FEDERAL RESERVE BEGINS CONVERSION TO NEW ACH SYSTEM

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ST. LOUIS -- The Federal Reserve began converting this week to a new automated

clearing house (ACH) processing system. This new system will provide both originators

and receivers of ACH payments greater flexibility, new cash management services and

improved system recovery capabilities.

On October 20, all ACH payments originated for processing by the Minneapolis Federal

Reserve Bank were processed on the new system located in East Rutherford, N.J. This

conversion triggers the cutover of the other 11 Federal Reserve Banks to the centralized

system over the next 11 months.

"Reengineering the way ACH items are processed by the Fed has been one of the most

complex projects we've ever undertaken," said Paul Connolly, Product Director of Retail

Payments for the Federal Reserve and First Vice President of the Federal Reserve Bank

of Boston. "The testing of the new system was very intensive and time consuming, but

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ACH/2

we wanted to make sure our customers had no service interruptions. Our new ACH system provides noticeable improvements that we hope will reach the individual users of ACH payments."

The new features that will be available after all districts are converted include:

▶ continuous processing—originators can deposit ACH files according to their own schedules and ACH files/items will be available to receiving institutions no more than four hours later;

▶ customized delivery—banks can choose how they want their items sorted before transmission;

▶ "on-demand" delivery of ACH items—receiving banks can request a delivery of pending items at any time throughout the day; and

▶ special on-line services—banks can request various information, such as processing status of an originated ACH file, disposition of an individual ACH item, etc., to improve their own customer service.

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ACH/3

"The software running in our centralized facility is developed totally from the customer's perspective. We conducted several market research projects to identify desired changes in the way the Fed processes ACH items," Connolly said. "The new capabilities give banks the ability to offer better service to their customers, from both an efficiency and a cash management perspective.

"We want to urge both originating and receiving banks to explore and utilize these enhancements to improve their own operations and customer service."

The Federal Reserve expects the move to centralized processing to lower its processing costs, as well as present a uniform ACH service nationwide.

"Healthy volume growth in this service along with a reduction in data processing sites and resources will allow us to lower the prices we charge banks to process ACH items," said Connolly. "How low we are able to take these prices remains to be seen, but we're hoping for significant reductions to help accelerate the movement from paper to electronic payments. A better ACH is one way to facilitate that movement."

Processing ACH items out of one location also simplifies the handling of ACH payments by banks located in multiple Federal Reserve districts.

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ACH/4

"Federal Reserve boundaries become a benefit versus an obstacle in the future," Connolly says. "Interstate banking organizations can originate from any point and have ACH items delivered to any point within their organization regardless of whether these points are in different districts," says Connolly. "The ACH system becomes a truly national service but customer service will still be provided by the local Fed office. This gives the customer the best of both worlds."

The ACH system in East Rutherford, N.J. is backed up by a redundant system in Dallas, Texas. In the event of an outage at the primary site, processing will resume at the back-up site within 4-6 hours.

"This new generation of processing is also more reliable," says Connolly. "We've built in full redundancy at both the primary site and the back-up site to minimize the effects of any computer problems or natural disasters."

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