



Payments Quarterly

Winter 1996

News and Views
on
Eighth District
Financial Services

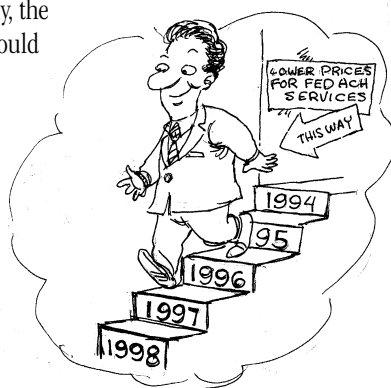
New Prices Reflect Trend Toward Electronics

As your financial institution positions itself for the 21st century, the Federal Reserve Bank of St. Louis is seeking to make the process more manageable and affordable for you.

The 1997 prices for the Fed's services reflect decreased costs in the areas of Fedwire and Automated Clearing House (ACH) payments. And while some of the fees for paper-based

services increased slightly, the lower automated fees should provide relief to those of you converting to electronic systems.

"Our strategic direction at the Fed is to use our operational presence and joint efforts with the banking industry to accelerate the transition



from a paper-based system to an electronic retail payments system," said Hank Bourgaux, senior vice president of Operations. "We have been reducing our electronic fees for the past several years.

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Are You Ready for EFT 99?

You probably have been hearing a lot recently about the mandatory EFT law (known as EFT 99) signed by President Clinton last April requiring most federal government payments to be disbursed electronically by 1999. As a result, many benefit recipients, vendors and government employees will be looking to you for assistance in helping them convert their payments to electronics.

EFT 99 provides you with an excellent opportunity to increase ACH volume, expand your service offerings and attract new customers. Here is what you can do now to help get

your customers ready for electronic government payments.

Promote direct deposit:

Direct deposit is the primary electronic payment method for federal government beneficiaries. However, many consumers don't know how direct deposit works and are skeptical of electronic payments. Various state-ment stuffers, lobby posters, brochures and other marketing materials are available from the Social Security Administration, your local ACH Association or the National Automated Clearing House Association.

Offer minimum-service

accounts: To service consumers who don't have a tradi-

tional "bank" account, many financial institutions offer limited-service, or lifeline, accounts. These are often easy-to-use, electronic access only, low-fee accounts that primarily offer customers a place to keep funds and withdraw money at the point-of-sale or ATMs. Making these accounts available will enable more check recipients to experience the safety and convenience of both a "bank" account and direct deposit.

Become EDI-capable:

Electronic data interchange (EDI), the electronic transmission of information related to payments, invoices and other

business functions, is playing an increasingly important role in companies' payment practices. As a supplier of financial services to the business community, you will probably be asked by more of your corporate customers to originate and receive EDI payments. Having the ability to meet these needs will give you an advantage over your competitors.

If you have any questions about how to prepare for EFT 99 or would like more information on direct deposit marketing materials, contact Andy Lueckenhoff in St. Louis at (314) 444-8647.

Reduce Returns with the Composite Receiver File

To keep track of all financial institutions across the country that are eligible to receive commercial ACH entries, the Federal Reserve Bank of St. Louis maintains a national ACH Composite Receiver File (CRF) and distributes copies to requesting financial institutions. With this information, you as an originator can avoid sending ACH items to non-participating financial institu-

tions and reduce the number of return entries you receive.

You can obtain a copy of the CRF and have this data readily available. The Fed offers you the option of receiving a complete CRF either once a month or once a year with monthly updates. The fees for these alternatives, along with the format in which you can receive the CRF, are listed below.

MONTHLY UPDATE

	<i>First Copy</i>	<i>Additional Copies</i>
Microfiche	No Charge	\$5.00
Magnetic Tape	No Charge	\$7.00
Paper	No Charge	\$9.00

ANNUAL COMPLETE FILE

	<i>Annual First Copy</i>	<i>Additional Copies</i>
Microfiche	No Charge	\$ 8.00
Magnetic Tape	No Charge	\$15.00
Paper	\$44.00	\$44.00

To sign up to receive the CRF or to change how you currently acquire the file, contact Langston Scott in St. Louis at (314) 444-8461.

Check Services Streamlined

Expect a simplified work flow process in check services starting in 1997 resulting from the Fed's decision to combine the RCPC and Country work types into a single RCPC category. By merging these two categories, the St. Louis Fed will be more in line with most of the other Reserve Banks in the System.

"This will allow financial institutions in our District to do less sorting before sending their cash letters to us," said Bill Leslie, vice president of Retail Operations at the St. Louis Fed. "In addition, our customers now have an additional half hour to deposit certain items with us."

In addition to a later deposit deadline and less sorting requirements, you will have one less cash letter fee.

Under the new structure, the unsorted RCPC regular product will switch from a two-tier pricing structure to a three-tier structure, priced at \$0.015 (Tier 1), \$0.024 (Tier 2) and \$0.031 (Tier 3).

The new changes are fully outlined in the Fed's 1997 price books.

New Price Trends

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"Two of our main objectives are to encourage both small and large originators to increase their use of ACH, and also to foster more efficient ACH processing."

Among the fees being reduced or eliminated in 1997:

- The basic fee for originating and receiving wire transfers will decrease 5 cents to 45 cents.
- The ACH premium surcharge will be reduced from 1.0 cent to 0.5 cent.

•The ACH addenda fee will be reduced from 0.4 cent to 0.3 cent, thereby promoting the use of the ACH for financial EDI.

•The ACH Discrete/Commingled file receipt fee will be eliminated.

The Fed is considering additional changes for later in 1997. To receive more information on all of the Fed's 1997 prices or to request additional price books, contact your account executive.

Fed ACH to Offer Flexibility, Simplicity in 1997

In January, you will have more to celebrate than just the start of a new year. Many new features of Fed ACH, the centralized ACH software for the Federal Reserve System, will be available on Jan. 1, so you can start enjoying the full benefits of the new system.

like" processing in which files are processed continuously. Incoming files are edited upon receipt and made available to receiving points within a maximum of three hours of deposit time. In addition, the premium processing deadline has been extended. (See shaded box for the deposit schedule.)

Expanded Routing

Options: Various transaction types can be routed to different receiving points. For example, you can send ACH items to your correspondent but keep returns, rejects and NOCs at your institution.

Improved Reports:

ACH advices and balance reports can be routed to a location other than where the ACH file was originated or received.

New On-line Capabilities

Using your Fedline terminal, you will be able to request:

Customer

Information: You can obtain helpful information on ACH customers throughout the country, such as their customer phone number and the name of their servicing

Federal Reserve Bank. For you and your respondents, you can request information about processing arrangements or review a profile.

File and Item Traces:

You can request information on the status of files or items already sent or received.

File and Advice Remakes:

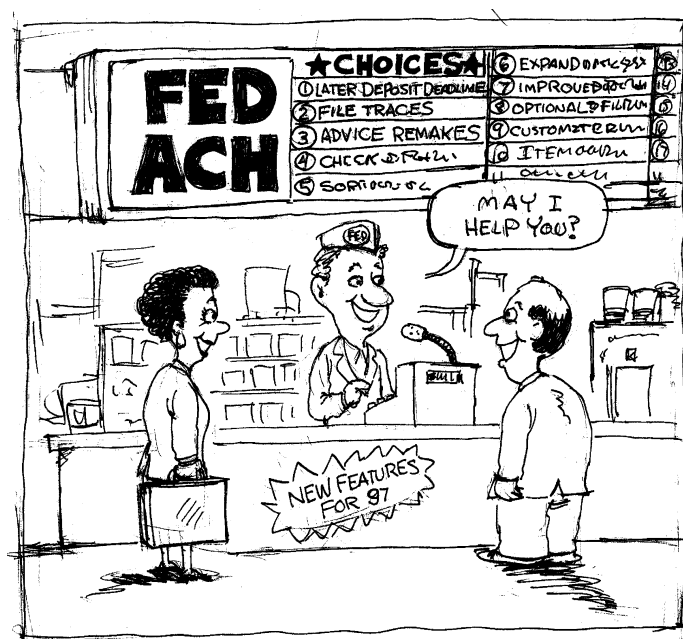
A file or missing ACH advice can be resent to you.

Information on ACH

Participants: You can access a nationwide directory of commercial ACH participants.

These features save you time, simplify your ACH operations, and offer more flexibility than the Fed's former ACH system. In addition, several 1997 price changes will make ACH even more affordable (see article on front page). If you don't currently offer ACH services to your customers, now is a good time to consider expanding your service portfolio to include ACH.

For more specific details on the new features, refer to the *Fed ACH Customer User Guide*. To receive a copy of this publication, call Cheryl McCarthy in St. Louis at (314) 444-8459. If you are interested in originating ACH services, contact Andy Lueckenhoff in St. Louis at (314) 444-8647.



You saw a sneak preview of some of these features when the Eighth District converted to Fed ACH last February, and again in October when all Districts converted. What you have to look forward to in 1997 is summarized below.

Expanded Processing Options

Fed ACH's expanded processing options will enable you to enjoy:

Later Deposit Deadlines:

Unlike the previous ACH environment that had four deposit exchanges with specific deadlines, Fed ACH offers "flow-

Improved File Sorting

Capabilities: Files can be sorted by item type or settlement date. For example, you can receive all immediate and one-day items in one file, and all two-day items in another. There are a total of 14 file sorting options from which to choose.

Optional File Delivery

Frequencies and Locations:

You can receive files at several different frequencies throughout the day (one, two or four times a day, or "on-demand") and have various file types delivered to separate locations within your institution.

Fed ACH Deposit Schedule

Deadline	Time
Immediate Settlement	2:00 p.m. EST
Premium Processing	8:00 p.m. EST
Close of Business	3:00 a.m. EST

ReserveNotes

ENR Simplifies Direct Deposit Enrollment

If you are still mailing a form or picking up the phone to sign up customers for the direct deposit of federal benefits, remember there is an easier way. In September, the Federal Reserve Bank of St. Louis sent Fedline customers software with a new Standard Entry Class code called Automated Enrollment (ENR). ENR enables you to use Fedline to send direct deposit enrollment information to many of those federal agencies providing electronic benefits for your customers.

To use ENR, simply select the ACH option from Fedline's main menu and choose "03 Create an Active Batch," select "AHENRSTD Enter an Automated Enrollment Batch" and then follow the instructions (a detailed helpsheet is available on the Fed's Internet page). If a third-party processor or correspondent provides your ACH services, they can probably send ENR entries for you.

For more information, consult the *Quick\$tart* kit and desktop guide. To receive a copy of these publications, contact Cheryl McCarthy in St. Louis at (314) 444-8459. If you are interested in getting started on Fedline, call Langston Scott in St. Louis at (314) 444-8461.

SSA Routing Number Error

We recently learned that NACHA's 1996 ACH Rules Book provides an incorrect routing number for signing up customers to receive Social Security benefits electronically. Because the invalid routing number causes items to reject, you may not have been able to successfully enroll Social Security recipients in direct deposit using Fedline's new automated enrollment feature—ENR.

Please use the correct routing number "655060042" instead of the one listed on page OG 87 of the 1996 ACH Rules Book. The correct information is also provided in the *Quick\$tart* brochure. If you have any questions, contact Andy Lueckenhoff in St. Louis at (314) 444-8647.

Learn About Image-Enhanced Cash Management

If you want to clean up in the marketplace and help your corporate customers clean up their desks, the Federal Reserve Bank of St. Louis invites you to give image-enhanced corporate cash management a try. The Fed recently mailed all Eighth District customers a brochure detailing the benefits this service can provide for you and your customers, including more storage space and an easier item-retrieval process.

If you wish to receive a copy of this brochure or would like additional information on image-enhanced corporate cash management, call Frank Blacharczyk in St. Louis at (314) 444-8960.

IRS Extends EFTPS Deadline

An estimated 1.2 million businesses mandated to begin paying their taxes electronically by Jan. 1, 1997, through the Electronic Federal Tax Payment System (EFTPS) now have six extra months to prepare. The IRS has announced these companies have until July before they will be penalized for not using EFTPS. Companies mandated in January are those that paid more than \$50,000 in federal employment taxes in 1995.

This extension gives businesses more time to learn about EFTPS and to establish procedures for using the system. However, because EFTPS benefits both taxpayers and the government, the IRS encourages all companies to enroll as soon as possible, even if they are not required to do so. For more information, contact Nancy Klages in St. Louis at (314) 444-8707.

Fedwire Contingency Procedures Available

Would you be prepared if Fedwire, the Fed's funds transfer system, unexpectedly went

down? To help you handle such an incident, earlier this year all Eighth District financial institutions received *Fedwire Funds Transfer Reconciliation Procedures*, step-by-step instructions that walk you through a contingency situation. This information is invaluable in a Fedwire crisis, so please make sure a copy is available for your staff. If you would like a copy of the procedures, contact Kimberly Waterford in St. Louis at (314) 444-8952.

Quality Measure Correction

In last issue's "How Are We Doing?" section, inaccurate ACH availability times were printed. The correct quality measure goal should read: "All ACH items will be available to receivers by 4 *p.m.* EST for the day cycle and 6 *a.m.* EST for the night cycle 99.9 percent of the time." We apologize for any confusion this may have caused.

BranchingOut

MICR Presentment: The Price Is Right in Louisville

Are you a Louisville customer who thought about signing up for MICR Presentment but abandoned the idea because of its price? If so, you may want to re-evaluate your decision. The Louisville Branch is expanding its check products and lowering some fees to make MICR Presentment a more affordable service for its customers.

If you subscribe to MICR Presentment, you will receive an electronic file every business day that contains the MICR information from all checks drawn on your financial institution. Specifically, the Fed will capture the data from the check MICR line and electronically send it to you or your off-site data processor via Fedline or a computer interface connection. The physical items will also be delivered on the same day.

To encourage more financial institutions to take advantage of this service, Louisville is implementing several changes in their check products. Earlier this year, Louisville increased the number of group sorts offered by introducing Payor Bank Group Sort and expanding their RCPC group sorts.

By making a larger selection of group sorts available, Louisville is hoping depositors will increase their use of this sorting option. This would be less costly for depository financial institutions and, in turn,

How Are We Doing?

An update of the Eighth District's quality measure goals

Measure: Timely MICR File Problem Resolution at the Louisville Branch

Our Goal: MICR file-related problems are resolved within two hours of the error being reported 100 percent of the time.

Current Performance: 100 percent

make MICR Presentment less expensive for payors (they wouldn't have to pay the surcharge for fine sort items).

Increased use of group sorts can render significant savings for MICR Presentment customers. For example, if you receive an average of 2,000 items in your daily cash letter, half of which are fine sorted, MICR Presentment would cost approximately \$2,750 a year. However, if these fine sort items were converted to group sorts, you would pay only \$1,000 a year. *This is a 64 percent savings!*

Increased use of group sorts can render significant savings for MICR Presentment customers.

Louisville is also making several price changes in 1997 to make MICR Presentment more affordable. Specifically, the Payor Processed Fine Sort and SDS Inclusion fees will

both be reduced from \$.007 to \$.006. (Consult your Federal Reserve price schedule for a complete listing of check fees.)

These new products and pricing strategies make group sorts a more attractive option for depositors, and many Louisville customers are converting their fine sorted check volume into group sorts. This reduces the charges MICR Presentment customers pay for fine sort items and, therefore, significantly lowers the cost of the service.

Other Eighth District offices are also changing their pricing in 1997 to make MICR Presentment more affordable. So if you've thought about signing up for MICR Presentment in the past but haven't done anything about it, now is a smart time to take advantage of the service and enjoy the savings. For more information or to receive a detailed cost analysis, contact your account executive.

Memphis Offers Symposiums on Banking Issues

To help financial institutions stay current on emerging technologies, changing regulations and other banking issues, the Memphis Branch is offering a series of symposiums. Each symposium includes in-depth coverage of a specific topic and gives you the opportunity to interact with keynote speakers, vendors and members of the local banking community.

A successful check imaging symposium kicked off the series Oct. 9. Nearly 60 bankers from 30 financial institutions attended, along with various software vendors and guest speakers from consulting firms and institutions already using

imaging. Future symposium topics for 1997 may include electronic check, routing number policies, bank mergers and acquisitions, and more imaging technology.

The Fed is hoping these symposiums will help you remain abreast of hot topics in the industry and provide solutions to problems you are encountering. These symposiums also will help the Fed keep in touch with your needs and concerns.

We will have more information on upcoming symposiums in the next issue of *Payments Quarterly*. If you have a particular topic you want addressed, call Susan Bivens in Memphis at (901) 579-2405.

It's On Us



If you have questions or comments about any of the Federal Reserve's products or services, let us pay for the call. Our toll-free phone numbers are listed below.

St. Louis Office

1-800-333-0810

Little Rock Office

(in Arkansas)

1-800-482-9463

(outside Arkansas)

1-800-332-0813

Louisville Office

(in Kentucky)

1-800-292-3596

(outside Kentucky)

1-800-626-4507

Memphis Office

(in Tennessee)

1-800-552-5132

(outside Tennessee)

1-800-238-5293



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