

# News from FedACH

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**EDITOR'S NOTE:** At its May 2010 meeting, the FedACH Customer Advisory Group heard from Richard Todd of the Minneapolis Fed about the findings of a recent study of ACH risk. Since then, the following article was posted on FRB Atlanta's Portals and Rails blog, and we wanted to be sure all FedACH customers had an opportunity to read this report of the study findings.

## Managing risk in the ACH network

MINNEAPOLIS FED STUDY USES FedACH DATA TO IDENTIFY BETTER BENCHMARKS

ACH volumes have grown rapidly over the past decade, as the network has expanded beyond prearranged, recurring payments between known and trusted parties to include converted checks and one-time transactions originated over the Internet or by telephone. New ACH services have heightened concerns about risk because of the potential associated growth in ACH returns for reasons such as insufficient funds, presentment to closed accounts, and unauthorized transactions, to name just a few. To gauge the level of risk in a financial institution's ACH origination business, it may seem reasonable to use the rate of these returned items as a possible benchmark. If an ACH originator's return rate is consistently below the industry average, we should be confident that its ACH risk management practices are generally sound, shouldn't we?



photo of the Federal Reserve Bank of Minneapolis

Not necessarily, according to a new Federal Reserve study. The researchers—Olivier Armantier, Michele Braun, and Dennis Kuo of the New York Fed and Ron Feldman, Mark Lueck, and Richard Todd of the Minneapolis Fed—recently conducted a study using FedACH data to look at ways to improve the benchmarks used to monitor ACH returns to shed some light on today's ACH risk environment. The study held some interesting and noteworthy findings.

### Average return rates are not necessarily a good benchmark

The Federal Reserve study shows that about 75 percent of all consumer debit originators were below the FedACH average for consumer debit return rates during spring 2006. This large percentage stems from the fact that the average is elevated by a small number of very large originators who also have higher

return rates. Consequently, some originators who fall below the average may still have rates significant enough to deserve attention. In short, while average return rates are almost the only benchmark currently available, they do not provide the most effective proxy for assessing ACH return risk management.

### Better benchmarks could be constructed

The Fed study illustrates how more informative benchmarks could be computed by exploiting the ACH transactions data. The authors used FedACH data on all consumer debit forward and return items originated for a period in mid-2006. By developing a methodology that matched about 90 percent of return items to their original forward item, they could tabulate rich sets of statistics, covering the whole distribution of ACH return rates, not just the average. Their analysis tabulates return rate distributions for several individual standard entry class (SEC) codes, as well as the overall distribution of ACH transaction types, leading to the following additional results:

- **Size doesn't matter much.** ACH return rates for small and large originators are not very different for most SEC codes. In fact, overall and for most types of consumer debits, the median small originator has a slightly lower return rate than the median large originator, when size is measured by deposits. Return rates were also not strongly related to the originating depository financial institution's volume of originations. Thus, it would be a mistake to read deposit size or institution size as a proxy for sophistication in managing the quality of ACH originations.
- **TEL and WEB are both risky, but in different ways.** The average return rates for both telephone-initiated transactions (SEC code TEL) and web-initiated transactions (SEC code WEB) were high relative to most other types of consumer debits, but in different ways. TEL risks were higher across the board, so that well-below-median

TEL return rates were still high compared to typical consumer debit return rates. By contrast, most WEB originators experienced lower returns on WEB than on consumer debits generally. However, a minority of WEB originators with significant volumes and very high return rates pulled the average return rate for WEB somewhat above the average return rate of all consumer debits.

- **Returns come fast and are mostly the result of insufficient funds.** In mid-2006, more than 98 percent of all returns occurred within five days of origination, with more than 70 percent returned due to insufficient funds. For the small minority of returns that take more than five days, authorization issues predominate.

### Better benchmarks can help banks manage ACH risk

Using and customizing the type of analysis done in the Fed study has the potential to help originating banks better understand risks and therefore more efficiently deter fraud. For example, both originating banks and bank regulators could analyze the distribution of return rates and reason codes by bank peer group to gain a better sense of an individual institution's risk management practices. At the broadest level, linking returns to forward items can efficiently provide a rich array of benchmarks to help originators better monitor their ACH returns and enhance the quality of information they provide to their boards of directors. Similarly, by going beyond the average return rate concept, regulators could use the approaches adopted in the Fed study to better supervise ACH originators, or industry associations could use them to improve industry standards. In short, the sun could be setting on the days of taking false comfort from the Lake Wobegonish achievement of a below-average return rate. ■

Richard M. Todd, vice president, Community Affairs and Banking and Policy Studies at Federal Reserve Bank of Minneapolis

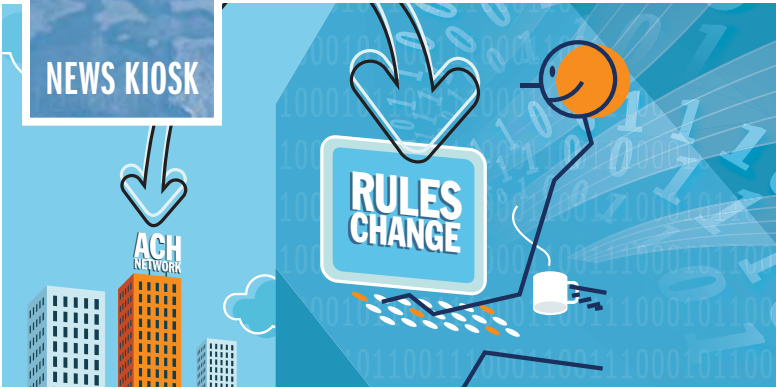
## FedEDI Plus Enhancement for ODFIs

On July 17, 2010, the latest enhancements to the FedEDI Plus Service were implemented, giving subscribers access to a new Return Ratio Report. Designed with the ODFI in mind, the Return Ratio Report provides detailed information on return rates over a defined period of time. ODFIs using this newest report can more effectively monitor originators with higher-than-average return ratios. Whether an ODFI chooses to run the report on a daily or monthly basis, the following reporting options are available:

- Return types all returns, invalid account returns (R03 and R04), and unauthorized returns (R05, R07, R10, R29, and R51);

- Days of history minimum of one day to maximum of 60 days;
- Unique company names; and
- Print report whether or not return items are identified.

Regardless of reporting options selected by a subscribing ODFI, the Return Ratio Report will provide valuable information by SEC code. This information includes the number of items returned as well as a relative percentage of total items originated, the returned dollar amount, the number of originated items, and the originated dollar amount. ■



- Responses to NACHA's request for comment on "Enhancements to ACH Applications ARC, BOC, POP, TEL and XCK; Collection of Service Fees" are due by Friday, August 6, 2010. The proposed rule change would ultimately encourage originators to use the ACH network for a variety of payments by reducing barriers to the use of several ACH applications. In addition, the rule change would help to better align ACH rules with existing regulations (e.g., Regulation E) and provide ACH network alternatives to the legitimate use of remotely created checks. If approved, the rules change would be effective March 18, 2011. Details can be found at <http://www.nacha.org/news/newsDetail.cfm/RecentBusinessNewsID/163>.
- With the August 2, 2010, availability of the FedACH SameDay Service (see page 5 of this publication for more information), a number of related changes to Operating Circular 4 are available on [FRBservices.org](http://FRBservices.org). If you have not already done so, take a minute to sign up for the Fed's e-mail alert notification service so you will never miss an important update to your choice of topics on [FRBservices.org](http://FRBservices.org). Just click on the following link and set your preferences: [http://www.frbervices.org/communications/e\\_alerts.html](http://www.frbervices.org/communications/e_alerts.html).
- It has been said that good news bears repeating. With that in mind, we would like to remind you that delivery of FedACH output files occurs four times each day. Files are distributed daily by 1 p.m., 4 p.m., 10 p.m., and 6 a.m., Eastern time. FedACH customers determine how often they pick up and process their files with the understanding that taking full advantage of four file deliveries will support timely posting of ACH payments to receivers' accounts and may help even out payment processing throughout the day.
- If you would like to join the ranks of thousands of accredited ACH professionals (AAP) this year, you can register for the 2010 AAP exam today. The 2010 AAP exam will be offered electronically at computer-based testing facilities nationwide for a three-week period beginning October 11 and ending October 29. Those who pass this year's exam will be accredited through December 31, 2015. To find out more about how to register and how to take practice exams, visit <http://www.nacha.org/c/edu-aap.cfm>.

## FedACH Sales Specialists

Each of these 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.

<b>Atlanta</b>	<b>Nedelka Bell, AAP</b>	<b>816.881.2735</b>
<b>Boston</b>		
<b>New York</b>	<b>Lance Wagner, AAP</b>	<b>816.881.2498</b>
<b>Chicago</b>	<b>Robb Woldman, AAP</b>	<b>213.683.2468</b>
<b>Minneapolis</b>		
<b>San Francisco</b>	<b>Lance Wagner, AAP</b>	<b>816.881.2498</b>
<b>St. Louis</b>	<b>Susan Bivens, AAP</b>	<b>901.496.0626</b>
<b>Dallas</b>	<b>Matt Davies, AAP</b>	<b>214.922.5259</b>
<b>Cleveland</b>	<b>Lance Wagner, AAP</b>	<b>816.881.2498</b>
<b>Kansas City</b>		
<b>Philadelphia</b>	<b>Carol Chartrand, AAP</b>	<b>215.574.3414</b>
<b>Richmond</b>	<b>Della Tate, CTP</b>	<b>443.725.4675</b>

## Did You Know?

### NACHA Launches State Tax Change Portal

In response to industry need, NACHA announced in June that it had launched the State Tax Change Portal at [www.nachataxportal.org](http://www.nachataxportal.org). Recognizing that financial institutions and payment processors needed a better way to get information about changes to state taxes and the effect on ACH payments, NACHA, along with the Federation of Tax Administrators, developed this service as a way for states to communicate changes to subscribers.

Through the State Tax Change Portal, subscribers receive alerts of changes in ACH taxing authority routing and transit requirements for state business tax payments. Banks, payment providers, and businesses can enroll online to receive e-mail notifications of state tax changes, and there are no fees for distributing or receiving notices via the State Tax Change Portal. NACHA anticipates that the portal will provide more lead time for service providers to implement changes, reduce the risk of misdirected payments and associated fees or penalties, and better facilitate the use of the ACH Network for payments between businesses and governmental entities. ■



### SEPTEMBER 2010

#### Payments Symposium 2010

September 20-21, 2010  
www.wespay.org

#### Solutions 2010

September 22-24, 2010  
www.gacha.org

### OCTOBER 2010

#### Concepts 2010

October 6-8, 2010  
www.thepaymentsauthority.org

Long Beach, CA

Atlanta, GA

Boyer Falls, MI

#### Navigating Payments 2010

October 14-15, 2010  
www.umacha.org

#### Mid-America Payments Conference 2010

October 26-28, 2010  
www.epcor.org

### NOVEMBER 2010

#### Payment Insights 2010

November 1-2, 2010  
www.neach.org

Bloomington, MN

Kansas City, MO

Burlington, MA

## New International Payments Service Available

As we approach the one-year anniversary of the implementation of the International ACH Transaction (IAT) SEC code, the FedGlobal ACH Payments suite of services has expanded to include an account-to-receiver service. This newest international payments service allows funds from accounts at a U.S. depository financial institution to be sent to unbanked receivers for retrieval at either a bank location or at a trusted third-party provider in 11 Latin American countries. The Federal Reserve Banks worked with Banco de México, Banco Rendimiento, and Microfinance International Corporation to launch the account-to-receiver service, and all involved are confident that the new service will effectively respond to demand for a lower-cost alternative to send funds internationally.

The account-to-receiver service is similar to an account-to-account payment service except that the receiving account does not belong to an individual but instead to a financial institution or trusted third party that acts as a disbursing agent. As an additional security measure, the receiver must provide a password tied to the payment along with valid identification. The account-to-receiver service provides for international payments to the following countries: Argentina, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, and Uruguay. ■

For more information, visit [http://www.frb.services.org/serviceofferings/fedach/fedach\\_international\\_ach\\_payments.html](http://www.frb.services.org/serviceofferings/fedach/fedach_international_ach_payments.html) or contact your FedACH sales specialist.



## Customer Support Information

### For FedACH Customers in these Districts

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

### Central 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  
E-mail: [achoperations.atl@atl.frb.org](mailto:achoperations.atl@atl.frb.org)

### For FedACH Customers in these Districts

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

### Central Operations Support Site

Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
P.O. Box 291  
Minneapolis, MN 55480-0291  
Toll Free: 866.234.5681  
E-mail: [mpls.achcustserv@mpls.frb.org](mailto:mpls.achcustserv@mpls.frb.org)



On August 2, 2010, the Federal Reserve Banks' FedACH SameDay Service will be available to FedACH customers on an opt-in basis. Representing the first significant change to ACH schedules in 35 years, the FedACH SameDay Service is intended to address industry demand for faster clearing and settlement of ACH payments. We talked earlier this summer with **STEVEN CORDRAY** of the Federal Reserve Banks' Retail Payments Office about this new service. As project manager for FedACH SameDay, Cordray has had responsibility for the service since its earliest days.

## FedACH SameDay Service

### **CAN YOU DEFINE FOR US THE FEDACH SAMEDAY SERVICE AND HOW IT WILL DIFFER FROM TODAY'S FEDACH SERVICE?**

FedACH SameDay is a proprietary service that accomplishes depositing, processing/editing, distributing, and settling of certain ACH forward payments during the current processing day. Currently, the earliest settlement, referred to as "next-day" service, is the morning of the processing day following the depositing of the ACH forward payments.

### **WHAT FACTORS LED THE FED TO CREATE THE FEDACH SAMEDAY SERVICE?**

We saw industry demand for faster clearing and settlement as private ACH exchanges were created to clear converted checks, telephone, and Internet-initiated payments same-day. Commercial banks were clearing on-us ACH payments same-day, and other countries have successfully implemented same-day clearing for low-value payments. Subsequent research conducted with a variety of ACH network participants showed support for accelerated ACH schedules.

### **WILL ALL TYPES OF ACH PAYMENTS BE ELIGIBLE FOR PROCESSING UNDER THE FEDACH SAMEDAY SERVICE?**

No, at least not right away. We view the August 2010 rollout as phase one, and as such, its scope is limited to converted check payment transactions (ARC, BOC, POP, and RCK) along with WEB and TEL transactions. These SEC codes represent roughly 38 percent of all ACH payments volume. For now, credit payments and government payments will be ineligible for same day processing, and as the FedACH SameDay Service is a proprietary service, only payments flowing through FedACH are eligible.

### **HOW WILL AN ACH PROCESSING DAY CHANGE FOR A FEDACH CUSTOMER THAT OPTS IN TO THE SAMEDAY SERVICE?**

Same-day forward items may be sent between 2:15 a.m. and 2 p.m. Items received by FedACH by 2 p.m. will be delivered by 4 p.m. and settled at 5 p.m. Returns of same-day forward items may be sent between 2 p.m. and 4:30 p.m., and items

received by FedACH between 2 p.m. and 2:45 p.m. will be delivered by 4 p.m. Items received between 2:45 p.m. and 4:30 p.m. will be delivered by 5 p.m. In both cases, returns will settle at 5:30 p.m. (All times provided are Eastern time.)

Same-day and next-day payments can be commingled in a single batch, and those items ineligible for same-day settlement will simply settle the next processing day. The service requires no nonstandard use of the NACHA file, record, or field formats. Same-day payments are identified using the existing *Effective Entry Date* field in the *Company/Batch Header* record.

### **PLEASE EXPLAIN THE "OPT-IN" REQUIREMENT AND WHAT IT WILL MEAN TO ODFIs AND RDFIs. WHY IS THE SERVICE NOT UNIVERSAL?**

Participation by ODFIs and RDFIs is on an "opt-in" basis, and participation status can change on a monthly cycle. RDFIs wishing to participate are given the choice to allow receipt of same-day payments from all opt-in ODFI participants or from a select set of one or more ODFI participants. ODFIs can originate payments to all RDFIs that have opted in to receive same-day payments. Making the service available on an opt-in basis allows ACH network participants not interested in the service to avoid any sort of investment in the service.

### **TELL US ABOUT THE MASTER PARTICIPANT LIST?**

The master participant list will identify every routing transit number participating in the FedACH SameDay Service and will be available to participating DFIs via e-mail and through the use of a private URL, enabling them to identify other participating institutions. Should a DFI choose to upload the list to its processing application, that DFI can determine which payments qualify for same-day settlement before sending the payments to FedACH.

### **HOW CAN ODFIs AND RDFIs BENEFIT?**

First and foremost, funds availability is moved up by one day, and receipt of funds will be aligned more

closely with posting timelines. ACH returns are expedited by at least one day, and possibly as early as the same day the forward item is originated. We expect that participating DFIs will see reductions in fraud, collections, and charge-offs as well. The SameDay service will also make it possible expedite online bill payments and those “just-in-time” telephone and Web payments. It is also important to mention the benefits that the FedACH Same-Day Service can bring to the ACH network overall. The ACH will be better positioned to support mobile payments, emerging P2P payments, and other spontaneous purchases. The FedACH Same-Day Service will offer an alternative to the private exchange of consumer ACH debit payments and has the potential to bring these payments back into the ACH network. In doing so, these payments will again be subject to NACHA rules, operator edits, and risk monitoring tools.

**CRITICS OF THE FEDACH SAMEDAY SERVICE HAVE CLAIMED THAT THERE IS NO NEED FOR THIS SERVICE AND THAT PARTICIPATION WILL BE LOW. HOW DO YOU RESPOND TO THOSE CRITICS?**

Contrary to those opinions, we do see a need for this service as evidenced by the creation of various private ACH exchanges and the availability of same-day clearing within other payment types. In contrast to private ACH exchanges, FedACH SameDay Service participants will not incur high upfront and ongoing costs for negotiating and managing exchange relationships. We have also heard that corporate originators are quite interested in being able to expedite returns by at least one day. We will have to wait and see what happens in terms of participation; however, we anticipate that, over time, both ODFIs and RDFIs eligible to participate will decide that the benefits of the FedACH SameDay Service are sufficient reason to participate.

**FOLLOWING THE AUGUST 2 IMPLEMENTATION DATE, WHAT ARE THE NEXT STEPS SURROUNDING THE FEDACH SAMEDAY SERVICE?**

We have already determined that it will be important to have industry discussions surrounding the best ways to address the need for same-day ACH credit and, potentially, other debit payments. Crucial to these discussions will be a healthy debate of the roles and characteristics of ACH as compared to the wire transfer system. Fortunately, we’ve already received preliminary feedback from ACH network participants about what they would like to see included in future phases of the FedACH SameDay Service. Among these are payroll, tax payment, and cash concentration entries along with account-to-account transfers, contingency and disaster recovery arrangements, and even international payments. The emergence of mobile P2P payments is also in the mix. With that said, we expect to be busy with FedACH SameDay for some time.

Thanks to those who participated in our brief online survey on social networking last quarter. We had fewer than 100 responses, and therefore, we acknowledge the lack of any statistical significance; however, we thought you might find the results interesting anyway.

**Social Networking for Professional Purposes**



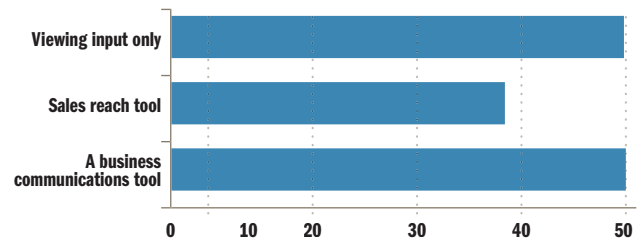
■ Non-users  
■ LinkedIn  
■ Facebook

**Value of Social Networking to My Job**



■ Valuable  
■ Minimally Valuable  
■ Very Valuable

**Ways I Use Social Networking**



**FedACH Services Performance Measures**

YEAR-TO-DATE THROUGH 1ST QUARTER 2010

**PERFORMANCE**

**100%**

**QUALITY MEASURE**

**Transaction files processed and available timely**

Online transaction files processed and delivered electronically by the scheduled delivery times

**100%**

**ACH service availability (uptime)**

Percentage of time FedACH service was available

**100%**

**Research and trace requests resolved timely**

Accounting and billing research requests and trace requests concerning ACH items or files responded to within 24 hours

# 2010 FedACH Services Fee Schedule<sup>1</sup>

## ORIGINATION

Item in small file (<2,500 items)	\$0.0030
Item in large file (>2,500 items)	\$0.0025
Minimum fee-origination	\$0.01-\$25.00 /Month

## RECEIPT

Volume Discounts (excluding SameDay items)	\$0.0025
Per Items 1,000,001 – 25,000,000 per Month	\$0.0007
Per Items When Volume Exceeds 25,000,000 per Month	\$0.0009
Minimum fee-receipt	\$0.01 - \$15.00 /Month
Addenda Record	\$0.0013
Web-originated Return / NOC	\$0.30
Facsimile Exception Return / NOC	\$30.00
Voice Response Return / NOC	\$3.00
Automated NOC	\$0.15
Account Servicing	\$37.00 /RTN /Month
FedACH Settlement	\$45.00 /RTN /Month
Information Extract File	\$50.00 /RTN /Month
IAT Output File Sort	\$35.00 /RTN /Month

## FEDACH SAMEDAY SERVICE - AVAILABLE AUGUST 2, 2010

Origination	
Forward item in a small file / large file	\$0.0030/\$0.0035 (surcharge)
Addenda record	\$0.0019 (surcharge)
Return item in a small file / large file	\$0.0030 / \$0.0025 (discount)
Receipt	
Forward or return item	\$0.0025 (discount)
Addenda	\$0.0013 (discount)

## FEDACH RISK ORIGINATION MONITORING SERVICE

Monitoring Criteria (per set of criteria)	
For sets 2-20 per Month	\$8.00
For sets 21-150 per Month	\$4.00
For sets 151 and above per Month	\$1.00
Batch Monitoring	\$.0025 /Batch

## FEDEDI PLUS SERVICE

Standard Scheduled Report	\$0.20/report
Standard On Demand Report	\$0.75/report
Premier Report	\$10.00/monthly report \$0.50/daily report
Encrypted e-mail	\$0.20/e-mail
Report delivery via FedLine File Channel	\$0.30/report

## FEDGLOBAL ACH PAYMENTS

Canada Service	
Item Originated to Canada	\$0.62 (surcharge)
Return Received from Canada	\$0.99 (surcharge)
Trace of Item at/not at Receiving Gateway	\$5.50/\$7.00
Latin America Service (MFIC)	
Item Originated to MFIC	\$4.40 (surcharge)
Return Received from MFIC	\$0.72 (surcharge)
Item Trace	\$5.00
Mexico Service	
Item Originated to Mexico (including F3X)	\$0.67 (surcharge)
Item Originated to Mexico (including A2R)	\$3.45 (surcharge)
Return Received from Mexico	\$0.91 (surcharge)
Item Trace	\$13.50
Panama Service	
Item Originated to Panama	\$0.62 (surcharge)
Return Received from Panama	\$0.99 (surcharge)
Item Trace	\$7.00
NOC	\$0.72

<sup>1</sup> Refer to [www.frb services.org](http://www.frb services.org) for additional details

## FedACH Services Performance Measures

YEAR-TO-DATE THROUGH 1ST QUARTER 2010

FedACH VOLUME STATISTICS	VOLUME (000)	DOLLAR VALUE (000,000)
<b>Commercial Forward Value Items Originated</b>	2,518,038	\$3,976,853
<b>Government Forward Value Items Originated</b>	334,659	\$1,170,399
<b>Commercial Return Items Originated</b>	25,674	\$13,568
<b>Government Return Items Originated</b>	1,331	\$3,796
<b>Total Commercial and Government Non-Value Items Originated</b> (includes NOCs, DNEs, ENRs, prenotes and zero-dollar entries)	27,749	N/A
<b>TOTAL ITEMS ORIGINATED</b>	<b>2,907,451</b>	<b>\$5,164,616</b>

## Tell Us What You Think

**Is mobile banking for you?** Are you using mobile banking, or are you hesitant to do so? Tell us how you use mobile banking or why you aren't using it yet. Click on the following link to take a short survey, and check out the next issue for survey results.

<http://www.frb services.org/app/capture/survey.do?id=2121>

