AlaskaUSA
Federal Credit Union®

July 2, 2015

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

Dear Mr. Frierson:

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

Alaska USA Federal Credit Union (Alaska USA) appreciates the opportunity to comment on enhancements that the Federal Reserve Banks (Reserve Banks) are considering to their current same-day automated clearing house (ACH) service. Alaska USA is a federally chartered credit union with $5.8 billion in assets, serving over 530,000 members.

We have reviewed the proposed enhancements and will offer comments on the Reserve Banks' adoption of the enhanced same-day ACH service with mandatory participation of RDFIs and an interbank fee by incorporating NACHA's amended operating rules into the Reserve Banks' Operating Circular 4 governing their ACH service. Specific responses to requested comments are outlined below.

A. Mandatory Participation of RDFIs – The Board requests comment on making receipt of same-day ACH transactions mandatory for all RDFIs.

While we agree that mandatory participation of RDFIs is necessary to provide support for the changes to the Federal Reserve's ACH service, there does not yet appear to be enough valid use or business cases identified to substantiate a clear cost-benefit analysis of same-day ACH transfers.

We further agree that consumers and businesses alike will benefit from real-time funds transfers; however, the new proposed ACH settlement times of 3 p.m. Eastern Standard Time (EST) limits the same-day settlement aspect of consumers, businesses and financial institutions based in time zones further west or northwest. Consequently, the new same-day ACH clearing window is only truly "same day" for submissions performed by an Alaska Originating Depository Financial Institution (ODFI) prior to 11 a.m. Alaska Time. This will limit the effectiveness of same-day ACH business and consumer originated transactions to a morning cut-off and, therefore, limiting same-day originations benefits. In addition, financial institutions operating outside Eastern Standard Time Zone will most likely incur additional cost to staff and handle these same-day transactions to comply with the cutoff and return timeframes. Furthermore, the security and fraud risks related to shorter clearing windows settlement times have not been fully analyzed or mitigated. An evaluation of Reg E, Reg CC and UCC is required to adequately ensure additional burdens are not placed on financial institutions that are already bearing substantial losses due to the strong consumer protection offered in those existing regulations. Additional compliance challenges will also be presented as they relate to dealing with SARS, OFAC, BSA/AML, etc. with less time to process in the proposed shorter settlement windows.

P.O. Box 196613 • Anchorage, Alaska 99519-6613
Phone (907) 563-4567 • (800) 525-9094 outside Anchorage • (800) 742-7084 TTY/Hearing Impaired

These changes are being driven by NACHA, which is attempting to use the channel in which it is a participant to solve the larger issue of faster funds transfer. In so doing, it fails to consider other existing payment systems that may already solve, or may more easily solve, the identified gaps in timely funds transfers. Debit cards already provide real-time goods funds transfer from a consumer standpoint and are processed per transaction, rather than in batch. Financial institutions already invested substantial resources in debit card payment networks to provide these services demanded by consumers. It is our opinion that building upon this existing infrastructure is more likely to meet the identified gaps in real-time funds transfer services for consumers. Moreover, many debit providers are already building interfaces and integrations to provide cross-network real-time funds transfers.

Accordingly, we recommend not forcing banks and credit unions to comply with mandatory new ACH settlement timeframes that result in only slightly faster settlement times. Rather, resources should be spent on providing transfer mechanisms that provide settlement using existing channels that support real-time, good-funds based transfers.

B. Interbank Fee – The Board requests comment on whether the interbank fee included in NACHA's amended operating rules equitably reapportions the initial implementation costs and ongoing operating costs between ODFIs and RDFIs.

We do not believe the NACHA's amended operating rules equitably reapportions the initial implementation costs nor ongoing operating costs between ODFIs and RDFIs. The economic analysis that led to the interbank fee was flawed in several ways.

The interbank fee unfairly benefits ODFIs by providing them pricing flexibility while forcing RDFIs to receive a fixed rate. It also uses too many assumptions to estimate costs, the cost recuperation is planned over an extended timeframe. Further, the interbank fee doesn't allow for timely adjustment of the interbank fee and it doesn't accurately factor in all costs that will be experienced by RDFIs.

Under the proposal, RDFIs will be required to support an infrastructure that primarily benefits ODFIs and their customers. The 5.2 cent fee paid to RDFIs is statically set by a governmental agency, while ODFIs will have the right to charge their customers market driven prices, which could be much higher and thereby further widen the gap in benefit to an ODFI versus an RDFI.

The economic model that determined the 5.2 cent fee is based on three factors in the formula. They are estimated cost, reasonable return and estimated number of transactions. Two of the factors are estimates and these estimates are based on survey data received from larger financial institutions. Since these estimates determine the RDFI fee, and these estimates are based on data input from larger financial institutions, it potentially skews the ACH fee towards the more efficient large financial institutions that have a distinct advantage of economies of scale over the smaller institutions.

Even if the results of the estimated costs are accurate, we believe the NACHA's initial stated goal of an 11.5 year timeframe to cover all related RDFI expenses is too long. With the lower interbank fee (from $0.082 to $0.052), it is now closer to an estimated 15.7 year payback period. ODFIs will be able to cover their expenses in a much faster timeframe as they can determine and set their pricing model; however, RDFIs will be forced to spend more resources in advance and it could take over 15 years to recuperate that investment. As a result, RDFIs will likely never fully recover their initial expenses. It is more likely that existing technological changes already in progress will result in other (non-ACH) interconnected networks providing immediate, good-funds based financial transactions in the near term (far less than 15 years). These changes will relegate same-day ACH transactions to niche use cases, like missed payroll deadlines, and the accompanying volume estimates will be lower, thereby extending the payback period. To fully understand what can occur in 15 years, one only need remember that just 10 years ago none of the following technologies existed: smart phones, tablets, NFC mobile payments, Low-Energy Bluetooth, EMV, P2P payments, QR codes, Apple Pay and so on. The rate of technological change is increasing, not decreasing, therefore, it is likely that many more changes will occur in the next 15 years.

It is also a flawed model to restrict the interbank fee from being re-evaluated for 10 years. A 15-year payback is already too long to recover expenses, and stating the fee will not increase, regardless of results, is a fallacy in design that does not accurately account for unpredicted volume. It is quite possible the volume will be low enough that the fee would have to be increased to accommodate even the 15-year payback timeframe. Moreover, smaller RDFIs will likely never receive enough volume to cover their initial and ongoing expenses related to supporting same-day ACH.

Finally, the economic analysis does not factor in the expected lost revenue financial institutions will experience from the availability of same-day ACH debit transactions. Merchants are already steering consumers to use cards linked to checking accounts, which transact via ACH. With a shorter settlement time, same-day ACH will function more like debit card transactions and consumers and merchants alike will likely increase reliance on this payment mechanism as a replacement to debit card transactions. Regulated debit interchange is currently $0.21 + 0.05% of the transaction. On a $100 transaction a financial institution would earn $0.26 for a debit transaction, but just $0.052 for a Same-Day ACH transaction. This $0.208 difference, multiplied by the potentially large volume of payments that could shift to this payments channel, will have a material impact on revenue streams for financial institutions. The shift is only likely to occur in the near term, before a larger technological or regulatory shift occurs that relegates same-day ACH to niche uses. However, the shift from debit to same-day ACH could have a material impact on the costs that financial institutions will experience as a direct result of implementing same-day ACH payments, and the resulting impact should be factored into any economic analysis performed.

Accordingly, assuming the new same-day ACH service is implemented, we recommend use of a much shorter review period to evaluate actual expenses compared to actual volumes in order to determine if any adjustments to the interbank fee are warranted. Secondarily, we strongly recommend removing the stipulation that the fee not be increased, as it is possible volumes will be low enough to warrant an increased fee.

Thank you for the opportunity to comment on the proposed enhancements to the Federal Reserve Bank Same-Day ACH Service. While we agree that faster funds transfers is a desirable goal, we do not believe that requiring RDFI participation in same-day ACH service has yet proven itself to meet the stated goals. Furthermore, the economic model of the proposed changes is almost solely in the best interest of large ODFIs at the direct expense of smaller RDFIs. Accordingly, we respectfully encourage the Federal Reserve System to consider not requiring mandatory RDFI participation in its same-day ACH service. If mandatory participation is still required, then the interbank fee must be reconsidered and include pricing flexibility in order to support smaller RDFIs' ability to recover related expenses.

If you have any questions, please feel free to contact me at .swanson@alaskausa.org or (907) 786-2898.

Sincerely,

Joel Swanson
Vice President,
Electronic Services