



PAYNE COUNTY BANK

202 SOUTH MAIN * P.O. BOX 579 * PERKINS, OKLAHOMA 74059
(405)547-2436, Ext 15 * fax (405) 547-5389 * www.PayneCountyBank.com

Lisa Smith
Executive Vice President
Ph. (405) 547-4815 Fax (405) 547-4865
Lisa@paynecountybank.com

December 14, 2018

Federal Reserve Bank

Re: OP-1625 – Potential Federal Reserve Actions to Support Interbank Settlement
of Faster Payments, Request of Comments

Federal Reserve Bank:

For small community financial institutions and the public as a whole, I believe it is imperative that the Federal Reserve enter the field as a faster payment service provider to ensure competitive fairness, which is essential to fostering end-user choice and innovation across the financial services sector as a whole. The Federal Reserve is uniquely positioned to offer the service and ensure that it is accessible to all eligible banks on an equitable basis, and through the eligible banks to the public nationwide.

For many years, the Fed has served as a payment/transaction service provider for wires, ACHs, and check/images. In this way, the Fed has acted as a check on the private sector, and the availability of Fed's service alternatives has led to a more transparent, competitive, and equitable playing field for the payment system. Currently, the only payment rail the Fed has not supported is cards: exactly where we have historically experienced unfairness with regard to pricing, rules, standards, and accessibility.

Ubiquity and interoperability are two of the Fed's aspirational goals in its roadmap for a future payments system. Without a strong public alternative, The Clearing House is positioned to monopolize the push to real-time payments. On the strength of its big bank ownership, TCH is able to effectively curtail the entrance of new private sector operators to the faster payments universe, and discourage interoperability between platforms, all to the end of thwarting system ubiquity. By contrast, the market will more easily achieve ubiquity with the Fed's direct reach to more than 11,000 financial institutions. Without Fed participation as a faster payments service provider, its desired outcome of system ubiquity is less likely to occur.

During times of stress, it is imperative to maintain the public's trust and confidence in the financial system. The Federal Reserve alone has the ability to proactively ameliorate global disruptions in the system. For example, during the 9/11 crisis, the FRB stepped up to the plate with liquidity and transaction operator assistance, whereas the private sector's paper check systems were stopped dead in their tracks. Without the Fed's action, consumer confidence and the economy as a whole would have been even more adversely affected.



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As a real-time operator, the Fed can provide a parallel system to the private sector resulting in much needed redundancy and resiliency.

Community financial institutions have liquidity management needs that are much different from their big-bank brethren. With the Fed as a transaction operator, community banks would be enabled to manage their own settlement (as we do on other payment rails) without being forced to give control to larger institutions. This would also allow each community financial institution to use the correspondent of its choice to manage its 24/7 liquidity needs, and permit them to request that their balances be used for reserve requirements, and that interest be paid on static balances (as is done today with EBA accounts).

The Fed should immediately enter the field as a faster payments service provider. Delay will discourage community banks from offering new products and services based on a new real-time rail. In short, community banks will be disadvantaged without a Fed option.

TCH's real-time product is encountering many production and implementation issues, and that's just working with its large institution owners. In the view of TCH and its big-bank ownership interests, small banks are merely an afterthought, and will have no meaningful role in rule-making, pricing and interoperability determinations.

This lack of diversity and transparency will degrade the payments industry, and the public's confidence in it. The market needs real choice. If history has taught us anything, it's that the big-bank segment of the industry will not create a fast, secure, ubiquitous and fair payments system if left to its own devices.

Finally, it would greatly benefit small community financial institutions if the Federal Reserve could implement fraud prevention services that provide tools to detect fraudulent transfers, which would be needed 24x7x365. Many small community financial institutions would not be positioned to develop their own fraud detection service tools nor would staffing allow for 24x7x365 monitoring. This would likely limit the adoption by many small community financial institutions, thus limiting the number of institutions that would choose to offer the service.

Sincerely,

A handwritten signature in black ink that reads "Lisa Smith". The signature is written in a cursive, flowing style.

Lisa Smith
Executive Vice President