



NEWS RELEASE

The Federal Reserve Bank of St. Louis
St. Louis Little Rock Louisville Memphis

FEDERAL RESERVE BANKS ANNOUNCE
1996 PRICES AND PRODUCTS FOR
RETAIL PAYMENTS SERVICES

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ST. LOUIS—The 1996 fee schedules and product offerings announced today by the Federal Reserve move the Reserve Banks closer to achieving financial services goals set earlier this year.

When the Federal Reserve formed the Financial Services Policy and Management Committees and realigned Product Offices in early 1995, officials said their priorities included developing service improvements that encourage electronic payments, fostering the electronic presentment of checks, and responding to changing payment and account management needs in light of interstate banking and branching.

The Fed's 1996 ACH and check processing fee schedules and product offerings directly reflect these strategic objectives, according to Paul Connolly, first vice president of the

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Federal Reserve Bank of Boston and product director for the System's Retail Payments Services.

"Next year's prices, products and operational changes are aimed at encouraging widespread use of electronic payments and promoting a more electronic check collection system," Connolly said. "The transition to a new ACH system will allow us to introduce new ACH services with more attractive prices nationwide. At the same time, we will introduce a set of national check services that will be offered by all Federal Reserve districts."

Automated Clearing House (ACH)

The Federal Reserve's 1996 fees for ACH services "should provide a greater incentive for institutions to use ACH payments," according to Connolly.

Effective Jan. 1, 1996, the transaction fees for interdistrict ACH items—those that are processed by two different Reserve Banks—and presort items—those that are sorted by the originator according to district destination—will be reduced from 1.4¢ to 1.2¢ and 1.2¢ to 1¢, respectively. This represents a 14 percent reduction in the interdistrict processing fee and a 17 percent reduction in the charge for presorted items.

The Federal Reserve plans to review its prices and services further in the fourth quarter of 1996 upon completion of all districts' move to the centralized Fed ACH system.

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“Centralized ACH processing will allow us to simplify our price structure and bring new services to the market faster,” Connolly said. “For example, we are looking at new, lower cost options for those originators that have the capability to sort items before transmission to the Fed.” Migration to the centralized ACH system began this month and will be completed during 1996.

Connolly also explained that selected ACH fees for non-automated services will be increased. In addition, the monthly account servicing fee will increase by \$5.

In early 1996, the Federal Reserve will conduct extensive market research to assess how the ACH should evolve. “This market research has multiple objectives,” Connolly said. “First, it is designed to help us understand the dynamic retail payments environment and the role that ACH is likely to fill in the future. Second, by soliciting the views of the largest ACH users, the research will help us identify enhancements and incentives to maximize its use.”

Check Processing

Reserve Bank check prices and product offerings for 1996 are aimed at encouraging the migration to electronic processing of checks, recognizing the national aspect of check services, and meeting the Federal Reserve’s objective of achieving a 100 percent cost recovery for check processing.

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“Prices for some check services in 1996 will increase,” Connolly said, “but to a large extent, the increases can be offset by using new lower cost group sort services.”

Fees that will increase include fixed fees (such as cash letter, fine-sort package fees) and return item fees. Most prices for existing payor bank services are unchanged and forward collection per-item fees will be close to last year’s levels with slight increases in some districts and decreases in others.

To promote electronic check services, all Federal Reserve Banks plan to offer Electronic Cash Letter (ECL) products by the end of 1996. With ECL, the depositor provides an electronic file along with the paper items. Several Federal Reserve Banks will offer ECL products in early 1996, and the remaining Reserve Banks will introduce ECL services later in the year. ECL deposits will be priced lower than regular deposits. In addition, the use of ECL to deposit items collectable at other Federal Reserve offices will result in lower fees.

Connolly said the launch of these ECL products will represent a significant step forward for making the check collection process more efficient. “These services will enable depository institutions in all districts to take advantage of ECL and Electronic Check Presentment (ECP) services. We believe over time that use of these services will greatly improve the U.S. check collection system,” he said.

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“Several Reserve Banks also have introduced check imaging, and all offer truncation services,” Connolly said. “We expect demand for commercial check image services to grow in 1996, and we believe imaging will be an important interim step toward even greater use of ECP.” The Federal Reserve is the largest provider of ECP services.

National Core Check Services

The Federal Reserve will implement a National Core Check Services program in January of 1996. The program will establish a set of common services that will be available in all districts, including deposit services, cash management information services, ECP services and adjustment services.

“The National Core Check Services program will not limit the range of check services that a Reserve Bank may offer,” according to Connolly, “but it will create more uniformity from district to district that will be attractive to any institution that deals with more than one Federal Reserve Bank, which is an increasing trend. Our intention is to be responsive to the needs of all our customers, including the interstate institutions, the smaller community banks and those in between.”

Details of the National Core Check Services program, as well as fee schedules for other services, will be described in mailings to customers by each of the Federal Reserve Banks in the next few weeks.
