



July 15, 2019

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

By email to regs.comments@federalreserve.gov

Re: Docket number, OP-1664, Enhanced Same Day ACH processing

Dear Ms. Misback:

Please accept the following comment from Reinvestment Partners.

We support the proposed extension of daily operating hours of the Fedwire Funds Services (“FFS”).

Reinvestment Partners is a non-profit 501 c 3 agency in Durham, North Carolina. We work to enhance the opportunity for underserved consumers through a “people, places, and policy” strategy. As a HUD-certified housing counseling agency, we provide pre-purchase and mortgage loan modification services, free VITA tax preparation, nutritional incentives for SNAP recipients, and market basic bank accounts. We rehabilitate low-cost rental housing.

We also pursue policy work, including efforts to improve the payments system. RP is a member of the Faster Payments Council and holds a three-year term as a consumer interest segment representative to the FPC’s Board of Directors.

The Federal Reserve’s payment services equalize the playing field among financial institutions, enabling smaller banks and credit unions to provide the same functions as are offered by the largest banks. When the Federal Reserve requests comment on its potential role as a faster payments operator, we voiced our strong support in favor of the idea. We feel similarly about the Federal Reserve extending an additional same-day ACH service window.

We see many advantages to adding another same-day window.

An additional same-day settlement window would have the practical effect of increasing the benefit of same-day ACH among financial institutions serving end-users on the West Coast. Under the current standard, operators have until 10:30 AM EST to submit a request for payment during the morning window and until 2:45 pm EST for the evening window. As a result, the last submission on the West Coast has to occur before noon. End-users must submit requests for same-day ACH transactions to their financial institution before the window closes within enough time for their financial institution to turn around account holder’s payment

request. An ACH employer end-user in California, for example, might have a 9 am PCT deadline to submit same day ACH to meet the submission deadline for the last processing window.

In a survey of its member financial institutions, the regional payments association WesPay found that the number of ODFIs who would originate same-day ACH transactions with a later window¹. NACHA's perspective², which opines that a third window would reduce constraints on the system by allowing more flexibility to fulfill more requests later in the day, is well-reasoned and underscores the logic that connects the third window to greater systemic efficiencies.

We acknowledge the concerns outlined in the request for comments stating that some banks may be challenged to complete their work in the new shorter times between windows, and while we cannot say with certainty, we believe that advances related to automation and information technology could overcome these hurdles, even at smaller banks and credit unions.

We believe that all end-users (consumers and businesses) will derive advantages from the creation of an additional window. There are many use cases for same day settlement:

- Expedited bill payments of credit card payments (P2B), utility payments (P2G), rent (P2B, P2P), mortgages (P2B, B2B), car loans (P2B) and other obligations where the failure to meet a payment due date would result in a penalty. Consumers frequently need to wait to receive wages before they can make these payments. If a person gets a paycheck during the workday on Friday but cannot access their bank account until after 5 pm, then the availability of the third window could make the difference between a late fee or the shut-off of their home utilities.
- End of the day payments for services by freelancers and independent contractors (B2P). In our region, many laborers in the trades do not receive payment by direct deposit. Many receive their compensation at the end of the week for work that may have been completed on the same day. An example is the landscaping crew that distributes pay to a group of unbanked contractors at the end of the day on Friday. For these workers, there is a strongly felt need to access pay immediately after the end of the workweek, as many have little or no savings. They need their funds quickly; otherwise, they will not have money over the weekend. Currently, these workers are either paid in cash or check. They would benefit from having the ability to have their pay deposited digitally into their account after 5 pm.
- Refunds (B2P, G2P, G2B) to debit cards that are processed outside of a card network can take weeks to process.
- Non-wage compensation including bonuses or expense payouts.
- Insurance claims: consumers and business never stop filing claims. They need fast settlement on a 24 by 7 by 365 basis. The ability to provide a payment later in the day will rectify requirements for funds in an emergency.
- Commissions: Companies like to pay commissions in batches, but most mail checks instead of paying by direct deposit. I regularly speak with organizations that want to pay commissions electronically. Currently, they must resort to using complicated closed-loop reloadable prepaid debit cards that have special back-end batch payment-processing software.
- Businesses need to close their books at the end of the day or the end of the week. Companies that stay open later would need to set aside less money to cover liquidity needs of their accounts receivable could settle sooner, leading to an overall net gain in efficiency on the use of capital.

¹ WesPay. December 1, 2017. Expanding Same Day ACH. <http://bit.ly/30pAfNg>

² NACHA. Expanding Same Day ACH. <https://www.nacha.org/rules/expanding-same-day-ach>

Gig economy workers need same day settlement throughout the day. A third window would probably be the most valuable time of all. To mention one example among many, consider that there are 400,000 owner-operator independent truck drivers³ in the United States. They find work by bidding for single-haul contracts. They receive pay when the recipient verifies delivery. Those drivers would benefit from a third window. We feel that most finish their “runs” at the end of the day, most likely after the last same-day ACH window. While Uber and other large gig-economy companies do make pay available to freelancers immediately, they only do so because they have contracted with third-party early wage vendors. Smaller companies are not adopting these services because of the high implementation costs. By extending its window to later in the day, the Federal Reserve would level the playing field among employers.

Conclusion

In general, our payments systems are at risk of falling behind those in other countries. We have been slow to take advantage of digital technologies. Other countries, including some lesser-developed economies, already have widespread adoption of real-time gross settlement systems.

In particular, financial institutions on the West Coast would be able to offer more value to their end-users with the option for a later window. It could also add value for financial institutions that serve clients in the Asia Pacific region.

An additional window could help with the integrity of the payments system. A third window might give financial institutions more time to review flagged transactions.

Since its arrival in 2016, businesses and consumers have exhibited demand for same-day ACH settlement. Moreover, the pace of its utilization is growing; on a quarter-over-quarter basis, use of same-day ACH settlement increased 243 percent in q2 2018 versus the same quarter a year earlier⁴.

Although not a part of this request, we also believe that the system should be improved to provide a window on Saturday and Sunday.

We have no opinion on the merits of increasing the threshold from \$1 billion to \$5 billion.

We think the Federal Reserve needs to be an operator of a third window because many financial institutions will not make the necessary investments on their own. The provision of a third window creates expenses, but it is unlikely to generate additional revenues. Instead, for many institutions, offering a third window will require more labor and technology expense for the same number of revenue-generation transactions (approximately 8 cents per transaction).

Thank you for your consideration.

Sincerely,



Adam Rust
Director of Research
Reinvestment Partners
adam@reinvestmentpartners.org

³ US Special Delivery. February 23, 2017. “How Many Trucking Companies in the USA?” <http://bit.ly/30tvysw>

⁴ NACHA. September 17th, 2018: “Same Day ACH Will Be Enhanced to Meet ACH End-User Needs.” <https://prn.to/32sF62a>