



OKLAHOMA BANKERS ASSOCIATION

ROGER M. BEVERAGE
PRESIDENT & CEO

We Make Bankers Better!

November 6, 2019

Ms. Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Notice: Docket No. OP-1670: Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Good Morning:

We appreciate the opportunity to present these brief comments in response to the notice regarding the Federal Reserve's action to support interbank settlement of faster payments.

As the consolidation wave continues to work its way across the Heartland, we are seeing evidence of its impact on Oklahoma communities every day. As of today, there are 199 Oklahoma bank charters operating in our state, with nearly 1,500 locations. The OBA represents 97 percent of those in-state banks plus 17 banks headquartered in other states. These banks collectively account for approximately 95 percent of total bank deposits in Oklahoma.

Most banks in our state are small, traditional community banks, each with a dozen or so employees. 73 of our banks hold less than \$100 million in total assets and have locations in one or perhaps two communities. In addition, our state's banks employ more than 25,000 Oklahomans.

The Fed's recent announcement of its intention to develop and operate "FedNow" – a newer, faster real-time payments system (RTPS) to facilitate interbank funds settlement was welcomed enthusiastically in our state. This new offering by the Fed will allow consumers and commercial customers of all shapes and sizes to make payments that will be credited to the receiver's account immediately. Importantly, it will also member banks a choice as to which system is the "right" one for any given member bank.

Oklahoma bankers are focused on three key issues: interoperability, access exclusivity and making certain core service providers have the ability and capacity to process essential transactions like accepting deposits, making loans, and initiating payments.

Interoperability

Oklahoma bankers believe one of the most important aspects to be considered in developing FedNow is **interoperability**. If the intent is to develop a ubiquitous payment

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system, then originating a transaction on one payment rail and enable it to be completed on another is essential. This decision should not be delayed, but should be prioritized

The current ACH system where a transaction can be originated using FedACH and can then be received by the private sector's Electronic Payment Network (EPN) is precisely what Oklahoma bankers believe is essential if FedNow is to be successful. Even though the Fed suggests that interoperability is simply a goal, and governance issues makes it unlikely to happen on Day One of FedNow operations, its importance to traditional community banks cannot be overstated.

In today's marketplace, there is another system that's owned by the nation's largest banks. The Clearing House operates a Real Time Payments Network (RTP) today. We are told it reaches more than 50% of deposit accounts in the U.S. right now.

The Federal Reserve has indicated that interoperability is not likely to occur before 2024. Oklahoma bankers' concern is that if interoperability is not achieved, there will be two parallel systems that cannot exchange transactions, operating on an "interim" basis. Such a result will, we believe, increase the costs for all banks, a cost that will fall disproportionately on traditional community banks.

Oklahoma bankers encourage the Fed should make every possible effort to assure that FedNow can "talk" to The Clearing House system on its first day of operations. A seamless internetwork payments system will result in a better customer experience, increase the attractiveness of both networks to end users, improve the efficiency of the payments system as a whole, and ultimately bolster FedNow's chances of success.

Exclusivity

Oklahoma bankers strongly believe access to FedNow should be limited to financial institutions that are chartered by state and federal authorities, have federal deposit insurance, and maintain sufficient capital as required by federal banking regulators. In addition, access should only be given to such institutions that are required by law to comply with rules and regulations intended to provide important safeguards for consumers and assure a safe and sound operating environment.

This is the way the system works now. Financial institutions are the only entities allowed to access Federal Reserve Payment Systems as established by Federal statute. These laws are designed to, and effective in, protecting the payment system. Allowing non-bank entities to have direct access to FedNow will introduce risks that are not acceptable to the payments system.

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Managing Core Service Providers

Most banks in the U.S. rely on core service providers to process essential transactions like accepting deposits, making loans, and initiating payments. The reliance on core service providers can be problematic when their performance suffers and implementation deadlines are missed.

We encourage the Federal Reserve to require significant commitments from the core service providers. Bankers' collective reality is that large technology projects can become delayed when not enough time is allowed for testing and implementation. Core service providers and their bank customers should be kept informed about what is expected or will be required of them, as well as the progress of the overall development of the new system.

In an effort to accomplish this goal, we ask the Federal Reserve to make an early commitment to provide all system requirements and technical specifications to the core providers well in advance of the implementation deadlines. By doing so, it will enable the core service providers to bring all of their customers online by the due date.

Thanks again for this opportunity to provide you with a few thoughts about FedNow, its importance to our member banks and suggestions for creating a seamless Real Time Payments System for our nation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ann Misback".

President & CEO
Oklahoma Bankers Association