FedACH and Treasury Services

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FRB Treasury Services

- **FedACH – payment processing**
- International Treasury Services (ITS)
- Pay.gov
- Paper Check Conversion
- FR-ETA
- Treasury Retail Securities
  - Savings Bonds
  - Treasury Direct

ACH Focus

- ACH Network
  - What it is
  - Where it fits in the Payments Landscape
- Role of Federal Reserve in ACH
- FedACH Services

What is ACH?

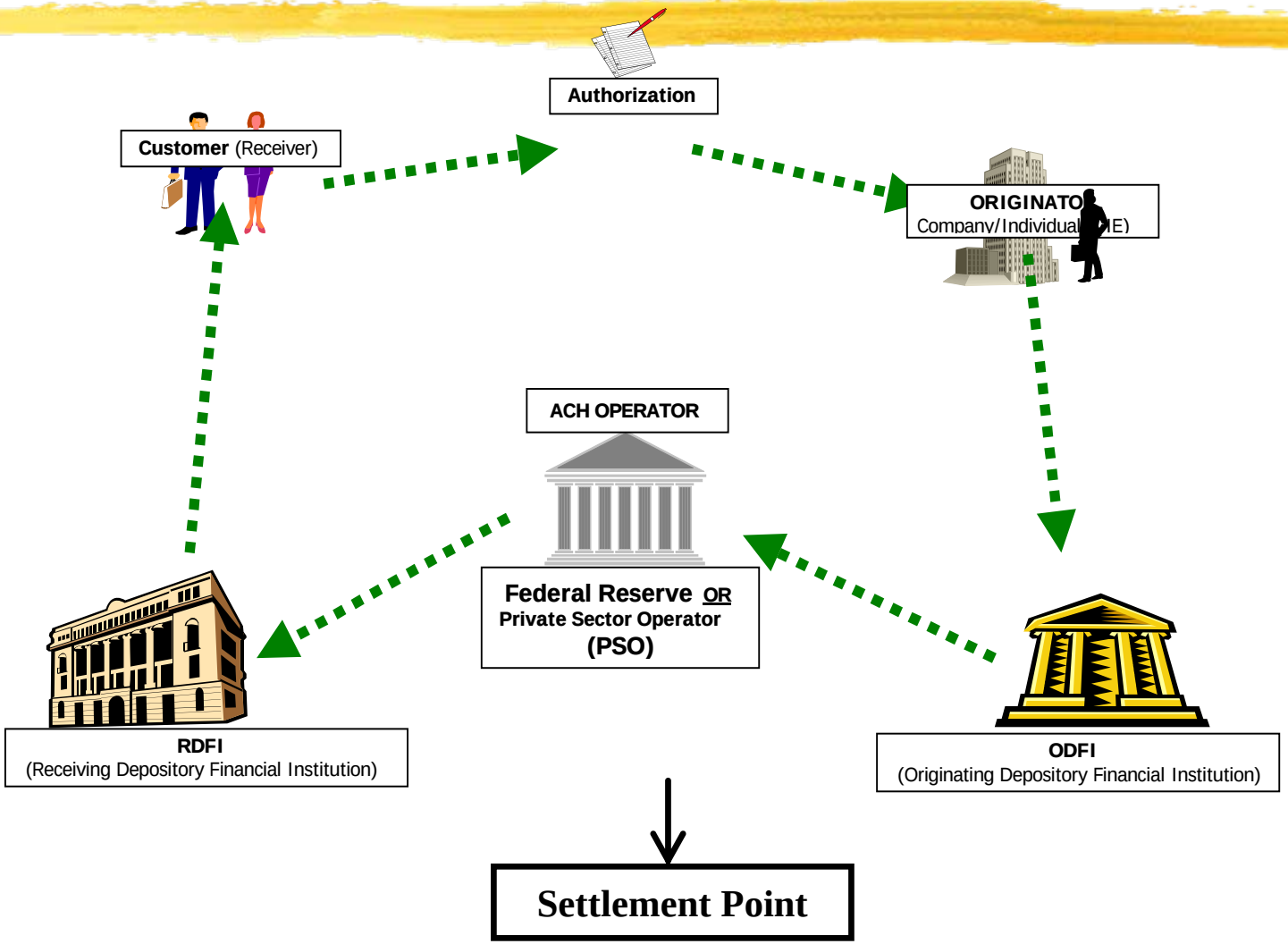
ACH is the acronym for:

- **A**utomated **C**learing **H**ouse
- ACH is a nationwide system designed for the electronic exchange of debits or credits.
- ACH payments are also called transactions or items.

What is ACH?

- ACH is generally used to process low dollar, repetitive payments
  - Mortgage, insurance, and utility payments
  - Payroll, Social Security and other government benefit payments
- Includes both business and consumer payments
- Supports both domestic & international payments.

The ACH Payment Flow



Payments Environment

Check

Check volumes declining

Credit

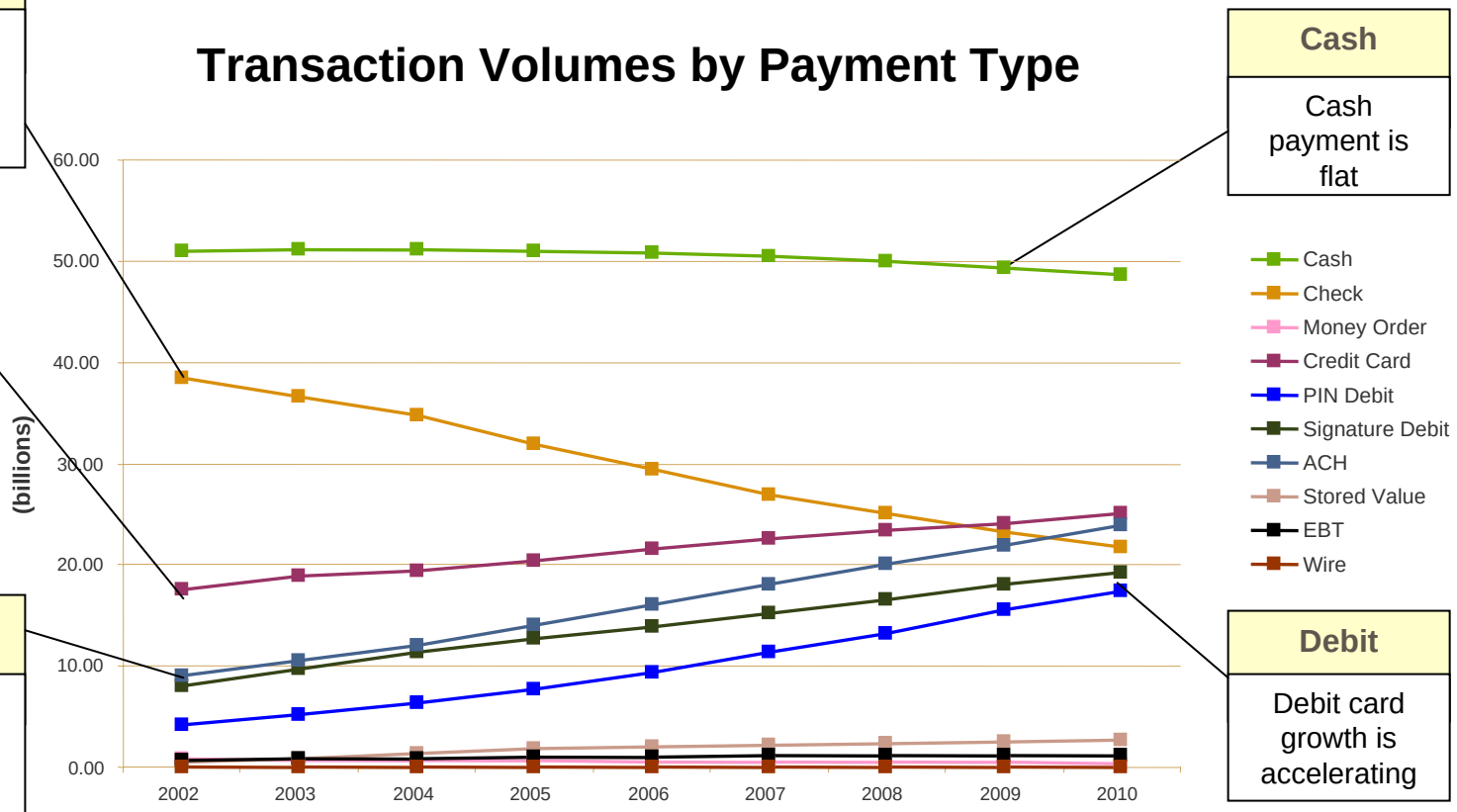
Credit Cards are growing, but at a slower rate

ACH

ACH continues to grow steadily

Wire

Wire is growing slowly



Cash

Cash payment is flat

Debit

Debit card growth is accelerating

Source: The Nilson Report, ATM & Debit News

Payments Landscape

- Continued migration of cash and check transactions to electronic payments.
- Customer expectations for privacy and security of their information.
- Card payments have become increasingly important.
  - Increased transaction speed at check-out
  - Credit cards & Rewards programs
  - Loyalty cards to circumvent processing fees

The ACH Network

- Today, the ACH network is used by:
  - More than 20,000 financial institutions
  - Over 3.5 million corporations
  - 100 million consumers
  - Process over 16 billion payments annually
  - Serviced by the Federal Reserve (FedACH) and one private sector operator (Electronic Payments Network – EPN)

Network Growth

- An increase of 14.5% from 2005 to 2006
- At this rate ACH payment volume will <u>double</u> in 5 years.
- The nation's financial institutions originated 15.4% more ACH payments in 2006 than in 2005.
  - It was a jump of more than 2 billion payments, valued at $30.3 trillion.
- The remaining ACH payments were originated by the Federal government, which, in 2006, exceeded one billion ACH payments for the first time.
  - That is a 2.5% increase in 2006, and it has a cash value of $3.5 trillion.
  - Government volume grows on average 5% year over year

Bill Payments

- The number of Electronic Bill Presentment users will grow by 66% during the next 6 years
  - In 2005, 38% of online households paid bills online
  - By 2011, 63% of online households will pay bills online
  - Gen Yers (1976 – 1990) will propel EBP adoption growth
- NACHA estimates that 7.5 to 8.0 billion consumer bills were collected via the ACH network in 2006.
- Internet initiated ACH payments (WEB) grew by 35% to 1.8 billion.
  - NACHA estimates that 85% of these one-time payments were to pay bills and 10% to transfer funds.
- Pre-authorized automatic bill payments (Direct Payment) increased by 6.1% to 3.3 billion payments.

Direct Deposits

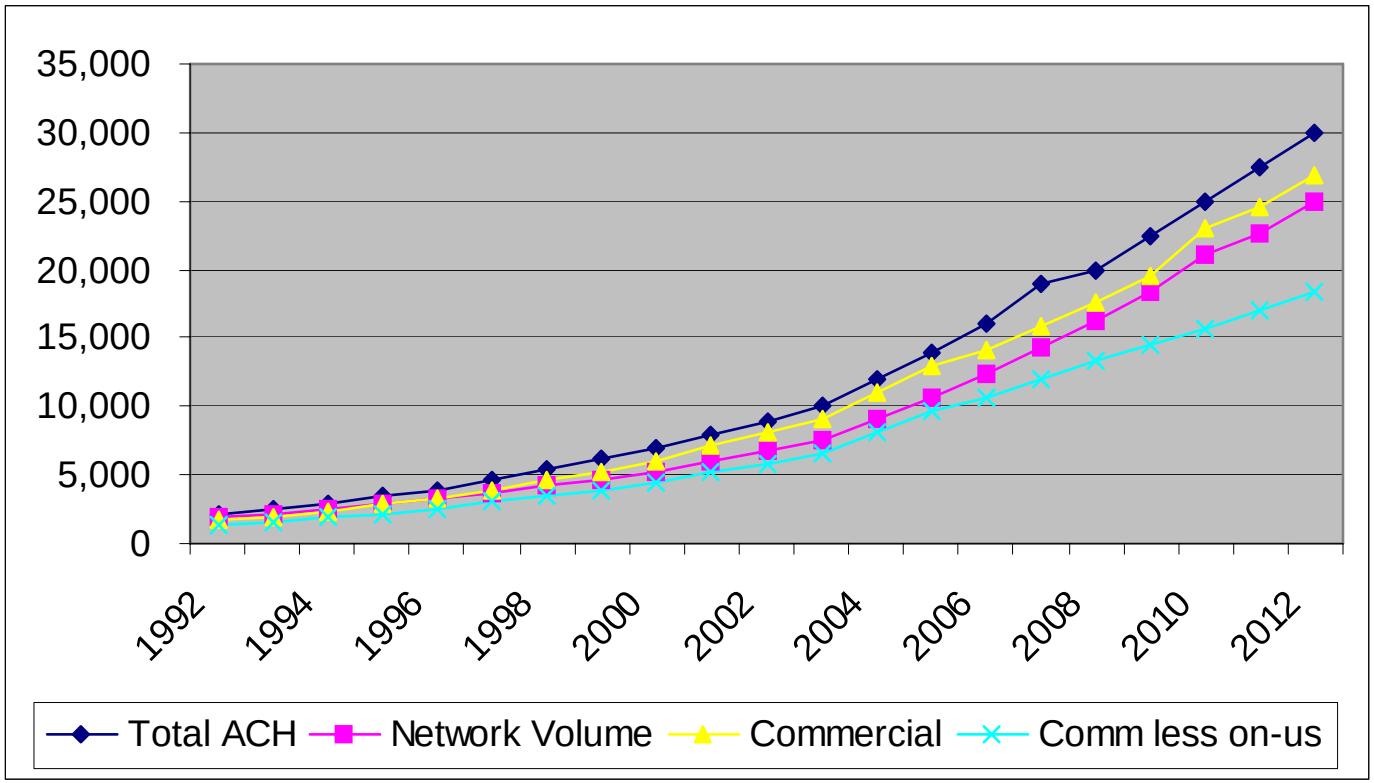
- The number of Direct Deposits increased by 5.5 % to 4.7 billion payments.
  - Direct Deposit is still the most widely used type of ACH payment.
  - The average dollar amount of a Direct Deposit was $1,325.
- 1 out of 4 baby boomers nationwide does not use direct deposit
  - Treasury survey found 25% of boomers get their pay or benefits by paper checks, of those about 1 in 5 paid by check are not offered direct deposit by their employer
  - The government is looking ahead at the 77 million baby boomers who could begin to collect Social Security starting in 2008, when the boomers born in 1946 will turn 62

Business Payments

- The total number of business to business (B2B) payments grew to 2.3 billion, up 10.9% over 2005.
- Financial electronic data interchange (EDI) grew by 8.7% in 2006.
  - In 2006, there were 995 million EDI entries accompanying ACH payments.

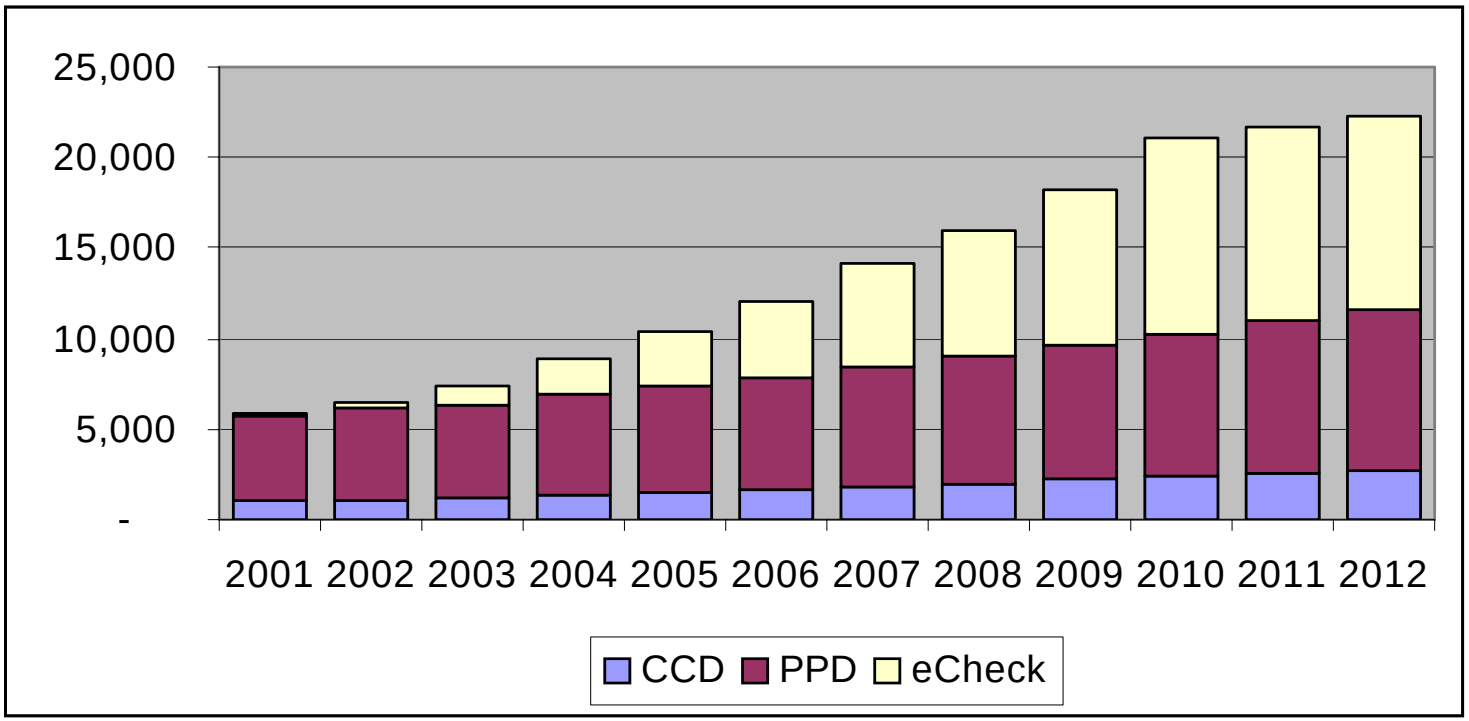
Total ACH Network Volume 1992 – 2012 (NACHA)

Actual volume through 2006, projections 2007 - 2012



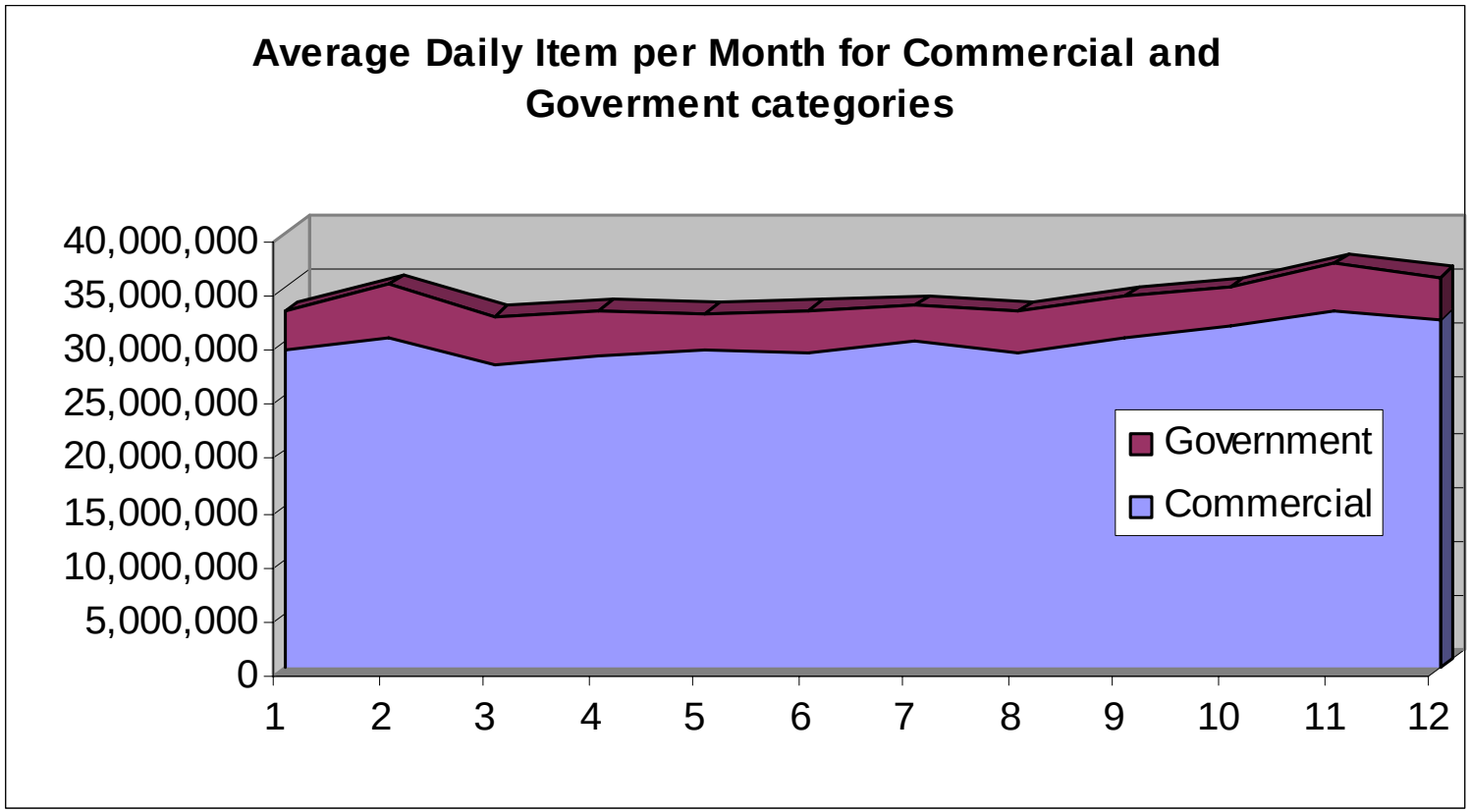
Item volume (in millions). Network volume excludes on-us items

Network Volume (Traditional vs. eCheck)



Item volume (in millions). Network volume excludes on-us items

Commercial vs Government Volume



Government volume represents 10 -14% of total daily items originated

What is Federal Reserve role?

- Foster market-based evolution to more electronic payments systems
- Advance Treasury's goals to improve efficiency & effectiveness in its payments
- Continue efforts to ensure the integrity of FR payment services and the US payments system

What is Federal Reserve role?

- Provide ACH Operator Services
  - We accept files of payments from financial institutions
  - We deliver payments bound for others
  - We edit the payments based on NACHA rules
  - We sort the payments by destination and deliver them
  - We settle the payments on the books of the financial institutions

What is Federal Reserve role?

- Provide centralized FedACH operations support for Financial Institutions
  - Mpls FedACH Central Operations Site
    - St. Louis, Kansas City, Minneapolis, Dallas, San Francisco
  - Atlanta FedACH Central Operations Site
    - Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago
- FedACH operates 24 hours per day, 6 ½ days per week:
  - Application hours – 17:30 ET Sunday through 3:00 ET Saturday.

FedACH Operations Support to Treasury

- Managed File Processing
  - SSA, RR & VA – Receive & Pend files for verification prior to processing.
  - Operations introduces files to manage volumes
- Contingency planning & Testing
  - Participation in BRT
- Project Support
  - File interface solutions
  - Process improvements

FedACH Services

- File Exchange
- Information Services
- Risk Services
- International Services

FedACH File Transmission

Three Options Available

- Option 1 – FedLine Advantage
  - Upload and download files via bowser interface
- Option 2 – FedLine Direct
  - IP file delivery using Connect:Direct
- Option 3 – FedLine Command
  - Customer initiated unattended file exchange using Secure Transport.

FedACH Information Services

- File Information
  - When was the file received and processed
  - What is the status of the file
  - What are the errors in the file
  - Who transmitted and approved the file
  - What are the file totals
  - How many files were exchanged

FedACH Information Services

- Batch Information
  - What is the status of the batches
  - When will the items settle
  - What is sent or received for a particular company

FedACH Information Services

- Item Information
  - What is the status of an item
  - When was it processed and settled
- Derive Return Items
  - Allows items to be returned to the originator
  - Provides audit trail of returns

FedACH Information Services

- Settlement Information
  - What is settling through my account
  - What is settling through my correspondents account
  - What is settling on a given processing date

FedACH Risk Origination Monitoring Service

- Monitor the originated items from a particular financial institution or originating company
- Receive notifications when items exceed a dollar cap amount
- Allows items to be released or rejected after review by service participant

FedACH*i* represents:

- Canada Service (effective 7/01)
- Transatlantic Service (effective 11/03)
  - Austria, Germany, Netherlands, U.K., and Switerland.
- Mexico (effective 1/04)
  - Directo a Mexico
- Panama (effective 10/04)

FedACH 2007-2008 Initiatives

- Derive multiple returns – Effective 3/07
- FedEDI via FedACH Information Services
- Additional Risk Services
- Preparation for new international format (IAT) and inbound payment processing
- Continued roll out of FedLine Direct and FedLine Command

Contact Us With Questions

- Central Operation Support Sites
  - Atlanta (serving Districts 1-7):
    - (866) 234-5681
  - Minneapolis (serving Districts 8-12):
    - (888) 883-2180
- http://frbservices.org/