



Submitted electronically via email to regs.comments@federalreserve.gov

July 2, 2015

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Docket No. OP-1515, Enhancements to Federal Reserve Bank Same-Day ACH Service

Dear Mr. deV. Frierson:

On behalf of Wisconsin's credit unions[®] and their 2.6 million members, the Wisconsin Credit Union League welcomes the opportunity to submit comments regarding the proposed change to Federal Reserve Banks same-day automated clearing house (ACH) service.

The change would require receiving depository financial institutions (RDFIs) (which includes most credit unions) to accept same-day ACH transactions and make funds available to depositors by 5 p.m. Originating depository financial institutions (ODFIs) would pay an interbank fee of 5.2 cents to RDFIs for each same-day ACH forward transaction. This proposal would also incorporate NACHA - the Electronic Payments Association's recently adopted same-day ACH operating rules into Operating Circular 4.

We expressed concerns about NACHA's same-day ACH rules when they were proposed, and we continue to have similar concerns about the regulatory burden this change would impose on credit unions.

We generally support the objective – faster payments on the ACH network. However, we are concerned that requiring all RDFIs to receive and post same-day ACH payments would result in significant costs, especially for smaller credit unions. In light of our concerns, we respectfully ask the Reserve Banks to:

- Continue evaluating alternatives that could reduce the costs for same-day ACH, such as providing an exemption or opt-in mechanism for small financial institutions; and
- Evaluate higher interbank fees, especially for smaller credit union RDFIs that will incur higher costs relative to the few same-day ACH payments they are likely to receive.

Costs & burdens on small credit unions

To make same-day ACH possible, all RDFIs would have to upgrade their programming and data processing systems, conduct risk management, train staff (and in many cases add new staff), and update disclosures. In addition, requiring that same-day ACH credits be available by 5 p.m. would force RDFIs to devote more staff time to ACH processing.

The costs for implementing this proposal would be significant, but not all RDFIs would bear those costs equally; they would fall disproportionately on smaller institutions. As NACHA has previously stated, "smaller RDFIs incur most of

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these (ongoing operating) costs,” with their costs concentrated in staffing. In fact, NACHA estimated that 72% of smaller RDFIs’ operating costs associated with same-day ACH requirements would be for staffing and training.

As a result, Wisconsin credit unions – as small institutions – would incur greater expenses from this proposal than larger ACH participants would incur. As of March 2015, Wisconsin’s 159 credit unions had a median asset size of just \$32 million. At that size, a credit union is likely to have only about 10 employees in total (full- and part-time). Yet those employees are expected to handle not only ACH processing, but to provide all of the credit union’s other member services.

One of our credit unions summarized the staffing burdens of same-day ACH processing this way:

This poses an extreme compliance burden to credit unions as small entities that have limited staff who wear multiple hats to be able to process these items more than one time per day and meet the deadlines. The posting of ACH extends beyond just to the electronic payments person, but also to those who work in IT importing the files and those in compliance checking the ACH entries against the OFAC and other lists.

Despite incurring significant expense to implement same-day ACH, smaller institutions would generally receive few same-day ACH transactions. As a result, they would reap limited benefits from this change. That’s why so few smaller institutions offer the Federal Reserve’s current opt-in same-day ACH service. Based on December 2014 data from the Federal Reserve Banks, only about 110 financial institutions, including some credit unions, currently participate in this service.

Given that small institutions with limited resources would bear a disproportionate burden from this proposal – yet gain few benefits – we believe that the Reserve Banks should exempt small institutions from same-day ACH. The definition of a “small institution” could, perhaps, be set at those with \$50 million in assets or less, or it could be defined based on the number of ACH transactions an institution handles.

If not totally exempt, at least small institutions could be given the choice to opt-in – to send and receive same-day ACH payments if they choose. This would allow them to decide whether to participate in same-day ACH, depending on their payment needs, their resources, and their risk-management capabilities. Such an exemption would not materially affect the use of same-day ACH, since small institutions account for a very low proportion of accounts and ACH activity.

Fee income for RDFIs

We support the concept of an interbank fee, but we strongly oppose setting it at a mere 5.2 cents per same-day transaction. Because credit unions and other smaller financial institutions are typically net receivers of ACH, a fair interbank fee is necessary to help RDFIs offset their costs for same-day ACH processing. However, at 5.2 cents per transaction, the proposed fee fails to achieve the Reserve Banks’ stated purpose: to “equitably reapportion the initial implementation costs and ongoing operating costs between ODFIs and RDFIs.”

In NACHA’s proposal, it estimated that with an interbank fee of 8.2 cents per transaction, RDFIs would need an average of 11.5 years to recover associated costs. At a mere 5.2 cents (a reduction of 36.6%), we can assume that it would take even longer for RDFIs to recover their costs – likely close to 16 years. That is hardly an acceptable return on investment for any credit union.

The burden, once again, will hit smaller institutions hardest. Of course, all RDFIs would incur costs to add same-day functionality, as explained earlier. But the larger the RDFI, the more same-day ACH volume it can expect and the greater its interbank fee income would be. We are concerned that smaller credit union RDFIs processing a limited number of same-day ACH transactions would not be able to recover their costs at all, or their cost recovery timeframes would be substantially longer. In addition, if other faster payments methods (such as real-time payments) are implemented, that could lower the projected volume for same-day ACH and increase the length of the cost recovery period even more (since the proposal would not allow the 5.2 cents fee to be increased regardless of same-day transaction volume).

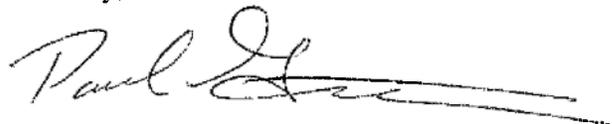
For those reasons, we believe that the Reserve Banks should re-evaluate the proposed interbank fee structure, especially for smaller credit union RDFIs that would incur higher costs relative to the small number of same-day ACH payments they would receive. Either the fee should be higher, or the Reserve Banks should work to develop a tiered interchange fee system that would more fairly allocate fees to smaller RDFIs, enabling them to accelerate their cost recovery.

Conclusion

While we support a system for faster ACH payments, we have concerns about the current proposal, particularly its impact on small institutions, like Wisconsin credit unions. We respectfully ask the Reserve Banks to consider alternatives that could reduce the same-day ACH costs for credit unions, such as providing an exemption or opt-in process for small financial institutions. We also urge the Reserve Banks to evaluate higher interbank fees, especially for smaller credit union RDFIs that will incur higher costs relative to the few same-day ACH payments they will receive.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Guttormsson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul Guttormsson
Regulatory Counsel & Director of Compliance Services
The Wisconsin Credit Union League