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November 7, 2019

Ms. Ann Misback, Secretary
Board of Governors of the Federal Reserve
System 20th Street and Constitution Avenue NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Docket No. OP-1670
Dear Ms. Misback:

Oxford Bank appreciates the opportunity to provide input on the Federal Reserve Board's planned development of a 24x7x365 real-time gross settlement service, FedNow.

Oxford Bank is a \$480 million asset size community bank located in Oxford, Michigan. Our purpose in writing is to communicate that our desire is to ensure all community banks and their account holders have nondiscriminatory access to an open, standards-based U.S. payments system (card, real-time ACH, faster payments, future systems, etc.). Without such access, small to mid-sized financial institutions will become disenfranchised from the payments system and be forced to utilize the proprietary systems of their competitors. This will put small to mid-sized financial institutions at a disadvantage and restrict their ability to compete.

Oxford Bank appreciates the Fed taking the initiative to bring FedNow to market and bring the industry together to collaborate on improving payments systems. The result is a solid foundation for the future of payments. As noted in the Strategies for Improving the U.S. Payment System, the Fed plays an important role in enabling innovation and promoting a safe, efficient, and broadly accessible U.S. payments system.

Oxford Bank strongly believes in industry collaboration to advance payments initiatives. To this end, we ask the Fed to work closely with the ICBA and the newly formed U.S. Faster Payments Council to address the issues identified in this letter

Timing and Functionality

The U.S. market for faster payments is strong and growing quickly. Specifically, community banks and their clients are seeing a growing business need for FedNow. OXFORD BANK urges the Fed to act quickly to develop a real-time gross settlement service. Community banks cannot wait until 2023 for this service.

Interoperability

Interoperability is important to assure open, nondiscriminatory access to the faster payments systems by customers of all financial institutions. Further, interoperability should be available at FedNow's launch or shortly thereafter. If interoperability isn't available upon launch, choice will be limited, and institutions will have to join other networks to achieve ubiquity of access.

There is some precedent for this approach (e.g. FedWire), the clearer and faster path to ubiquity will involve interoperability of private and public sector faster payments solutions. This will require the Fed to work directly with the private sector operator(s) so interoperability among systems can exist immediately. This methodology must also enable new and innovative solutions to ensure ubiquity and security.

Oxford Bank also believes the Fed, the ICBA, and the U.S. Faster Payments Council and its member organizations should work in parallel to develop mutually agreed upon uniform operating standards. The implementation and enforcement of these standards will help ensure a competitive landscape in the future and the continued existence of small to mid-sized community banks.



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Specifically, the Fed should require that all FedNow participants have the ability to send and receive credits to all other participants. This requirement would prevent an organization from joining FedNow in order to only push credits to community financial institution endpoints without offering the reciprocal service to receive credits.

Governance Model

The Fed has done an exemplary job in planning, facilitating and executing the actions of the Faster Payments Task Force and Secure Payments Task Force. As noted, the lack of uniform standards and rules to the faster payments system has led to a fragmented U.S. payments system. Present day standards, laws and regulations are not sufficient to provide the momentum needed for the rapid adoption of faster payments solutions.

The Fed should work closely with the U.S. Faster Payments Council and accredited standards bodies like the International Standards Organization and the American National Standards Institute to advance the development of an inclusive governance organization. This action will ensure the proper development and enforcement of uniform technical and operating standards. Such a structure will allow the benefits of competition to all financial institutions and their customers which is consistent with the values expressed in the Faster Payments Task Force's final report. The result of such a system will assure nondiscriminatory access and ultimately result in ubiquitous interoperability of the faster payments system.

A precedent exists that proves the effectiveness and workability of this solution. Nacha, and its public/ private partners successfully govern the Automated Clearing House operating rules. The Fed ACH Operating Circular makes the Nacha rules binding on the Fed as an operator. We believe a similar structure can work in a real-time gross settlement system.

Core System Access

The availability of FedNow doesn't necessarily mean it will be immediately usable to financial institutions. Most community banks will gain access to a faster payments system directly through their core provider, which can be a barrier to payment system advancement. Often there are large connection fees, unreasonable project timeframes, or an exclusivity relationship to a preferred core provider. The Fed must not lose sight of this potential impediment to ubiquitous implementation. We encourage the Fed to work directly with the ICBA and the U.S. Faster Payments Council, core providers and other organizations to identify and remove barriers to implementation.

Directory

A major obstacle to ubiquitous payments is the enrollment process. Existing solutions, which may or may not provide the same quality of service, have an advantage because of the users and accounts already enrolled. For this reason, easing the enrollment and day-to-day usage burdens for a new payment type will be critical. Implementing solutions that require sensitive account credentials be shared and transmitted among several parties exposes the system to unnecessary risks. This situation can be resolved by the creation and/or adoption of a directory service.

Recommendation 4 of the Faster Payments Task Force Final Report Part 2 calls for identification and development of an appropriate design for directory services that allows payers to send payments across faster payments solutions by using a non-personally identifiable information identifier as an alias. Serious consideration must be given to using an email or phone number as an alias. Today, many consumers have relationships with multiple financial institutions and enrollment of single phone number or single email address should not "lock out" the use of the alias from other financial institutions. Nor, should consumers be required to manage multiple aliases. OXFORD BANK believes establishing a faster payments directory will ease the enrollment process, make day-to-day transacting simpler for users, and reduce the need for users to share sensitive account credentials within the system.

Our position also aligns with the Effectiveness Criteria regarding "Usability," which states, "[t]he Solution should enable an Entity to initiate a payment with limited information (e.g., with a name, email address, and/or phone number) as appropriate for each use case and in a way that sufficiently supports receiver Authentication" and Effectiveness Criteria for "Security," which states that "[t]he Solution should have controls and mechanisms to protect sensitive information needed for Account setup, transaction setup and problem resolution from unnecessary disclosure. For example, the Payer and Payee should not need to know each other's Account numbers or other sensitive information to initiate or receive the payment."

Implementation of a multi-purpose directory can be accomplished in many ways and there are several challenges that will need to be addressed. Financial institutions want a neutral intermediary, not a market competitor. Using an alias will also provide security and privacy of customer financial information regardless

of who provides the service. Financial institutions and end-users will be reluctant to allow private financial information to be stored at a central database or directory. The Fed should work with the U.S. Faster Payments Council to help facilitate the development of a flexible directory ecosystem that allows equal access to financial institutions or their designated service providers. This will ultimately result in maximum choice and flexibility for consumers within the faster payments system.

ISO 20022

ISO 20022 has emerged as the global standard for payments, and we fully endorse its use in developing FedNow. Because ISO 20022 offers several options, we specifically recommend this transacting framework be implemented in a manner consistent with the Real-Time Payments Group market practices. This will ensure FedNow's implementation of ISO 20022 messages are consistent with the implementation methods of other real-time payments operators in the United States, easing the path to interoperability.

Credit Push Transactions and Transaction Limits

The Fed has indicated the FedNow solution will leverage push payments (also referred to as "credit" transactions). One advantage of push payments is reducing the need for consumers to share sensitive account credentials in order to make payments. In its launch, OXFORD BANK supports basing FedNow on credit push transactions. However, as the system matures, it may be necessary to revisit this situation depending on market conditions.

Similarly, transactions limits should be set based upon competing products when the service is launched. Currently, the private sector operator has a \$25,000 transaction limit that's likely to be increased to \$50,000 to \$100,000 within the next year. FedNow should ensure transaction limits set at launch and as the product evolves are competitive with other solutions. The \$50,000 dollar level would be more in line with also supporting the faster payment needs of small businesses.

Real -Time Payee Account Validation

Another important security-related consideration is whether the system should include real-time confirmation of the validity of the receiver's account. Oxford Bank has observed that social engineering and other forms of deceit can be used to cause consumers and business users to send funds to the wrong account. Many existing push payment systems, such as the push to debit card, have implemented a form of account validation. This functionality reduces errors in payments, prevents certain types of fraud, and increases consumer confidence in using these systems. Additionally, it's assumed, as with all forms of payments, there will be fraudulent use of the system and a need for dispute services.

Request for Payment Feature

We support making a "request for payment" feature available as part of the initial FedNow implementation. This can eliminate some of the uncertainty that exists when pushing funds from one account to another. With the request for payment feature both parties are able to identify each other prior to releasing the funds through an irrevocable credit push transaction. This feature could be most effectively serviced through the use of solution providers directly connected to financial institutions or by the financial institutions directly.

Master Accounts

OXFORD BANK supports FedNow transactions settling through master accounts as this will provide the maximum amount of liquidity and flexibility for community banks. Although not all community banks will have access to a master account, this won't inhibit their participation as correspondent. Service provider organizations can be utilized, similar to the existing payments infrastructure.

Accounting Regime

While many organizations will prefer using a seven-day accounting regime, Oxford Bank recommends the Fed develop a methodology for institutions that want to stay on a five-day accounting regime to ensure choice and flexibility. Allowing financial institutions continued use of a five-day accounting regime, in which weekend transactions are recorded and reported on the day they occur but not requiring financial institutions to staff 24/7/365 is a level of flexibility necessary for community banks.

Liquidity and Daylight Overdrafts

We support the Fed providing liquidity flexibility through daylight overdraft and discount window availability. We are in favor of any structure that brings more community institutions into the fold and this flexibility would be positive.

Fee Structure

As noted in the announcement, the Fed is considering a fee structure that could include a combination of per-item fees, charged to sending and potentially to receiving banks, and fixed participation fees.

Separate per-item fees could also be charged for other message types offered in the future. Similar to the Fed's role as an ACH operator, Oxford Bank supports structures that allow the Fed to meet statutory requirements, permitting community banks to be competitive, and not be materially different based on volume.

Fraud Prevention Services

We agree the financial institution or service provider should be the primary mechanism for fraud detection and prevention using neural network services. However, we support the Fed's efforts to facilitate the industry in sharing information at a network level such as identifying bad actors. This effort will greatly help the safety and security of the product.

Conclusion

The Fed needs to make features available that allow FedNow, and community banks, to effectively compete in the real-time gross settlement space. Additionally, we urge the Fed to continue to work with the industry through outreach and engagement with the ICBA and the U.S. Faster Payments Council as well as accredited standard bodies such as ISO and ANSI to continue faster payments advancement and help ensure the country's economy is properly served.

It's an exciting time in the evolution of the payments system, and we support the Fed's leadership in providing interoperable and nondiscriminatory access for community banks.

Oxford Bank appreciates the opportunity to comment on this critical issue.

Sincerely,

/s/ David P. Lamb

David P. Lamb
President and CEO