



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

March 25, 1997

Mr. Carl E. Vander Wilt
Senior Vice President and
Chief Financial Officer
Federal Reserve Bank of Chicago
230 LaSalle St.
Chicago, IL 60604

Dear Mr. Vander Wilt:

This is in response to your letter of March 12, 1997, requesting the Board's permission for the Federal Reserve Bank of Chicago ("Reserve Bank") to offer automated clearing house ("ACH") services to Automotive Financial Services, Inc. ("AFS"), Highland Park, Michigan, and enclosing the Reserve Bank's risk analysis of such a service.

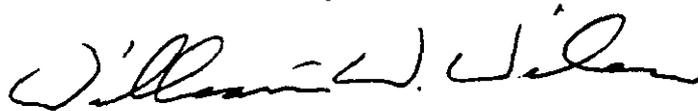
As noted in your letter and in previous materials submitted by the Reserve Bank, AFS is a Michigan-chartered depository institution owned by the Chrysler Corporation ("Chrysler"). To obtain payment for some of the cars that it ships to dealers, Chrysler draws a check against a letter of credit issued by the car dealer's bank and deposits the check into its account at AFS for collection. Due to the special nature of AFS's business, the Reserve Bank provides check collection services to AFS under a special arrangement designed to minimize the risk of returned checks to the Reserve Bank. Chrysler would like to begin to collect payments from its dealers by originating ACH debits rather than relying solely on its current paper-based check system. To implement Chrysler's migration to electronic payments, AFS has requested permission to originate ACH debit transactions from its Federal Reserve account.

The Board has considered the Reserve Bank's and Board staff's analysis of the risks to the Reserve Bank of returned checks and returned ACH debit entries, which indicates that Reserve Bank's return-related risk for ACH debit transactions is similar to that for checks. The Board, therefore, has decided that the Reserve Bank may allow AFS to initiate ACH debit transactions from its Federal Reserve account, for the purpose of collecting payments from Chrysler dealers for cars shipped, under the current risk-control measures in place for the AFS check collection service. The Board notes that, under the risk-control measures, AFS must obtain "authorization letters" (letters of credit) from all of the car dealers' banks authorizing Chrysler to draw checks on the banks to pay for cars shipped to the dealers and committing the bank to pay those checks. AFS must assign all of its rights

under the authorization letters to the Reserve Bank. The Board's decision to permit AFS to originate ACH debits from its Federal Reserve account is conditioned on the Reserve Bank continuing to protect itself adequately from the risk of returned payments, including ensuring that the authorization letters are modified to provide the Reserve Bank with rights in ACH debit transactions similar to those it has in check transactions.

If you have any questions regarding this matter, please call Oliver Ireland (202/452-3625) or Stephanie Martin (202/452-3198) of the Board's Legal Division.

Sincerely,

A handwritten signature in black ink, appearing to read "William W. Wiles". The signature is fluid and cursive, with the first name "William" being the most prominent part.

William W. Wiles
Secretary of the Board