December 14, 2018

Federal Reserve Board
Secretary, Board of Governors
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Comments on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments; Docket No. OP-1625

Dear Ann Misback,

I am writing on behalf of Patelco Credit Union, which serves Northern California. We have over 320,000 members and over $6.2 billion in assets. Patelco appreciates the opportunity to provide comments to the Federal Reserve Board (Board) on its request for comments regarding Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

We applaud the Board's efforts to develop a real-time payment settlement system. In the 21st Century, consumers expect instant communication. The willingness of financial institutions to extend interbank credit has led consumers to assume the transmission of funds has also become instantaneous. When consumers encounter clearance times or other delays in instant settlement, these interruptions are seen as errors or incompetence. The longer the financial system takes to develop actual real-time settlement, the worse this annoyance will become. Consumers are already willing to spend significant money on services purely for their speed.

The Real Time Gross Settlement (RTGS) plan the Board has proposed covers all the requirements that are apparent at this point in time. Other factors may arise as research and development proceeds. But we need to move ahead with the best plans we have.

Any viable design must include certain minimum requirements. The Fed providing instant one-at-a-time settlement is only the foundation of a real-time system. Financial institutions will have to build delivery systems on top of the Fed clearance in order to provide real-time payments to the end consumers. Since financial institutions will work with a variety of third parties to develop their delivery systems, the Fed's system must allow for adaptability and a certain level of universal application. The sooner the Fed finalizes a design, the less likely financial institutions will either delay development or accidentally develop incompatible systems.

It will take time to develop the delivery systems. If it is possible, the Fed should roll out real-time settlement in phases that will allow the industry to build their parts in a step-by-step fashion. This scheme will also allow all the parties, including the Fed, to discover and correct unexpected consequences.

Developing new delivery systems will be an added expense for financial institutions, as will be opening up 24/7 operations to run them. These costs are likely to be seen as offset by maintaining competitive advantage. The Fed should build in ways for smaller financial institutions to participate at some inexpensive level, either by providing services in addition to just interbank settlement, or by allowing financial institutions some level of batching or other cost-cutting measures that will allow them to emulate instantaneous payment and still keep costs down.

We understand the Fed will probably need to pass the costs of building a new settlement system on to the financial institution users. Whether this will be user fees or some other form, the costs must be kept competitive for universal adoption. The fees should also come down over time as the volume of users increases.

Another must-have is information feedback to the financial institutions that will allow them to instantly notify the end users of the completion of the transaction. With no delay in the movement of funds, one of the only tools left to detect fraud is to notify and inquire of the parties when a payment is made. Thankfully a push system is less prone to fraud than the current pull system via ACH. It is vital the Fed include robust anti-fraud measures in its design.

Instant payments can create liquidity shortages at the end delivery financial institutions. The Fed is right to design a liquidity management tool to offset any such shortages. The tool under consideration would only allow a financial institution to temporarily move money between its own accounts to cover. Any such tool package should also include relaxed rules for short term borrowing from the Fed if the shortage outstrips the financial institution's original planning.

In summary, we are very glad to see this plan move ahead. We think the basic RTGS design under discussion has great promise. We look forward to working with you on getting the details right.

Thank you for the opportunity to provide feedback on this Request for Comments and for considering our views regarding potential actions by the Federal Reserve to support interbank settlement of faster payments.

Sincerely,

Jay Hartlove
Compliance Manager
Patelco CU

cc: CCUL