



## Merchant Guide to Understanding ACH SEC Codes

# Understanding ACH Sec Codes

## Overview

There are a number of ways you can accept authorization when you process ACH transactions. Each way has compliance requirements that you need to be aware of if you're accepting ACH. How you authorize ACH transaction authorizations are dependent on which SEC Code(s) you use.

## SEC Codes Primer

Before we dive into the actual SEC codes, we should review who is involved in ACH. First there is NACHA which is the administrator of the ACH network. Next, there are ODFIs (Originating Depository Financial Institutions) and RDFIs (Receiving Depository Financial Institutions).

An ODFI is a financial institution in which originates the ACH transactions (your processor's bank), and an RDFI is an institution that receives the ACH transaction (your customer's bank). Likewise, the Originator is the party that originates an ACH transaction, and the Receiver is the party that receives the transaction. Each ACH transaction when submitted is an ACH Entry.

ACH transactions are categorized by how the authorization was captured from the Receiver (the person whose bank account is being debited or credited).

Here are the four most common SEC codes:

- PPD - Prearranged Payment and Deposit Entries: The merchant obtains written authorization, typically in-person, to debit or credit a consumer.
- TEL - Telephone-Initiated Entries: The merchant accepts authorization and payment information from a consumer over the phone.
- WEB - Internet-Initiated/Mobile Entries: The merchant accepts Debit transactions from a consumer on their website.
- CCD - Corporate Credit or Debit: The merchant Debits or Credits another business bank account. The authorization can be on paper, online, or over the phone.

## Why is Authorization So Important?

NACHA requires merchants obtain a consumer's explicit authorization before they initiate a transaction. To stay compliant, merchants need to retain a compliant authorization for each transaction that they originate on the ACH Network. For merchants to be compliant NACHA rules, they must use proper authorization language and be able to show that an authorization occurred for each ACH transaction (see [NACHA Rules](#) for compliance).



Here are a few examples that illustrate how authorization works for different industries that use popular SEC codes:

PPD: Merchants at health and fitness centers can accept membership payments by an authorization form completed by their customers.

TEL: Merchants at collections agencies can accept authorization of payment over the phone. The operator must clearly state, during the telephone call with the consumer that the consumer is authorizing an ACH debit to his account, and express the terms of the authorization in a clear manner.  
More below in section titled Authorizing TEL transactions.

WEB: Merchants at online consumer lending businesses can accept repayment authorization online through a payment portal.  
See also the section on Authorizing WEB Transactions.

CCD: Merchants at office property management and leasing businesses can accept rent payments via authorization form.

### **Authorizing PPD Transactions**

PPD entries are the most common type of ACH payments and can be used for both single and recurring payments. Merchants (Originators) based on the terms of the authorization, initiate PPD Credits or Debits to the consumer's account.

For businesses using PPD Debits, your authorization must:

- be in writing
- be readily identifiable as an ACH authorization
- have clear and readily understandable terms
- provide that the Receiver may revoke the authorization only by notifying the Originator in the manner specified in the authorization
- be either signed or similarly authenticated by the consumer

NACHA provides a sample payment authorization form for a PPD transaction [here](#).

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## Authorizing TEL Transactions

When a consumer is ready to buy, they provide the merchant authorization and payment information. As the consumer has provided voice authorization to debit their bank account the merchant can initiate an ACH Entry.

To process TEL transactions, merchants need to 1) record the consumer's oral authorization or 2) provide, in advance of the Settlement Date of the transaction, provide written notice to the consumer that confirms the verbal authorization. Merchants must ensure the following specific information, at a minimum, is disclosed to the consumer during the phone call:

- the date on or after which the consumer's account will be debited (if to be recurring, clearly state timing and frequency)
- the amount of the Debit entry to the consumer's account
- the consumer's name
- the bank account to be debited
- a telephone number that is available to the consumer and answered during regular business hours for customer inquiries
- the date of the consumer's oral authorization
- a statement by the Originator that the authorization obtained from the Receiver will be used to originate an ACH Debit entry to the consumer's account
- if authorization pertains to a recurring Debit entry, clearly state how the consumer may revoke authorization

You can find a sample authorization script for a TEL transaction [here](#).

## Authorizing WEB Transactions

When you use WEB transactions to process ACH, you can do so for either ACH Debits (when the Internet or mobile devices are used to initiate the payment) or ACH Credits (when funds are exchanged between consumers). NACHA rules require that the authorization must:

- be in a writing that is signed or similarly authenticated by the merchant via the Internet
- be readily identifiable as an ACH debit authorization
- express its terms in a clear and readily understandable manner
- provide the consumer with a method to revoke their authorization by notifying the Originator in a manner prescribed

### **Proving an Authorization was NACHA Rules Compliant**

Merchants must be able to provide documentation that shows transaction details including consumer information and documentation of the sales that shows the goods and/or services exchanged. Some examples of how this documentation can be captured include:

- a screenshot of the authorization language
- the date and timestamp of the consumer login
- the authorization process that evidenced both the consumer's identity and his assent to the authorization.

Capturing these details helps to demonstrate the methods the merchant used to verify the customer's identity, as well as the processes used to support the authorization. Sample authorization language for a WEB transaction can be found [here](#).

### **Authorizing CCD Transactions**

CCD transactions can be one-time or recurring and initiated by the buyer or seller. CCD transactions are commonly used to move funds between each party's bank accounts. For merchants using PPD Debit Entries, your authorization must:

- be in writing
- be readily identifiable as an ACH authorization
- have clear and readily understandable terms
- provide that the Receiver may revoke the authorization only by notifying the Originator in the manner specified in the authorization
- be either signed or similarly authenticated by the consumer

The following documents contain sample authorization language for one-time and recurring CCD transactions and can be found here.

[Sample CCD One-Time Payment Authorization Form](#)

[Sample CCD Recurring Payment Authorization Form](#)

### **Using SEC Codes with IntelliPay**

When using with our Virtual One Terminal or API to submit transactions, you can specify the desired SEC code. If you process only using one SEC code, there's no need to specify your code when you submit a transaction.