To All Banks
in the Eleventh Federal Reserve District:

Enclosed for your information is a copy of a press release dated August 8, 1973, concerning a joint announcement by the Board of Governors of the Federal Reserve System, the Treasury Department, and the Air Force of a program, to be initiated this fall, to determine the feasibility of automating the distribution and payment of Government payrolls. While considerable study in the project remains to be accomplished, this report may be of interest to you in view of the new paperless entry technology which is undergoing development within the banking industry.

Yours very truly,

P. E. Coldwell
President

Enclosure
For immediate release August 8, 1973

The U. S. Air Force, the Treasury and the Federal Reserve will cooperate this fall in an experiment to determine the feasibility of automating the distribution and payment of government payrolls.

The program was announced jointly today by the Board of Governors of the Federal Reserve System, the Treasury and the Air Force. The program will provide information for assessing the outlook for substantially reducing the number of individual checks issued in making government payroll payments. Total check usage now comes to some 26 billion items a year of which 750 million are Treasury checks. Total check volume is growing at a rate that will approximately double each decade.

The Federal Reserve is introducing equipment and technology to reduce dependence on checks for making money transfers, by substituting electronic funds transfer. The objective -- which the experiment announced today will serve -- is to reduce the overall cost of making payments and to prevent check volume from becoming so large as to clog and disrupt the nation's payment system. The experiment will also further objectives of the Treasury Department and the Air Force to foster this use of direct deposits of Federal payments as a means of reducing forgeries and speeding delivery. The Air Force has been looking into and developing systems and procedures for simplifying the distribution of its world-wide payrolls and other recurring payments.
In early fall, at dates to be selected, Federal Reserve offices at Atlanta, Denver, Los Angeles, and San Francisco will collaborate with the Air Force Accounting and Finance Center at Denver, and with commercial banks in the three Federal Reserve Districts, in a simulation of paperless distribution of payroll credits to the commercial banks of personnel enrolled in the "Checks to Banks" program. At present, where several Air Force personnel have accounts in one bank, the Air Force sends one check, together with a list of the amounts involved, and of the names and account numbers to which pay credits are to be deposited. In this way, one check can substitute for a number of individual paychecks.

The planned experiment will work as follows:

1. The Air Force will put on a single magnetic tape all deposit information for payments to participating personnel with accounts in all banks in an entire Federal Reserve District.

2. This tape will be sent to a Federal Reserve Bank.

3. There, the information will be electronically sorted and delivered to the individual commercial banks involved.

4. The commercial bank will use the electronically sorted information to simulate credit to the accounts of military personnel who have accounts in that bank.

In the two pay periods when the simulation tests are being made, actual deposit of the pay of persons participating in the Air Force's "Checks to Banks" program will be made as usual.
Actual conversion to a paper-free system using magnetic tapes will await analysis of results of the simulation tests. All parties to the transaction performing operating functions -- the U. S. Treasury as the source of the funds being transferred, the Air Force as disburser of the funds, the Federal Reserve as the agency responsible for clearance of the funds transfers, and the participating commercial banks as recipients of deposits -- will have an opportunity to appraise the results of the test.

If this joint undertaking proves as successful as anticipated, it may form the basis for an eventual nationwide electronic funds transfer system for the Federal Government.