



# Payments Quarterly

Spring 1997

News and Views  
on

Eighth District  
Financial Services

## Fed Announces Another ACH Price Reduction

On May 1, the Fed will lower some ACH fees by implementing a new volume-based pricing approach for ACH origination files. Under the new structure, file and item fees will automatically be assigned based on the number of items in the file:

- **Files containing 2,500 or fewer items:** \$.009 per-item fee; \$1.75 file fee.
- **Files containing more than 2,500**

**items:** \$.007 per-item fee; \$6.75 file fee.

In addition, the fee for ACH receipt items will be reduced to \$.009 per item, a 10 percent decrease in the current price. These changes represent the third price reduction of our ACH services in the past five months.

We predict all ACH originators will see a drop in their per-item fees—10 percent for lower-volume customers and as much as 30 percent for higher-volume

originators. This decrease is even greater when compared to all price reductions since the Reserve Banks began their conversion in 1995 to Fed ACH, the new centralized ACH processing system. Many originators paying \$.014 per item prior to 1995 soon will pay just \$.007—a 50 percent decrease.

Enhanced processing capabilities resulting from Fed ACH have enabled us to lower our prices and pass these savings

along to financial institutions and their ACH service providers. These reductions are part of the Fed's continuing effort to increase the use of electronic payments and, therefore, improve the efficiency of the payments system.

If you have any questions on the new fees, contact Cheryl Whitworth in St. Louis at (314) 444-8713.

## Fed and MPX Partner to Promote Electronic Payments

The push toward electronics continues. In April, the St. Louis Fed announced plans to join with the Kansas City and Chicago Reserve Banks and the Mid-America Payment Exchange (MPX) to promote electronic payments. These organizations will work to encourage greater use of the Automated Clearing House (ACH) for direct payment and direct deposit transactions among financial institutions, companies, nonprofit organizations and consumers.

This alliance, known as the Automated Payments Partnership, is a multiyear effort that will utilize various communi-

cation channels to increase the awareness and use of electronic payments. Your institution will be encouraged to participate in Partnership activities, both to increase electronic



payment usage at your organization and to help convey the benefits to your corporate and retail customers.

The Partnership's territory will cover nine states—Arkansas, southern Illinois, Indiana, southwestern Iowa, Kansas, Kentucky, Missouri, Nebraska and Oklahoma. In this area,

our goal is to see at least 100 companies and 50 nonprofit organizations begin offering electronic payments. In addition, we will work to encourage 200 companies now offering direct deposit to market it to their employees and customers.

Later this spring, look for ways you can partner with us to help increase use of the ACH and to market electronic payments to your customers.

# Fed Adjusts Account Structure to Accommodate Interstate Branching

To accommodate the needs of financial institutions participating in interstate branching, the Fed is implementing a new account structure. Effective Jan. 1, 1998, each chartered institution will be able to consolidate all of its activity with the Fed into one account at a designated Reserve Bank.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, which made it legal for financial institutions to open branches in states beyond their charter location, has significantly increased interstate branching activity. The enhanced account structure was developed using input from financial institutions across the country that expressed a preference for managing their reserve/clearing accounts with the Fed on a consolidated basis.

Under the Fed's new account structure, separately chartered financial institutions will be provided with a single account, called a master account, from

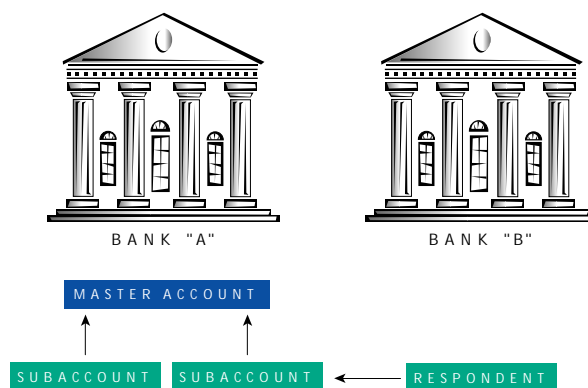
which all debit and credit transactions, reserve administration and risk management activities will be conducted. The master account typically will be established in the Reserve District where the financial institution's charter is located.

Financial institutions also

which will be identified by a nine-digit ABA routing transit number (RTN), will contain totals of debit and credit activity but won't reflect balances. In other words, all transactions initiated using a subaccount RTN will flow through the subaccount but settle in your

ing? Nothing—if you already have a single Federal Reserve account and don't want subaccounts. If you have multiple accounts and operate under a single charter, you will need to move to one master account, either by closing your remaining accounts or converting them to subaccounts.

The Fed is offering a series of training seminars on interstate branching this spring. Although less than 2 percent of financial institutions nationwide may be affected by this initiative, we want to give everyone the opportunity to learn about the new account structure. To register for the seminars or to obtain more information on interstate branching, contact Jeff Dale in St. Louis at (314) 444-8400.



have the option of setting up subaccounts to segregate transaction information according to certain criteria, such as geographic region or transaction type (e.g., ACH, check activity, Fedwire, etc.). Subaccounts,

master account, just like a respondent/correspondent relationship. Subaccounts can also have respondents that settle through the subaccount.

So, what do you need to do to prepare for interstate branch-

## New Book-Entry System to Offer Flexibility

On July 19, the St. Louis Fed will become the eighth district in the Federal Reserve System to implement the new centralized book-entry securities application called the National Book-Entry System (NBES). This system, which incorporates the best features of our current SHARE application, was designed to standardize services to depository institutions and to facilitate centralized computer processing at a single site. It will

provide you with the following features and benefits:

- A highly flexible and modular design that allows new requirements (such as expanded hours for repositioning securities accounts) to be incorporated with unprecedented ease and speed;
- The ability to initiate wire transfers for secondary market transfers between depository institutions, as well as intra-

bank transfers (currently known as account transfers);

- A more flexible account structure that enables you to open additional accounts to support specific business needs;
- The ability to initiate transactions to and from your collateral accounts from an on-line terminal;
- Improved contingency and disaster recovery capabilities,

ensuring unparalleled system availability;

- A simplified end-of-day reconciliation process; and
- System support for processing after the close of the reversal period, enabling you to reposition your securities holdings within your accounts.

For more information, call Marjorie Thedford in St. Louis at (314) 444-8983.

# Windows 95 Coming to Fedline

**E**fforts currently are underway to develop a new Fedline product that will be able to run under the Microsoft Windows 95 and Windows NT operating systems.

The Windows platform will eventually replace the current DOS-based Fedline software, which we will continue to support during the transition. Because we have to convert 15 Fedline business applications, Fedline for Windows will be rolled out in two stages. The most commonly used applications will become available in 1998. The remaining ones will be introduced in 1999.

The Fed is hoping to capitalize on advances in technology that have evolved since Fedline was designed 10 years ago. Following are some of the new features you will be able to enjoy in the new Windows environment:

**Multitasking capabilities:** You will be able to do more than one thing at a time, such as enter an outgoing wire transfer while receiving your ACH file.

**Quicker navigation through Fedline applications:** Navigation through Fedline will be quicker and easier with the new graphical user interface, which will have the look and feel of other Windows applications.

**Improved operating flexibility:** More options will be available for organizing and controlling data. For example, you will be able to access commonly used reports just by clicking your mouse.

**Integration with other programs:** You will be able to maneuver between Fedline and other programs without having to reboot your PC.

We plan to provide comprehensive training before the Fedline for Windows software is distributed. The new software will require a more powerful PC configuration than the current DOS version, so you may want to review your PC configuration. In the interim, for specific hardware configurations, consult the Winter '96-'97 issue of *FedLine* or call Gary Auer in St. Louis at (314) 444-8948.

## Automated Statement Receipt Option Soon Available for Non-Electronic Customers

For customers who don't have Fedline or a Computer Interface with the Federal Reserve, there soon will be a new way to receive accounting statements electronically. In May, we will roll out Fed-MAIL, an automated system that uses fax technology to deliver information to financial institutions.

To use Fed-MAIL, you simply complete an application form and provide the Fed with your fax number. This data is then entered into the Fed-MAIL database, and your accounting statements are delivered automatically by 9 a.m. CST.

Fed-MAIL utilizes existing technology, so you don't have to purchase new equipment or train staff. You also can enjoy more timely delivery of your statements when you receive them electronically instead of by mail.

Next year we plan to expand the service to include billing statements for low-volume customers. For more information or to obtain a Fed-MAIL application form, contact Karen Elliott in St. Louis at (314) 444-8313.

### How Are We Doing?

*An update of the Eighth District's quality measure goals*

Measure: Timely Dispatch of Billing Statements

Our Goal: All billing statements are dispatched by the sixth business day of each month 100 percent of the time.

Current Performance: 100 percent

# ReserveNotes

## New Payment Cycling Date

The Social Security Administration (SSA) has targeted June 1997 to begin implementing Payment Cycling. Depending on their birthdates, individuals who apply for Social Security benefits after April 30, 1997, will be required to receive their benefits on either the second, third or fourth Wednesday of the month.

The first cycled payments will be delivered on June 11, 18 and 25. Payment dates for *current* Social Security and Supplemental Security Income beneficiaries will not change, so these customers do not need to be informed about Payment Cycling. SSA will explain Payment Cycling to newly entitled beneficiaries when they apply for benefits.

SSA plans to use the PPD+ format for cycled payments, so we encourage you to be prepared to receive PPD+ addenda records and forward the information to benefit recipients. A revised Payment Cycling informational folder sent out in March discusses this information in greater detail. To receive a copy of this folder, contact Margo Gundlach in St. Louis at (314) 444-8464.

## NACHA Amends Operating Rules

NACHA implemented two amendments to the 1997 Operating Rules that became effective March 21. First, an ACH originator is now allowed to initiate a reclamation entry

for an amount less than the original benefit payment to which the reclamation relates. Second, the prenotification waiting period has been changed from 10 calendar days to six banking days.

Both amendments may require modifications to your software, so we recommend consulting the 1997 NACHA Operating Rules for details on the changes and how they will affect your institution's operation and service. Look for news on additional amendments going into effect this September in the next issue of *Payments Quarterly*.

## Fed Prepares Quality Measures Report

Later this spring, we will distribute a report that provides a summary of the Eighth District's 1996 quality measure goals established in the ACH, book-entry securities, cash, check, Treasury services and wire transfer departments, along with a description of how each area performed in accordance with its goals. These measures reflect the fundamental activities of our financial services, and they help us identify our strengths and areas that need improvement. The publication also will describe several new ACH measures that will be tracked in 1997.

## Track Tax Payments on Fedline

With the implementation of the Electronic Federal Tax Payment System (EFTPS),

managing your daily tax activity can be a challenge. In addition to traditional Treasury Tax and Loan (TT&L) operations, you may be asked to make EFTPS payments for your customers through Fedwire or the Automated Clearing House. To help you keep track of this information, the *TT&L Host Account Activity Report* is available through Fedline. This report can provide you with a complete summary of your daily tax payment activity.

To access this report, simply select "Create a Message" under the Fedline TT&L menu, and then choose the "TTACTREQ Host Account Activity Report" option. If you have questions on this report, please contact Mary Sanders in St. Louis at (314) 444-8509.

## NOC Return Codes in NACHA Rule Book

We recently have received many questions from customers asking why they received an ACH notification of change (NOC) item. To help you identify the various reasons for receiving NOCs, the 1997 NACHA Rule Book contains a complete list of all NOC return reason codes on pages OR 83 – OR 85. This reference includes a detailed description of each code, which is displayed in the bottom right-hand corner of your entry register.

If you have questions on any of these codes, contact Cheryl Whitworth in St. Louis

## Calendar

### Expanded Funds Format Testing Dates for Send Phase

July 12 and 26  
Aug. 2 and 23  
Sept. 13 and 27  
Oct. 18 and 25  
Nov. 1, 8 and 15  
Dec. 6 and 13

These tests will benefit institutions that have back-end processing; that is, other software involved in their outgoing wire transfer process. For more information or to schedule test dates, please call Dwana Davis in St. Louis at (314) 444-8973.

### New Book-Entry Securities Transfer Training

April 30—Memphis  
May 6-8—St. Louis

For more information or to register, please call 1-800-333-0861 and press **1** for a Customer Account & Access Support representative.

at (314) 444-8713. To obtain a copy of the 1997 NACHA Rule Book, call your local ACH Association.

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# Branching Out

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## Memphis Financial Institutions Saving Time with Check Image

Since the Memphis Branch introduced check image services last summer, several financial institutions have taken advantage of the many benefits. Below, representatives from two of these institutions discuss how image has helped them save time and space, while increasing customer satisfaction.

Memphis offers both Total Image Capture and Select Image Capture. If you are interested in more information about these check image services, call Susan Bivens at (901) 579-2405.

### City of Memphis Credit Union

With a seven-year backlog of checks taking up so much storage space, City of Memphis Credit Union President Jerry Broxterman began looking for ways to create more room. The answer came last July when City of Memphis went live with the Fed's image service.

"We have been very pleased with the service," Broxterman said. "Imaging gradually will allow us to reduce our backlog of checks."

Each week, the Fed sends images of about 30,000 checks on two disks to City of Memphis Credit Union. Because the credit union truncates its customers' checks, the image service is employed mainly for research purposes, such as when a member requests a copy of a check. Coordinator Sheila Hebert said this has

brought great relief to the person responsible for retrieving these checks.

"With only two of us in the department, retrieving physical checks can get pretty involved," Hebert said. "But with image, we just get out the disk, key in the check number and pull up the check. It's a great time savings."

Hebert said she also has benefited from being able to fax members their check images right from her screen.

Both Broxterman and Hebert mentioned that members have been very satisfied with the clarity of the images. Broxterman has set his sights on even more advanced uses of the service.

"We plan to put images on our mainframe, so our tellers can call up specific checks for members who walk in," he said. "This may be a year or two away, but we're planning to do it."

### American State Bank of Osceola

This \$25-million Arkansas bank has been imaging for about four months, and President Mary Emily Thompson has seen nothing but favorable results. The idea for switching to image originally was proposed by one of the bank's directors, who had seen another bank successfully implement image.

"I had heard how it could help us in terms of data storage and research,"

Thompson said. "And when our research showed that image would be widely accepted by people, I decided it would be a good idea."

Image, indeed, has been widely accepted. Of the nearly 1,100 American State Bank customers, only 25 still requested their paper checks once image was introduced. Thompson said most customers appreciate the convenience of keeping sheets of imaged checks in a three-ring binder versus storing bulky boxes of loose checks.

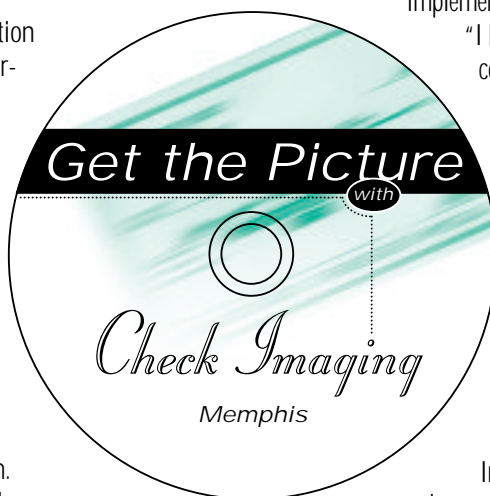
As was the case with City of Memphis Credit Union, check retrieval time is severely curtailed, thanks to the instant access that image provides. Thompson said this saves time for the bank's bookkeepers, so they can spend more of their

time on other customer service activities.

Thompson also said that image's cash management capabilities allow American State Bank to provide more efficient check services to its corporate customers. Currently, the bank supplies its corporate customers with paper image statements, though Thompson said future plans call for these statements to be provided on a CD-ROM that would include images of the checks.

Whether it's for individual or corporate customers, Thompson sees image as the wave of the future.

"Of all the new technology on the market right now, image seems to be the one that is most welcomed by customers and bankers alike," Thompson said.





# Electronic Check Adjustments: Quicker, Easier Than Paper

By sending your check adjustments to the Fed electronically via Fedline, you can streamline the process and receive quicker responses. This method is much more effective and efficient than using paper.

Using Fedline to submit adjustments gives you direct electronic access to all Fed offices. This nationwide network enables financial institutions and Reserve Banks to quickly and easily exchange adjustment information. The biggest advantages of sending check adjustments this way include:

## **Quicker resolution:**

Your adjustment cases won't be delayed in transit to the Fed, which enables them to be resolved faster.

**On-line inquiries:** You can check on the status of your cases on-line. If you have an in-house adjustments software package, you can even interface it with the Fedline adjustments application.

## **Later receipt deadline:**

The receipt deadline for all electronic check adjustment requests that qualify for immediate provisional entry is 3 p.m. This is four hours later than the deadline for paper entries.

## **Greater efficiency:**

You can reduce the number of paper forms and telephone calls, and have greater control over the accuracy of the adjustment information you send to the Fed.

To further improve the efficiency of electronic adjustments, the St. Louis office installed an automated adjustments system April 14.

We offer free half-day training sessions at the St. Louis Fed and the Memphis Branch that provide hands-on training for using Fedline to send check adjustments. If you need information on training dates or have any other questions, contact the Customer Accounts and Access Support Department at 1-800-333-0861 and press 1.

## 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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