

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

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Comment ID: 133028

From: Mount Vernon Bank & Trust Co., Craig A. Smith

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Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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Comments:

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We are a very small, well-capitalized community Bank in east-central Iowa. While we pride ourselves on offering safe, cost-effective (free) technology platforms and services to our customer base, our ability to offer competitive P2P and other payment services beyond traditional ACH and Fedwire are becoming critical to our survival.

We find that our customer base has been requesting these services and are already finding these services through alternatives such as Venmo, SquareCash, PayPal, GooglePay, Zelle, etc. While many of these services already work for our customers through our supplied Debit cards attached to their accounts at our Bank, we fear that someday these competitors will offer depository services directly to our customers. Not only will we lose out on the payment stream, but customers themselves as they find it more convenient to "Bank" with the Fintech players and close their unneeded accounts with us. It will only be a matter of time before these Fintech players offer additional traditional banking services such as loans and wealth services. This will put small financial institutions at a competitive disadvantage and could spell the end of community Banking, other than very niche players of sufficient regional size and technical capabilities.

Time is of the essence. I can certainly appreciate the time and effort spent by the Faster Payments groups to date, but from participation in a regional Town Hall meeting, I understand there may be a 3-5 year plan to offer real-time payment systems through the Federal Reserve. I am very sure the quick progression of payment systems offered by third parties will pass us by during this waiting period and community banks will lose a significant portion of their customers and ultimately balances that we use to fund loans and invest in our respective communities. Similar to the word Google, the word "Venmo" is already being used by our customers as a \*verb\* rather

than a \*noun;\* as in "Hey, let me Venmo that \$20 to you" We simply can not wait for the Fed to develop solutions while splintered FinTech offerings take away our vulnerable market base.

To directly answer questions in the docket:

Questions 2 and 4:

Yes. We agree there should be 24x7x365 settlement of payments. For community banks this type of system would mean equal and fair access to real-time payments and real-time settlement, offering choice and flexibility in the faster payments ecosystem. The Federal Reserve providing RTGS is absolutely essential to the future of community banking. If the Fed does not provide this service, community banks and credit unions will be forced to give up their information to be serviced by solution providers

owned and controlled by the largest financial institutions in the country. When faster payments are concentrated through a single solution provider, community institutions will lose choice and innovation will be hampered. A community financial institution's ability to efficiently and effectively manage an RTGS system would require a liquidity management tool. We applaud the Fed for recognizing this important element of this service. The result will be better service to accountholders and businesses.

Question 3f-i:

Yes. We strongly believes the Fed must provide an open and interoperable directory service (database) that payment and financial service providers and financial institutions can access to determine how to route a faster payment. This directory would allow payments to perform as text messaging does now. Consider how individuals can send and receive text messages, regardless of the carriers used on either end of the text message. If the Fed does not provide a directory service in which all faster payment solutions can integrate, the ability to determine how to access consumer accounts will be controlled by a single solution provider. Community institutions will lose choice and innovation will be hampered. We believe such a directory is vital for establishing interoperability. It would provide all institutions access to real-time payments - regardless of their solution - further encouraging the adoption of real-time payments among all financial institutions.

Question 3g:

It's critical the Fed understand that the faster payments system, as it currently exists, is fragmented. This fragmentation restricts access, limits competition and creates a burden for community institutions. As a result of this fragmentation, many community institutions, in order to serve their customers and members, may be forced to sign up for an option, like Zelle which is owned by the nation's largest banks. Obviously, this relationship presents tremendous risk to the community financial institution, as taking this step will provide customer information to a consortium of the country's largest institutions. We don't believe it's acceptable for community institutions to have to "default" to using these applications and technologies to meet the needs of their customers. Community institutions will lose choice and innovation will be hampered. Some would argue that allowing, or even promoting, this relationship is advantageous as it helps achieve ubiquity. However, if ubiquity is achieved by forcing community institutions to use the large bank consortiums then the public's payment needs are not properly being served. Only ubiquity obtained through multiple service provider interoperability properly serves the public's payment needs.

Thank you for offering this chance to submit comments on the Fed's faster payments initiative and the development of 24x7x365 Real Time Gross Settlement (RTGS) services. You may have received comments from SHAZAM on this issue. We concur with SHAZAM's position on faster payments which I have summarized above.

Sincerely,

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