

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. "News from FedACH" is available at www.frb services.org

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Bank of Belton Finds Intersection of Business and International ACH

At a time when bank mergers and acquisitions occur frequently, one might wonder how the Bank of Belton, a small Midwestern depository financial institution, has remained independent for more than 120 years. According to Cris Ruiz, business development relationship manager and vice president of sales and marketing at Bank of Belton, key to the bank's longevity has been a philosophy of "putting the customers first." Acknowledging that every financial institution is selling a commodity, the



Bank of Belton recognized long ago that, along with financial discipline and teamwork, it is the customers' loyalty and trust that keep a bank in business. As a subsidiary of the Overland Bancorp holding company, this family-owned institution employs nearly 50 employees who all put the customer first.

Located in Belton, Mo., approximately 20 miles south of Kansas City, the Bank of Belton serves a diverse, segmented market that includes a number of import and export businesses. The area has long been a domestic distribution and transportation center. Located at the intersection of a large railway network and an interstate highway, this

Midwest locale is also ideally situated for international trade. In fact, Kansas City Southern Railway has purchased a major railroad in Mexico and anticipates transporting goods via this *NAFTA Railway* from Mexico to the United States and Canada. Recognizing an opportunity, the Bank of Belton carved out a niche financing export industries. Fortunately for the Bank of Belton, larger banks are not typically interested in financing working capital of \$1 million or less.

"There are many companies in need of financing to support export of their products," said Ruiz. "It is just one of the pieces of the puzzle that represents the globalization of businesses."

New Opportunities

The bank's leadership also recognized that growing numbers of Hispanic immigrants are joining the area's workforce. This demographic fact prompted the bank's president, James F. Blair III, to conduct a study of the flow of money from the United States to Mexico to determine whether opportunities might exist to serve the immigrant workforce. The study found that large amounts of money are leaving the banking system in the form of remittance payments to Mexican households, friends and business partners. Many of those sending money to Mexico remain undocumented and therefore unable to open bank accounts in the United States.

For Ruiz, now working for Overland Bancorp, the answer was clear. Initially hired as part of an effort to better serve Belton's Hispanic population, Ruiz is well aware of the importance of providing services that

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focus on the customers' needs. Ruiz began her search for a way to serve the Hispanic population and to win their trust and business. According to Ruiz, FedACH InternationalSM Mexico Service was "the perfect solution."

Working in the bank's favor is Ruiz herself. Originally from Barcelona, Spain, Ruiz has a deep appreciation for the importance of language and culture when interacting with the Hispanic population. "It's not only learning the language, but also the culture," said Ruiz. "We have to understand that culture is so important to communication."

Ruiz also understands the importance of word of mouth and the requirement that potential customers find someone they can trust at a bank. According to Ruiz, "education is key." There is no doubt in her mind that education plays a vital role in helping immigrants understand the United States banking system and the benefits it provides.

The Bank of Belton recognizes that the road to building a large customer base for FedACH International service to Mexico may not be an easy one. First and foremost among the hurdles is setting up bank accounts. Undocumented immigrants are unable to open accounts in the United States. Convincing these potential customers that it is well worth their time to become appropriately documented can be a daunting task, even for the well-equipped Ruiz. Gaining the trust of those sending money to Mexico via some alternative payment channel can be difficult both for the individual representing the U.S. bank as well as for the bank itself. Across the border, many would-be recipients of remittance payments transferred via the ACH network do not have bank accounts needed to receive payments. Despite these hurdles, the Bank of Belton remains confident

Let Us Introduce You to...

...the newly appointed FedACH sales specialists. Each of these regional account executives is an ACH resource expert and is dedicated to helping customers find just the right FedACH solution. We encourage you to contact the sales specialist for your district to discuss FedACH services.

Atlanta	Nedelka Bell	305.471.6472
Boston	Jean Fisher, AAP	617.973.3218
Chicago	Michael Cronkhite	312.322.2145
Cleveland/St. Louis	Susan Bivens	901.579.2405
Dallas	Sarah Jennings	214.922.5259
Kansas City	Jennifer Johnson, AAP	816.881.2495
Minneapolis	Marilyn Coleman	612.204.6964
New York	Thomas Goodman	201.531.3637
Philadelphia	Carol Chartrand, AAP	215.574.3414
Richmond	Della Tate	410.576.3384
San Francisco	Dorothy Williams, AAP	801.322.7948

that it can ultimately bring more remittance payments to the ACH network. It is also the hope that other banks will support their Hispanic communities in this manner. After all, as Ruiz concluded, "It is so easy to offer this service—most banks are already doing ACH, and this is just one more SEC code."

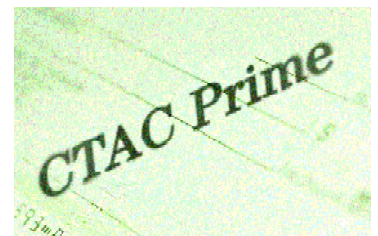
CTAC Prime— ARcing the Federal Reserve Way

No doubt about it, lockbox checks are being converted to ACH payments faster than anyone can say "ARC." Federal Reserve and NACHA statistics confirm that accounts receivable check conversion represents the fastest-growing SEC code in the industry. But rapid growth is not its only claim to fame: Studies of other consumer-based ACH debits reveal that ARC payments rate highest in quality, which means fewer returns and greater consumer acceptance.

Considering rapid growth and high quality, one might assume that all depository financial institutions offer check conversion services to their corporate customers. Those DFIs with remittance processing operations not yet in the ARC business may be interested in learning about CTAC Prime, the Federal Reserve Banks' check-to-ACH conversion service.

The benefits of ARC include faster collections, faster returns and a more reliable representment process. In addition, ACH transactions often post prior to checks, a factor that results in lower return rates. The Federal Reserve Banks' CTAC Prime product allows DFIs to put these benefits to work by offering check conversion services. Minimal up-front

investment in hardware and software is required. With CTAC Prime, DFIs can avoid outlays for a full complex of ACH filtering, parsing, conversion software and associated hardware. CTAC Prime customers can also avoid investment in an independent ACH originations/returns package.



Customers using CTAC Prime benefit from a robust, dynamic database of ineligible/remapped routing transit numbers as well as the Federal Reserve's experience with ACH, check and returns processing, including administrative returns.

For more information on CTAC Prime, call Larry Taft of the Federal Reserve Bank of Kansas City at 816.881.2026 or any district FedACH sales specialist. A list of FedACH sales specialists is provided on this page.

Q&A

FedACH International Mexico Service



As vice president and manager of the Federal Reserve System's International Retail Payments Office, Larry Schulz manages product development, implementation, and sales. Larry works closely with the U.S. Treasury Department Financial Management Service on international payment matters. Recently, Schulz shared his thoughts on advancements in FedACH international service to Mexico.

Q: How is the FedACH service to Mexico working?

A: It's working well. We send roughly 23,000 monthly payments to Mexico. The majority of those are Social Security payments. Until October 2003, there were 34,000 such payments a month— all made by check. We see conversion of 23,000 payments to ACH as extraordinary progress.

Q: What makes this service attractive?

A: As part of the partnership for prosperity between Mexico and the United States, Presidents Bush and Fox asked the central banks to reduce the cost of remittances by half. Based on the prices being charged and the foreign exchange rates, I estimate FedACH now costs between 30 to 40 percent of the other alternatives to Mexico.

Q: How have exchange rates factored into use of FedACH?

A: Our exchange rate in Mexico dropped from 1 percent over the inter-bank rate to .21 percent over that rate. No other alternatives for getting small-value payments into Mexico can compare in terms of exchange rates.

Q: How widespread is use of the FedACH International Mexico Service?

A: We have a handful of banks using ACH for commercial international payments, and many more have tested with us. But there are a number of challenges. Sending remittances via ACH supposes using electronic payments person-to-person, which is something we don't do in the United States. We are asking a person to do something internationally that we don't really know how to do domestically. That's a big conceptual change. With a business payment, you have straight-through processing software. We don't have a way for a person to walk up to a teller and say "I want to make a payment to Mexico. What do I do now?" Someone has to develop a way to get that payment into the bank's back room. Marketing to a Spanish-speaking population is another challenge. The biggest question is whether there are bank accounts on both sides of the payment.

Q: In what ways is this service being promoted?

A: Regulators and the Mexican consulate are getting the word out to the Mexican community. From the standpoint of economics and for the safety of the individuals making the payments, we're all better off if these payments remain in the banking system. If you have an unbanked person here, the first hurdle is getting him or her into the bank. The second is getting the payment to the recipient in Mexico because only a small per-

centage of remittance recipients in Mexico have bank accounts. In response, we have worked with Bansefi, a large, government-sponsored savings bank in Mexico that supports a network of mostly rural credit unions. In 2005, this network— called L@Red de la Gente, or "network of the people"— will be able to get money electronically to about 1,000 endpoints in Mexico. We are also working to help people in the United States encourage their relatives to open accounts in Mexico with the help of Bansefi.

Q: How close is FedACH to reaching its full potential in Mexico?

A: Acceptance has exceeded everyone's expectations. We are working on improvements that we hope will attract larger banks. We are talking to banks, large and small, determining their needs and how to best fulfill them. It's difficult to say, but I think "barely scratched the surface" is the right way to put it.

News Kiosk

FedACH Risk Product Development

The Federal Reserve Banks have begun developing a FedACH risk management service to help ODFIs mitigate payments-related risk. Business requirements are complete and are based on customer interviews and surveys conducted in 2004. If you are interested in details about this new service, please contact your district's FedACH sales specialist.

Update from Barcelona

On January 25-26, NACHA held its annual Global Electronic Payments Conference in Barcelona, Spain, sponsored in part by Federal Reserve Financial Services. Retail Payments Office product director Rich Oliver spoke to an international audience about developments in the U.S. payments system, with a focus on the shift to electronic payments and the introduction of Check 21. While in Barcelona, Oliver also spoke at the Global Payments Forum about the impact of Check 21 on foreign banks.

Payments Study Results

According to the 2004 Federal Reserve Payments Study, electronic payment transactions in the United States have exceeded check payments for the first time. Electronic payment transactions totaled 44.5 billion in 2003 while the number of checks paid totaled 36.7 billion, according to surveys of U.S. depository financial institutions and electronic payments organizations. For more detailed results of the study, visit <http://www.frbervices.org>.



Happenings and Events

Conferences

➔ Payments 2005

Join us at NACHA's Payments 2005 Conference and stop by booth #237 to learn more about new FedACH services.

April 10-13, 2005 San Antonio, TX www.nacha.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

Payment Resource One's 2005 Rocky Mountain Summit

Solving the Treasury & Payments Puzzle

April 21, 2005 Denver, CO www.lpro.org

Direct Deposit and Direct Payment Month - May 2005

➔ Start planning now to promote Direct Deposit and Direct Payment to your customers during this year's national Direct Deposit and Direct Payment Month. Visit www.directpayment.org or www.directdeposit.org for information on ways you can promote awareness of Direct Deposit and Direct Payment during May and throughout the year.

FedACH Services Fee Schedule

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

* For a list of FedACH International fees, please refer to the complete 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 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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