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News and Views
on Eighth District
Financial Services

St. Louis Fed Heads Up Payments Study

The dramatic change in the retail payments landscape during the past decade has brought about numerous new and more complex payments, including debit cards, smart cards and e-cash payments over the Internet. To more thoroughly comprehend the issues and implications of these dramatic changes, as well as gain a better understanding of existing payments like checks, cash and ACH transactions, the St. Louis Fed, on behalf of the Federal Reserve System, is leading a national research project to gather data on the use of existing and emerging payments.

Two phases of the study will be conducted in 1999.

During the first two quarters of the year, the Fed will partner with Payment Technologies, Inc., to conduct a literature search of existing research on the use of retail payments, technology used to facilitate retail payments and public perceptions about retail payments. It will include reviews on the volume and trends of payment instruments; the attitudes of consumers, businesses and financial institutions; the trends in these attitudes; as well as key factors that influence use of various payment mechanisms.

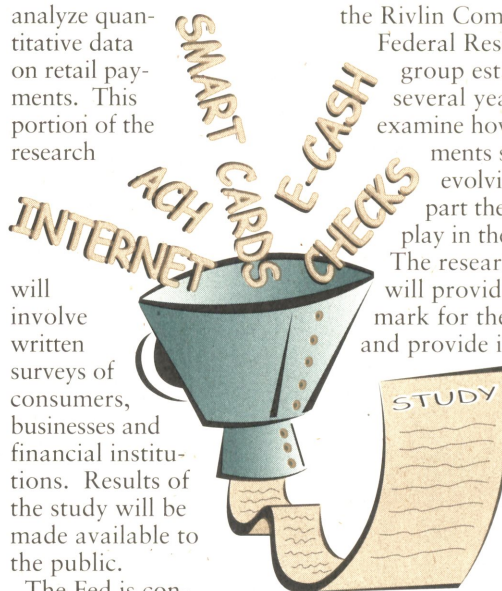
For the second phase of the project, the Fed again will partner with a firm (yet to be selected) to collect and

analyze quantitative data on retail payments. This portion of the research

will involve written surveys of consumers, businesses and financial institutions. Results of the study will be made available to the public.

The Fed is conducting this study in response to a request from

the Rivlin Committee, a Federal Reserve workgroup established several years ago to examine how the payments system is evolving and what part the Fed might play in the future. The research results will provide a benchmark for the industry and provide input into the Fed's regulatory activities and product development.



TIP, PATAX Applications to Replace TT&L

Beginning mid-year 2000 two new systems, Treasury Investment Program (TIP) and PATAX, will replace the current Treasury Tax and Loan (TT&L) system. Several changes in recent years have impacted the TT&L application, and the creation of electronic tax payment mechanisms have introduced new business requirements for TT&L.

Newly automated business functions have placed additional data requirements on TT&L, and centralized pro-

cessing has become the focus in application development. Because the current TT&L system is limited in its ability to accommodate continued, expanded functionality, the design of a new application became necessary. The new TIP and PATAX systems will address changes in payment mechanisms, incorporate changes in the data processing environment and improve data reporting to the Treasury.

During the transition to an all-electronic environ-

ment in the mid-nineties, the Treasury implemented the Electronic Federal Tax Payment System (EFTPS), which allowed financial institutions to report their customers' tax payments electronically as an alternative to using federal tax deposit (FTD) coupons. Envisioning an all-electronic environment, the initial TIP design did not include FTD processing. PATAX was designed to process paper-based tax

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New FR 2046 Form Replaces Fed Funds Report

If your financial institution borrows from the Federal Reserve Bank's discount window, you should be using a new form for reporting balance sheet data. In January, the Eighth Federal Reserve District stopped using the *Weekly Report of Selected Assets, Liabilities and Federal Funds Transactions* (the *Fed Funds Report*) and replaced it with the Federal Reserve System's *Selected Balance Sheet Items for Discount Window Borrowers*, also referred to as the FR 2046 form.

The biggest advantage to this change is that you only need to submit the FR 2046 if you are borrowing from the discount window. In the past, every institution with a borrowing agreement was required to file a report once a week. Also with

this change, the "Enter Fed Funds Data" option under the *RR Reporting and Reserves* menu on the FedLine® software should no longer be used.

In an environment of heightened interstate branching, the FR 2046 ensures that the same information is requested from all borrowers, and that a standardized reporting form and schedule are used across all Federal Reserve districts. Following are some important tips to remember:

- The data to be reported depends on the type of credit borrowed. For adjustment or extended credit, each weekly report includes five business days of data ending on Wednesday. The report for seasonal credit includes data for Wednesday only.

- If you already file select financial data with the District on a weekly basis, you don't have to duplicate this information on the FR 2046.

The FR 2046 form and instructions can be downloaded from the Internet by visiting the web site www.federalreserve.gov/boarddocs/report-forms and choosing the "Research" option. If you have any questions about reporting requirements, please contact Frank Bufe in St. Louis at (314) 444-8750.

Mixed Cash Letter Enhancement Will Improve Funds Availability

The St. Louis office has announced an improvement to its Mixed and Other Fed check deposit service. Starting in April, we will provide a High-Dollar Group Sort (HDGS) cull, enabling St. Louis zone customers to take advantage of the Fed's HDGS program without having to physically outsort eligible items.

This new service will help many customers substantially increase their daily funds availability. All Mixed and Other Fed cash letters deposited with St. Louis will automatically receive next-day availability on select HDGS items greater than a certain dollar value, which could change periodically as the federal funds rate varies.

For example, at a fed funds rate of 5 percent, the value of the items to be culled would be \$1,800 and greater. Selecting only the items equal to or greater than the predetermined dollar value will ensure that the value of receiving accelerated availability on an item is at least equal to the incremental cost of the \$0.25 per-item fee for culled checks.

We will periodically examine HDGS endpoints as they change, or as volume on the endpoints fluctuates significantly. You do not need to make any operational changes to take advantage of this service enhancement.

Look for other Eighth District offices to offer this service later this year. In the meantime, if you would like to sign up or if

you have other new product ideas, please contact Andy Lueckenhoff in St. Louis at (314) 444-8647.

Revised Guide Helps You Prepare Accurate Deposits

If bankers were asked to list their most arduous tasks, check preparation would probably rank among the very top. Although not overly difficult, procedures for preparing cash letters can be time-consuming and labor-intensive.

To help make this task less cumbersome, the St. Louis Fed is updating a manual that will outline very specific procedures for preparing your check deposits. This guide can be used by all Eighth District financial institutions, regardless of the Fed office you deposit with. It could serve as a training tool for teaching new employees how to prepare your outgoing Fed cash letters or as a means for reviewing procedures with your existing staff. On our end, it will help the Check Department process your work more quickly and accurately, with the ultimate goal being to reduce errors and adjustments.

Look for this manual later this spring. In the meantime, we've put together some tips to help you when preparing check deposits.

Encoding

- When you discover an encoding error before the check leaves your institution, change all tape and cash letter totals and correct the encoding on the check (strip or carrier). Often, tape totals are changed, but checks remain encoded for the incorrect amount.
- If checks are not encoded, make sure this fact is written in a visible location on the cash letter.
- Check your encoding ribbons frequently—broken

encoding is one of the main causes of rejects.

- Inspect checks for readable encoding before sending them to the Fed. Make sure encoding is clear and bold, not light or broken.

Bundle Preparation

- If preparing multiple bundles, recap the bundles with a tape listing.
- Separate the bundles for each cash letter using dividers that are easily recognizable. Match tape listings to the bundles. It is not necessary



to list multiple bundles on the cash letter if a tape list of all bundles is attached.

- Include no more than 325 items in a bundle.
- If bundles are not presented in a box, secure them with rubber bands.

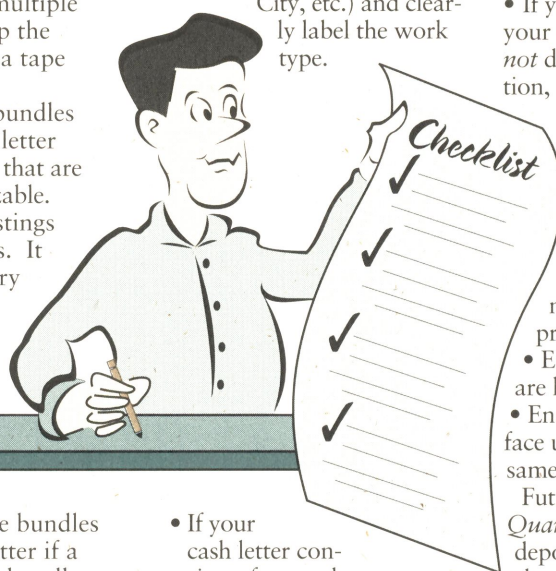
Cash Letter Forms

- Complete the entire cash letter form properly, including your institution's name and full nine-digit routing number, as well as your correspondent's name and routing number.
- Ensure all cash letter forms clearly indicate the work type. For example, return cash letter forms have several boxes to check to identify the deposit type. These boxes should be marked to inform us of what availability to give the work.

- Place cash letter forms face up on the outside of the bundle, not between bundles.

Cash Letter Preparation

- Package different deposit types separately (e.g., Mixed, Other Fed, RCPC, City, etc.) and clearly label the work type.



- If your cash letter consists of more than one bag or box, clearly label each 1 of 2, 2 of 2, etc.
- If your cash letter exceeds 10 bundles, use a box for the deposit. If the box isn't completely full, insert filler material or secure all bundles with rubber bands. When putting a cash letter in an envelope, put a rubber band around the checks before placing them in the envelope.
- If work needs to be marked as ECL, SDS,

HDGS, etc., with a sticker or stamp, ensure that either the cash letter or the box is marked instead of the bundle listing.

- Make sure item counts are on each cash letter.

Miscellaneous

- If you receive an item in your Fed cash letter that is not drawn on your institution, it should not be included in your deposit back to the Fed that night. Instead, send it to the Adjustments Unit using the new Not Our Item (NOI) form.
- Ensure your endorsement is clear and in the proper location.
- Ensure tape listings are legible.
- Ensure all checks are face up and stacked in the same direction.

Future issues of *Payments Quarterly* will contain more deposit tips. These procedures, albeit detailed, reduce mistakes and help us when processing your items. Problems with your cash letters increase the chances of deferred credit and, subsequently, raise your costs; following these procedures will help ensure we provide you with the best check-clearing services possible. If you have any questions, please contact your account executive or customer service representative (listed on back page).

District to Use Standard Check Forms

To simplify its check deposit procedures, the Eighth District is standardizing all cash letter forms. Later this spring, each office will start using the new forms, which are only slightly modified from the current versions. The new forms will be phased in as the old ones run out, so you will be sent the revised forms when you request new quantities.

Branching Out

Two Fresh Faces Join Customer Service Team

This year, Little Rock and Louisville customers have the opportunity to work with new service representatives at their local Fed offices. After several staff changes, two key customer service roles recently have been filled by talented employees who bring fresh perspectives to their jobs while building on the expertise left behind by their predecessors.

New Account Executive Has Customer Service Background

1999 marked the start of a new era at the Little Rock Fed. Danny Wilson, the office's account executive for 15 years, was promoted to manager of the Payments Support Unit and turned over the account executive reigns to Kim Peters, another member of the office's team.

Peters' entire career has been spent in the financial services industry, so she brings a breadth of experience and knowledge to the position. Before joining the Fed six years ago, she got her start working for a local commercial bank and later a financing/lease company. In 1993, Peters began her career at the Little Rock office in the Securities Department, then spent more than four years working in Community Affairs.

"My experience in Community Affairs will be a great help to me in my new position because I already know the Arkansas banking community well and have contacts at many financial institutions," explains Peters. "I'm looking forward to working with individuals on the operations side at financial institutions in the Arkansas territory."

Peters isn't wasting any time diving into her new role. She already has gone out on the road with Wilson visiting financial institutions and learning how to service customers, a

facet of the job Peters considers extremely important. In fact, during the last seven months she has worked to develop a customer service unit at her office.

This effort consisted primarily of refining internal service procedures and designating Gerry Gray as a full-time customer service representative (CSR).

"We want to ensure our customers' needs are being addressed appropriately and timely," explains Peters. "Because I will be out of the Bank much of the time, Gerry will give financial institutions a single contact to rely on for interacting with the Fed on any level."

Together with Gray, Peters is anxious to gain some feedback from customers and hear their ideas about potential service enhancements and new products. To schedule an appointment, you can call Peters directly at (501) 324-8251.

The Lisa Switch in Louisville

The Louisville office also made several significant changes among its customer service staff. In addition to appointing Ralph Ising as the new account executive last year, it hired Lisa Hettinger as the branch's new CSR. Hettinger is replacing the void created when former CSR Lisa Locke accepted a position in another department within the Bank.

The "new" Lisa became a full-time member of the Fed

staff after graduating in December with an accounting degree from the University of Kentucky. The Fed, however, is not new territory for her. In 1997 Hettinger started participating in the Experiential Education internship program at the Bank and spent the rest of the semester and the following two summers working in the Check Adjustments Department.

"My time in Adjustments prepared me well for my new job, because it gave me experience with one of the Fed's services that customers have many questions about," says Hettinger. What she most looks forward to, though, is the interaction with customers, quite a change from her previous operational-focused job. "I like meeting and talking with new people and helping solve their problems," she explains. "Serving this role for our branch's customers is something I enjoy."

In addition to her experience in Adjustments, Hettinger prepared for the CSR position by spending time in the Fed's day and evening check operations. She also has the opportunity of training with Locke to learn more about the day-to-day activities of the job.

The Louisville Fed encourages its customers to call Hettinger or Ising with any financial services questions or issues at (502) 568-9224 or (502) 568-9290, respectively.

ReserveNotes

Little Rock Customers Gain 15 Minutes for Other Fed Deposits

The Little Rock office is extending its Other Fed forward collection deposit deadline. Starting March 21, customers have until 10:45 p.m. instead of 10:30 p.m. to get their separately sorted Other Fed deposits to the Fed. This 15-minute extension gives Little Rock financial institutions a few extra minutes to deposit their cash letters with the Fed. This should be a welcome relief for some financial institutions on heavy volume days.

There is no price change for this extended deadline; however, all deposits arriving at the later time must be preprocessed with the Fed's block control tickets so we can process them promptly. Control tickets are *not* required if you choose to continue depositing by the 10:30 p.m. deadline. If you have any questions or would like to order block control tickets, contact Kim Peters at (501) 324-8251.

Brochure Summarizes Results of ACH Study

As we've reported previously, last year the Federal Reserve conducted an in-depth study exploring consumer and business attitudes toward direct payment and direct deposit. The findings from this study are now summarized in a booklet the Fed distributed in February.

Among other things, this booklet explores which features are viewed as the biggest benefits and drawbacks of ACH payments, the sources people turn to for information and the types of bills most commonly paid electronically. It also identifies the market segments most apt to try electronic payments.

For a copy, contact Cheryl McCarthy at (314) 444-8459. The complete study results can be found on the Fed's web site at www.stls.frb.org/banking/ach/.

Upcoming Fee for Select Book-Entry Accounts

On July 1, the Fed will start charging a \$15 maintenance fee for Circular 154 and joint custody collateral accounts containing either all agency securities, or a combination of agency and Treasury securities held as of the last business day of the month. The fee also will be assessed for each empty collateral account. There will be *no charge* for Circular 154 or joint custody collateral accounts that contain *only Treasury securities*.

To identify the securities in these accounts, you can refer to the Fed's book-entry holding statement, which lists the CUSIPs in each account. Treasury CUSIPs begin with 9 and agency CUSIPs begin with 0-8. Empty accounts are *not* included in this report.

We have notified the financial institutions affected by this fee. Please also share this information with the individual responsible for securities at your organization to ensure your institution is making any necessary preparations. For more information or to verify which book-entry accounts you have established with the Fed, contact Pat McNamara-Smith in St. Louis at (314) 444-8713.

Reg E Changes for Disputed Transfers

The Fed Board of Governors is making some changes to Regulation E by revising the time periods for investigating alleged errors

involving point-of-sale (POS) debit cards, foreign transactions and new electronic funds transfer (EFT) accounts.

For disputes on POS debit card and foreign transactions, the rule requires financial institutions to provisionally credit an account within 10 business days (rather than 20) and leaves in place the 90 calendar-day period to complete the investigation.

This credit deadline is longer for disputed transactions on *all* new EFT accounts. If claims occur within 30 calendar days after the account is opened, you have 20 business days to resolve the alleged error before you must credit the account and up to 90 days to complete the investigation.

You can make the necessary adjustments to accounts at the end of the investigation period. Compliance with these changes is optional until April 1. There are *no* rule changes regarding all other EFT transactions, for which you have 10 days to credit the account and 45 days to complete the investigation. If you have questions, contact Flora Armon at (314) 444-8612.

Quicker Reversal Time for "Same-Day" EFTPS Payments

Effective Jan. 1, 1999, the reversal time for "same-day" tax deposits submitted through the Electronic Federal Tax Payment System (EFTPS) was shortened from 20 to five business days after transmitting the original transaction.

This change only affects same-day tax deposits, which are sent through your FedLine® software. These are primarily used as backup reporting methods to the

"future-day" ACH credit and debit options. The reversal time for *all* EFTPS payments are now the same.

If you have any questions, please contact the FedLine Help Desk at 1-800-333-0861 and press 1 to speak with an Electronic Access Support representative.

New System Provides Immediate Finality to Net Settlement

By late March, a new system will be in place that will bring an increased level of automation and security to the net settlement process. The Fed's new system requires no changes on your part.

The primary benefit to financial institutions that participate in clearinghouses and other settlement arrangements is same-day payment finality for settlement entries. Accelerating settlement will reduce the duration of settlement risk for participants in private-sector clearing arrangements.

Participating financial institutions also will receive settlement information more quickly and be able to electronically submit net settlement files by using FedLine® software. As with the old system, multilateral transactions can be settled on a gross or net basis.

These enhancements will combine the immediate finality feature of the current Fedwire-based service with the operational simplicity of the settlement sheet service. If you have any questions, call Jerry McGunnigle at (314) 444-8732.

New Check Courier Serves Little Rock and Memphis Zones

Some Eighth District customers have probably noticed a few new faces delivering their cash letters lately. Earlier this year, Professional Bank Couriers (PBC), headquartered in Lexington, Ky., began providing check courier services for Little Rock and Memphis financial institutions.

While the Fed's switch to a new courier should not affect your operations, you may experience a slight variation in the time your cash letter is delivered. Awareness of this delivery time can be helpful as you organize your staffing schedules for processing incoming checks.

One significant benefit the new courier offers is its dedication to transporting checks *exclusively*. PBC provides service to more than 600 financial institutions, but does not deliver

any corporate work. "This policy ensures financial institutions have our complete attention and dedication," explains Kay Thomas, co-owner.

PBC is continuing to refine its courier routes to more efficiently meet the needs of Little Rock and Memphis bankers. We appreciate your patience as we work through these issues.

There are no changes in courier services to St. Louis and Louisville financial institutions.

For your reference, listed below are Check Department contacts in each Fed office. These individuals can help you track a lost or late incoming cash letter, as well as issue deferments for non-MICR Presentment customers. Please call your Fed contact if you experience any of these issues or have general concerns about your courier service.

Check Transportation Contacts

St. Louis: Tammy Kirchhoff (314) 444-8458

Little Rock: Gerry Gray (501) 324-8265

Louisville: Annette Doherty (502) 568-9233

Memphis: Rita Cotton (901) 579-2555 (deferments)

Polly Hoskins (901) 579-2450 (courier concerns)

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deposits, in addition to electronic payments, when legislation was passed allowing small businesses to continue using FTDs.

The TIP system, developed by the St. Louis Fed, will receive summarized tax deposit information from EFTPS and PATAX. The information will be stored by TIP and used

to provide real-time balances and capacity data to the Treasury. This will assist the Treasury in its daily projections of funds needed to maintain the Treasury's working balance. From these projections, the Treasury will decide whether to invest or withdraw funds from the participating financial institution accounts. In addition, TIP will redesign

the current TT&L investment and withdrawal options and classifications available to financial institutions. It will also provide collateral monitoring for the Treasury Circular 176 collateral program.

Stay tuned for more detailed information on TIP and PATAX in the coming months.

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 Hettinger
(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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