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# Payments Quarterly

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News and Views  
on Eighth District  
Financial Services

## Direct Deposit Coalition Formed Logo and Web Site Unveiled

The Federal Reserve has recently teamed up with NACHA, the ACH operators and regional ACH associations and hired an international public relations firm in a multi-year effort to educate the public and media on the benefits of electronic payments. The collaboration, called the Direct Deposit Coalition, began its efforts this past fall, developing materials for National Direct Deposit Week and educating employers on the benefits of direct deposit.

To strengthen the product's identity and unify its members' national marketing efforts, the coalition has adopted a standard direct deposit logo, which will be phased in gradually. Financial institutions are encouraged to adopt the logo as well and begin using it on newly created direct deposit materials. Electronic versions of this logo are available by calling Donna Schwartze at (314) 436-6565; soon, you will receive a camera-

ready version, along with a standards manual on how to use the logo.

The Direct Deposit Coalition also has introduced a new, general education web site, located at [www.directdeposit.org](http://www.directdeposit.org). Here, you can find tips for promoting direct deposit, working with companies and making direct deposit more profitable for your financial institution. The site will also make the logo and marketing materials available for download.

In 1999, the coalition will be hosting national press conferences and working with the national media to promote the benefits



of direct deposit to employers and consumers. Later efforts will expand into direct payment as well.

## New Policy Encourages Compliance with ACH Rules

NACHA recently amended the 1998 *ACH Rules* to include a system of fines to be assessed on financial institutions for misuse or noncompliance of the NACHA rules.

Penalties are designed to encourage compliance with the rules and send a message to users that the ACH network is safe and reliable.

The following outlines the requirements for the reporting and investigation of possible rule violations and the assessment of fines:

- 1) Any ACH participant can initiate a rules enforcement proceeding by submitting a Report of Possible ACH Rules Violation.

- 2) NACHA will send a notice to the financial institution that committed the alleged violation.

- 3) The financial institution will be asked to either correct or challenge the problem and send a response to NACHA within 15 business days.

- 4) If the response is satisfactory, no additional action will be taken.

- 5) A second notice will be sent to the financial institution if NACHA does not receive a response or if the institution is cited with the recurrence of the violation.

- 6) The institution will be asked to correct the problem and send a response

form to NACHA within 10 banking days.

- 7) If the response is satisfactory, no additional action will be taken. A fine may be levied if no response is received or if the problem is not corrected. (If an institution is fined, NACHA will debit its account. The institution will receive a notice from NACHA seven banking days before the fine's settlement date.)

If you have any questions about this policy, which became effective Dec. 18, 1998, please call your account executive or Pat McNamara-Smith in St. Louis at (314) 444-8713.

## Lower Electronic Fees and New Price Structures in 1999

In 1999, you will notice several significant changes in the Fed's priced services. Consistent with trends from the past several years, fees for our electronic payment services will continue to decline. In addition, some services now fall into new pricing structures that differ considerably from current levels. Below are highlights of significant price enhancements for some of our services.

**ACH**—Various originated and received item fees will decrease, reflecting savings from the completion of a five-year project to consolidate the Fed's computer facilities. In addition, the premium item fees and return item surcharges will be eliminated.

**Book-Entry Securities**—A new structure will be established that splits the trans-

fer fee between the originator and receiver (instead of charging the entire transfer fee to the originator), converts the offline fee to a surcharge and applies the existing account maintenance fee more broadly.

**Funds Transfers**—A new volume-based fee structure will be implemented that recognizes the scale economies and differences in demand for large-value transfers. The first 2,500 transfers a month will cost \$0.34 each. Additional transfers up to 80,000 a month will cost \$0.27, and all remaining transactions over 80,000 will cost \$0.21. These new prices represent an approximate 30 percent decrease for a Fedwire funds transfer transaction.

**Net Settlement**—This service will be enhanced to enable financial institutions to sub-

mit settlement files to the Fed electronically. The fee structure for the new and existing multilateral settlement services have been revised by introducing a settlement file fee, lowering the per-entry fee, increasing the offline surcharge and introducing a minimum monthly fee.

The new price structures for our book-entry securities and funds transfer services will become effective Feb. 1, 1999. All other price changes started Jan. 1, 1999.

The 1999 price book contains a listing of all our fees. Please contact your customer service representative (listed on back page) to obtain a copy.

## New ACH Service Supplements FedEDI Software

In December the Federal Reserve started offering a new Automated Clearing House (ACH) service called the **ACH Information File Service**.

This auxiliary service is designed specifically for customers who have electronic connections to the Fed, yet contract with service providers to receive and process their ACH items. Financial institutions using processors without EDI translation capabilities particularly will benefit from this product.

Subscribers of the ACH Information File Service receive NACHA formatted files that contain copies of all ACH items delivered to their service providers (or other in-house FedLine terminals) for a given processing

date. The file is for informational use only and has *no impact* on the settlement or normal delivery of ACH items to your service provider.

When used with our new FedEDI software, the ACH Information File Service enables you to translate the financial electronic data interchange (EDI) information contained in ACH addenda records and pass it along to your customers.

EDI translation capabilities will help you comply with the NACHA rule that requires information received in ACH addenda records to be passed along to customers upon request. This capability also will greatly assist you in preparing for the increase in volume of financial EDI data associated with EFT 99 (see article on third page).

As an added benefit, the ACH Information File Service also can be used with FedLine® software to automatically derive ACH return items and notification of change (NOC) information. This can significantly reduce data entry activity and minimize associated processing errors.

You can start taking advantage of the ACH Information File Service for a monthly subscription fee of \$10. This fee includes the daily delivery of the file and a related processing report used for balancing purposes. If you would like to begin using the ACH Information File Service or have any questions, please call your account executive or Pat McNamara-Smith in St. Louis at (314) 444-8713.



# Treasury Approves Final EFT 99 Rule

After several years in the making, the electronic funds transfer provision of the Debt Collection Improvement Act of 1996 was officially approved this past September.

Commonly known as EFT 99, this provision requires most federal government payments, except tax refunds, to be disbursed electronically starting Jan. 2, 1999. This law has far-reaching effects and underwent an extensive comment period. On Sept. 25, the Treasury released the "final rule" that incorporate feedback received from more than 200 comment letters from payment recipients, consumer and community-based organizations, financial institutions and other stakeholders. Following is a summary of the major provisions of the final rule.

## ETAs

Any individual who receives a federal benefit, wage, salary or retirement payment can open an Electronic Transfer Account (ETA). ETAs are basic, low-cost accounts that provide federal recipients with a safe, convenient and affordable way to receive payments through a financial institution. Initially, ETAs were going to be available only to individuals without accounts at financial institutions. However, the final rule states that ETAs are open to *all* federal payment recipients.

Although the ETA is part of the final rule, its key attributes still are being defined. The Treasury recently requested public comments on these attributes. If approved, it would be recommended that ETAs:

- accept only electronic federal payments;
- be subject to price caps of \$3 per month;
- have a minimum of four cash withdrawals per month (to be included in the monthly fee) through any combination of proprietary ATM and/or over-the-counter transactions;
- require no minimum balance, except as required by federal or state law; and
- provide the same consumer protections

geographic, language or literacy barrier. Waivers also are available to recipients who feel electronic payments would cause a financial burden.

People must determine for themselves if electronic payments will impose any of these hardships. Federal agencies can use their discretion in determining whether their beneficiaries are eligible for waivers. Some agencies may require an individual to submit, either orally or in writing, a determination of hardship.



available to other account holders.

Federally insured financial institutions are encouraged to offer ETA accounts. The Treasury is considering reimbursing institutions for the one-time cost of setting up ETAs. Federal agencies will contact their beneficiaries and let them know when the ETAs are available, and which financial institutions in their area offer the accounts.

## Waivers

The final rule states that a hardship waiver is available for *any individual* who determines that electronic payments would impose a hardship because of a physical or mental disability, or a

If recipients don't take any action to sign up for direct deposit, this is considered an invocation of a waiver. Those without accounts at financial institutions are eligible for automatic waivers until ETAs become available.

## Choices, Choices!

To address the misconception that recipients won't have access to their federal payments unless they use direct deposit, the Treasury emphasizes the importance of communicating to recipients that they will not be disadvantaged or forced into making choices not right for them. In fact, each recipient has three alternatives for receiving federal payments:

1. Receive payments via direct deposit through the financial institution of his or her choice.
2. Do nothing now and wait for an ETA account to become available.
3. Continue to receive a check if electronic payments will cause hardship.

One important point to stress to your customers is that no government agency may delay or withhold payments to individuals who choose not to sign up for direct deposit.

## The Eighth District Gets Ready

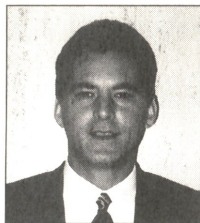
Various activities are going on across the District in 1999 to help community groups and federal recipients prepare for EFT 99. To ensure federal check recipients are aware of their options, the country is divided into five regions, each of which has a Treasury subcontractor committed to organizing EFT 99 educational efforts within its territory.

Specifically, the regional subcontractors are responsible for communicating rule-related information to financial institutions, community-based organizations and state agencies, as well as organizing collaborative activities among these groups. For more information about these activities, contact Cheryl McCarthy in St. Louis at (314) 444-8459. Additional information on EFT 99, as well as the complete final rule, is available on the Treasury's web site at [www.fms.treas.gov/eft](http://www.fms.treas.gov/eft).



# Branching Out

## Louisville Bids Farewell to Ron Hadorn; Welcomes Ralph Ising



Ralph Ising

*Sept. 1, 1998, was a day of mixed emotions for many employees and customers of the Louisville Fed. On that day Ron Hadorn, the office's long-time account executive, retired after working at the Fed for almost 30 years. At the same time, everyone eagerly welcomed Ralph Ising, an employee from the check department waiting in the wings to take his place.*

### More Than 600,000 Miles Covered

It's been almost 30 years since Ron Hadorn first walked in the front door of the Louisville Fed. On that day in 1969, Hadorn started his professional life at the Bank as a management trainee. Ten years later, his career changed directions, and he started his successful journey as the Louisville zone's account executive. Hadorn liked his job of visiting financial institutions so much that he worked the remainder of his career fulfilling this role.

Some of the things Hadorn says he will miss most about being an account executive is talking with financial institutions about their problems, addressing their needs and helping them save money. In fact, he viewed his job as more of a consultant than a salesman. "After visiting with bankers for 18 years, I consider all the people I've met more as friends than business acquaintances," says Hadorn.

This role won't change as the reigns are turned over to Ising; however, Hadorn believes the new account executive faces different challenges and opportunities than those experienced throughout his own tenure. Among other things, Ising has a smaller customer base, due to interstate banking, and increasing mergers and acquisitions over the past few years.

"In addition to serving the community banks, Ralph will be talking

increasingly more with regional and larger financial institutions. This will require him to develop services that satisfy their needs," explained Hadorn.

Before he left, Hadorn offered one last word of advice for his successor—to put himself in his customers' shoes. "When you treat customers like you want to be treated, you can never go wrong."

### Former Assistant Check Manager Pounds the Pavement

Although the Louisville office is sad to see Hadorn leave, it looks forward to the skills and talents Ising will bring to the job. Ising has been with the Fed since his college days. He has spent most of his 15 years at the Bank working various positions in the check department—supervisor of night operations, analyst and his most recent position as assistant manager of check processing.

This wealth of knowledge will be invaluable for the new account executive. Ising's knowledge of payor bank services will give him a unique understanding of customer issues that pertain to check operations. "Given my background, I can relate to customers' operational issues and hopefully resolve quickly any problems they have," he said.

Ultimately, Ising's goal is to provide financial institutions with services that help them most effectively conduct their busi-

ness. To do this in today's dynamic banking environment, he likely will consult with financial institutions on issues outside of operations. One of his biggest challenges is learning more about these areas so he can provide customers with helpful information that simplifies their day-to-day activities.

In addition to keeping on top of Fed services, all District account executives need to understand the unfolding trends with new and emerging payments. Ising believes the industry has gotten more complex over the past 15 years, with more payment options available to bankers than ever before. He hopes to improve the visibility of the Fed and its services by maintaining the strong relationships Hadorn built with customers, as well as participating in industry conferences and trade shows.

There's one service Ising intends to provide, and that is meeting his customers' day-to-day needs. "One of the best things I can do is continue delivering financial institutions the same high quality service Ron provided for more than 18 years. And knowing Ron the way I do, these will be hard shoes to fill."

If you would like to schedule a visit with Ising, please call him at (502) 568-9290.



# Reserve Notes

## Louisville Includes Rejects with MICR Presentment

Starting this January, the Louisville office is expanding the data transmitted to customers who use the Fed's MICR Presentment service. In addition to receiving their MICR files, MICR Presentment customers also will receive all reject items. Financial institutions currently using the Fed's reject repair service will save money by not having to pay separate fees for reject items.

With this service enhancement, the Fed will send you one complete file containing both high- and low-speed items, instead of transmitting your rejects in a separate file. This will save your staff time because they won't have to manually pull and post rejects.

If you have questions on this new service feature, please contact Ralph Ising in Louisville at (502) 568-9290.

## New Web Site for Financial Services

Visitors to the Eighth District's Internet site now will find it easier to find data on our financial services. In January, we are unveiling a new national site that contains information on the financial services that are standard across all 12 Fed Districts, such as ACH, book-entry securities, national check services and more.

Our goal is to provide financial institutions with one place where they can find up-to-date and accurate information on our national financial services, as well as links to local information.

You can access this national site from the St. Louis Fed's home page, which still contains information

unique to the Eighth District's financial services. Simply visit our home page at [www.stls.frb.org](http://www.stls.frb.org) and click on the "Banking Information" category, then select "Financial Services." For more information, contact Cheryl McCarthy in St. Louis at (314) 444-8459.

## Plan Now for CDC Testing in 1999

As you develop your business plans for the new year, don't forget to include Century Date Change (CDC) testing. In the first quarter of 1999, the St. Louis Fed is offering five weekend "Shared Testing Days" during which time you can test your interfaces with the Fed for both century rollover and leap-year 2000 processing. Shared Testing Days offer the most flexibility in scheduling CDC testing because you can test with multiple Fed applications on the same day without interrupting your daily production work.

In 1999, we also are offering mid-week "aligned" testing opportunities. In 1998, only certain Fed applications were available for testing each day; this year, more services will be open on a given day using the same future date. For details on our testing schedules, please visit the Fed's CDC web site at [www.frbsf.org/fiservices/cdc/q1test/index.html](http://www.frbsf.org/fiservices/cdc/q1test/index.html) or contact the FedLine Help Desk at 1-800-333-0861 and press 1 to speak with an Electronic Access Support representative.

## Partnership Wraps Up Fall Campaign

The Eighth Federal Reserve District would like to thank the financial institutions that participated in

the Automated Payments Partnership direct deposit campaign this fall.

Approximately 600 financial institutions used more than 300,000 collateral pieces to promote direct deposit in the Partnership territory within 13 states.

During the fall campaign, the Partnership focused on consumers by using aggressive marketing strategies such as billboard, transit and movie theater advertising, as well as radio interviews. In addition, financial institutions across the District hosted events in October and November to encourage consumers to sign up for direct deposit.

The Partnership plans to continue its efforts to promote electronic payments in 1999. If you would like more information on the Partnership or wish to order free marketing materials, please visit our web site at [www.appartnership.org](http://www.appartnership.org) or call Carrie Andert in St. Louis at (314) 444-8946.

## Food Coupon Deposits Centralized in Memphis

Food coupon processing for financial institutions in the St. Louis and Little Rock zones now is centralized at our Memphis office.

The volume of food coupons deposited at the Fed has gone down dramatically recently, primarily due to increased electronic benefits transfer (EBT) programs in many states across the District.

Centralizing some food coupon deposits at the Memphis office will help us more efficiently consolidate our resources and continue providing high quality service to you.

The consolidation is effective immediately; however, the Louisville office will continue to process food coupons for customers in Indiana and Kentucky. If you have any questions, please contact your account executive or customer service representative (listed on back page).

## New Address for Government and Agency Securities

On Jan. 4, 1999, the St. Louis Fed started processing the redemptions of U.S. government and agency securities, as well as coupon transactions, for all Eighth District offices. Previously, these securities were sent directly to your local Fed office.

As the number of government securities held in definitive form continues to decrease, fewer Fed offices are required for processing. The consolidation will enable us to serve our customers effectively while conserving resources internally. Please contact your account executive or customer service representative (listed on back page) if you have any questions.

## Still Time to Sign Up for 1998 FCA

The enrollment period for participating in the Fed's newly streamlined cost accounting program, Functional Cost and Profit Analysis (FCA), is still open for the 1998 data year. FCA reports on your institution's item costs, profitability and peer comparisons. For additional information, please call your account executive or Dan Horton at 1-800-333-0810, ext. 8629.



## FEDEDI Software Now Available

**A**fter much anticipation, this fall the Federal Reserve began distributing FEDEDI, our new Automated Clearing House (ACH) financial electronic data interchange (EDI) item translation and reporting software package.

FEDEDI translates addenda records included in ACH transaction items you receive and enables you to provide this payment-related information to your customers via e-mail, modem or fax. Any electronically connected financial institution that receives Automated Clearing House (ACH) transactions can use FEDEDI to provide this service to its customers.

Corporate customers that benefit most from receiving translated payment information include those that receive funds from one company covering mul-

iple payments, or those accepting payments for federal, state and local governments, such as nursing homes, hospitals, government contractors and schools.

Financial EDI translation capabilities are becoming increasingly important to financial institutions of all sizes. In addition to helping you maintain a competitive advantage by providing this valuable service, FEDEDI software enables you to comply with the new NACHA rule that requires financial institutions to pass along payment-related information to their customers, if requested. Furthermore, the number of your customers receiving ACH payments will likely grow, due to EFT 99 (see article on third page) and an increasing acceptance of electronic transactions.

FEDEDI is available at no additional cost for financial institutions, service bureaus and other entities that have electronic connections to the Fed. We recently completed several FEDEDI training sessions throughout the District. If you were unable to attend but would like to receive the FEDEDI software, please contact the FedLine Help Desk at 1-800-333-0861 and press 1 to speak with an Electronic Access Support representative.

New FedLine® software customers will receive FEDEDI software and training during their initial FedLine training sessions. Please refer to your December *Electronic Currents* for the first quarter 1999 FedLine training schedule.

### A Phone Call Away

If you have questions or comments, let us pay for the call. Our toll-free phone numbers and customer service representatives are:

**St. Louis Office**  
1-800-333-0810

Bobbi Antoff  
(314) 444-4259

**Little Rock Office**  
(in Arkansas)  
1-800-482-9463  
(outside Arkansas)  
1-800-332-0813

Gerry Gray  
(501) 324-8265

**Louisville Office**  
(in Kentucky)  
1-800-292-3596  
(outside Kentucky)  
1-800-626-4507

Lisa Locke  
(502) 568-9224

**Memphis Office**  
(in Tennessee)  
1-800-552-5132  
(outside Tennessee)  
1-800-238-5293  
Nikita Little  
(901) 579-2435

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