



December 12, 2018

Ms. Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington DC 20551

Regarding: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comment, Docket No. OP-1625

Dear Ms. Misback:

I am writing to comment on whether or not the Federal Reserve System should offer a real-time payments platform along with a the development of a liquidity management tool to support such a system. The answer is very simple...a resounding YES on both counts.

The reasons for the Fed to play an operational role in the faster payments system are many fold. Our country's desire to build a new "ground up" system will require much planning in its design and development. Once operational, the system will need to function on a 365/7/24 basis, the Fed is uniquely suited to perform such a function. Also, an appropriately designed system will need to stand the test of time and not be impacted by disruptive market events.

Where would our country be today if the Fed wasn't there to help the financial system at the beginning of the Great Recession? There are public companies that are claiming that they can provide faster payments to the country. There are large banks who claim that they have already set up such a system and there is no need for the Fed to become involved. We need to take some time to consider the shortfalls of those alternatives.

At various points in time, one may have argued that the giant corporation Sears and its financial service businesses were so strong that they could have provided such a service. How about the once AAA General Electric and their financial arm stepping up to offer assistance in this area? It's easy to see how the once strong can fall on hard times in business and if they would have been the provider of real-time payments, how much of a priority would that system be to them today given all of their current struggles. On the other hand, today's great Apple Corporation was once written off as heading to failure. Could that happen again? Payments are too important to be placed into the hands of corporate America where the next quarter's earnings report is the driving factor for decisions.

Let us also consider the “too-big-to-fail” banks that almost failed (and in some cases were insolvent by all accounts) and only survive today due to the Fed’s heroic actions a short decade ago. Those banks will argue that they already have a system in place and that all are welcome. As a community banker, all I see is a large group of banks looking to get bigger by the day, merge out the smaller banks, and desert rural communities by closing branches across the country. Somehow I find the offer to join them a bit disingenuous.

I don’t have those concerns when looking at the Fed as the operational provider of real-time payments. The Fed has the knowledge and history to make this new system operational, safe and ubiquitous. In fact, they are the only ones who can make that claim. No other entity has the breadth or incentive to reach every financial institution regardless of size and charter. I do not believe any of the potential private sector solutions are likely to reach all financial institutions and with the same level of commitment to safety, transparency, equitable access, and ubiquity as the Fed.

In my view, there are six possible payments methods today: cash, checks, debit cards, credit cards, wire transfers and the ACH system. If the real-time payments system is developed successfully and matures over time, four or five of the six previously mentioned payment methods could become obsolete, maybe not by the end of my career, but certainly sometime in the future. Real-time payments could radically decrease the need for cash, checks would become virtually unnecessary, debit cards would be far less valuable, and ACH payments would decline significantly. Only credit card transactions, where the consumer is delaying payment to some point in the future, and large wire transfers (and there would be disruption even here if the real-time system became truly robust) would remain.

Because of this, real-time payments must be available to all financial institutions and it must function seamlessly across the system as payments are the backbone of banking. Only the Fed can guarantee that can happen.

There is a tremendous amount of hype in this space today. Fintech companies and the large banks are touting these services currently, but there is far more promise in the marketing message than is being delivered with actual functionality. The millennials believe that their Venmo payments are real-time, but we all know better. The system envisioned by the Fed addresses the shortfalls of the current products in the marketplace and will deliver a far superior experience than the hollow promises by current industry players.

Our bank has worked with our core processor, Fiserv, on attempting to integrate one of the marketplace solutions, Zelle, into our current operation. The costs and complexities of the interface being offered are off the chart and the risks of the current technology are significant. This isn’t a viable long term solution for my community bank.

Additionally, the Fed should offer a complimentary liquidity tool with the real-time payments service being considered. In the early stages, it will be difficult for banks to know potential volume and usage for such a system. Holding back idle cash waiting for a transaction to occur wouldn’t be the best use of our overnight funds. Rather, having a Fed provided liquidity management tool available would assist in the growth and development of a real-time payments product. Banks could be fully invested at the end of their traditional business day and yet serve the needs of their customers during the after hour periods where real-time payments could take place without having to worry about creating an overdrawn account at the Fed or their correspondent bank.

An additional benefit of the Fed taking the lead operation role in real-time payments is that it is uniquely suited to leverage all of the existing connections banks have in place to the Fed today. My bank is not directly on-line with the Fed, but rather we access Fed services through a bankers' bank. This channel has proven very efficient for us for many years, and I would like to use this type of connection to the Fed's real-time payments solution once it is developed.

In short, the system envisioned by the Fed will ensure that all banks and all consumers have equal access to real-time payments, just as they have had access to the other legacy payment systems over time. It is imperative that the Fed approve its participation in real-time payments and develop it quickly. The United States needs to be a world-wide payments leader, and the Fed can ensure that far into the future. Now is the time to act.

Sincerely,

Greg M. Ohlendorf
President & CEO