

Guaranty Federal Bancshares

December 14, 2018

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

RE: Docket No. OP-1625 Potential Actions to Support interbank Settlement of Faster Payments

Dear Ms. Misback:

Guaranty Federal Bancshares, Inc. (NASDAQ: GFED) and its subsidiary bank Guaranty Bank, hereafter Guaranty, appreciates the opportunity to provide comments regarding the Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments – Docket OP-1625.

In regard to the potential actions, Guaranty supports:

- that the Federal Reserve should proceed expeditiously to establish a Real Time Gross Settlement System (RTGS) to operate on a 24x7x365 basis;
- the position that the RTGS system be interoperable with other payment systems; and,
- that the Federal Reserve System should provide Liquidity Management Tools (LMTs) that would enable transfers between Federal Reserve accounts on a 24x7x365 basis.

Many banks support the efforts by The Clearing House (TCH) to establish a real-time payments system and we understand that some of these banks have expressed a concern that a similar effort by the Federal Reserve System could delay implementation of the TCH system. To insure meaningful value the payments network must be widely adopted leading to ubiquitous use. For both systems to obtain ubiquitous use they must attain interoperability so that payments from one system can be completed on the other.

We urge the Federal Reserve make and announce its decision immediately to develop a RTGS system to avoid potential delay of the TCH implementation. In addition, the Federal Reserve should assign capable management and commit adequate resources to implement an RTGS system. We support an aggressive goal of two years to have an operable system and that the Federal Reserve RTGS system be interoperable with other systems.

The United States requires RTGS systems to remain competitive with countries that have or are moving forward with RTGS systems. We believe benefits of The RTGS system includes the following:

- reduces counter party risks compared to other non-cash payment systems (checks, debit, credit) as payments are settled directly rather than netted one or more times a day;

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- the RTGS system reduces the window of time that sensitive information is exposed to cyber threats (checks, debit, credit and wire) reducing potential fraud opportunities;
- a robust and ubiquitous RTGS system will also lower unit transaction costs for business and consumers and could significantly lower costs for international remittances; and,
- while the speed and efficiencies of legacy payment systems have increased dramatically, RTGS establishes a completely new payment channel as compared to technology being applied to improve legacy payment channels. RTGS is truly a next generation payments system.

Multiple non-cash payment systems co-exist today and have interoperability between the Federal Reserve and the TCH systems. These systems will continue even as RTGS is introduced and gains market share and, like the legacy systems, a Federal Reserve RTGS system can co-exist with a private option. The Federal Reserve and TCH systems should be interoperable so that our industry and customers gain the benefits of competitive selection and competitive improvement as well as systems redundancy that reduce risks for service disruptions.

We believe establishing and maintaining an RTGS system is within the central functions of the Federal Reserve System. The Federal Reserve System performs five central functions: 1) conducts the nation's monetary policy; 2) promotes the stability of the financial system; 3) promotes safety and soundness of individual financial institutions; 4) fosters payment and settlement system safety and efficiency; and 5) promotes consumer protection and community development. The operation of a RTGS system facilitates and enhances the execution of all five of the Federal Reserves' central functions.

The redundancies of a Federal Reserve System RTGS and a TCH RTGS and the legacy non-cash payment systems protect against system failures and promotes the national and economic security of the United States. Because the Federal Reserve already has connections with more than 11,000 banks and credit unions the Federal Reserve's participation should decrease the time to reach end-user ubiquity to reap the full benefits of the new payment system networks. As a small community bank, we are in favor of action that creates competition on price, service and innovation.

The Liquidity Management Tools will facilitate payments under an RTGS system as well as under our legacy payment systems. The Federal Reserve's involvement will reduce the costs for LMTs by spreading the costs in a manner that is equitable to banks of all sizes as well resulting in pricing to reflect specific and systemic risks presented by participants. LMTs can also provide options for financial institutions participating in the RTGS system. With LMTs some banks could set operational hours while allowing settlements to occur on a 24x7x365 basis by drawing on one or more of the liquidity tools made available, including tools that work automatically. Other banks will find that setting internal operations to a 24x7x365 basis as more advantageous even after accounting for costs and will see reduced reliance on LMTs.

The payments access that banks provide for our individual customers, businesses and merchants is a core banking function. Consumers, merchants and businesses in general all benefit from competition in the banking sector to provide payments and related services. A Real Time

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Gross Settlement System presents a paradigm shift compared to legacy payment systems and this payment channel must be available for all banks. The importance of the Federal Reserve System for RTGS is that a Federal Reserve System option assures equitable access for all banks and assures that banks preserve payments access as a core banking function. Banks should remain gatekeepers to the payment systems because this central role contributes to the strength of the banking system which is foundational to our economy.

Community banks like Guaranty risk the loss of new generations of customers if non-bank payment facilitators gain a significant presence in banking services. Loss of gatekeeper status in payment systems would be detrimental to the safety and soundness of our banks. In addition, without a mix of global, regional and community banks many communities will be left behind as economic power and benefits become concentrated.

We respectfully ask that the Federal Reserve System move forward as expeditiously as possible to create and implement a RTGS system, provide for its interoperability with other payment systems and also proceed to implement liquidity management tools to reduce counter party risks, operating costs and to provide operational choices for banks regarding the RTGS system.

Sincerely,



Shaun A. Burke
President & CEO
Guaranty Federal Bancshares, Inc.