



JUL 20 2000

Payments Quarterly

Summer 2000

News and Views
on Eighth District
Financial Services

New Adjustments System for St. Louis and Louisville Zones

The Eighth District Federal Reserve offices in St. Louis and Louisville recently converted to a new automated adjustments system. The new system, nicknamed EWA for Enterprise Wide Adjustments, was implemented in Louisville on April 12 and St. Louis on April 19. The Little Rock and Memphis offices will be converted during third quarter 2001.

Development of the EWA system was the result of an internal recommendation for all of the Federal Reserve offices nationwide to utilize one common platform for processing adjustments. The

goals of this system are to provide improved customer service, as well as improve the effectiveness and efficiency of Federal Reserve operations. The implementation is expected to:

- ensure consistent service levels across districts;
- enhance cross-district adjustments processing capabilities; and
- improve the Federal Reserve Banks' abilities to assist each other during periods of exceptional adjustment volume and backlog.

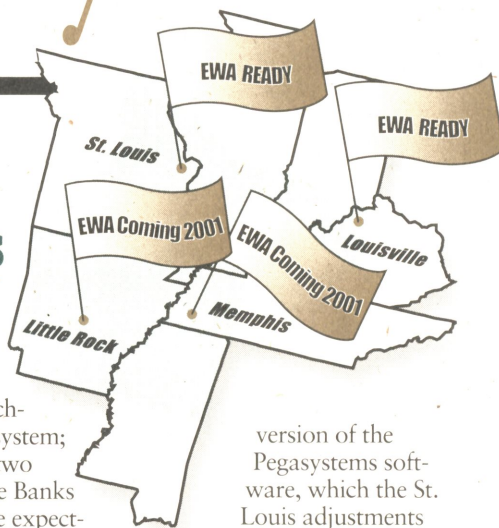
Implementation of the EWA system is a multi-year project for the Federal

Reserve. Currently, there are 12 Reserve Banks and branches on the EWA system; within the next two years, all Reserve Banks and branches are expected to process their adjustments through EWA. Once all offices have converted, they will have nationwide access to each other's records, which will result in quicker resolution of cases.

For customers of the St. Louis office, changes brought about because of this conversion have been relatively transparent. The EWA system is an updated

version of the Pegasystems software, which the St. Louis adjustments department has been using for approximately two years. FEDLINE® messages and paper notices have not changed with this conversion. The only apparent change customers may notice is that daily acknowledgements of FEDLINE messages are now sent only once, at the end of each

continued on Page 2



TIP and PATAX Implementation Delayed

The U.S. Treasury and the Federal Reserve have made a joint decision to delay implementation of the Treasury Investment Program (TIP) and the Paper Tax System (PATAX) applications. Originally scheduled to be introduced July 10, TIP and PATAX are now expected to debut later this year. Until then, all TT&L processes will continue to operate under the current system.

The decision to delay implementation was made to allow for further testing of one of the Treasury's internal applications that interfaces with TIP. This application provides new and real-time information about the Treasury's cash balances.

Admittedly, financial institutions have already made preparations for the transition to these new applications, and we apologize for any inconvenience this delay may cause you. While TIP

and PATAX have been thoroughly tested and stand ready for implementation, we believe the extra time will help ensure a smooth transition to the new applications.

A new implementation date for TIP and PATAX will be announced later this month. In the meantime, if you have any questions, call the TT&L National Customer Service Area toll-free at 1-888-568-7343.

Fed Considers the Future of FEDLINE

For many years Federal Reserve customers have used FEDLINE® software to send and receive transactions and information. Although customers have traditionally been satisfied with their FEDLINE connections, today's DOS-based FEDLINE needs to be updated to reflect newer technologies. To address this need, the Federal Reserve is developing two new FedLINE platforms:

FEDLINE for the Windows NT® Operating System

FEDLINE for the Windows NT operating system is the software-based replacement for most of today's DOS-based FEDLINE applications. This new software design is Windows-based to enhance the usability and functionality of each application, and to provide the greatest level of security around the FEDLINE transactions. This software will offer familiar FEDLINE capabilities with greater functionality than the current FEDLINE software.

FEDLINE for the Web

FEDLINE for the Web, which is being piloted in many districts today, is a Web-based platform that provides even greater flexibility in managing FEDLINE transactions. Unlike DOS-based FEDLINE, the new FEDLINE for the Web platform will allow customers to access certain Federal Reserve applications from

any Internet-connected PC with a Web browser. Many of the current FEDLINE services, as well as new services, will be moved to FEDLINE for the Web. The benefit to our customers is that we can develop and deliver these services faster than we have ever been able to with the software-based versions of FEDLINE.

Why Two Platforms?

In order to maintain the integrity of the nation's payments systems, one of the primary concerns the Fed has is information and transaction security. Many of the financial services provided by the Federal Reserve involve large sums of money and immediate settlement. This means that as transactions are submitted or received, they automatically and immediately are posted to the corresponding Federal Reserve account.

As many of the DOS-based FEDLINE applications are mission-critical and require the greatest level of security available, they will migrate directly to FEDLINE for the Windows NT operating system, where security is built around both software and hardware components. For now, only those applications with less stringent security requirements will migrate to FEDLINE for the Web. As Internet security continues to mature,

other Federal Reserve applications will be available through the Web.

When Will They Be Available?

The Federal Reserve will be releasing FEDLINE for the Web applications as they are developed. Savings Bonds and Cash ordering and deposit notification will be available beginning in the fall of 2000. Current Web application development also includes Check products.

The Federal Reserve will begin deployment of FEDLINE for the Windows NT operating system in the fourth quarter of 2000, following pilot activities. Applications that will be available with the first release include: Accounting Services, ACH, Funds Transfer, Book-Entry Securities, Statistical Reporting (FR2900 and others), Check Return Notifications, Savings Bonds, and Treasury Tax & Loan.

With the implementation of these two new FEDLINE platforms, the Federal Reserve will soon begin working with each customer to define an appropriate conversion strategy.

Contact your local account executive or your FEDLINE customer support area for additional information.

continued from Page 1

business day. Before the EWA conversion, multiple acknowledgements were sent throughout the day.

The Louisville office also made a successful transition to the new software, with service levels remaining unchanged, and customers seeing only minor

changes in the format of paper advices. Because most Louisville customers do not transmit adjustments via a FEDLINE terminal, they are currently unable to take advantage of the true benefits of the EWA system. We hope to change this soon, however. A customer seminar will be scheduled in late 2000 or

early 2001 to review the benefits of submitting and receiving electronic adjustments. If you are interested in obtaining information about this service now, contact Louisville's account executive, Ralph Ising, at (502) 568-9290.

More ACH Rule Changes This Year Than Ever

The year 2000 is a big year for changes to the ACH rules. Four rule amendments will introduce four new standard entry class (SEC) codes, seven return reason codes and 16 transaction codes. These changes require all ACH participants to complete major software and programming modifications so their systems recognize these new codes.

NACHA modifies the ACH operating rules every year, so amendments are nothing new to financial institutions. But these changes are extensive and require more preparation from all ACH participants compared with previous years.

"This is a very significant year for financial institutions and corporate users in regard to rule changes," says Wendy Wishon, senior director of education services for Mid-America Payment Exchange (MPX), a regional ACH association. "I can't remember a past year that required such significant operational and procedural changes for all of the ACH network participants."

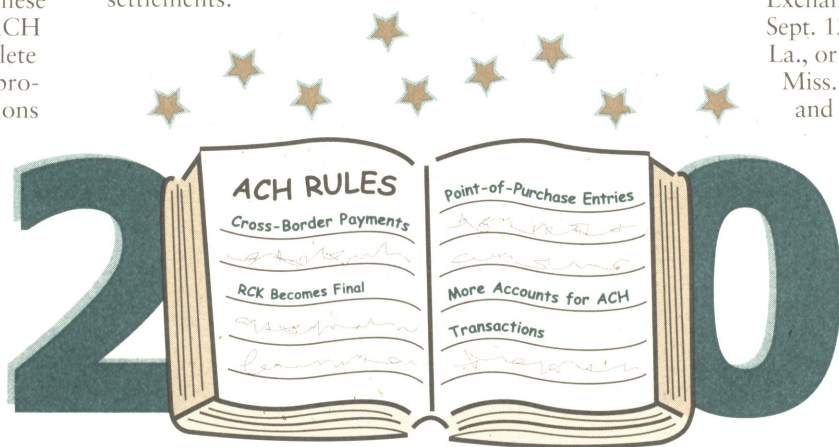
Are you ready for what's ahead in 2000? Here's an overview of the rule amendments effective Sept. 15.

More Accounts for ACH Transactions

This amendment expands the types of accounts to which ACH entries may be directed. It allows ACH debits and credits to financial institution general ledger accounts, and ACH credit entries (and rever-

sals) to all types of loan accounts. Page OR 62 of the *2000 ACH Rules* describes the two new sets of transaction codes and the new operator reject (return) code for these settlements.

ber on their customers' statements. In addition, three new return reason codes will supersede the R08, R10 and R11 codes currently used (see page OR 88 in the *2000 ACH Rules*).



Cross-Border Payments

To help financial institutions readily identify cross-border transactions to Canada, CBR (corporate cross-border) and PBR (consumer cross-border) will be added to the repertoire of SEC codes. These new codes will enable ACH participants to transmit and receive detailed information unique to cross-border payments. The new return reason codes for cross-border payments are listed on page OR 88 of the *2000 ACH Rules*.

RCK Becomes Final

At last! After a two-year interim rule period for represented check entries, financial institutions can start using the new RCK SEC code when the rule becomes final on Sept. 15. After this date, the PPD format will no longer be permitted for these transactions, and receiving financial institutions will be required to print the check serial num-

Point-of-Purchase Entries

The final rule for point-of-purchase entries marks the beginning of the new POP SEC code. Currently, financial institutions use PPD for point-of-purchase transactions. When the final rule is implemented on Sept. 15, including information in the Individual Name Field becomes optional, and the \$5,000 limitation is removed. Also, receiving financial institutions must print the check serial number on their customers' statements.

ACH Audit Reminder

Last but not least, don't forget your ACH audit! Last year a new rule was passed requiring all ACH participants to conduct an ACH rules compliance audit every year, including third-party service providers. You should finish your first annual audit by Dec. 1, 2000.

Training Is Available

If you need training to prepare for these rule changes, you can attend the Advanced ACH Rules Review seminar offered by Southern Financial Exchange (SFE) on Sept. 12 in Baton Rouge, La., or Sept. 13 in Grenada, Miss. Check out MPX's and SFE's third and fourth quarter training schedules (included in this newsletter) to scope out seminars that cover numerous other ACH topics.

For more information on ACH rule changes and training opportunities, contact:

Mid-America
Payment Exchange
1-800-500-0100
www.mpx.org

Southern Financial
Exchange
1-800-626-4733
www.sfe.org

ReserveNotes

Take Me Out to the Ball Game...and Promote Electronic Payments!

The Federal Reserve Bank has joined with Mid-America Payment Exchange (MPX) to promote electronic payments in a unique new way. All summer long, a Direct Deposit and Direct Payment ad will run in the program of the River City Rascals, a minor league baseball team in O'Fallon, Mo. A banner will also hang near the Rascals' bullpen, and during the July 25 game, Fed and MPX representatives will participate in the evening's activities, including singing the national anthem and throwing out the first pitch.

Five other cities are also hosting promotional events at minor league baseball games, all sponsored by the Direct Deposit and Direct Payment Coalition.

Dishonored Returns to Go through ACH

The U.S. Treasury has announced that it will begin the first phase of processing dishonored returns through the Automated Clearing House (ACH) in July. This

new process, which is targeted for completion by year-end, supports the Treasury's initiative to move from paper-based systems to electronic systems.

Currently, when the Treasury dishonors a return (that is, a returned government benefit payment) from your financial institution, the Fed credits or debits your institution's (or your correspondent's) Federal Reserve account on behalf of the Treasury then mails supporting documentation to your institution. Settlement for these items appears as an "ACH Adjustment."

During this conversion period, your institution may receive a dishonored return item either through the ACH, or as a debit or credit. Processing of government reclamations will not change as a result of this conversion.

If you have any questions about this change, contact the Kansas City Regional Financial Center of the U.S. Treasury at (816) 414-2100. Questions regarding your institution's ACH processing or settlement should be directed to Cheryl Whitworth at (314) 444-8612 or Pat McNamara-Smith at (314) 444-8713, or toll-free at 1-800-333-0810.

FCA Program Discontinued

The Federal Reserve System will discontinue the Functional Cost and Profit Analysis (FCA) program after processing the current (1999) data.

In recent years, the Federal Reserve invested resources in FCA to update the analysis and make the reports more responsive to the changing needs of participants. Despite these efforts, the level of interest in the program was not sufficient to justify its continuation.

Although we regret that we must discontinue the FCA program, we anticipate the private sector will provide alternative services.

If you have any questions, call Dan Horton at (314) 444-8629 or toll-free at 1-800-333-0810.

Calendar

PQ Readership Survey Deadline Aug. 14

Your input is important to us!

MIBA 23rd Annual Convention

Sept. 14-15-Lake of the Ozarks, MO

Visit our booth (#33) at the Missouri Independent Bankers Association's annual convention to discuss the full range of financial services we offer.

Back-to-School Seminar

Sept. 20-St. Louis Office

Mark your calendars.

Savings Bond Seminars

Sept. 21-St. Louis Office

Oct. 17-Memphis Office

Oct. 18-Louisville Office

Oct. 18-Paducah Executive Inn (Ky.)

Learn about the features and benefits of the savings bond program; purchase, redemption, reissue, exchange and reinvestment of savings bonds; interest rates; and college education benefits. For more information, contact Johnna Baker at (816) 881-2991.

St. Louis Area Bankers Invited Back to School

School has been out for the summer just a short while, but the Fed is already making plans to host a "Back-to-School" seminar on Wednesday, Sept. 20. Our aim is to educate participants on product and service offerings and other initiatives that are evolving at the Fed.

A casual, interactive learning environment will facilitate discussion of hot Fed

topics and information sharing about current financial services issues. Sessions will focus on what is new and changing in the Eighth District and allow participants to go away with up-to-date information to use in daily operations at their financial institutions.

Who should attend this one-day seminar? Operations officers or managers, cashiers, marketing officers

or anyone interested in the following topics:

- ACH Initiatives
- Traditional and Electronic Check Services
- TIP & PATAX Update
- FEDLINE® for Windows
- Navigating the Fed's Web Site

The seminar will be held at the Federal Reserve Bank in St. Louis, with plans to also offer the seminar at our Branches next year.

A registration packet will be mailed to all Eighth District financial institutions soon. Enrollment will be limited to 150 participants, so early registration is encouraged.

If you would like additional information, contact Debbie Keeton at (314) 444-8946 or toll-free at 1-800-333-0810.

PRODUCT REVIEW

The Deal on MICR Presentment

Do you want to save time and money? Do you want to improve your operation's efficiency? Do you want to free up your staff and equipment for other processing jobs? If your answer to these questions is a resounding YES, you should be taking advantage of the Federal Reserve's MICR Presentment service.

The Fed's MICR Presentment service gives financial institutions earlier access to information by electronically capturing and delivering the full MICR line for all items in your incoming cash letter. The Fed captures this data and sends the information to you in machine-readable format via electronic transmission.

MICR Presentment offers many benefits, including earlier access to information from incoming cash letters, earlier posting of items, reduced exposure to bad checks, elimination of the capture run on your sorters, as well as reduced maintenance costs and extended life of your equipment.

Here's why some of the Eighth District's customers are using this service.

"MICR Presentment saves us a lot of time—usually at least one hour of proof work per day," says Darla Lohman, assistant cashier and accounting department supervisor at the Bradford National Bank in Greenville, Ill. "The staff really like it and haven't had any problems at all. We think it's a good service and, comparatively, it's not any more expensive to use MICR Presentment."

MICR Presentment offers competitive advantages, as well. Randy Moyer, execu-

tive vice president at First State Bank of Conway in Conway, Ark., says, "Prior to receiving the Electronic Check Presentment file, we were not able to compete with the larger financial institutions in our market that offered cash management services. By combining our ECP and ACH files, we're now able to offer those services to our corporate customers and level the playing field with our competitors."

Not only does MICR Presentment pay off in the long run, but it's easy to implement and maintain. "The service has been well received by our staff," according to John J. Lee, president of First Independent Bank in Aurora, Mo. "Transition was smooth, and it is not more expensive for the bank. Employees feel like 30 to 45 minutes are saved each day in proof machine time. Our entire staff likes the product, and no problems have been encountered."

And then there's the issue of improved reliability that an electronic transmission of data brings. "Before we began MICR presentment of our Fed Letter, we were anxiously awaiting the arrival of the courier each day," says Deborah Bowling, administrative

vice president of First American National Bank in Iuka, Miss. "On a good day we would receive our letter by 12:30 p.m. If there were any traffic delays or foul weather, it might be 2 p.m., sometimes 3 p.m., or not at all! We now pull in our letter when FEDLINE® is brought up each morning. We normally have our letter pulled in and memo posted before 10 a.m. If the managers and CSRs know when something is in process, they can make better determinations when checks are presented for cash at the window."

Last month, Fed customers not currently using MICR Presentment received a promotional brochure. The brochure offered a no-obligation, cost-free analysis, as well as a free one-month trial. It's not too late to take advantage of this deal. Just contact the Customer Consultant for your zone, listed on the back page of this issue.

A sample MICR Presentment Cost Analysis prepared for STANDARD BANK

Service Description	Volume (in units)	FRB Charges	
		@	Total
Fixed Daily Fee	20	3.5000	\$70.00
Per Item Fee	47,030	0.0020	94.06
Electronic Reject Repair ¹	470	0.0600	28.20
Total			192.26
Federal Reserve Bank of St. Louis MONTHLY COST			\$192.26

¹ Reject rate is based on 1 percent of MICR Presentment volume.

Direct Deposit Week Deemed a Success!

National Direct Deposit and Direct Payment Week, held May 15-19, 2000, was a great success, thanks to all the financial institutions that participated in the celebration. More than 1,000 kits, containing posters, fliers, statement stuffers, stickers, etc., were ordered from the Automated Payments Partnership, which provided all the materials financial institutions needed to conduct Direct Deposit promotions in their facilities.

A number of other promotional activities were executed throughout the week as part of a national public awareness and education campaign. Government officials signed proclamations, including the Eighth District governors of Arkansas, Illinois, Kentucky, Mississippi, Missouri and Tennessee. Signs promoting the ease of Direct Deposit were placed in major airports located within the Eighth District. Advertisements were also placed in major newspapers

within the partnership's 13-state territory.

And the campaign's not over yet. Electronic payments will be promoted at a River City Rascals baseball game in July (see Reserve Note).

Are promotional activities such as these really effective? Apparently so. Recent findings reported by NACHA show that the number of Direct Deposit and Direct Payment transactions are steadily rising. In 1999, Direct Payment rose 19.4 percent nationwide from the previous year, while Direct Deposit posted a 15.8 percent increase.

As always, the partnership welcomes suggestions for ways it can improve your ACH marketing efforts for next year, as well as feedback about the things that made your promotion a success in 2000. Feel free to express your comments at the partnership's web site, www.appartnership.org under "Information Request." Also, a variety of Direct

Deposit and Direct Payment materials can be ordered from this web site, including videos, brochures, posters, marketing guides, etc., to have on hand for marketing campaigns throughout the year.

Many thanks to all those who participated in this year's campaign. We look forward to partnering with you again!



A Phone Call Away

If you have questions or comments, let us pay for the call. Our toll-free phone numbers and customer consultants 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
Randy Ellison
(501) 324-8268

Louisville Office
(in Kentucky)
1-800-292-3596
(outside Kentucky)
1-800-626-4507
Butch White
(502) 568-9224

Memphis Office
(in Tennessee)
1-800-552-5132
(outside Tennessee)
1-800-238-5293
Chandra Hester
(901) 579-2435

Volume 5, Number 2

Payments Quarterly is published quarterly by the Financial Services Office of the Federal Reserve Bank of St. Louis. If you would like to obtain additional copies or want others at your organization to receive *Payments Quarterly*, contact Debbie Keeton at (314) 444-8946.

FEDERAL
RESERVE



FINANCIAL
SERVICES



www.stls.frb.org

How can we improve *Payments Quarterly*?

Your input is important to us!

Please complete and return the enclosed
readership survey by Aug. 14.