

customer in the SPOTLIGHT

FEDERAL RESERVE ACH OPERATOR SERVICES

"News from FedACH" is the Federal Reserve Banks' nationwide quarterly ACH newsletter reaching over 19,000 ACH participants including banks, savings banks and credit unions. This newsletter is intended for FedACH customers who are interested in seeing ACH fulfill its role as the nation's premier electronic payment service. Share the newsletter. Spread FedACH news.

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Origination Means Growth for Spencer Savings Bank

Spencer Savings Bank's mission statement indicates the five-branch community bank in central Massachusetts will "respond to the changing needs of our community marketplace."

Most recently, that mission meant expanding its ACH offerings. After several years as a receiving depository financial institution with total assets of \$264 million, Spencer Savings Bank began exploring ACH origination.



"During the trial phase, we floated origination to a couple of potential new customers," said Jeff Thurston, a senior accountant who served as the project leader for Spencer's origination initiative. "We had one company that was all ready to sign up but first wanted to make sure origination was possible."

"We told the company we still weren't out of the trial phase, and the reply was, 'Well, we might go somewhere else.' We wound up having to include that company right at the end of the trial phase just to keep the business."

Thurston and Spencer Savings are seeing what the rest of the payments industry does about Prearranged Payments and Deposits (PPDs). The most widely-used standard entry class (SEC) code remains a fertile

area for growth despite the proliferation of newer SEC codes. Midway through 2004, PPD items still accounted for more than 60 percent of ACH network volume.

According to NACHA, second quarter 2004 PPD volume exceeded that of second quarter 2003 by more than 91 million items. Accounts Receivable Conversion (ARC) volume grew by more than 185 million items year over year, making ARC the only SEC code with growth surpassing that of PPD transactions.

Thurston certainly sees growth potential with PPD transactions. Spencer's 2004 year-to-date volume is heavily weighted toward receiving, with receipt volume valued at \$210 million. Origination activity contributed \$2 million. Thurston expects the gap to close as Spencer's origination volume grows.

"We've really been a receiving institution," Thurston said. "This ACH origination is a new thing for us. We only looked at doing payroll entries. We didn't see a lot of risk in it."

"But things can change relatively quickly. Once we get the word out there, we hope to have a lot more of these small businesses," he added. "Many of them want to do payroll, but they don't want to pay bigger banks or a payroll service. Instead, they can come to us. That's where we see this going in the future."

Thurston maintains that "meeting the needs of the community" is Spencer Savings Bank's biggest goal. Certainly, the institution has a long record of doing just that. The bank has been serving central Massachusetts since it was founded in 1871 by a group of leading Spencer businessmen in the counting room of a boot manufacturer. The bank received its first five-star rating from Bauer Financial in 1991 and has

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Origination Means Growth for Spencer Savings Bank

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received the same honor every year since. In 1997, the bank earned a blue-ribbon commendation from Veribanc and, in 1999, received "Rookie of the Year" from the Massachusetts Housing Finance Agency.

Because of Spencer's record of responding to customers' needs, ACH has the potential to play a bigger role in the bank's future.

"Some of these small businesses haven't gotten into a lot of this," Thurston said. "Many of them don't even know what's out there in the financial services arena. And the ones that do aren't calling for it yet. But if we do see an increase in business demand for ACH, we'd be willing to go that way. Origination has been our trial balloon, and it's worked out well."

Thurston said information on the Internet is one of the reasons origination went so well. "It was all out on the Federal Reserve Financial Services Web site," Thurston said. "The materials on the site are comprehensive enough to cover just about everything I've needed to know. It hasn't really been that hard, to be honest with you. The Fed made it smooth."

Thurston also found Federal Reserve Bank staff helpful, particularly Jean Fisher of the Business Development staff at the Boston Fed. "There are a lot of good people out there who can help you and answer any of your questions," Thurston said. "You just have to get in touch with them."

FedLine[®] Advantage Seminars Begin District Tour in October

The time has come for FedACH users to leave the comfort zone of the DOS-based FedLine access solution and slip into something even more comfortable.

Just how comfortable? That is the subject of the FedLine Advantage access solution customer launch series, which highlights an array of improvements in the FedACH business environment. These advancements include a move to a secure Internet environment for sending and receiving files, a point-and-click Windows interface, expanded data access, and simplified operation.

This customer launch series begins in October with half-day customer roadshows, designed to introduce managers to the new environment and the conversion process. Invitations will be sent to institutions in the four host districts: Atlanta, Chicago, San Francisco, and New York. Subsequent road shows may be scheduled in 2005 based on customer response.

The road show will cover a wide array of information, ranging from hardware to application software to conversion activities.

Covered in the hardware overview will be a description of the network components needed to operate any of the Fed's three connectivity options: private dial, Internet, or frame relay.

Facts and Figures

In the first seven months of 2004, the FedACH application processed an average of 12,921 ACH files each day. The daily average number of items processed was approximately 32.2 million representing more than \$9 trillion in total payments processed.

FedACH customers used FedACH Services via FedLine Web to derive 422,817 returns and NOCs in July 2004, representing an increase of 370.5% from July 2003 when Web-derived returns and NOCs totaled 90,000. Returns and NOCs processed using either voice response or paper totaled just 66,672 in July 2004 compared to July 2003 when volume exceeded 98,000.

In August, five FedACH customers moved into production status for sending and receiving ACH files via FedLine Advantage. We expect to have 50 customers in production status by year-end 2004.

The June 2004 issue of "News from FedACH" was downloaded from www.frbservices.org 6,087 times during June and July. We love it when you help us save paper.

Added to the FedLine Advantage in-person seminars will be a self-guided seminar that will be available on the Internet 24 hours a day, seven days a week, and which features a condensed version of the road show. Customers will be able to access the online seminar beginning in early 2005.

The road show will define the many benefits of FedACH's new appearance and operations features. These benefits include streamlined procedures for sending and receiving, a more intuitive interface, and expanded availability of data. Enhancements to Fedwire[®] Funds and Fedwire Securities will also be previewed.

A conversion module will cover activities, roles and responsibilities supporting conversion to FedLine Advantage. The centerpiece of this section is a description of the roadmap, an online tool designed to help institutions successfully manage their conversion by following a step-by-step process.

Customer Launch Series Dates and Locations

- October 18 - Atlanta
- October 21 - Chicago
- October 28 - San Francisco
- December 1 - New York

Q&A

Customer Perspective on Pilot Testing



Delta Employees Credit Union (DECU) recently tested its ability to send and receive ACH files to and from the Federal Reserve over the Internet. The credit union, which serves employees of Delta Air Lines and its subsidiaries, opened in 1940, has 175,000 members, and provides a wide array of consumer banking services. Peggy Gachesa is DECU's e-business Conversion Project Manager and Lead End User Authorization Contact (EUAC). She recently shared her thoughts on DECU's pilot testing.

Q: What factors influenced your decision to participate in the pilot?

A: Over the last two years, DECU moved to a Windows environment for connectivity to our host processor. We were eagerly anticipating our move from the old FedLine DOS platform to the new Web platform. After seeing the new FedACH service with the ease of use and reduction in paper, we were eager to get started and get rid of our old DOS terminal.

Q: In what ways has the conversion affected your ACH operations?

A: Everything about it is simpler. It's just a click and go. It's much simpler to receive and to send now. Previously, we did extensive hard copy paperwork that won't be necessary now. One of the things we do is export and import with FedLine and our host system. The new process is just a matter of moving files from one folder to another. Before, we had to download to a diskette and copy it over to the host system. We probably cut a 15-minute process down to five seconds. And there are several of those kinds of conveniences. It's a big improvement.

Q: What effects do you see on staffing?

A: I've already talked with the supervisor who's gone through all the testing and looked at the process improvements that we've been able to make. Right now, our FedLine staff members are assigned to specific roles such as wire transfers, ACH, and other FedLine functions. The staff has very little time for any other e-business functions. Now, we should be able to use FedLine staff to help with phone calls and other e-business functions. That means more time for members, which is good for everyone. Training will also be much easier. For one thing, all the help screens are excellent. We have our own written procedures for everything, but even without them an employee could come in with very little ACH or computer knowledge and be able to get through the process by looking at the help screens. It's very easy and user friendly.

Q: What is your favorite feature of the new FedACH?

A: Ours is flexibility, which means each subscriber can have FedLine access right from his or her own PC. It's wonderful for us.

Q: How would you describe your experience as an EUAC?

A: It went well. It was another learning experience because it was very different from the traditional local administrator "fill out the form with what authority everyone should have" role. It was just a change.

Q: What benefits are you expecting once you've completed the conversion process?

A: We expect improved efficiency. We're excited to get rid of the old, slow FedLine DOS stand-alone computer. We're glad to get rid of the form-feed printer with two-ply paper that has to be sorted through every day. We won't have any more patches that will have to be kept for backup. We also expect our contingency planning to be easier. If you ask me whether we are glad we participated in the pilot, the answer is "yes we are." It was a good opportunity for us, and we are very happy to have been asked to participate.

News Kiosk

Changes to Batch Origination Process

As the Federal Reserve Banks continue moving to secure Web technology that will replace DOS for sending and receiving ACH payments, we remind all customers that we will no longer offer ACH batch origination functionality. Some FedACH customers will need to identify an alternative solution for ACH batch origination prior to their conversion from the FedLine DOS environment. There are many products readily available to provide ACH origination capability. The results of our 2004 customer survey confirmed that most customers already use one of these products or that they are prepared to do so. In response to questions raised during the survey process, a list of frequently asked questions was mailed to originating depository financial institutions at the end of July.

2004 Payments Studies

In 2001, the Federal Reserve Banks conducted a study of the nation's usage of check and electronic payments. Now the Fed is conducting two additional studies to determine the current composition of the country's check and electronic payments. A comparison of the findings of the 2001 and 2004 studies will likely reveal trends in the payments industry that will be useful to all industry participants as they make decisions about investments in payments technology. Findings from the studies are expected to be released in the fourth quarter of 2004.

FedACH Services via FedLine Web

In August 2004, FedACH Services via FedLine Web was enhanced to provide new functionality. In response to customer feedback, receiving points are now able to derive returns and NOCs on behalf of a receiving depository financial institution. We have also expanded the Unauthorized Return Reporting capability by adding return reason code R51 (Ineligible Re-presented Check Entries) to the list of available selection criteria. For additional information on these and other changes to FedACH Services via FedLine Web, please visit www.frbservices.org.



Happenings and Events

Conferences sponsored by regional payments associations

	When	Where
⇒ Payment Insights 2004 (NEACH)	September 26-28, 2004	Wakefield, MA
Navigating Payments 2004 (UMACHA)	October 14-15, 2004	Brooklyn Park, MN
The Payments Matrix: Accelerating Opportunities (WesPay)	October 18-20, 2004	Universal City, CA
Brave New Frontiers 2004 (SWACHA)	October 19-20, 2004	Dallas, TX
30 Years of Making Payments Systems Understandable (MPX)	October 25-27, 2004	Overland Park, KS

Federal Reserve at AFP Conference

⇒ The AFP 25th Annual Conference will be in San Diego, California, November 7-10, 2004. Make a note to attend the 4 p.m. session on Monday, November 8, when Rich Oliver of the Federal Reserve's Retail Payments Office will discuss the latest Federal Reserve Bank product initiatives and how they affect corporate treasurers.

ACH Rules Change

⇒ On December 10, 2004, NACHA Operating Rules will be modified to include specific obligations and processing requirements for certain types of Third-Party Service Providers (i.e., "Third-Party Senders") that act as intermediaries between an Originator and an ODFI. Visit www.nacha.org for details.

Electronic Federal Tax Payment System (EFTPS) Change

⇒ Effective September 30, 2004, there will be an additional company ID for EFTPS transactions. To avoid IRS late penalties, any existing debit filters should be updated to include a new company ID on the list of acceptable debits for EFTPS. The new company ID can be obtained by calling 1.800.555.4477.

FedACH Customer Service Via 24-Hour Telephone Access

For FedACH Customers in these Districts

- Boston (1)
- New York (2)
- Philadelphia (3)
- Cleveland (4)
- Richmond (5)
- Atlanta (6)
- Chicago (7)

Customer Service Site

Federal Reserve Bank of Atlanta
 1000 Peachtree Street, N.E.
 Atlanta, GA 30309-4470
 Toll Free: 866.234.5681
 Local: 404.498.8902

For FedACH Customers in these Districts

- St. Louis (8)
- Minneapolis (9)
- Kansas City (10)
- Dallas (11)
- San Francisco (12)

Customer Service Site

Federal Reserve Bank of Minneapolis
 90 Hennepin Avenue
 P.O. Box 291
 Minneapolis, MN 55480-0291
 Toll Free: 888.883.2180
 Local: 612.204.5555



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