

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

Description:

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From: The Callaway Bank, Kimberly Barnes

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

Comments:

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Proposal: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments [OP-1625]

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Your comment: Board of Governors, Federal Reserve

Re: Docket No. OP-1625, Proposal for comment on Faster Payment System

My bank is a community bank located in mid-Missouri in continuous operation since 1857. Our size is \$380 million in assets, and we serve a multi-county service area. Our history reflects a progressive approach to banking and we are proud to be a strong, independent bank. We are committed to retaining access to competitive and innovative delivery channels in order to remain a viable choice to our rural market consumers.

We're alarmed at the decline of community banks across our nation. Competitive forces, excessive regulation, and changing markets put strain on smaller institutions, and the forces we see at play in our country and the world are driving consolidation to the point where it will soon become unhealthy for our nation and its economy, and will result in monopolization that hurts consumers. Retaining access to payments systems is key to the health of the community banking sector.

Small banks don't have the capital or purchasing power to design and build their own systems, so we have to partner with others (such as our core banking system providers), or rely on being represented by another entity, like our bankers' banks or the Federal Reserve. If you agree with the premise that community banks are an important part of our nation's well-being, then you must also agree that certain mechanisms must be available to community banks in order to maintain a well-rounded business model that meets its community's needs. Being part of ALL parts of the payments system is vital to keeping the community bank sector healthy, including new and evolving systems, not just traditional systems.

But, how do we gain and retain a strong presence in the payments system? Check, wire, and ACH clearing and settlement systems are provided through the Federal Reserve as the non-discriminatory provider, facilitated through core banking systems, with flexibility to involve our bankers' banks. It's a wonderful system, reliable, ubiquitous, consistent, fairly and transparently priced, and accessible to all

banks equally. Disputes and lawsuits related to the Fed's clearing system itself are minimal, and rules are understood and applied fairly across all parties.

The card rails, on the other hand, are a good example of leaving a payment system to the fair market. The Federal Reserve is not the central processing/settlement authority in card transactions, and the results are evident. Access is dependent on negotiating power, pricing is inconsistent and not transparent, there are innumerable disputes and lawsuits between participants, and small volume participants receive poor education and service. This system was deemed to be so broken that Congress acted to involve the Fed, but in such a limited role as to have no real impact to fix the system.

The answer to the question of whether the Federal Reserve should play a role in the evolving new payment technologies and systems is resoundingly YES.

- The Federal Reserve is the only entity that can be a neutral advocate and protector of ALL parties involved.

- Without the Federal Reserve ensuring access to every institution regardless of size, small banks risk being disintermediated from new payment systems. An example as a small bank we must rely on our core banking system provider for access to newly-developed payment tools, such as person to person payments. Our core vendor participates in Zelle, which was developed and delivered by the largest institutions first, and which has been active in the marketplace for some time. However, as a small bank, there are barriers to our participation, and our core vendor indicates it may be another year before the product could be functional for my bank. In this day and age, waiting over 2 years to bring a product to market means we aren't competitive and clients will gravitate to the largest institutions which widens the competitive gap and further erodes the health of the community banking environment.

- The Federal Reserve is a trusted entity that applies rules and standards fairly. There is strong confidence in the Fed to provide settlement and processing in a reliable and fair way. If the Fed does not play these roles, then the system becomes reliant on the strength of private contracts, which would result in disparate treatment based on size and negotiating power, and a tangled web of disputes and lawsuits with the consumer caught in the middle.

- The largest institutions will of course push for the Fed to remain on the sidelines. Yes, our country's economic model slants toward free markets being the best solution. However, our economic model AND our model of government are built to also recognize the importance of standards, and a central authority to ensure we collectively act in an appropriate manner. We have checks and balances in our laws and justice system, we have protections for individuals and businesses and enforcement agencies to uphold those protections, we have oversight of shared natural resources and infrastructure through central authority. So why is the payment system considered outside the scope of a central authority? It shouldn't be. Yes, innovation and flexibility should be facilitated, because that's when our country thrives, but there should be a central authority underpinning the basics to ensure safety, soundness, and access.

- The Federal Reserve in its role as the central banking authority resists political pressures, and by its very nature is inclusive and transparent. The Fed needs to lay aside its concerns about overstepping its bounds, because the very nature of its role demands it act to facilitate and protect the overall payment system and do what is in the best interest of our country as a whole. That includes all sectors of the banking industry, non-banks, consumers, businesses and the public at large who relies upon safe and sound commerce.

Please, step up to the plate, and do it soon before new payment systems evolve past the time when the Fed can be effective. If the Fed does not act now, we will regret it down the road.

Kimberly D. Barnes
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