

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7785]
December 30, 1975]

DIRECT DEPOSIT OF FEDERAL RECURRING PAYMENTS
Interim Guidelines for the Delivery of Electronically Recorded Payments

*To All Banks and Other Financial Organizations in the
Second Federal Reserve District, and Others Concerned:*

Following is the text of a statement issued December 18 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today approved interim guidelines for the delivery of electronically recorded payments to financial institutions of all types participating in the Treasury Department's program for direct deposit of Federal payments that are made on a recurring basis.

In the electronic payments phase of the Treasury's direct deposit program, payments are made by magnetic tape through Federal Reserve offices. The Reserve offices sort the payments by computer according to the financial institutions involved, carry out the necessary accounting and deliver to the financial institutions the payments instructions concerning them. The financial institutions credit the accounts of their customers.

In February 1976, in cooperation with this phase of the Treasury program, the Federal Reserve will begin distributing, according to the terms of the guidelines announced today, social security payments to beneficiaries who have elected to have their benefits deposited directly in financial institutions. Beneficiaries who prefer to receive social security payments as previously may continue to do so. Since November 1974 the Federal Reserve has been distributing electronically recorded payroll deposits to financial institutions on behalf of U. S. Air Force personnel who have elected direct deposit of their pay.

The cost of issuing, clearing and transporting a check is many times greater than making payments by electronic means. Since the Federal Government issues hundreds of millions of checks annually, there is a potential in electronic handling of payments for large savings.

For recipients of government payments, direct deposit reduces the risk of theft and offers the convenience of an automatic deposit of funds in a financial institution.

In general, the guidelines provide that financial institutions currently receiving checks on a Federal Reserve courier route will also have direct deposit payments information delivered to them by courier. Payments to financial institutions and processing centers not currently served by courier may have payments information delivered by courier if their payments volume is sufficient, and if they are located on a courier route. Other financial institutions may receive direct deposit payments instructions by mail, through a correspondent or a processing center or by picking up the payments information at a Federal Reserve office.

The Board indicated that the guidelines announced today are of an interim nature since they may be modified in the future as this program develops. In approving the guidelines the Board took action on the government payments section of its proposal of June 10, 1975 regarding access to Federal Reserve facilities used to clear payments instructions recorded on magnetic tape. Further action on access to Federal Reserve facilities for private payments will be considered later.

The Board action on delivery of direct deposit Federal payments followed issuance by the Treasury Department of regulations governing the processing of such payments effective January 1, 1976.

Printed on the reverse side is the text of the interim guidelines adopted by the Board to provide for the delivery of Federal recurring payments by Federal Reserve Banks. Any questions regarding this matter may be directed to James O. Aston, Assistant Vice President (Tel. No. 212-791-6334); John C. Houhoulis, Manager, Payment Systems Department (Tel. No. 212-791-5997); or Joseph M. O'Connell, Manager, Check Processing Department (Tel. No. 212-791-5321).

Additional copies of this circular will be furnished upon request.

PAUL A. VOLCKER,
President.

(OVER)

Delivery of "Federal Recurring Payments" to Financial Institutions

On June 10, 1975, the Board of Governors of the Federal Reserve System requested comments regarding use of Federal Reserve facilities for clearing and settling of payment instruments evidenced by information contained in magnetic tape and other media (40 *Federal Register* 25641). The proposal pertained to the delivery of items to institutions belonging to private associations exchanging such payments instruments as well as the program of the United States Department of the Treasury involving the processing of "Federal recurring payments." (See 40 *Federal Register* 47492 for an explanation of the Treasury's program.) The Federal Reserve Banks are acting as fiscal agents of the Treasury Department for the recurring payments program and the Board of Governors, after review of all comments received, has adopted interim guidelines for the delivery of such recurring payments under the Treasury Department's program by the Federal Reserve Banks.

The Board believes its interim position is cost-effective, operationally feasible, and affords all financial institutions a number of options for receiving payments on an equitable basis. From the comments received and reviewed by the Board regarding its June 10th proposal, a clear majority of each class of all financial institutions favored the proposal on delivery of payments in the form adopted by the Board. Federal Reserve Bank representatives will, of course, be able to discuss features of this proposal further with individual institutions.

The interim guidelines announced today may be modified in the future to conform to the position finally adopted by the Board on sending and receiving commercial payments on magnetic tape. The Federal Reserve is currently in the process of reviewing the comments received on its June 10, 1975, proposal. It should be

recognized also that the findings and recommendations of the National Commission on Electronic Fund Transfers could call for some further modification in these interim guidelines.

The guidelines adopted by the Board provide for the delivery of Federal recurring payments by Federal Reserve Banks in the following fashion:

(1) Payments to beneficiaries maintaining accounts at a financial institution offering demand deposit accounts may be delivered directly to that institution in the same manner that checks are presented.

(2) Payments to beneficiaries maintaining accounts at a financial organization not offering demand deposit accounts may be delivered directly to that institution provided such institution receives sufficient volume of such payments to warrant separate delivery and is located on an existing check courier route.

(3) Payments may be delivered to a data processing service bureau provided the service bureau receives sufficient volume of such payments to warrant separate delivery and is located on an existing check courier route.

(4) Any financial organization may pick up payments at the local Federal Reserve office provided that volume is sufficient to warrant the separate sort required.

(5) Any financial organization may have payments delivered to an endpoint that currently receives checks directly from the Federal Reserve office (i.e., the pass-through method).

(6) Payments may be mailed to any financial organization by the Federal Reserve regardless of its location.