Automated Clearinghouse . . .
Then and Now

It all started when the Air Force payroll was processed through the Federal Reserve System in the fall of 1975. In January 1976, the Eleventh District payroll checks and some commercial accounts were added to the processing procedure. Direct deposits were promoted in early 1976, and Social Security check processing filtered in around October 1976.

That was the beginning of a not-then-known, speedy, highly technical Automated Clearinghouse (ACH) system. The system ran bi-monthly then, and runs twice a day, five days a week now.

ACH is an electronic transfer system which allows debits and credits to be made between financial institutions without the paperwork usually associated with clearing checks.

An ACH transaction ordinarily is initiated by a private company or employer on a magnetic tape created by the company or the company's bank at the request of the company. The originating financial institution (OFI) consolidates the transactions requested by its customers on tape and forwards or transmits the tape to the ACH processor. The ACH processor stores the data in its files and sends new output (tapes or printout) to each receiving financial institution (RFI), which allows it to post the incoming debits and credits to its customers' individual accounts. Settlement is made on the books at the Fed to the respective accounts of the OFI and RFI. Most financial institutions are set up to receive ACH transactions; fewer institutions originate such data. Any financial institution may originate ACH items, but also must agree to receive data.

Electronic funds transfer systems (EFTs) were designed "to move large volumes of small dollar amounts," stated Larry Ripley, Assistant Vice President of the Dallas Fed's Payments Mechanism Department. "The Eleventh District processes half a million transactions on the day cycle which usually translates into value of $150 million dollars per day. On government payment dates, the Bank may move as many as one-and-a-half million transactions per day."

During the night cycle, 50,000 transactions account for a value of between $750 million to one-and-a-quarter billion dollars, according to Ripley. The night cycle's value is significantly greater because the bulk of financial institutions' large dollar commercial transactions are processed then.

ACH was started for basically two reasons, according to B. B. Sessions, Electronic Payments Analyst. "First," he said, "to eliminate paper checks—possibly the first step in a checkless society. And, secondly, because funds can be moved faster electronically than by check."

In addition to saving paper-handling time, financial institutions have found ACH convenient because it helps reduce lobby traffic and assists them in managing their funds.

Since ACH transactions can be posted quickly and predictably, financial institutions are better able to control the investment of their funds. This, coupled with the increased convenience to customers themselves, has caused direct deposits to increase at a rate of 30 percent to 40 percent per (continued on page 2)
RESPONSE Network System Upgraded

Some Surcharges Reduced

The Dallas Fed’s RESPONSE network is being enhanced to allow more options for financial institutions already connected to the network or for those that would like to be.

Beginning immediately, those who are already connected to the network have the option to upgrade the computer equipment they have at their facility. Any institution currently leasing the IBM Personal Computer Model 5150 may upgrade its equipment with an internally mounted fixed disk and additional memory to bring it to a total of 512K. The fee for these features is $32.55 per month in addition to regular monthly lease fees. With this upgrade, the computer equipment becomes comparable to an IBM Personal Computer Model XT with the exception of color monitor capability. This upgraded equipment also is available to institutions wishing to access the network for the first time.

Effective July 1, 1985, the monthly surcharges for some options have been reduced. The monthly charges of 256K memory and 512K memory are $5.55 and $20.50, which were lowered from $6.11 and $26.59, respectively.

The Dallas Fed also has announced some changes to the required memory capacity for access to the network. Over the next few months, institutions that lease equipment from us will have that equipment upgraded to 256K if they do not currently have that amount of memory capacity. The $5.55 lease fee for the 256K memory will be charged for this upgrade. Installation of the new memory capacity will be coordinated by the Dallas Fed and each institution will be contacted individually to coordinate installation. Institutions that own their equipment will be required to have at least a 256K memory capacity by Dec. 1, 1985. This requirement is a result of service enhancements that will be implemented over the next year.

These changes have resulted in a new requirement to revise our Bulletin 16 which deals with the RESPONSE network and the equipment configurations necessary to access the network. For a new copy of Bulletin 16 or a copy of our Circular 85-85 dated June 28, 1985, which announced these changes, please contact the Public Affairs Department at (214) 651-6289. For information regarding the RESPONSE network itself, please contact Stan McAnelly at (214) 698-4322.

Automated Clearinghouse, cont.

year over the past six or seven years, according to Ripley. Also, these items are processed economically. Depending on whether it’s a debit or credit, being originated or received, or being processed during the day or night cycle, the Fed charges institutions between 1 cent and 7.8 cents to handle an ACH item.

ACH associations exist to promote the EFT concept and facilitate the exchange of transactions between institutions. They also write the rules that ACH users live by. The Federal Reserve Banks and Branches act as data processing agents for the ACH associations (the Federal Reserve System is under contract with the National Automated ClearingHouse Association—NACHA) and settle payments arising from ACH transactions. While the Fed has, in the past, primarily been responsible for handling ACH transactions, opportunities to design and offer profitable ACH services are being explored by others. The next issue of Roundup takes a look at developments in automation and telecommunications technology, and their impact on the industry.

Over-The-Road Transportation

Effective Aug. 23, 1985, the Federal Reserve Bank of Dallas discontinued its role in arranging for over-the-road cash transportation to and from depository financial institutions in the Eleventh Federal Reserve District. Financial institutions which followed the procedures outlined below should not have had any disruption in service.

This action resulted from a similar decision made in September 1984 and January 1985 when the non-regulated city and suburban zones and the over-the-road transportation routes to New Mexico, serviced by the El Paso office, were discontinued. In addition, recent state legislation allows licensed armored carrier companies greater flexibility to meet the varied needs of depository financial institutions in Texas.

Transportation charges which were incurred through Aug. 23, 1985, will be billed on Sept. 9, 1985, and charged to the designated reserve account on Sept. 16, 1985.

Each depository institution relying on the Federal Reserve cash transportation system should already have sent a letter to its respective Federal Reserve office specifying the armored carrier authorized to receive and deliver Fed coin and currency shipments. The authorization letter should have been signed by an officer of the depository institution whose signature is already on file at its local Federal Reserve office.

Currency and coin delivery dates will continue to be scheduled by the Reserve Bank.

Should you have questions or need assistance in contacting armored carriers, please contact Mary Louise Rosas, (214) 651-6336, at the Dallas office; Robert W. Schultz, (915) 544-4730, at the El Paso office; Luke E. Richards, (713) 659-4433, at the Houston office; and Tony G. Valencia, (512) 224-2141, at the San Antonio office.
"Federal Reserve Chairman Paul Volcker on Wednesday warned of 'strain, imbalance and danger' in the U.S. economy and once again urged Congress to do something about soaring federal budget deficits.

"Volcker's comments came a day after the central bank revealed that it has boosted one of its key money supply targets for the rest of 1985."

Associated Press, July 17, as reported in The Dallas Morning News

"...Expanding the money supply typically stimulates economic growth, as it did when the current recovery began in 1983.

"...Economists welcomed the Fed action. Most agreed with Volcker that there is little danger of renewed inflation and insisted that the Fed's action was necessary to avoid further weakness in the economy."

Los Angeles Times, July 17, as reported in The Dallas Times Herald

"If the Fed had attempted to hit the old (money supply) targets by tightening credit conditions, it would have risked throwing the economy into a recession, according to many economists. The latest action will allow the Fed to drive interest rates down further should the economy fail to gain momentum, some analysts said."

The Wall Street Journal, July 17

"The Fed also forecasts a pickup in economic growth in the second half of the year, but warned that the upturn will be threatened if Congress fails to pass a deficit-reduction measure matching the cuts contained in current proposals."

Investor's Daily, July 17

"Volcker is content to leave the money supply alone. His reasons: agriculture and basic manufacturing can't absorb much more punishment from the high-valued dollar;...the economy is growing on borrowed money;...lack of action on the federal deficit;...a rapid dollar decline would increase interest rates and inflation;...rapid accumulation of debt in the credit system."

USA TODAY, July 17
Regulation Changes

Recent changes made to Federal Reserve Regulations are summarized below:

Regulation G, T, and U (Securities Credit Transactions) were amended to (1) permit persons other than banks, brokers, or dealers to extend credit to trusts for employee stock option plans, effective July 22, 1985, and (2) change the initial requirement for writing of options on equity securities, effective September 30, 1985.

Regulations H and Y (Membership of State Bank Institutions in the Federal Reserve System and Bank Holding Companies and Change in Bank Control, respectively) were amended to reflect the revised capital adequacy guidelines.

For Regulation E (Electronic Fund Transfers) a modification was made to the Official Staff Commentary, rather than to the Regulation itself.

To order copies of the amendments, write the Public Affairs Department, Station K, Dallas, Texas 75222 or call Tony West at (214) 651-6289.

Fed Plans Major Conference

“Energy and the Southwest Economy,” a major conference on the economy of this region and its relationship to the energy sector, will be sponsored by the Federal Reserve Bank of Dallas. It will be held on Thursday and Friday, Oct. 3-4, at the Fairmont Hotel in downtown Dallas.

Leading economists from throughout the country will be on hand to make presentations.

The first day’s agenda will focus on the contribution of the oil and gas industries to the economies of four “Southwestern” states—Texas, Oklahoma, Louisiana and New Mexico. The second day will be devoted to the future of the region and the prospects for diversifying the economic bases of these states.

The Dallas Fed plans to publish the proceedings of the conference. Attendees will receive a copy of the publication free of charge.

Admiral Bobby R. Inman, chairman, president and chief executive officer of the Microelectronics and Computer Technology Corporation, Austin, will be a luncheon speaker. He will discuss the diversification of the Texas economy.

For out-of-towners, a block of hotel rooms has been set aside at the Fairmont. The hotel is offering a special rate of $99 for a single or double. Persons booking a room should be sure to mention the Dallas Fed conference.

At the conclusion of the first day’s program, a wine and cheese reception will be held at the hotel.

The conference registration fee is $125. Checks should be made payable to the Federal Reserve Bank of Dallas and sent to the Public Affairs Department, Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222.

Please enclose your name, title, company name, address and your phone number. Further details can be obtained by calling (214) 698-4403.