Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

Comment ID: 133086

From: Emery Federal Credit Union, Troy L. Cyrus

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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Comments:

NONCONFIDENTIAL // EXTERNAL

Submitted via electronic filing

December 13, 2018

Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Regs .comments@federalreserve.gov[mailto]

Re: Docket No. OP-1625

Dear Ms. Misback:

Emery Federal Credit Union appreciates the opportunity to submit comments to the Board of Governors in response to the request for comment regarding increased speed of inter-bank settlements often referred to as real-time gross settlement. [RTGS]

We applaud the Fed's governance for addressing a systemic weakness. While there is widespread benefit to enhancing speed with which inter-bank settlements occur, there are painful side effects smaller financial institutions face that are often overlooked.

The proposed rule cites "faster payments" as a way to curtail scheduled payments or avoid late-fees, this mindset is counter to using financial planning and budgeting for both business and personal accounts. Planning is a more foolproof tool to escape the penalty of late fees. Scheduled payments are a fiscal tool for budgeting outgoing funds with incoming resources.

Credit Unions and Community banks routinely educate our customers to budget their finances proactively. This is an effective tool to stop late fees and models positive behavior to prevent finances from colliding with unsupported payments due.

Reduced controls:
Speaking to the disadvantage of a more swift settlement; several matters should be given consideration including current settlement times which equate to solid AML and risk management. Many institutions have BSA/AML software that enable an assurance sanctions are being enforced as well as other settlement risks are being managed. This does not include all institutions, for those without automation it diminishes their opportunity to mitigate fraud.

Some institutions must manually complete tasks to remain compliant with current final rules and other legal mandates. Our institution is in a mid-sized metropolitan area that is considered a High Intensity

Drug Trafficking Area [HIDTA]. Combined with a high-risk population we are in an area served by many other credit unions.
Limited Opportunity to participate:

Moreover, there is no conversation involving our settlement service who is a corporate credit union (Corporates) acting on our behalf with the Fed. We utilize our corporate credit union for wire services and liquidity.
Unless the federal system includes corporate credit unions in your solution it lacks parity. Further, as written it prevents access to the benefits the proposal intends to provide. A large population of credit union members are not served by banks and other direct-users of the Federal Reserve.

Financially savvy consumers often utilize the financial services of a credit union since interest rates on loans are lower due to their subsidized nature of being supported by a financial cooperative. Others choose a credit union for the personalized service they receive and higher yields on their deposits. Failing to include these individuals solely due to a choice where they conduct their banking does not support the inclusive nature of swift settlement touted within the rule.

Increased Fraud:
Thousands of state and federal credit unions are united as members of the shared-branch credit union network known as Co-Op. Shared-branch opportunities give credit union members access to their funds by visiting a participating credit union where they can conduct business as if they were in their own credit union. However, this presents added layering of risks. Co-Op has a robust know your customer program and procedures to identify participants. While you may know your customer, you don't necessarily know their intentions. More swift settlement could compromise smaller institutions if left outside the RTGS solution.

Many losses we have suffered are a result of fraudulent instruments being presented for deposit at our ATM's, drop-boxes and across our counters. Frequently, cons know the delays in checks being returned to the presenting institution, they often use 3 day holiday weekends to their advantage, further distancing themselves physically from the activity they are attempting. Far too often, individuals may be "known" to their institution only later to be uncovered as money mules or identity thieves using synthetic identity. These fraud risks are not limited to shared-branch users but our own members expose us as well.

Failing to include Corporate Credit Unions into the Real-Time Gross Settlement solution proposed demonstrates the risk exposure would remain. Further, leaving Corporates outside the settlement loop would expand the lack of parity. Also, Corporates may be needed to complete a settlement between Fed users and non-fed users.

Right goal/Wrong time:
Closing, the U.S. inter-bank settlement system is certainly dated and needs improvement. Block-chain can be a tool to use for more confident and swift settlement. Time is needed to further develop this technology and deploy it appropriately. Please invest the time to reconsider RTGS to include Corporate agents in addition to the Federal reserve window as a more complete solution. Make sure the solution does not discount risk management in favor of speed, velocity is good but enhances exposure to risk.

A well thought solution that is inclusive of everyone with increased risk management in lieu of added exposure should be a part of the framework that moves this needle forward. Thanks for your consideration.

Respectfully submitted,
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