

Exhibit XIII

Explanation of ACH Transactions

Mr. Young had long established arrangements with his commercial tenants to remit their monthly rent electronically via pre-established ACH arrangements with their respective banks such that they agreed to remit their monthly rent pursuant to pre-arranged debits from their commercial operating bank accounts for credit to Mr. Young's designated operating account at Paragon Commercial Bank.

What is important to keep in mind is that none of the tenants paid their rent from consumer bank accounts; rather rent was remitted from corporate business accounts. This is especially relevant because Paragon's cited "exposure" from "numerous reversals" over the prior two months as the reason for abruptly cancelling the ACH arrangements that were in place for many years (hence blocking the deposit of rental receipts).

The truth is: (1) there were NO reversals associated with the subject property over the prior two months; (2) there is NO exposure whatsoever if the ACH is coming from a corporate account at the RECEIVING bank (i.e., the bank that receives the instructions to DEBIT their customer's account) TO a corporate account at the ORIGINATING bank (i.e., the bank that originates the instructions) such that the designated account at the ORIGINATING bank is CREDITED for the transferred funds; (3) Paragon actually increased its credit exposure by blocking the deposit of rent remittances; and therefore (4) Paragon's action was merely a smokescreen for their Machiavellian scheme to orchestrate an entirely FRAUDULENT default on commercial mortgage loans that had an exemplary credit payment history since their inception, dating back to 2004.

The exposure cited by Paragon is highly remote in practice, and pertains only to ACH transactions between a consumer account and a corporate account – which was NOT the case. In other words, Paragon fabricated a reason citing events that did not occur, predicated on a rationale that was entirely spurious, manifesting an increased exposure to the bank. And Mr. Young's extensive banking background enabled exposing this obvious FRAUD.

Automated Clearing House

From Wikipedia, the free encyclopedia

Automated Clearing House (ACH) is an electronic network for [financial transactions](#) in the [United States](#). ACH processes large volumes of credit and debit transactions in batches. ACH credit transfers include [direct deposit](#) payroll and vendor payments. ACH [direct debit](#) transfers include consumer payments on insurance premiums, [mortgage loans](#), and other kinds of bills. Debit transfers also include new applications such as the Point-of-Purchase (POP) [check](#) conversion pilot program sponsored by [NACHA-The Electronic Payments Association](#). Both the government and the commercial sectors use ACH payments. Businesses are also increasingly using ACH to collect from customers online, rather than accepting credit or debit cards.

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Rules and regulations governing the ACH network are established by [NACHA](#) (formerly the National Automated Clearing House Association) and the [Federal Reserve](#) (Fed). In 2002, this network processed an estimated 8.05 billion ACH transactions with a total value of \$21.7 trillion.^[1] (Credit card payments are handled by separate networks.)

The Federal Reserve Banks are collectively the nation's largest automated clearinghouse operator and in 2005 processed 60% of commercial interbank ACH transactions. The [Electronic Payments Network](#) (EPN), the only private sector ACH Operator in the U.S., processed the remaining 40%. [FedACH](#) is the Federal Reserve's centralized application software used to process ACH transactions. EPN and the Reserve Banks rely on each other for the processing of some transactions when either party to the transaction is not their customer. These inter-operator transactions are settled by the Reserve Banks.

Uses of the ACH payment system

- [Debit card](#) transactions
- [Direct deposit](#) of payroll, [Social Security](#) and other government payments, and tax refunds
- [Direct debit](#) payment of consumer bills such as mortgages, loans, utilities, insurance premiums, rents, and any other regular payment
- [Business-to-business](#) payments
- [E-commerce](#) payments
- Federal, state, and local tax payments
- Bank [Treasury management](#) departments sell this service to business and government customers

ACH process

An ACH transaction starts with a Receiver authorizing an Originator to issue ACH debit or credit to an account. A Receiver is the account holder that grants the authorization. An Originator can be a person or a company (such as the gas company, a local cable company, or one's employer).

In accordance with the rules and regulations of ACH, no financial institution may issue an ACH transaction (whether it be debit or credit) towards an account without prior authorization from the Receiver. Depending on the ACH transaction, the Originator must receive written (SEC Codes: ARC, POP, PPD), verbal (TEL), or electronic (WEB) authorization from the Receiver. Written authorization constitutes a signed form giving consent on the amount, date, or even frequency of the transaction.

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Verbal authorization needs to be either audio recorded or the Originator must send a receipt of the transaction details before or on the transaction date. An electronic authorization must include a customer reading the terms of the agreement and typing or selecting some form of an "I agree" statement.

Once authorization is acquired, the Originator then creates an ACH entry to be given to an [Originating Depository Financial Institution](#) (ODFI), which can be any financial institution that does ACH origination. This ACH entry is then sent to an ACH Operator that passes it on to the Receiving Depository Financial Institution (RDFI), where the Receiver's account is issued either a debit or credit.

The RDFI may, however, reject the ACH transaction and return it to the ODFI if, for example, the account had insufficient funds or the account holder indicated that the transaction was unauthorized. An RDFI has a prescribed amount of time in which to perform returns, ranging from 2 to 60 days from the receipt of the ACH transaction. However, the majority of returned transactions are completed within 24 hours from midnight of the day the RDFI receives the transaction.

An ODFI receiving a returned ACH entry may re-present the ACH entry two more times for settlement. Again, the RDFI may reject the transaction. After which, the ODFI may no longer represent the transaction via ACH.

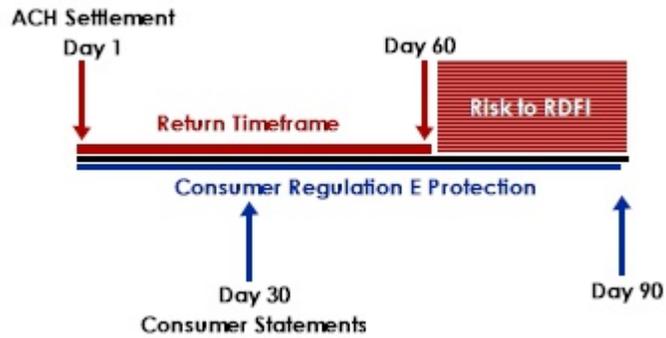
Common issues

ACH payments have been around for some time now, but people are just getting used to them, especially with the ARC, **POP**, and RCK SEC Codes, where the original instrument was a physical check. One problem occurs when the account holder issues a stop payment on a physical check not knowing that the check was presented as an ACH entry.

Time frame differences can cause loss towards an RDFI when returned ACH entries are subject to the [Electronic Funds Transfer Act](#) (Regulation E). An example is for the ARC and POP SEC Codes, where an RDFI has only 60 days from the date of settlement to return an unauthorized debit, and the consumer has 60 days upon notification to dispute a transaction in his statement under Regulation E. The consumer can receive notification via a statement 30 days after settlement. With these time frames, it is possible that the 60-day period allowed for ACH return would expire even before the consumer's 60-day protection (under Regulation E) would expire, leaving the RDFI open to loss.

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Another problem deals with compliance where the merchant presented with a check issues an ACH entry with SEC Codes ARC or POP. However, the merchant then fails to comply with the handling of the physical check and presents the physical check for payment as well. This causes a double-debit against a consumer account.