



NORTH AMERICAN BANKING COMPANY

June 30, 2015

Mr. 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

Dear Mr. Frierson;

Thank you for the opportunity to comment on the incorporation of proposed amendments to the Reserve Banks' Operating Circular 4 to facilitate implementation of the recently passed NACHA rule by modifying the current Federal Reserve FedACH same day service.

My comments are based on my experience as a former NACHA Board member who championed same day ACH prior to my second term expiring in 2010. My comments are also based on my industry experience as the CEO of a \$375 million dollar community bank that specializes in the processing a large volume of in-clearings on a daily basis for several regional money order companies as well as a large originator of ACH for use in the settlement process for those same money order companies. North American Banking Company is also a large originator of ACH transactions for third party payments processors and a founding member of the Third Party Payments Processors Association.

Mandatory Participation of RDFIs

A FedACH SameDay service should require mandatory receipt by all financial institutions. When Reg. CC and Operating Circular 3 were changed to mandate acceptance of same day check presentments, both presenting and paying banks were incented to find and realize new efficiencies in check processing procedures and technology. I believe the same market dynamics will occur only if participation in FedACH SameDay Service is made mandatory.

Interbank Fee

NACHA studied the interbank fee and I believe has put forth a proposal that was palatable to all members to insure approval of the rule, which I applaud. I believe the costs that NACHA studied exist for some receivers but not all due to the fact that banks have different levels of sophistication and customer needs. Some banks today are prepared to accept the marginal costs described in the proposal because they are minimal to their current operation. The reasons the marginal costs are minimal is that the procedures are in place currently at these institutions to handle multiple presentments of checks, wires, card transactions, settlement processes and even ACH transactions today.

I do not believe, however that the cost studies included the costs associated with the loss of deposit balances which will occur at most small and medium sized institutions. Industry wide this might be a transfer of balances from institution to institution with net result of overall deposits being unchanged. However, the transfer will not be equally distributed, but rather will result in a net gain of deposits to

those institutions who originate a large volume of debits relative to those, who do not. Therefore, I believe a typical community bank will have their deposits decrease day one, not to return, thereby reducing their excess overnight funds position permanently. Below is a calculation that estimates that changes in funding at North American Banking Company as an RDFI when the industry is fully operational with same day presentments using our actual ACH receipt activity for February 2015. The calculation assumes that 10 percent of credits will be processed same day and 90 percent of debits including 100 percent of the returns. The reason I use these numbers is that I believe most originators of credit entries have a plan for disbursements and will schedule accordingly. On the other hand most debit originators want to be paid as soon as possible. If the transaction can happen a day sooner industry participants will make it happen the same for return items. The calculation below does not include additional funding costs should the bank be required to borrow for their reserve requirement needs should their excess balances decrease significantly.

NABC Calculation							
Average daily number of ACH Items Received	1012.7		Fed Average balance	14,752,960			
Credits	506.35	50%					
Debits	506.35	50%					
Number of Returns Received	918.5		Net Debit Charge	14,752,960	0.019%	2,829.33	Lost Income
Dollar Amount Credits	19,328,966		Additional Financing	7,168,273	0.077%	5,498.95	Financing Charge
Dollar Amount of Debits	26,504,588		Net Change	21,921,233			
Dollar Percentage of Credits that could be a day earlier	10%						
Dollar Percentage of Debits that would be received earlier	90%						
Adjusted Debit Charge	23,854,129						
Adjusted Credit Charge	1,932,897						
Net Debit Charge Adjustment	21,921,233		New Fed Balance				
Numbers of Items received Same day	1,425						
Monthly	28,497		Receiver Income			1,481.84	
			Additional Income			(6,846.44)	

Below is a matrix that outlines several different income calculation conclusions given different combinations of percentage assumptions.

North American Banking Company Income Change Estimates per month using Same Day Settlement Assumptions							
		Percentage of Credits					
		0%	10%	20%	30%	40%	50%
Percentage of Debits	10%	499.59	922.95	1,346.30	1,769.65	2,193.00	2,616.36
	20%	43.95	467.3	890.65	1,314.01	1,737.36	2,160.00
	30%	-411.7	11.65	435.01	858.36	1,281.71	1,705.06
	40%	-867.35	-443.99	-20.64	402.71	826.06	1,249.42
	50%	-1,322.99	-899.64	-476.29	-52.94	370.42	793.77
	60%	-1,558.13	-1,355.29	-931.93	-508.58	-85.23	338.12
	70%	-4,420.73	-2,885.30	-1,387.58	-964.23	-540.88	-117.52
	80%	-6,401.30	-4,865.87	-3,330.44	-1,795.01	-996.52	-573.17
	90%	-8,381.87	-6,846.44	-5,311.01	-3,775.58	-2,240.15	-1,028.82

The numbers I used in the calculation are that of a very specific bank but I believe the calculation fundamentally applies to any financial institution that does not have a significant debit origination business. While the magnitude might be different the result is the same directionally, there are costs that a typical receiving institution will bear from the changes. The amount set forth by NACHA is a good start and over time will be driven down as the industry will use its ingenuity to become increasingly efficient with same day.

Again, thank you for the opportunity to comment. If you have any questions please feel to call me directly at 651-628-6626 or email at mbilski@nabankco.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael A. Bilski". The signature is fluid and cursive, with the first name "Michael" being the most prominent part.

Michael A. Bilski
Chief Executive Officer