial institutions automatically settle ACH Entries. There are only two: The Federal Reserve (FedACH) and the Electronic Payments Network (EPN).

ACH Return Code – One of 85 possible reasons for disputing (or returning) an ACH Entry. The ACH Return Code must accompany each return that is submitted by the RDFI.

Batch Processing – The system of aggregating multiple ACH Entries into "batch" files before they are transmitted between Third-Party Senders, ODFIs, RDFIs, and the ACH Operator.

NACHA – Stands for "National Automated Clearing House Association". NACHA is a governing body that establishes and enforces the processes and rules for ACH transactions.

ODFI – Stands for "Originating Financial Depository Institution". ODFIs are the banks and credit unions that directly submit ACH Entries to the ACH Operator.

Originator – A business (or entity) that receives authorization from the Receiver to initiate an ACH Credit or Debit transaction.

RDFI - Stands for "Receiving Depository Financial Institution". RDFIs are the banks and credit unions that receive ACH Entries from the ODFI via the ACH Operator. RDFIs can also dispute (or return) ACH Entries by submitting an ACH Return Code to the ODFI via the ACH Operator.

Receiver - A person or business that gives authorization to the Originator to initiate an ACH Credit or Debit transaction on their behalf.

Return - An ACH Entry that is rejected by the RDFI.

Settlement Period - A predetermined number of days that Debit funds are held by the ODFI or the Third-Party Sender, to account for funds that may be returned to the RDFI. Remaining funds will be deposited into the Originator's operating account at the end of the settlement period.

Third-Party Sender - An intermediary, also known as a Third-Party Processor, between the Originator and the ODFI that processes ACH transaction data on the Originator's behalf.