



JUL 07 1999

Payments Quarterly

Summer 1999

News and Views
on Eighth District
Financial Services

Ready or Not, Year 2000 Here We Come

Preparing for the Year 2000 (Y2K) is a race against time, no matter how you approach it. The deadline is immovable. Ready or not, the Year 2000 will arrive on time.

Until now, the Federal Reserve has spent considerable time and resources thoroughly testing its systems, and we have progressed significantly in our contingency planning. Our testing with customers, which began in June last year, will continue into late 1999.

Because the continued strength of our industry depends on each financial institution's readiness, we encourage you to become involved.

If you have an electronic connection with the Federal Reserve, be sure to test with us. To ensure all of

your internal systems and external interfaces are Y2K compliant, we recommend a June 30 deadline for:

- Completing testing of mission-critical systems.
- Substantially completing implementation of renovated mission-critical systems.

The Federal Financial Institutions Examination Council (FFIEC) has recommended 13 dates for various Y2K testing, so keep in touch with the Y2K coordinator at your institution to ensure you are on schedule.

Communicate with Customers

Just as the Federal Reserve informs you about our progress with Y2K testing,



don't forget to inform your customers about your readiness.

Diana Stubblefield, assistant cashier and compliance officer/Y2K coordinator for the Bank of Benton and Calvert Bank in Kentucky, stresses talking to the public in a totally straightforward and honest way.

"Develop a marketing strategy on how your bank will continue to operate if there are Y2K glitches," advises

Stubblefield, whose banks have sponsored four public awareness seminars. "Don't just tell your customers that you have a plan; tell them what your plan is. If you're going to have a generator, tell them. If you're going to rely on manual processing, tell them."

The two Kentucky banks have not necessarily just

continued on Page 2

Eighth District Improves Weekend Check Processing

The Eighth District made improvements to its weekend Other Fed program last month.

All four District offices now process deposited items rather than transporting them to St. Louis.

Many financial institutions in the branch zones previously closed their processing early to meet the St. Louis transportation deadline.

Discussions with customers revealed a strong desire for the Fed to allow deposits at each District office. You now can extend your processing windows and increase overall funds availability.

The Memphis office moved from an eight- to five-pocket sort, which reconfigured the group sorts from eight to five. St. Louis will make a similar change this summer.

As a result, you can reduce your sorting requirements, simplify your reconciliation process and potentially lower your overall check collection fees.

Memphis made an additional enhancement. The 11 p.m. Friday deadline was moved to 4 p.m. Saturday, giving Memphis financial institutions more time to prepare deposits.

Fed Discontinues Processing Definitive Securities

The U.S. Treasury began to consolidate the processing of definitive securities at the Bureau of the Public Debt in April. Processing was previously the responsibility of each Federal Reserve Bank.

After Aug. 31, the Fed cannot process or forward definitive bearer and registered securities. Financial institutions and owners of these securities must send them by registered mail to Public Debt (see address box).

If we receive any securities after Aug. 31, we will return them to the financial institution or owner. The consolidation does *not* affect agency securities.

The way you receive redemption payments is one of the biggest changes that you will notice. Public Debt will no longer credit your Federal Reserve account; instead,

you will receive these payments only by check.

Because of mail and processing time, you will wait slightly longer for the funds. You also will need to ensure a way to associate an incoming fiscal agency check with a specific definitive security transaction.

The consolidation affects your customers as well. After Aug. 31, the public can no longer visit the Fed to purchase government securities or redeem definitive securities.

Our "walk-in" services will be eliminated for *TreasuryDirect*, definitive and savings bond transactions. Please inform your customers that their local

Reserve Banks will soon discontinue these services.

However, consumers can still present at the Fed semiannual interest coupons detached from definitive securities. For more information, contact Mary Sanders in St. Louis at (314) 444-8509.

Send Definitive Securities to:

Definitive Processing Group
Bureau of the Public Debt
P.O. Box 426
Parkersburg, WV 26106-0426

continued from front page

waited for the questions to come to them. Stubblefield also has been sending bank personnel to civic organizations and various community meetings with the Y2K message.

"You must let the community know where you stand on Y2K or they will come up with their own images, which may not be the ones that you want them to have," explains Stubblefield.

Stubblefield also keeps front-line tellers and staff informed because they talk to the customers. She says

response to their public awareness efforts has been overwhelmingly positive.

"They (customers) are thrilled that you've come to them, and they will offer you more loyalty if you're willing to tell them the truth," Stubblefield says. "You must be prepared to answer some really tough questions honestly, even if that means you don't know the answers."

Stubblefield concludes: "I feel like the majority of our deposits will stay where they are, mostly because we have been so forthcoming in providing the information."

The Bank of Herrin in Illinois has also had success with community awareness. Along with three other local financial institutions, the Bank of Herrin hosted a Y2K public seminar including representatives from the power company, telephone company, city police and government.

"We had a packed house with good questions and lots of reassurance," said Jim McNeill, assistant vice president and data processing manager for Bank of Herrin. "We will have power, we will have telephones, and your money will be safe."

McNeill said bank personnel have also talked with chambers of commerce, rotary clubs and banking classes.

Bank of Herrin completely replaced its in-house computer system, including personal computers, the mainframe and all software. McNeill maintains the bank is so ready for Y2K, that it may even be ready for Y3K.

Tips for Y2K Readiness

Besides testing and communicating, consider these Y2K readiness tips:

- Update your Fed signature cards.
- Determine if you will need extra cash and how you will have it delivered.
- Consider making the Federal Reserve's discount window one of your liquidity sources.
- Ensure that you have plans to keep ATMs filled and functioning during critical Y2K dates.

Bankers Discover Many Benefits of FEDEDI

Bankers across the Eighth District are finding FEDEDI® software, which has been available for more than eight months now, a big asset to their institutions.

FEDEDI, the Fed's new financial EDI translation and reporting package, works with FedLine® software.

FEDEDI enables electronically connected financial institutions to translate payment-related information attached to addenda records of ACH files into a human- or computer-readable format.

In plain English—FEDEDI helps you help your customers. Translating addenda information lets you pass along a wealth of information to your customers, such as invoice data, purchase order numbers and Social Security representative payee names. This information helps your customers reconcile their statements with their accounts payable systems.

Help Your Customers and Yourself

One of the biggest benefits for bankers is the enhanced customer service that FEDEDI lets them provide their business clients.

"Our bank is very customer-service driven," explains Amy Lyons, computer operator and ACH coordinator at Phelps County Bank in Rolla, Mo. "FEDEDI lets us be proactive instead of reactive in meeting customer needs."

Security Bank & Trust Co. in Paris, Tenn., also enjoys the customer service advantage of FEDEDI. Operations officer Anita Rogers says the main reason her bank started using

FEDEDI was to help several large business customers.

"We service a large nursing home that has been steadily receiving more electronic Social Security payments for residents," says Rogers.

She says it used to have only a handful of clients using direct deposit, but now that number is up to 40 or 50. Providing information about representative payees helps the nursing home understand what payments are coming in for which residents.

In addition to the added benefit for customers, FEDEDI helps you save time. Without this software, many financial institutions must manually compare their customers' bank

statements with a FedLine printout to reconcile addenda records with ACH payments.

"We would spend one to two hours at the end of each month, which is our busiest time, trying to help one particular client identify payees," says Rogers. "FEDEDI is a godsend for us."

The time savings is even more for Jerry Ables, vice president at the Bank of Commerce in Greenwood, Miss., who says workers there save from 30 to 45 minutes each day.

"All we have to do now is print out a report and mail or fax it to our customers," explains Ables.

Find It Functional and Easy to Use

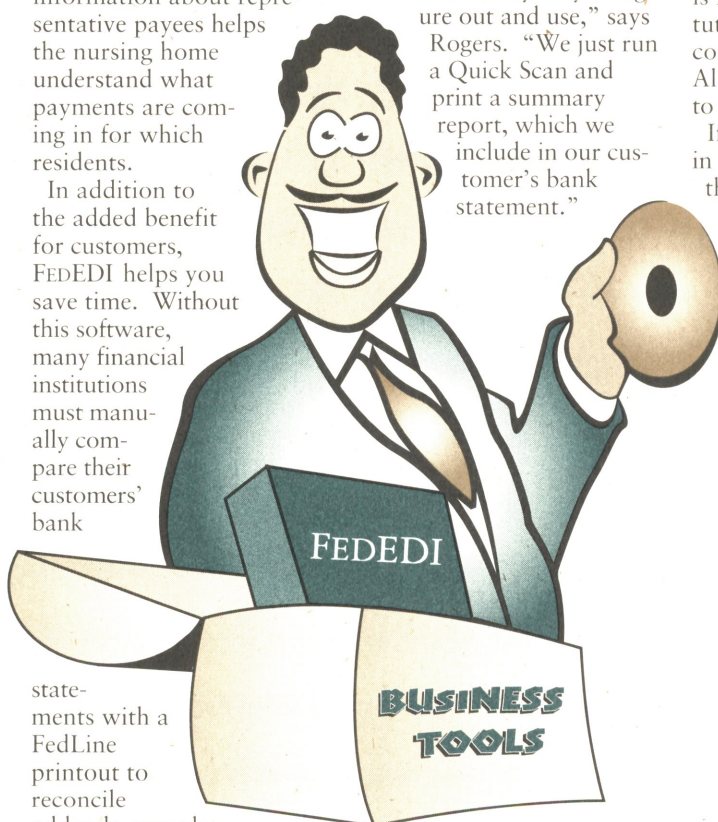
Many people cringe at the thought of learning a new software program, but the word on the street is that FEDEDI is very simple.

"It's incredibly easy to figure out and use," says Rogers. "We just run a Quick Scan and print a summary report, which we include in our customer's bank statement."

is comfortable knowing that the bank is in compliance with the recently enacted NACHA rule requiring financial institutions to provide addenda information to ACH receivers if requested.

If you have any business customers who receive multiple ACH payments, FEDEDI is a perfect way to enhance the service you provide them. FEDEDI is free for all financial institutions that have electronic connections with the Fed. All you need is a little time to learn the software.

If you are interested in using this service, call the FedLine Help Desk at 1-800-333-0861 and press 1 to speak with an Electronic Access Support representative.



Ables said Bank of Commerce decided to use FEDEDI instead of other commercial EDI translation software because of its positive experience with FedLine.

"Our bank chose FEDEDI because of our success and expertise with FedLine," explained Ables. "We just knew FEDEDI would be a good product."

Peace of mind is another FEDEDI benefit for the Bank of Commerce. Ables

ReserveNotes

St. Louis Fed Consolidated Site for TIP and PATAX

When the Treasury Investment Program (TIP) and Paper Tax System (PATAX) replace the Treasury Tax and Loan (TT&L) Investment Program next year, customer support will shift from 12 operating sites to one—the St. Louis Fed.

The two centralized applications, implemented in mid-2000, have automated many functions and provide an opportunity to service financial institutions nationwide from one location.

The St. Louis Fed was chosen to develop the applications, as well as provide the consolidated customer support. An automated call distribution and tracking system, combined with training for financial institutions, will provide superior customer service. More information on specific training dates will be available later this year.

New District Quarters Begin 2001

By now you may have seen the new Delaware and Pennsylvania quarters since their January release kicked

off the U.S. Mint's Fifty States Commemorative Coin Program.

Are you wondering when you'll see new quarters for the seven states in the Eighth District? The order in which the states entered the union or ratified the Constitution determines the coins' release. The program will occur over a 10-year period. A new quarter will be released every 10 weeks.

The U.S. Mint will release the quarters for Kentucky in 2001; Tennessee, Indiana and Mississippi in 2002; Illinois, Missouri and Arkansas in 2003.

While the face (heads) of the quarters retain the familiar inscriptions and portrait of George Washington, each one will have a unique reverse (tails) design commemorating the state and incorporating the current reverse side inscriptions.

This program represents the first changes in the designs of the U.S. circulating coins since the Bicentennial in 1976. More information about the commemorative quarter program and how to submit a design for your state can be found at www.usmint.gov.

New Advisory Group Consults with Fed

The Federal Reserve Bank of St. Louis hosted its first meeting with the Financial Services Advisory Group earlier this year.

We formed this consortium of nine executive bankers from across the District to solicit feedback on our financial services, as well as discuss various issues and trends in the payments system.

This advisory group's primary goal is to help the Fed keep in touch with issues currently affecting financial institutions and with product information of interest to our customers. This will help improve our service and product development so your institution can better serve your customers.

The group plans to meet several times a year, with the next meeting later this summer. Membership rotates every two to three years. If you are interested in serving a term starting in 2001, call your local account executive or customer service representative.

Back to School with the Fed

The Eighth District will present a "Back to School" seminar series to discuss hot Fed topics and share information on financial services issues.

The one-day seminar will be piloted at the St. Louis Fed Sept. 16. We will consider offering the seminar at additional locations next year.

We encourage operations officers or managers, cashiers and marketing officers to attend.

The curriculum will allow participants to choose from six workshops on financial services topics, such as ACH marketing, electronic check services and cash. Attire will be casual to encourage interactive sessions, and workshops will allow plenty of time for questions.

Watch for a "class schedule" (i.e., invitation) in the mail to reserve your seat before "classes" fill up! If you have questions, call Laura Vermillion in St. Louis at (314) 444-8946.

ETAs—An Opportunity to Expand Your Customer Base

More than six months have passed since EFT 99 got under way, and the Treasury is moving on to the next phase in this initiative.

To accommodate the needs of millions of Americans considering entering the financial services industry, the Treasury designed an Electronic Transfer Account (ETA). The Treasury is encouraging federally insured financial institutions to offer ETAs. Certified ETA providers

who add the ETA to their service line will receive a one-time setup fee for each ETA account they establish.

The ETA gives recipients of federal payments another alternative for receiving funds, in addition to direct deposit. As proposed, the ETA provides the same consumer protections available to other account holders, but has a few distinctions. For example, the ETA requires no minimum balance (unless required by federal or state

law), has a minimum number of cash withdrawals per month and does not provide checking services.

The Treasury encourages you to offer an ETA because of the business opportunities. Millions of federal recipients still receive check payments, and the ETA offers these individuals an opportunity for "easing" into banking. Once these customers become comfortable managing this simple account, they could try your other services.

Offering the ETA also is a good public relations move. This is an opportunity to service underserved areas and stand out in your community. Offering the ETA also makes you eligible for additional Community Reinvestment Act (CRA) consideration.

For more information, call 1-888-382-3725 or e-mail eta@dal.frb.org.

Branching Out

St. Louis Area Utilities Partner to Promote Direct Payment

St. Louis area utility and service companies have joined the Federal Reserve Bank to help encourage consumers to use direct payment for their utility bills.

A joint sign-up brochure will be available for eight utility and service companies in Missouri and Illinois, including AmerenUE, Charter Communications, Illinois-American Water Company, Illinois Power, Laclede Gas, Metropolitan St. Louis Sewer District, St. Louis

Consumers can sign up for direct payment with several utility companies on one form at one time.

How Does Direct Payment Benefit My Institution?

Direct payment not only benefits consumers and utility companies, but it also benefits your organization.

As a receiving depository financial institution (RDFI), direct payment saves you money.

Direct payment also improves your customer relationships because users tend to maintain higher account balances and have longer retention rates with their financial institution than nonusers.

How Do I Get a Form?

Designed as a statement stuffer measuring 3 by 6.5 inches, the form will be available free in limited quantities while supplies last. To place an order, contact Laura Vermillion at the Federal Reserve Bank of St. Louis at (314) 444-8946.

We hope to expand this campaign to other cities in the District. If you have utility or service companies as customers, encourage them to partner with other local businesses and to organize a joint sign-up promotion.

Call your Fed account executive if you are interested in starting this type of direct payment campaign in your area.

We continually look for ways to enhance the efficiency of the payments system. Electronic transactions such as direct payment are more efficient than checks and cash, and increased consumer use can both improve your customer service and increase your profits.

THEY'RE BOTH PAYING THEIR BILLS RIGHT NOW...



ONE OF THEM IS USING DIRECT PAYMENT

City Water and St. Louis County Water Company.

Several financial institutions in the St. Louis area and some of the participating utility companies are piloting the sign-up form this month.

If the consumer response is good, a new form will go out each year as new utility and service companies join the partnership.

The sign-up form allows consumers to authorize companies to electronically withdraw funds from their checking or share draft accounts to pay bills.

According to one study, processing costs for financial institutions average 5 cents per item for receiving ACH payments, compared with an average of 11 cents to process a check.

A 6 cent savings on each of the thousands of payments that you process for your customers every month can add up considerably.

In addition to cost savings, direct payment improves your service. ACH payment processing is faster and less labor-intensive than check processing, so returns are more timely.

Partnership Marketing Activities Resume

The Automated Payments Partnership is launching another campaign this summer.

The Federal Reserve Banks of St. Louis, Atlanta, Chicago and Kansas City are working with Mid-America Payment Exchange and Southern Financial Exchange to promote direct deposit and direct payment to financial institutions, businesses and consumers.

Formed in 1996, the Partnership will work on educational and marketing activities for a third year.

With each campaign, the Partnership aims to educate

the public on electronic payments through the media and public advertising. The group also offered statement stuffers, posters and teller tents to financial institutions for their marketing efforts.

This year's campaign will start with the distribution of direct deposit and direct payment marketing materials to all interested financial institutions.

The revised materials include the national direct deposit and direct payment logos, as well as new colors. They are available free in limited quantities.

Other advertising mediums under consideration this year are billboards,

transit signs, business journal ads and airport advertising. We will use these tools to market direct payment in August and direct deposit in September.

The Partnership is always looking for new partners to join us in promoting electronic payments. If you are interested, contact Laura Vermillion in St. Louis at (314) 444-8946 or visit our web site at www.appartnership.org.

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

Volume 4, Number 2

Payments Quarterly is published quarterly by the Financial Services Office of the Federal Reserve Bank of St. Louis. If you wish to obtain additional copies or would like others at your organization to receive *Payments Quarterly*, contact Cheryl McCarthy at (314) 444-8459.

FEDERAL
RESERVE



FINANCIAL
SERVICES



■ www.stls.frb.org ■

FIRST-CLASS MAIL
U.S. POSTAGE
PAID
ST. LOUIS, MO
PERMIT NO. 444