

## 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.

### CONTENTS

Customer in the Spotlight	1
Facts and Figures	2
Note to FedLine DOS users: January 2005 Software Upgrade	2
News Kiosk	3
Questions and Answers	3
What's Coming Up	4
Fee Schedule	4
Customer Service	4

The Financial Services logo, "FedACH," "FedACH International," and "FedLine" are either registered or unregistered trademarks or service marks of the Federal Reserve Banks.

## Good Habits Spur Growth at Silicon Valley Bank

The best way to break a bad habit is never to let it start. That philosophy is part of what has helped Silicon Valley Bank triple its ACH business in fewer than three years.

"The traditional way banks open up an account with a small business is to hand them some checks," said Shirley Arington, Silicon Valley Bank senior product manager. "This starts them off with bad habits, writing checks for their payments rather than using



electronic payments. But when you start them with ACH, you won't have to convert them from paper."

Such a progressive approach is consistent with other facets of Silicon Valley Bank's operation. Based in Santa Clara, Calif., Silicon Valley focuses on providing diversified financial services to small to mid-size companies in the technology, life science, private equity and premium wine markets. In 21 years, the institution has grown to \$4 billion in assets, with nearly 1,000 employees and 9,500 global customers.

Each time Silicon Valley adds a customer, the topic of ACH is front and center. "We're working on a strategy for new accounts," Arington said. "It includes, 'Here's how you open up, and here's how you do business. And to have an account with us is less

expensive if you don't write checks.' We would like to keep them away from writing checks."

Arington observed it is preferable to teach customers better banking habits early than face an uphill climb later.

"It's amazing. Technology companies—these people who create the technology that we use not only in banking but in general—are not nearly as sophisticated in their business banking experiences," Arington said. "Getting them into ACH early is the only way. Once they're in the check world, they want to stay there."

However, once customers are in the ACH world, Arington finds they are more than content to stay.

"We have a large number of account holders who do business over the Internet, so ACH fits in well when they're not doing credit card payments," she said. "Otherwise, most of our customers are doing B2B transactions, the perfect place for ACH because everybody wants to be paid by ACH."

### Payroll Pays Off

Payroll constitutes the biggest chunk of Silicon Valley's ACH business, which included more than 115,000 payments valued at approximately \$260 million in October 2004. This growth is substantial, but Silicon Valley Bank did not have to look far to generate the business.

"We have a substantial internal customer base for cash management, and we market to that customer base because we still do not have complete saturation," Arington said.

(Continued on page 2)

## Good Habits Spur Growth at Silicon Valley Bank

(Continued from page 1)

According to Arington, one move that helped trigger Silicon Valley Bank's ACH growth was minimizing its risk with a prefunding strategy. Although one large account holder backed away, the overall response was positive.

"We rolled out prefunding two and a half years ago," Arington said. "Since then, our ACH business has grown exponentially because we've been able to make it available to more customers. We were able to do that because prefunding eliminates a risk."

Arington estimates 75 percent of outgoing credits are prefunded. "We introduced prefunding at a time when interest rates were very low," she said. "Many customers signed up for prefunding because their money wasn't doing anything for them during those two days."

### Life with the Third Party

One critical component of Silicon Valley Bank's operation is its relationship with its third-party processor. The relationship has been in place for more than five years. Silicon Valley's processor was originally chosen because its system was newer and had functionality that best suited Silicon Valley's needs. Since then, the processor has been responsive to the bank's changing needs, such as accommodating prefunding.

Arington said one other important consideration when selecting a third-party processor is security of information. "I'm a fanatic about that," Arington said. "People don't tend to realize that just sending an e-mail to someone with your account information is a bad idea. But the bank is responsible for holding data securely, so our processor has to do the same. All the information that passes through has to be very secure."

One of the best ways to ensure a successful relationship with a third-party processor is to get in the habit of monitoring performance. "We exercise a lot of due diligence with processors," Arington said. "It's a continuing process to evaluate and make sure they are still holding onto everything and remaining state of the art on technology." Silicon Valley Bank remains big on good habits.

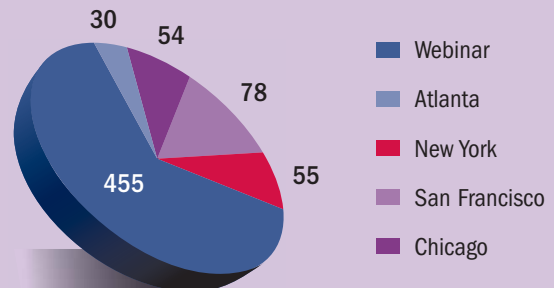
## Facts and Figures

The figure? 47. The fact? There are that many questions included in the Federal Reserve's questionnaire for potential ACH software vendors. To assist those FedACH customers who need to identify a solution for ACH batch origination in a FedLine Advantage environment, this list of questions can be used to evaluate potential vendors. The questionnaire can be found at:  
<http://www.frbservices.org/Retail/fedach.html>.

In 2003, remittances from the United States to Mexico exceeded \$13 billion, nearly double the amount of \$6.6 billion in 2000. FedACH International<sup>SM</sup> Mexico Service is ready to handle these payments for you and your customers.

More than 200 FedACH customers attended one of four seminars that introduced the FedLine Advantage access solution. Registrations for the online, self-guided seminar exceeded 450. To register for the self-guided seminar, please visit <http://www.frbservices.org>.

### FedLine Advantage Seminar Participants



## Note to FedLine<sup>®</sup> DOS users: January 2005 Software Upgrade



FedACH customers using FedLine DOS can expect a software upgrade early in 2005. A software upgrade patch scheduled for release in January 2005 addresses two issues: a new return reason code and a change related to the Electronic Federal Tax Payment System.

The new return reason code is "R05 - Unauthorized Debit to Consumer Account Using Corporate SEC Code." This return reason code becomes effective March 18, 2005, and supports NACHA's efforts to improve the quality of payments made in the ACH network. Transactions qualifying for use of R05 are limited to CCD, CTX, or CBR debit entries transmitted to a consumer account and not authorized by the receiver.

The second component of this upgrade modifies the FedLine federal tax payment batch detail screen. The upgrade is in accordance with a November 2004 consolidation that resulted in designating a single financial institution as agent for the Electronic Federal Tax Payment System.

Your Federal Reserve Customer Contact Center will transmit this software patch. You will receive correspondence providing detailed instructions and a distribution date in advance of receiving the patch. Once the upgrade has been received and automatically implemented, current FedLine 2.60.90 software will be upgraded to version 2.70.00. For additional information, please contact your Federal Reserve Customer Contact Center.

# Q&A

## ACH Risk and Back Office Gap



*Each year, eFunds processes more than 15 billion transactions, making it the largest third-party processor in the United States. Rahul Gupta serves as Senior Vice President and Division Executive, Risk Management and Electronic Payment Solutions, for eFunds. Gupta recently discussed ACH risk as well as a gap in the ability of ACH to accommodate retailers' interest in converting checks in their back room.*

**Q: ACH risk has received considerable attention recently. What trends have you observed?**

A: The clear trend we're seeing is increased fraud. With the growth of ACH, we see retailers looking for more kinds of payments that they can accept, whether online or at point of sale. Clearly, there is a growing number of people wanting to misuse the application. In our thinking, the whole ACH world breaks down into two dimensions of risk. The less risky situation occurs when people accept payments from known entities such as utility companies billing known customers. Even in that category, there is risk because of identity theft. The far riskier category is consumer payments to businesses through Web sites and via the telephone. That risk is increasing dramatically.

**Q: What is the biggest vulnerability you see in the ACH arena?**

A: There is no standard for authentication. Also, no standards exist in terms of a centralized database of people who have abused the system. In the retail check world, we built a service called SCAN<sup>SM</sup> (Shared Check Authorization Network), which was put together by retailers who saw the risk associated with checks. In a sense, that service became a standard. Since then, other standards have emerged. In the ACH world, a comparable standard has not emerged. So when returns come back, there is not a central reporting agency compiling this information, such as the reason for returns, so the information can be used in a wide variety of formats and places.

**Q: How do you help your customers manage ACH risk?**

A: Managing risk is a combination of three things. First is helping customers manage ID risk and ID fraud. Is this the right person? Second is managing the transaction risk itself, such as velocity. The third thing is ownership. Does this person really own the account? The way we help our customers really depends on the point at which the ACH transaction is originated. For example, we offer retailers a check conversion product for ACH origination at the point of sale. There we leverage our SCAN database, behind which sits a product called Debit Bureau, to help manage customer information. We also have a product called ClickCheck<sup>SM</sup> to help customers manage risk for online origination of payments on e-commerce or e-banking Web sites.

**Q: What would you cite as the biggest void with ACH?**

A: What retailers want to do is accumulate the checks in their back office, either in the back of the store or in a regional processing

center, and convert these checks to ACH. Point of sale conversion reached a certain level of penetration and stalled because of the sheer investment required to convert checks that way. The problem is there is no SEC code to handle check conversion in the back office. This conversion would occur after the customer has departed, so disclosure becomes an issue. NACHA has been working with banks on the regulatory framework so this back office conversion can become a true alternative to Check 21. But the perception within the retail community is that NACHA and the banks are not moving fast enough. We're being told it will be a two-year wait. Two years is a long time. We are very interested in working with industry groups to accelerate the development of the regulatory framework.

## News Kiosk

### ACH Risk Surveys

The latest step in the Federal Reserve's focus on ACH risk was a survey designed to assess ODFI interest in managing origination risk through an originator batch-based service via our FedACH FedLine Web services. More than 80 percent of the FedACH customers polled favored this approach. Most respondents indicated that the service would either supplement their existing ACH software or replace an existing manual process. The survey included large and small banks from each Federal Reserve district.

### FedACH Sales Specialists to Be Named

To better serve FedACH customers, the Federal Reserve has appointed dedicated FedACH sales specialists. Customers in each district can look to these sales specialists for specific products and information related to FedACH services. They will be the primary points of contact between the Federal Reserve and FedACH customers. All account executives will continue to support FedACH sales and customer needs.

### Updated FedACH Security Procedure Agreement

During October, all sending points and ODFIs received letters explaining that a new FedACH Security Procedure Agreement should be signed and forwarded to the appropriate Customer Operations Support site in either Atlanta or Minneapolis. It is important to note that an updated, signed copy of the agreement needs to be on file with the Federal Reserve prior to an ACH participant's conversion to FedLine Advantage. This requirement extends to FedACH customers who may not subscribe to FedLine Advantage but who process their ACH work through a processor or a sending point. A copy of the new agreement can be found on page 15 of the FedACH Participation Agreement located at <http://www.frb services.org/Retail/pdf/ACH-Agreement.pdf>.





## Happenings and Events

### Conferences sponsored by regional payments associations

#### ⇒ EastPay's Information Interchange 2005

The Changing Face of Payments  
February 13-15, 2005 Orlando, FL [www.eastpay.org](http://www.eastpay.org)

#### WACHA's 2005 Conference

Electronic Payments Conference 2005  
March 14-16, 2005 Middleton, WI [www.wacha.org](http://www.wacha.org)

#### Southern Financial Exchange's 15th Annual Payments Conference and Expo

Partners in an Evolving Payments World  
April 18-20, 2005 Biloxi, MS [www.sfe.org](http://www.sfe.org)

#### NACHA's Payments 2005

⇒ Payments 2005 is scheduled for April 10-13, 2005, in San Antonio, Texas. Don't miss this opportunity to hear the latest news in the payments industry from developers and providers of payments products, services and technology.

Visit <http://www.nacha.org/conferences/Payments2005/default.htm> for more information.

## FedACH Services Fee Schedule

Origination	
Items in small files	<b>\$0.0030</b>
Items in large files	<b>\$0.0025</b>
Receipt Items	<b>\$0.0025</b>
Addenda Records	<b>\$0.0010</b>
Input File Processing	<b>\$3.75 /file</b>
Web-derived Returns / NOCs	<b>\$.50</b>
FedPhone-derived Returns / NOCs	<b>\$2.00</b>
Facsimile Exception Returns/NOCs	<b>\$15.00</b>
Information Extract File Subscription	<b>\$10.00 /RTN /Month</b>
Account Servicing	<b>\$25.00 /RTN /Month</b>
FedACH Settlement	<b>\$20.00 /RTN /Month</b>
FedACH International*	

\* For a complete listing of FedACH International fees, please refer to the fee schedule available at <http://www.frb.services.org/FeeSchedules/FedACH2005.html>

### 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 Operations Support 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 Operations Support 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



**FEDERAL RESERVE  
RETAIL PAYMENTS OFFICE  
1000 PEACHTREE STREET, N.E.  
ATLANTA, GEORGIA 30309-4470**

**RETURN SERVICE REQUESTED**

**PRESORTED  
FIRST CLASS  
U.S. POSTAGE  
PAID  
ATLANTA, GA  
PERMIT NO. 292**