

From: Iowa Bankers Association, Sharon Presnall
Proposal: 1515 - Enhancements- Federal Reserve Bank Same-Day ACH Service
Subject: Enhancements - FR Bank Same-Day ACH Service

Comments:

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Proposal: Enhancements to Federal Reserve Bank Same-Day ACH Service, Request for Comments [OP-1515]

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Submitted on behalf of the Iowa Bankers Association Payments Advisory Council

June 24, 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. Frierson:

The Iowa Bankers Association (IBA) represents 340 Iowa banks and savings institutions, from the smallest community banks to banks listed among the 10 largest in the U.S. Understanding that the payments system is evolving rapidly and recognizing the importance of the system to the banking industry, the IBA Board of Directors instructed the Association to form a "Payments Advisory Council" in 2011 to study and make recommendations on key payment issues.

The Council is made up of Iowa bankers that have and continue to serve on national level boards and committees including the American Bankers Association, Independent Community Bankers of America, NACHA, the Chicago Federal Reserve Bank regional board, and the SHAZAM Board of Directors (a regional electronic funds transfer network that serves in excess of 1600 banks throughout the country).

The IBA Payments Advisory Council is pleased to respond on behalf of the Iowa Bankers Association to the Federal Reserve Board's request for comment on same-day ACH services.

The Board requests comment on the mandatory participation of RDFIs. If commentators believe that participation by RDFIs should not be mandatory, the Board requests comments on why the Reserve

Banks' same-day ACH service should remain optional and whether there are non-mandatory alternatives to achieving ubiquity.

The Advisory Council believes that the Reserve Bank should incorporate NACHA's amended operating rules into the Reserve Banks' operating circular governing ACH service and believes that making participation mandatory is critical for its success. To restate what the Fed says in its RFC "achieving ubiquity without such a mandate is unlikely." Ubiquity is key to the successful economics of any payment product and creating ubiquity through mandatory rule changes is nothing new in the ACH world. It was economically challenging when NACHA went to an all-electronic ACH in the 1980's but it was necessary in order to keep pace with an evolving marketplace. The banking system currently has an advantage in the payments space - and the ACH network provides the interoperability, ubiquity and consumer acceptance that connect payments in a way that no other can today. Continued innovation, however, is essential if we are to remain relevant in the future. Since the original failed vote on Expedited Processing and Settlement (EPS), NACHA has built a compelling case for its new rule by recognizing and providing sufficient value to originators, certainty around funds availability, and a method to offset implementation costs for RDFIs. The Advisory Council does not believe there are better alternatives to achieving ubiquity.

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.

The Advisory Council believes the fee equitably reapportions the initial costs of implementation and ongoing operating costs and that a strong case can be made for increased economic value for both parties. Originating financial institutions have the opportunity to create consumer value for same day products, expedited bill payments through on-line banking, person-to-person and account-to-account payments, just-in-time supplier payments and other premium small business services both existing and yet to be developed. Earlier availability of funds can also add revenue for ODFIs. RDFIs always realize earnings from the deposit of credits even with a day earlier release of funds and the interbank fee compensates RDFIs for backroom updates and the cost of managing two new settlement windows per day.

Financial institutions are at a crossroads: the industry must evolve or risk becoming irrelevant. According to the Millennial Disruption Index, millennials believe payment innovation will come from outside their bank, with nearly half showing more confidence in what unregulated start-ups and technology companies will add to payments than what their bank will add. If customers are not asking their bank for faster payments, it may be because they are already finding solutions outside the banking industry. We believe financial institutions provide the safest and best option for moving money and now we must demonstrate that we can also provide value-added innovation that will benefit both the banking industry and the public.

The Advisory Council believes this proposal is an achievable, near-term solution that provides a bridge to the longer term goal of real-time retail payments. Incremental progress often helps provide a glimpse into what the future can hold and we believe this change is a forward move to that end. The Iowa Bankers Association Payments Advisory Council appreciates the opportunity to comment on this important proposal for same day ACH service and encourages its adoption by the Board of Governors of the Federal Reserve.

Members of the Iowa Bankers Association Payments Advisory Council:

Scott Bauer - First National Bank, Ames

Steve Goodenow - Bank Midwest, Spirit Lake, Iowa

Ron Hansen - Liberty Trust & Savings Bank, Durant, Iowa

John Henk - MidWestOne Bank, Iowa City, Iowa

Greg Kistler - – Central Bancshares Inc., Muscatine, Iowa

Jeff Plagge – Northwest Financial Corporation, Arnolds Park, Iowa

John Sorensen - Iowa Bankers Association, Des Moines, Iowa

Bob Steen - Bridge Community Bank, Mount Vernon, Iowa
Abe Tubbs - Onward Bancshares Inc., Maquoketa, Iowa
Susan Whitson - First National Bank, Waverly, Iowa