

Keeping You in the Clear with ACH Payments: What is the ACH Network?

The ACH Network processed 27 billion payments in 2020, signaling five consecutive years of adding over 1 billion new ACH payments to this increasingly popular American electronic funds transfer system.

The Automated Clearing House ACH Network is a [payment system that drives safe, smart, and fast Direct Deposits and Direct Payments with the capability to reach all US bank and credit union accounts](#). Acting as a financial hub, the ACH Network represents more than 10,000 financial institutions and helps people and organizations move money from one bank account to another.

From transactions as varied as Direct Deposit ACH salary payments, Social Security, utilities, mortgages, charitable donations, subscription services, Person-to-Person and Business-to-Business payments, the ACH Network processed transactions close to \$62 trillion in 2020.

What is the ACH?

The National Automated Clearing House Association (NACHA) governs the ACH Network that facilitates electronic transfers through a broad network of financial institutions and professionals. It processes electronic financial transactions for businesses and consumers, as well as federal, state, and local governments.

The network consists of a number of financial institutions, such as banks and fintech companies, that collaborate to ensure fast, efficient, and secure payments. The ACH Network batches financial transactions together and processes them at specific intervals throughout the day, making online transactions extremely fast and easy.

NACHA rules state that average ACH debit transactions settle within one business day, and average ACH credit transactions settle within one to two business days. Changes to NACHA's operating rules, which came into effect on March 19, 2021, expanded access to same-day ACH transactions which allow for same-day settlement of most, if not all, ACH business.

Types of ACH Transfers

Electronic funds can either be transferred through ACH debit or credit. These transfers are distinguished by how the funds get transferred between accounts. ACH debits are withdrawn from accounts (think of funds transferred from the customer's bank account into the merchant's account) and ACH credits are deposited into accounts (transferring funds from the merchant's bank account into the customer's account).

Direct deposit and direct payment are popular types of electronic payments made through ACH, simplifying these processes for many businesses and organizations. 'How is ACH

different from the use of credit cards?’ you may be asking. Well, there are a few differences, but mainly in the authorization process and the batch payment system.

ACH transactions require authorization to allow electronic access to a particular account. Once the person requiring the funds gets authorization, they have permission to electronically access funds from another’s bank account. Credit cards don’t require such authorization.

As for the way in which money is transferred, ACH makes payments in batches, which saves both time and money. Due to various credit processes, credit card payments can’t be lumped together like ACH payments, giving ACH the competitive edge in this arena.

Many Americans are benefitting from ACH payments every day - be it the worker who has their salary deposited straight into their account, or the homeowner who settles utility bills without the hassle of having to write a check.

How the ACH Network Works

The ACH operates through a number of key players. These players consist of: An Originator, an ODFI (originator depository financial institution), an ACH Operator, a Receiving Deposits Financial Institutions, and a Receiver.

Let’s take a look at the function of each entity:

The Originator. Whether a company, government agency or individual, the originator is the entity that sets everything in motion by initiating the ACH transaction.

The ODFI. This is the Originating Depository Financial Institution. Upon receiving payment instructions from the Originator, the ODFI commences with the ACH transaction.

The ACH Operator. ACH Operators act as clearing facilities for the above-mentioned financial institutions or ODFIs. There are two main bodies that operate within the ACH network: The Federal Reserve and the electronic payment network.

The RDFI. This key player – the Receiving Depository Financial Institution – is the entity that receives entries directly from their ACH Operator and ensures that the funds are made available to the receiver.

The Receiver. As the name implies, the Receiver is the entity in the ACH system, which receives an ACH transaction and has given the originator the go-ahead to initiate the entry into the ACH network.

Advantages of the ACH Network

There are a growing number of entities that are realizing the benefits of this fast, efficient, and safe payment system. The use of the ACH network to facilitate electronic transfers of money has also increased the efficiency of government and business transactions. More

recently, the ACH system has also made it easier and cheaper for individuals to send money to each other directly from their bank accounts by direct deposit transfer or e-check.

Because they're electronic, ACH payments use fewer resources than traditional paper checks. It eliminates the need for paper, time, and labor to handle and deposit checks. Electronic transactions also facilitate easier tracking of income and expenses. With an electronic record created for every transaction, that transaction history can also be easily accessed.

Many business owners are turning to ACH due to the affordable transaction fees. Compared with credit card companies which charge 2-3% of the transaction amount, ACH is much cheaper, having a flat fee of \$0.25-0.50 per transaction. When you're operating on a larger scale, this can really add up in terms of savings.

Application Program Interfaces (APIs) have been created for the ACH financial system, providing a way to communicate between programs. This is especially useful for companies with ERP systems and CMRs. ACH provides a cost and time-efficient way for companies to pay salaries – especially big firms that have large staff compliments.

Streamline and Save With ACH Distribution of Payments, Deposits & Reimbursements

[NatPay is the nation's largest 3rd party ACH processor](#) and processes more than \$115+ billion annually for 228,000+ ACH clients, nationwide.

[NatPay offers a comprehensive portfolio of payroll, human resources, and financial solutions with services that help clients do what they do best – run their business.](#) With customized SaaS solutions and online document management services, NatPay relieves you from administrative hassles so you can focus on streamlining your business and boosting your profits.

With over 30 years of information distribution experience, providing online document solutions to over 30,000 clients across the nation, we know the ins and outs of ACH and are happy to [assist you with any questions you may have](#). [Book a free online demo](#) today to find out how we can help your organization grow.