1997 Priced Services Fees Announced

The St. Louis Fed has announced its 1997 fee schedules and deposit deadlines for priced services. Many of the prices have changed to encourage progress toward a goal that the Federal Reserve System has been pursuing for some time—the movement of the nation’s payments from paper to electronics.

Price changes that support this goal include:
- a 5 cent reduction—to 45 cents—of the basic fee for originating and receiving Wire Transfers;
- a reduction in the ACH premium surcharge to 0.5 cents from 1.0 cents; and
- a reduction of the ACH addenda fee from 0.4 cents to 0.3 cents.

To encourage electronic check presentment, prices have been adjusted in a number of areas. MICR Presentment fees will be decreased in the St. Louis and Memphis zones, and per item fees for fine sort inclusion will be decreased in Louisville and Memphis. Memphis will also reduce its fee for electronic group sort inclusion.

The Little Rock and Louisville branches have increased their per item fees for the MICR Information service, while keeping the price for MICR Presentment the same. The Memphis Branch has raised the daily minimum fee for its MICR Information service by 50 cents, keeping the per item fee the same.

In addition, the St. Louis office has announced that it

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The improvements are a result of the Federal Reserve System’s centralization of ACH software, Fed ACH, which was completed this past August. The Fed is currently studying additional changes to its ACH service for later in 1997.

ACH Improvements Continue

On Oct. 1, the St. Louis Fed extended its Automated Clearing House (ACH) deposit deadlines and implemented a feature that enables customers to route government and commercial items to two different receiving points at no additional charge.

Beginning Jan. 1, ACH customers will also be able to:
- perform more functions—like file and item trace requests, and file and advice remake requests—online through Fedline;
- sort by item type and settlement date;
- deposit items at a later premium processing deadline; and
- deliver files to separate locations at different frequencies.
Fed Adapts to Shifting Landscape

As innovations in financial products and services pose new challenges for bankers, they likewise pose challenges for bank supervisors. Indeed, the Fed is changing the way it regulates nonbank activities, as evidenced by its proposed revisions to Regulation Y and some federal legislation recently put into effect.

Our proposal to revise Reg Y reorganizes nonbanking activities into functional categories, broadens many activities and eliminates most tying restrictions between bank and nonbank products. The proposal also removes outdated limitations and replaces certain restrictions to ensure prudent business practices with supervisory policy guidelines.

To provide additional flexibility and further reduce regulatory burden, the Fed will no longer review the transactions of well-capitalized and well-managed organizations that begin providing approved nonbanking activities de novo. Such organizations will also be permitted to expand their nonbanking activities through acquisition by filing a notice 12 days before closing the transaction. The new procedures are the result of federal legislation that the Fed helped draft.

Finally, for transactions that require the full 30-day notice, our review will focus on analyzing the effects of the specific proposal. Broader supervisory and compliance issues, formerly part of our applications review, will now be addressed in the normal supervisory cycle.

As we change laws and regulations to make them less burdensome, leaving banks to concentrate on profits and competition, we find that we must also change our approach to supervising institutions. Previously, such activities focused primarily on verifying prudent practices and financial conditions. Today, we place more emphasis on evaluating an organization's process for managing and controlling risk. To accomplish this, our examiners spend more time planning—identifying those areas of an institution that pose the greatest risk. The result, we hope you will agree, is a more customized and relevant review of banking organizations.

Prices Announced
(continued from front page)

will combine the Country and RCPC work types into a single RCPC category, with new, later deadlines. St. Louis has also expanded its two-tier RCPC pricing structure to three tiers. Prices for forward and return checks deposited at Eighth District offices have either remained the same or increased slightly for 1997.

For specific prices, contact your account executive.

Processing Consolidation Update

The St. Louis Fed's price and deadline improvements for 1997 reflect the progress that has been made toward the consolidation of centralized payment applications. Following is a status report on the consolidation efforts, which were first announced in 1991.

• ACH—As of August 1996, all 12 Federal Reserve Banks had converted to a central processing site using the new Fed ACH software.
• Funds Transfer—After the New York Fed converts in early 1997, the System-wide consolidation of funds transfer will be complete.

• Book-Entry—Consolidation of book-entry processing of securities is also under way and will be completed early in 1998 when all Districts have converted to the National Book-Entry System. The Eighth District is scheduled to convert in July of 1997; customers will be asked to begin testing with us in February.
Why We Shouldn’t Settle for Nonbank Settlements

As bankers, you provide your customers with various options for making payments, including checking accounts, and credit, debit and ATM cards. As your customers use these payment options, you incur obligations to pay other banks.

Many interbank payments are settled through third-party agents that provide settlement services for various payment associations. Payments processed through these associations are vulnerable to disruption if certain events, such as technical problems in transmitting information or bankruptcy of a settlement agent, occur.

Suppose such a disruption were to occur, and the payments association involved could not establish settlement arrangements for several days. Would banks in the association continue to honor the payments decisions of their customers, even if they could not settle with other banks in the association?

For instance, would banks in an ATM network continue to permit customers of other banks to withdraw cash from their ATMs if they could not collect from the other banks? There are reasons to believe that they would.

First, all banks have a large investment in the uninterrupted use of payment arrangements by customers. There would be major, and perhaps permanent, damage to the reputation of a particular payments option in the minds of customers if they could not use the option as they have in the past.

If, on the other hand, banks were to continue to honor the payments decisions of their customers, they could face liquidity problems because of their inability to collect from the other banks in their associations. Because they are banks, however, one reliable source of liquidity would be the Federal Reserve discount window.

Now consider an alternative, hypothetical, situation. Suppose nonbank firms are successful in marketing stored-value cards to consumers. Each nonbank firm accepts for deposit the stored value credits of their merchants that were issued by other nonbank firms in their payments association. These nonbank firms then settle among themselves by exchanging the liabilities of another nonbank firm.

Now, suppose the operation of this nonbank settlement agent is disrupted. Would these nonbank firms continue to credit the accounts of their customers who received stored-value credits issued by other nonbank firms?

As new entrants to the payments system, these firms would likely have less to lose—reputation-wise—than banks if they refuse to accept such credits. In addition, because they are not banks, they would not have routine access to the Federal Reserve discount window to help them deal with the liquidity problems that could result from a disruption in the settlement arrangement.

These scenarios illustrate why a policy of limiting the payments business—in all its emerging forms—to banks would, in all likelihood, enhance the safety and soundness of the payments system.

R. Alton Gilbert is a vice president in the Research Division of the Federal Reserve Bank of St. Louis.
Request for public comment on proposed revisions to Regulation Z, Truth in Lending. The proposed revisions provide guidance on the treatment of some fees paid in connection with mortgage loans and tolerances for accuracy in disclosing the finance charge and other costs. Comments due Jan. 6, 1997. (Docket No. R-0942)


Direct all comments to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th St. and Constitution Ave., N.W., Washington, D.C. 20551.

St. Louis Fed Makes Officer Changes

The Federal Reserve Bank of St. Louis has announced the following officer assignments and promotions, which will take effect Feb. 1, 1997.

John P. Baumgartner, Memphis vice president and branch manager, will return to the St. Louis Bank as vice president over Wholesale and Cash Operations, as well as Treasury Relations.

Martha L. Perine, vice president, Personnel and Customer Relations, St. Louis, will become Memphis Branch vice president and branch manager.

Marilyn K. Corona, Little Rock assistant vice president, will be promoted to vice president and return to St. Louis to head Corporate Accounting and Customer Relations.

Michael J. Mueller, assistant vice president, Personnel and Customer Relations, St. Louis, will be promoted to vice president with responsibility for the District’s Personnel function.

Action on Regulation E Stalled

Amendments to Regulation E regarding stored value cards have been postponed until the Federal Reserve Board submits to Congress a study analyzing the impact the regulation will have on the cards. The study, which was required by the 1997 budget appropriations act, is due to Congress by March 30, 1997. The Board must wait three months after the submission—or nine months from the Sept. 30 budget enactment date, whichever is longer—before finalizing stored value card amendments to the Electronic Funds Transfer Act.

EFTPS Deadline Extended

The IRS has given the 1.2 million taxpayers mandated to file and pay their taxes electronically six more months—until July 1, 1997—to begin doing so.

IRS code requires taxpayers who made deposits of more than $50,000 in federal employment taxes for calendar year 1995 to begin making payments using the Electronic Federal Tax Payment System. If you have questions about EFTPS, contact Susan Hackney at (314) 444-8485.

CRA Data Due Soon

The first data collection under the revised CRA regulation is due March 1. The data for 1996 that must be submitted by that date are:

- loans to small businesses and farms;
- aggregate number and amount of community development loans;
- home mortgage loans as required under Regulation C;
- a list for each assessment area showing the geographies within the area;
- affiliate lending if it is being considered; and
- consortium or third-party lending if it is being considered.

Help with the data submission is available through the CRA assistance phone line, (202) 872-7584, or via Internet e-mail at crahelp@frb.gov.

Treasury To Sell Inflation-Indexed Bonds

This January, the Treasury will begin auctioning its new inflation-indexed bonds, which will be pegged to the CPI. The bonds will initially be available only as 10-year notes valued at $1,000 or more. They will have an interest rate that is lower than usual government bonds; however, the principal value of the bonds will increase by the amount of the official inflation rate, and interest will be paid every six months on that principal. Both the interest and the principal increase on the new bonds will be subject to taxes as interest.

Bankers’ Paperwork Load Lightened

The recently enacted Economic Growth and Regulatory Paperwork Reduction Act amends a variety of laws that pertain to bankers. A key provision in the act imposes a one-time special assessment fee on all deposits assessable to the Savings Insurance Fund and requires banks to contribute to interest payment on Financing Corporation bonds. Bankers should consult with their attorneys to determine how the provisions of the new law will affect their institutions.
Fed Briefs Bankers on Range of Treasury Initiatives

To bring bankers up to speed on the range of federal government payment initiatives that have unfolded recently, this past October the Federal Reserve Bank of St. Louis jointly sponsored an educational seminar with the Treasury’s Financial Management Service (FMS) and the Mid-America Payment Exchange. Representatives from each organization gave presentations on the various government initiatives, which are summarized below.

**Mandatory EFT Law**

The Debt Collection Improvement Act signed by President Clinton in April requires all federal government payments, except IRS tax refunds, to be paid electronically via electronic funds transfer (EFT) by Jan. 1, 1999. All businesses and individuals that became eligible for government payments (e.g., federal benefits, vendor payments, etc.) after July 26, 1996, must now receive their payments electronically. Those who had been receiving payments prior to July 26 have until Jan. 1, 1999, to sign up for direct deposit.

**EFTPS**

IRS code requires taxpayers who made deposits of more than $50,000 in federal employment taxes for calendar year 1995 to begin making payments using the Electronic Federal Tax Payment System (EFTPS) by July 1, 1997.

EFTPS is an application that enables corporations to file and pay federal taxes electronically through the ACH network.

**Payment Cycling**

In mid-1997, the Social Security Administration will add three new benefit payment dates for Social Security recipients to help spread out the workload of processing payments, which are estimated to reach 80 million by 2020. In addition to the third of the month, payments will also be distributed on the second, third and fourth Wednesdays. This initiative, called payment cycling, pertains only to recipients who sign up for benefits after cycling takes effect. Payment dates for the current 50 million beneficiaries will not change.

**EBT**

EBT, or electronic benefits transfer, is a way of disbursing state and federal benefits to recipients who do not have accounts with financial institutions. With EBT, recipients access their benefits using a debit card, with settlement occurring electronically through the ACH network. Recipients can use their EBT cards to withdraw benefit-related cash at ATM machines or to purchase food through assistance programs.

**Direct Deposit Too**

Specifically, Direct Deposit Too refers to limited-service, deposit-only accounts (sometimes called lifeline accounts) that can be offered to people who do not currently have bank accounts. FMS is encouraging financial institutions to offer these types of accounts to give both the public and private sectors more opportunities to use direct deposit.

**Vendor Express Program**

The Vendor Express Program enables federal agencies to electronically transfer money through the ACH network to commercial payees, such as vendors, universities and state governments. This program has recently been enhanced with additional electronic data interchange (EDI) capabilities, which expand the amount of addenda information that can accompany each ACH payment. The number of government payments made through the Vendor Express Program is expected to increase even more in the future, due to the newly enacted Debt Collection Improvement Act.

If you have questions about any of the above Treasury initiatives, or when a similar seminar will be held in your area, contact Kathleen Paese, St. Louis Fed operations officer, at (314) 444-8453.
# FedFacts

## New Round of Mutual Funds Seminars

The Federal Reserve Bank of St. Louis will be offering a second series of mutual funds educational seminars for bankers in early 1997. The seminars are part of a nationwide System campaign called, *Mutual Funds: Understand the Risks*, which is primarily intended to highlight the differences between deposit and non-deposit investment products sold at banks.

The seminars will help ensure that bankers comply with the Interagency Statement on Retail Sales of Nondeposit Investment Products, which was originally issued in 1994. Seminar dates, times and locations will be listed in future issues of this publication.

## Median Family Incomes List Available

A listing of median family incomes, which are used to classify the income levels of borrowers for Community Reinvestment Act exams, is now available. The list can help banks determine how many loans they are making to low- to moderate-income borrowers.

If you would like a copy of the list, or have questions about it, contact Judy Armstrong of the St. Louis Fed’s Community Affairs Department at (314) 444-8646. The list can also be accessed through the Bank’s home page, which is at [http://www.stls.frb.org](http://www.stls.frb.org).

## New Community Profiles Released

A profile of the Fayetteville/Springdale/Rogers, Ark., MSA has been released by the St. Louis Fed’s Community Affairs Department. The profile provides information on investment opportunities within the area, as well as general demographic and economic information. A second profile, on the Springfield, Mo., MSA, will be available by year-end.

To receive a copy of the Fayetteville profile, call Judy Armstrong at (314) 444-8646, or access it on the St. Louis Fed’s home page, which is at [http://www.stls.frb.org](http://www.stls.frb.org).