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of St. Louis

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Payments Quarterly

Winter 1997

News and Views
on Eighth District
Financial Services

Fees and Product Codes Decrease in 1998

Continuing the trend of the past three years, prices for the Federal Reserve's ACH service will decline again in 1998. Specifically, fees to originate and receive ACH items and addenda records will fall by 0.1 cents, and charges associated with the delivery of composite receiver file directories will be eliminated.

We also are lowering Fedwire fees. For the second year in a row, the origination and receipt fees for funds transfers will be reduced by five cents,

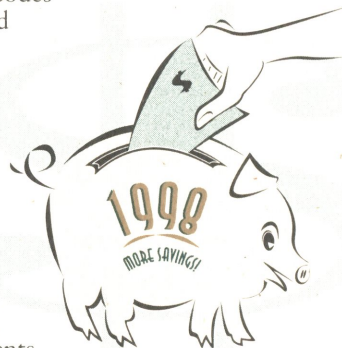
bringing the cost down from 45 to 40 cents.

These price reductions are consistent with the Fed's long-term strategy to promote electronic payments, and they are predicted to save the banking industry \$15.6 million in the upcoming year. We have been able to lower our fees because of greater operating efficiencies after converting our wire and ACH software to central processing sites for the Federal Reserve System.

Lower prices are not the only thing that will look

different on your billing statement next year. In January, we will change several of our ACH product codes. Four new codes will separate value and nonvalue items. In addition, the commercial and government paper and voice response product codes will be combined into one code. These modifications will make it easier for you to read and reconcile your statements.

For a copy of our price book or more information, contact Cheryl Whitworth at (314) 444-8713.



Fed to Offer Financial EDI Service

To help financial institutions prepare for EFT 99—the mandate requiring most federal payments to be delivered electronically by 1999—the Federal Reserve System is planning to offer its own financial electronic data interchange (EDI) service in fall 1998.

Financial EDI is the electronic transfer of payments and payment-related information, such as a remittance advice, through the ACH network. Data accompanying the electronic payment is placed in an addenda record attached to the ACH item. "EDI-capable" financial institutions have the ability to translate this information and pass it along to their

corporate customers in a human-readable format.

If you have corporate customers that provide services to the federal government, being EDI-capable is very important. When the government pays its vendors electronically, information will be included in the addenda record that will help these companies reconcile their account statements. Companies will look to their financial institutions to pass along this data with the ACH payment.

In addition, the Social Security Administration is starting to include payment-related information in ACH payments sent to representative payees, such as nursing

homes and mental hospitals, to help them reconcile their statements. These organizations also will be counting on you to interpret this information.

Our new software will interface with FedLine and enable you to translate the data in ACH addenda records. This will give more financial institutions access to financial EDI-translation software. Also, we will be helping bankers comply with the NACHA rule that requires most financial institutions to process EDI payments by September 1998.

If your financial institution is interested in becoming EDI-capable, contact your account executive.

Windows NT Chosen as Exclusive FedLine Operating System

The Federal Reserve System recently chose Microsoft Windows NT® as the exclusive operating system for the new FedLine® software after its transition to the Windows platform. The new software for Windows NT will offer several significant improvements over the current DOS-based software:

- multitasking capabilities, which enable you to use other applications on your PC without exiting FedLine;
- an in-depth online "help" function at your fingertips; and

- the ability to view and delete queued transactions before sending them to the Fed.

"As always, FedLine gives you the ease and independence to initiate all your financial services online," says Gary Auer, customer service analyst at the St. Louis Fed. "FedLine for Windows NT will make tasks even easier."

The release of FedLine for Windows NT is still a year away, so for the time being, we suggest you maintain your DOS-based hardware to run FedLine. As you prepare for the transition to FedLine for Windows

NT, however, you may need to upgrade your PC to meet new hardware specifications. Please note that advances in technology may alter these specifications before FedLine for Windows is implemented at your institution.

As we approach the conversion to the Windows platform, the St. Louis Fed will assist customers in this transition. In the meantime, if you have any questions about the expected hardware configurations or are interested in previewing the NT Workstation early next year, please call Gary Auer in St. Louis at (314) 444-8948.

What's the Scoop on EFT 99?

As financial institutions make preparations to get their employees and customers ready for EFT 99, the 1996 law that requires most federal payments to be disbursed electronically by January 1999, we have received many questions. To help you get up to speed on this important initiative, following is a summary of several key points.

When Is EFT 99 Effective?

The first part of the law went into effect July 1996, after which all newly eligible recipients of federal payments must receive their money electronically. By Jan. 1, 1999, most federal benefit recipients will receive their payments electronically, including those who were receiving payments before the mandate became effective in 1996.

Who Is Eligible for a Waiver?

Some federal recipients could be exempt from EFT 99. In September, the Treasury issued a proposed rule that details who is eligible for a waiver. Recipients with bank accounts who were receiving checks before July 26, 1996, and those who do not have accounts at financial institutions can request waivers if receiving electronic payments would impose hardships due to physical disabilities or geographic barriers.

What About Government Vendors?

Companies doing business with the government must receive their payments electronically. However, in certain circumstances agencies can pay vendors by check when making the payment electronically would be more expensive, such as one-time payments. Electronic payments will not be required in situations that are impractical or pose a threat to national security.

What if Recipients Do Not Have Bank Accounts?

Recipients with accounts at financial institutions must receive their payments by direct deposit. The Treasury's proposed rule recommends that recipients who do not have bank accounts open ones of their own, or they will be provided with Electronic Transfer Accounts (ETAs) in their names at financial institutions selected by the Treasury.

ETAs will enable recipients to withdraw funds through ATM machines and point-of-sale terminals using access cards. The Treasury has not yet determined the exact structure and date of when these accounts will be available.

ETA recipients also will be eligible for financial hardship waivers if they believe the fees associated with this account are too costly.

What's Next?

The Treasury currently is reviewing all comments on the proposed rule, which were due December 16, and will publish a final rule in early 1998. Once it is in place, the Treasury will implement an extensive public education campaign. For more detailed information on EFT 99, contact Cheryl McCarthy in St. Louis at (314) 444-8459. You also can visit the EFT 99 web site at www.fms.treas.gov/eft.

Start the New Year Off Right—Add Image Cash Management to Your Service Line

Would you like to offer a service that will help your corporate customers better run their businesses? Are you looking for something to set your institution apart from your competitor down the street?

If you answered "yes" to any of these questions, the Federal Reserve can help. We offer a service called image-enhanced corporate cash management that will help your business customers reduce storage requirements, improve their item retrieval process and make it easier to reconcile their monthly statements.

How does this service work? At the end of your customer's statement cycle, you send their checks to the Fed. We capture an image of each item and store it on a CD-ROM. Your customer then will receive a CD that contains digitized images of their checks, which they can view on any PC with 16 megabytes of RAM, a Windows® operating system and a CD-ROM reader.

Perfect for Companies That Receive Many Checks

Image-enhanced cash management is very useful for any customer, especially those that receive large statements. These organizations devote substantial resources to storing, filing and retrieving their checks, which can be time-consuming and expensive.

Using image-enhanced cash management makes these tasks easier. One of the biggest advantages is the storage space it saves. One CD holds between 15,000 and 20,000 check images. It takes between six to nine standard check boxes to retain this many items!

Companies that use outside storage facilities to store their checks can save money by not having to pay for this service.

Image-enhanced cash management also makes it easier for your customers to retrieve items. Instead of rummaging through boxes of checks or reels of microfilm to find an item, they simply look it up on a CD. All CDs come with customized labels that make it easier for companies to

Many Benefits for Your Institution

Image-enhanced cash management is more than just a great service for your customers—it is helpful at your organization too. It can provide you with another source of revenue. By pricing your cash management service higher than the low fees the Fed charges, you can make a profit.

You also can strengthen your customer relationships. By offering services that

forward-thinking financial institution and a technology leader. "We take a proactive stance by providing customers with an innovative service *before* they ask for it," explains Weide. "This shows that we anticipate our customers' needs and remain on the leading edge of technology."

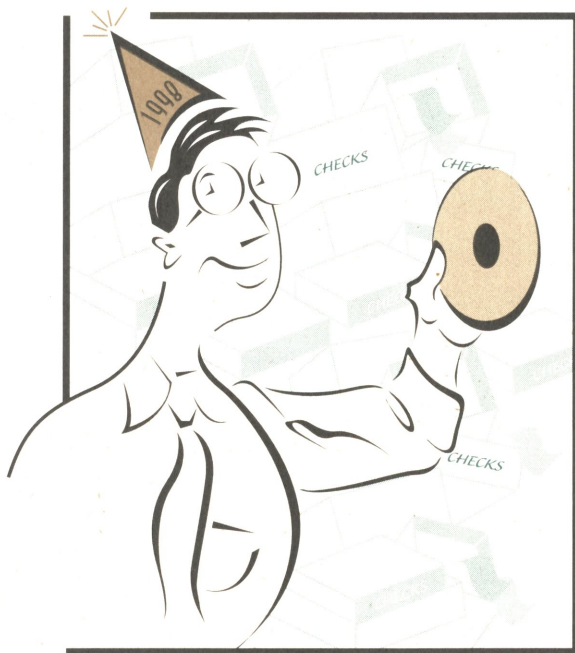
Use It for Your Own Needs

Even if you do not offer image-enhanced cash management to your corporate customers, you still can use it to save storage space and improve the item retrieval process at your institution. Jim Foley, vice president at Omni Bank in Pontoon Beach, Ill., uses the service solely for these reasons.

"We just don't have any storage space, and this service has taken a lot of paper off my shelf," says Foley. "To store six months worth of checks, all I need is two CD-ROMs."

This service also helps Omni Bank respond to customer inquiries faster. "With image-enhanced cash management, we save a tremendous amount of time looking up checks for customers," explains Foley. "I know I can give them what they need in a matter of minutes."

If you are interested in learning more about image-enhanced corporate cash management, contact your local account executive.



identify the contents. This is a much quicker way to locate items and can save your customers hours.

Finally, companies will have an easier time reconciling their bank statements. Because check information is stored electronically, they can easily manipulate the data to meet their needs. For example, if your account statement lists items in order by check number, items can be arranged in this manner. This is much quicker and easier for companies than sorting checks by hand.

improve your customer's business, you earn their trust and make them more likely to try your other services. And the more services a customer uses, the harder it becomes for them to change financial institutions. "Our customers stay with us longer if they use several of our services," says Brian Weide, cash management officer at Citizens Bank and Trust Company in Paducah, Ky.

Offering image-enhanced cash management also shows customers you are a

ReserveNotes

Louisville Expands Other Fed Availability and Deadlines

If you are a Louisville customer, you will enjoy several big improvements to the Fed's check services. This past fall, the Louisville office increased the number of Other Fed RCPC end-points with next-day availability from 16 to 36. In addition, on January 1 we are extending our Other Fed deposit deadlines—from 8:30 p.m. and 12:30 a.m. to 8:45 p.m. and 1:30 a.m., respectively.

These changes significantly expand your RCPC availability and allow for later deposit deadlines, a rare combination in the banking industry. If you have any questions on these changes or would like an updated check availability schedule, contact Ron Hadorn in Louisville at (502) 568-9290.

Treasury Further Extends EFTPS Deadline

Important updates affecting corporate taxpayers using the Electronic Federal Tax Payment System (EFTPS) recently have been announced. To give taxpayers time to learn

more about making electronic payments, companies required to file taxes electronically beginning on July 1, 1997, and Jan. 1, 1998, will not be assessed an avoidance penalty until after July 1, 1998. (Taxpayers required to file electronically by Jan. 1, 1998, should have received enrollment packages in August.)

In addition, the Treasury has decided not to require companies that fall in the \$20,000 threshold to use EFTPS, but they still are encouraged to take advantage of this easy, efficient and time-saving method of paying taxes. If you would like to learn more about EFTPS, call Nancy Klages in St. Louis at (314) 444-8707.

Account Executive Returns to Illinois

Effective in January 1998, Illinois financial institutions will begin seeing a familiar face. Andy Lueckenhoff, currently the ACH account executive for the entire Eighth District, will return to his old stomping grounds and be responsible for servicing Illinois bankers on all Fed services.

Lueckenhoff was the Illinois account executive for four years before he switched positions in the summer of 1996 to focus solely on ACH. Lueckenhoff brings with him more than 20 years of experience at the Federal Reserve, having attained extensive knowledge of Fed services after working in many areas of the Bank. If you would like to schedule a visit, he can be reached at (314) 444-8647.

Free Direct Deposit Statement Stuffers Available

Are you looking for an easy and inexpensive way to promote direct deposit? Let the Treasury help! The Social Security Administration (SSA) is giving away free statement stuffers that discuss how direct deposit is more safe, convenient, reliable and dependable than checks.

These stuffers are perfect for including with account statements and handing out to customers cashing checks in your lobby. Two versions of the stuffer are available—one for banks and another for credit unions. To order a supply, fax your request to SSA at (410) 965-0384.

Payments Primers Now Available

Training someone in the methodologies of the various payment mechanisms can be overwhelming, but the Fed's Payments Primers can help.

The Federal Reserve has produced two informational resources: an *Emerging Payments Primer*, which discusses the fundamentals of new payment products and services, such as electronic currency and home banking, and the *Traditional Payments Primer*, which discusses more established payment methods, such as check and ACH. Each Primer contains a background and description of the product, describes the flow of the payment transactions from initiation through settlement and describes some of the key actions related to that product's development.

The *Emerging Payments Primer* is now available electronically at www.bos.frb.org/finance/empaymts/. The *Traditional Payments Primer* has just been produced in paper form and will be available electronically later next year.

For more information on these resources, contact Mary Kuni in St. Louis at (314) 444-8715.

Take Advantage of the Treasury Investment Program

For almost 20 years, the U.S. Treasury has offered an investment opportunity to Treasury tax and loan (TT&L) depository institutions—financial institutions that accept and retain tax payments from companies and report the amount received to their Federal Reserve office. This opportunity is called the Treasury Tax and Loan Investment Program.

Financial institutions participating in this program, called note option depositories, can keep the tax payments received from customers and invest it instead of immediately turning the money over to the Treasury. Financial institutions retain these funds in open-ended interest bearing notes until the Treasury withdraws, or "calls," the funds.

How can you benefit from this program?

Lower interest rate. The interest rate is 25 basis points below the Federal Funds rate. You can profit by loaning the money in the Federal Funds market or using it for other more profitable investments.

You also benefit from increased liquidity. Participating institutions retain customers' tax

deposits as a primary source of funds, so they have liquid investments.

A booklet describing this program in greater detail was distributed to TT&L depositories in October. To obtain a copy or to learn more about the unique investment opportunities this program offers, contact Mary Sanders in St. Louis at (314) 444-8509.

FinancialPage



FCA Hits 40 with a New Look

How do your costs and performance compare with those of your peers? Are you spending too much in a particular area? Are you charging enough for your products and services? There is a fast, easy and inexpensive way to find out!



Since 1957, the Federal Reserve has offered a valuable cost accounting service called Functional Cost and Profit Analysis (FCA) to financial institutions of all sizes. This year, the Federal Reserve is celebrating the fortieth anniversary of FCA with an array of changes that make the product more useful.

Two New Versions of FCA

Now, FCA is available in two versions that offer different levels of cost accounting and profit analysis. *FCA Basic* is a simple and easy way to get started with a formal cost accounting system. Smaller institutions and those unfamiliar with cost accounting will appreciate *FCA Basic*. Its scaled-down approach delivers plenty of information without asking for a great deal of detailed data from you.

If your institution has more experience with cost accounting or has participated in FCA previously, *FCA Plus* is designed for you. *FCA Plus* provides more in-depth analysis for

institutions that need more detailed cost and product information.

How It Works

Once a year, you submit data to the Federal Reserve. Your confidential information is used to create an individualized, detailed report specifically prepared for your institution. This customized report presents information you can use to analyze income and expenses in key operating areas. It also compares your institution's current profitability with a select group of peers.

As an added benefit, you also will receive the FCA national average report. This allows you to compare your performance with other participating institutions nationwide.

A New FCA for Today's World

Loretta McNeil, the Federal Reserve System's National FCA Marketing Representative, notes that "the demands placed on financial institutions today are very different than they were just a few years ago. These changes are a reflection of changing regulations, increased competition from financial and non-financial institutions, and the dramatic increase in the types of products and services being offered."

"The Federal Reserve has recognized the changing needs of financial institutions and has updated FCA to provide effective cost accounting informa-

tion based on today's environment," observes McNeil. "FCA is an up-to-date product designed to meet today's demands. There is no better cost accounting product available today at these prices that fully meets an institution's desire to know its costs, expenses and profits down to the product line and product level."

Customer Service Is Included

The Federal Reserve is committed to ensuring that FCA is useful for today's institutions. That's why our staff is standing by to help you with every step of the process. We can assist you with data collection and help you understand the information provided in your individual and national average reports.

In today's financial environment, knowing your costs at a detailed level is essential for survival. That's why there is no better time to participate in FCA. You can learn more about this valuable service by contacting Dan Horton in St. Louis at (314) 444-8629.

EBT Plans Continue Across the District

Just as the federal government is trying to cut back the number of payments made by check, many states are working toward the same goal.

The Personal Responsibility and Work Opportunity Act of 1996 requires all states to distribute their food benefits electronically by 2002. The electronic disbursement of benefits is called electronic benefits transfer, or EBT. As states prepare to adhere to this law, many also are planning to convert cash benefits, such as Temporary Assistance for Needy Families (or TANF, formerly known as AFDC), to EBT as well.

State governments face a big challenge in helping benefit recipients adjust to receiving benefits electroni-

cally. Instead of distributing food stamps, the government will provide recipients with EBT cards, which are similar to debit cards.

Beneficiaries can use their EBT cards to pay for food at point-of-sale (POS) machines at grocery and convenience stores.

In states requiring cash benefits to be distributed electronically, recipients who have accounts at financial institutions will receive their payments by direct deposit. This is the government's preferred way to distribute benefits because it is less expensive and does not require the issuance of plastic cards and pin numbers. If recipients do not have bank accounts, they will receive EBT cards that they can use to withdraw cash benefits from

ATMs. EBT cards will be accepted at any store or ATM displaying the Quest® sign, the nationwide logo for EBT transactions.

How can you participate in EBT? By making arrangements with your ATM network to accept EBT cards; any certified ATM network can sign up to provide EBT services. This will expand the number of ATM transactions at your institution and, subsequently, increase your revenue. You also can operate POS devices for food stamp merchants, which will provide you with a new source of POS transactions.

This is a good way to provide services to the unbanked and increase your revenue. In addition, experience with other states already using EBT shows that once they get used to having an account, many beneficiaries develop good cash management practices and expand their banking needs.

As states roll out their EBT programs, they will send area bankers a letter describing in more detail how to participate in EBT. In the meantime, if you have questions on EBT, contact Cheryl McCarthy in St. Louis at (314) 444-8459.

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



www.stls.frb.org

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District EBT Schedule

Arkansas: Pilot started in October 1997

Illinois: Statewide implementation completed in November 1997

Indiana: Pilot scheduled for January 1998

Kentucky: Pilot scheduled for April 1998

Mississippi: Pilot scheduled for spring 1998

Missouri: Statewide implementation to be completed by May 1998

Tennessee: Pilot scheduled for April 1998

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