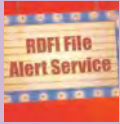


News from FedACH

1ST QUARTER 2008

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CUSTOMER IN THE SPOTLIGHT

The First, A National Banking Association

ACH Risk Monitoring an Essential Asset

Located in Hattiesburg, Miss., The First, A National Banking Association ("The First") began as a community bank in August 1996. In January 2004, The First merged with The First National Bank of the Pine Belt, and the bank now operates its main office along with nine branch locations as part of The First Bancshares Inc. holding company. With total assets of approximately \$523 million and roughly 30,000 banking customers, The First has a sizable footprint in the growth areas of southern Mississippi and is among Mississippi's fastest-growing banks.

The First is well-represented on a number of boards of directors in the region, and the bank's management team enjoys the independence that accompanies the community bank atmosphere on which The First prides itself. The combination of that independence along with an aggressive and experienced team of

senior officers has been key to The First's steady upward growth in ACH volume.

ACH Risk Awareness and Mitigation

According to David Thoms, executive vice president and chief operating officer, The First can be characterized by personalized service and local decision-making processes, along with an emphasis on the banking needs of small- to medium-sized businesses as well as individuals. With 33 years' banking experience and a background in audit, financial reporting, and operations, Thoms has seen the payments industry transform from the time when some items were hand-posted to today's totally automated systems. Thoms even remembers the very first time he heard the term "a checkless society" used in the early 1970s. He acknowledges that much has changed since then in terms of how The First

runs its ACH operations, and one element of change surrounds the bank's awareness and mitigation of ACH risk.

As Thoms explained, The First has a risk management department charged with overseeing the monitoring of ACH risk. An internal risk management program reviews and tracks every ACH transaction originated by The First's customers. The program analyzes origination patterns, and unusual transactions prompt staff attention and review. In mid-2007, The First started using the FedACH Risk Origination Monitoring Service as a back-up, or safety net, to the bank's internal risk management program. With just a couple of adjustments to monitoring criteria since then, Thoms reports that "The First is successfully using the service to monitor ACH origination for select originators."



CUSTOMER IN THE SPOTLIGHT

Extending Risk Monitoring to ACH Receipt

With its ACH origination risk well under control, it is perhaps unsurprising that a bank called “The First” was one of the first to sign up as a pilot participant for the FedACH Risk RDFI File Alert Service. The decision to participate as a pilot for the newest addition to the suite of FedACH risk services meant that, in December 2007, the bank began to monitor its incoming ACH files. According to Thoms, the parameters initially set by the bank were on the low side, and the number of e-mail alerts triggered by incoming files exceeding those limits was high. However, the resulting volume of e-mail alerts demonstrated that the file alert service worked, and it provided an effective training opportunity for the bank’s employees. Close review of the e-mail alerts helped The First’s management team safely increase the parameters so that e-mail notifications provide a meaningful alert to files needing review. According to Valerie Rayborn, assistant vice president over The First’s ACH proof area, “the bank has not yet encountered any activity that causes concern, but it’s great to know that we have this service in place.”

Should Rayborn, as a designated e-mail notification recipient, receive notice that an

incoming ACH file exceeds an established threshold, she would view the file for extraordinary circumstances and escalate as needed to ensure thorough review for

“I want all the bells and whistles I can get to monitor the risk associated with ACH.”

potential fraud attempts and/or significant origination errors. For The First, the RDFI file alert service provides one more tool to help protect customers’ accounts. As Thoms so aptly stated, “I want all the bells and whistles I can get to monitor the risk associated with ACH. The [RDFI file] alert service was just another automated tool to help us watch out for ACH risk.”

Sticking With Proven Procedures

Thoms was quick to point out that no automated system takes the place of knowing your customers, something that The First continues to make a priority. Despite having a small ACH operations staff, The First

ensures that it knows its ACH origination customers well. Thoms stated, “We don’t offer ACH origination to just any customer. We first need to have a well-established relationship with the customer.” Along with maintaining a solid “know your customer” policy, Thoms’ advice to anyone not yet using the FedACH risk management services is that they use every risk monitoring tool available.

This strategy is one that The First will follow as the bank continues to see its ACH business grow. The First is on the brink of expanding its electronic banking department, with a goal of placing increased attention on ACH origination, and realizes that it needs to be able to compete with larger, regional banks. According to Thoms, “setting up effective risk monitoring services for our customers is an essential part of the bank’s preparation toward that goal.” Thoms concluded by saying, “We’ve come a long way in ACH, and we expect to see continued growth. At some point, we are going to have a lot more ACH items in the payments system than we do checks.”

Editor’s note: Read the reports from the 2007 Federal Reserve Payments Study on www.frbservices.org for the latest information on noncash payments in the United States.

FedACH Risk Management Services Assist RDFIs



A number of ODFIs are already benefiting from FedACH Risk Returns Reporting Service and FedACH Risk Origination Monitoring Service. As of March 1, 2008, RDFIs can sign up for an addition to a growing suite of

FedACH Risk Management Services. The latest addition to the suite of FedACH Risk Management Services, FedACH RDFI File Alert Service, allows RDFIs to monitor incoming FedACH files before posting or memo-posting payments.

As FedACH Services monitors its outgoing files and compares file sizes, debit and credit values, or both, against thresholds set by the RDFI, e-mail notifications are sent to one or more designated points of contact at the RDFI whenever thresholds are exceeded. These e-mail notifications alert the RDFI to potential large errors and to possible fraudulent transactions.

Use of the FedACH Risk RDFI File Alert Service is included in the FedLine Customer Access Service monthly fee.

Signup is easy for customers already using FedACH Information Services. Just submit a completed Attachment J of the FedACH Participation Agreement to your FedACH Central Operations Support Site.

For more information on FedACH Risk Management Services, contact your local FedACH sales specialist. You can also visit frbservices.org/campaigns/FedACH_risk/index.html for the forms you need and additional contact information.

NEWS KIOSK



■ The PayItGreen Alliance, an industry group comprising leaders in the financial and consumer billing industries, has declared April 2008 **PayItGreen Month** and is asking consumers to consider the positive environmental impacts of choosing electronic bills, statements, and payments instead of paper. Recognizing that “turning off the paper” is a key component of environmental action, the Alliance is encouraging consumers to take three simple, but significant, steps: assess, ask, and act. To find out more about this call to action, visit www.payitgreen.org. The Federal Reserve Banks, as part of the PayItGreen Alliance, are proud to support this important environmental action.

■ Payments 2008 is just weeks away and, while we can't promise you the excitement of a Las Vegas show or the potential winnings from a game of blackjack, we invite you to stop by Booth #621 to get the latest updates on FedACH Services. While there, you can talk with representatives from the Federal Reserve Banks about products and services including FedACH Risk Management Services, FedACH International Services, FedEDI Plus, and FedACH Information Services. Please plan to take the IAT survey when you stop by.

■ March 2008 marked the end of the pilot phase for FedEDI Plus, the Federal Reserve Banks' online ACH EDI data translation application. Customers can expect an April 2008 announcement of general availability for the service. With automated, secure delivery of translation reports directly to an RDFI's customers, FedEDI Plus provides FedACH customers an opportunity to streamline back room operations and to save time and labor. Visit www.frbervices.org for more information, or call your local FedACH sales specialist.

FedACH SALES SPECIALISTS

Each of these regional account executives is an ACH resource expert and is dedicated to helping customers find just the right FedACH solution. We encourage you to contact the sales specialist for your district.

Atlanta	Nedelka Bell, AAP	954.436.2402
Boston	Jean Fisher, AAP	617.973.3218
Chicago	Mark Taylor	312.322.8449
Cleveland/St. Louis	Susan Bivens, AAP	901.496.0626
Dallas	Matt Davies, AAP	214.922.5259
Kansas City	Joni Hopkins, AAP	620.221.2712
Minneapolis	Steve Peterson	612.204.6949
New York	Thomas Goodman	201.531.3637
Philadelphia	Carol Chartrand, AAP	215.574.3414
Richmond	Della Tate, CTP	410.576.3384
San Francisco	Dorothy Williams, AAP	801.322.7948

DID YOU KNOW?

2008 ACH Rules Changes

Effective March 21, 2008, ODFIs are required to provide, when requested by NACHA to do so, certain information about specific originators or third-party senders believed to have a return rate for unauthorized entries in excess of 1 percent. For those originators or third-party senders for which the return rate for unauthorized entries exceeds 1 percent, ODFIs are required to bring the return rate below 1 percent within 60 days of receipt of NACHA's written request for information, and the lower return rate must be maintained for an additional 180 days. This amendment applies to all SEC codes and replaces previous reporting requirements for TEL entries.

Effective June 20, 2008, any company originating ACH transactions must identify itself within the ACH transaction by the name that consumers know and readily recognize. By enabling consumers to better identify companies originating ACH transactions, the number of ACH payments requiring investigation and exception handling by consumers' financial institutions should decline.

For additional details on these rules changes, please visit NACHA's Web site at www.nacha.org.

WHAT'S COMING UP

MAY 2008

Direct Deposit and Direct Payment Month

Visit www.electronicpayments.org for information on ways you can promote awareness of Direct Deposit and Direct Payment during May and throughout the year.

Payments 2008

May 18–21, 2008 Las Vegas, NV
www.nacha.org

JUNE 2008

NEACH Super Days 2008

June 3–4, 2008 Westborough, MA
www.neach.org

Public comment due on alignment of posting times for ACH credits and debits

June 4, 2008
<http://www.federalreserve.gov/newsevents/press/other/20080228b.htm>

The Payments Institute West

June 22–26, 2008 Scottsdale, AZ
www.nacha.org

JULY 2008

The Payments Institute East

July 27–31, 2008 Atlanta, GA
www.nacha.org

THE COUNTDOWN TO IAT CONTINUES—ARE YOU PREPARED?

At this newsletter's press time, the 2009 ACH rules amendment intended to align the *NACHA Operating Rules* with Office of Foreign Assets Control (OFAC) compliance obligations was less than a year away. Effective March 20, 2009, this amendment will require ODFIs and gateway operators to identify all international payments transactions transmitted via the ACH network as international ACH transactions using a new standard entry class code (IAT). All IAT transactions will be required to include certain data elements defined with the Bank Secrecy Act's "travel rule" so that all parties to the transaction have the information needed to comply with U.S. law, including programs administered by OFAC.

Whether or not your institution originates international ACH transactions, your ACH software must be ready to receive the new IAT transactions on March 20, 2009. If you have questions about readiness for IAT, a resource is available to help you: established in March 2008, the IAT Resource Center can help your institution and its customers learn more about IAT and the related requirements. You can find the IAT Resource Center on www.frbsecurities.org under the "Events and Education" tab.

If you are attending Payments 2008 in Las Vegas, you won't want to miss the session "Best Practices in Preparing for IAT Implementation," when the Federal Reserve joins with NACHA and EPN to help you prepare for March 20, 2009.



CUSTOMER SUPPORT INFORMATION

For FedACH Customers in these Districts

Boston (1)
New York (2)
Philadelphia (3)
Cleveland (4)
Richmond (5)
Atlanta (6)
Chicago (7)

Central Operations Support Site

Federal Reserve Bank of Atlanta
1000 Peachtree Street, N.E.
Atlanta, GA 30309-4470
Toll Free: 866.234.5681
Local: 404.498.8902

For FedACH Customers in these Districts

St. Louis (8)
Minneapolis (9)
Kansas City (10)
Dallas (11)
San Francisco (12)

Central Operations Support Site

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
P.O. Box 291
Minneapolis, MN 55480-0291
Toll Free: 888.883.2180

Eurogiro and Single Euro Payments Area (SEPA)



Created in 1993 and headquartered in Denmark, Eurogiro represents a financial network that provides its customers with geographical reach to destinations around the globe. Eurogiro provides high-quality solutions in the low-value payment market by offering proprietary electronic network solutions. The key role played by Eurogiro in FedACH International Services is that of facilitating payment flows to the five Eurogiro member banks that serve as gateway operators into Austria, Germany, Netherlands,*Switzerland, and the United Kingdom. Eurogiro also provides the technical infrastructure needed to transport messages between the United States and Europe and to convert NACHA formats into SWIFT formats used by Eurogiro members.

We talked recently with **Annelise Lysdal**, general manager of Eurogiro, about the recently launched Single Euro Payments Area (SEPA) and the effects of SEPA on FedACH International Services.

**As of January 1, 2008, service to the Netherlands was temporarily suspended.*

What is the goal of SEPA? The aim of SEPA is to transform international euro transactions between European Union (EU) countries into domestic payments. This means that euro payments sent across EU borders will have the same terms, conditions, and price as domestic transactions within the EU. Because domestic payments have historically been priced significantly lower than cross-border payments, this change will mean a dramatic reduction in costs of cross-border euro payments for banking customers (e.g., a few cents rather than euros). This process is underpinned by EU legislation, the “Payments Services Directive,” which will be in force in all EU countries by November 2009.

What types of transactions are required to be SEPA-compliant? At present only credit transfers must be compliant with SEPA. The European Payment Council—a self-regulating bank body—has defined a three-day standard for processing SEPA credit transfers. By 2012 this three-day product will become a next-day (D+1) product. Direct debit is expected to be implemented by November 2009.

What are the expected benefits of SEPA to various participants in the payments arena?

The greatest benefit of SEPA will be realized by customers involved in cross-border euro payments in the EU. However, it is unclear whether the costs for banks and ACH providers may result in higher costs associated with other payments (e.g., domestic payments), and customers might be affected by these higher costs.

The business case for banks is not entirely certain. Banks will have to make significant investments to comply with SEPA while their income from cross-border euro transactions is significantly reduced. It is possible that SEPA may reduce the banks’ cost of payments in the long term. Payment volumes are likely to grow significantly as well, further benefiting the banks. Least likely to benefit from SEPA are the ACH providers. They face significant threats as domestic payments over time will consolidate into pan-European Clearing and Settlement Mechanisms (CSMs). The likely outcome is fewer ACH providers than are operating today.

Should U.S. ODFIs sending ACH payments to European countries see any changes in the process as a result of SEPA? SEPA will not directly have any impact on those ODFIs because U.S.-to-Europe payments are not part of SEPA. Indirectly, however, SEPA may mean changes for the ODFI over time. Initially, SEPA will provide a downward pressure on prices for payments from Europe to the United States. In the longer term, the European standards for credit transfers (ISO 20022/XML) may become the basis for a global standard, which could help drive down the costs of payments between Europe and the United States.

Additional types of payment transactions will fall under SEPA in coming years. Can you tell us about the growing impact of SEPA? The SEPA credit transfer is just the start. In November 2009, direct debit will be added, and in 2012, the credit transfer will be a next-day service (D+1). More standards are likely to follow along with service providers that offer various added values to the standards. Especially within direct debit there is room for a number of service providers that can provide added value such as mandate management¹.

What is the projected timeline for widespread adoption of SEPA? The adoption of SEPA depends on the banks’ customers. For most customers, SEPA is of little consequence since cross-border payments in SEPA account for only about 1 percent of all payments in SEPA. So the start is likely to be slow. This slow start is also attributed to most institutions (e.g., pension houses²) having no immediate plans to become SEPA compliant. Once pension houses, large private pension companies, and insurance companies choose to use the SEPA credit, the potential for significant volume growth will be realized. Eventually, SEPA will gain momentum because it is in everyone’s best interests to migrate to a single standard. The end of 2010 is set as the target date for converting most EU payments to SEPA.

¹ Maintaining proof of authorization for debit entries.

² Large public institutions paying pensions and social allowances.

As an ODFI you need secure solutions for mitigating ACH payment risk and for insuring the integrity of your Fed account. How will the FedACH Risk Origination Monitoring Service help your institution?

Simplify your ACH management with trusted FedACH risk mitigation tools. Rest assured that the service goes to work **after** you have released the file, but **before** your payments are sent on to RDFIs.

Ensure accountability of third parties, including your originators, payments processors, and your own ACH staff.

Centrally control ACH payments despite complex processing arrangements such as processors that serve as your sending point.

Universally manage ACH payments from multiple software applications and vendors. The Fed's risk service works across multiple origination sources and payments transport options.

Relieve operational uncertainty with email notification and default instructions. And, take advantage of "dual role" assignments to help prevent internal fraud and error.

Easy to implement, user-friendly turnkey solution requiring only an internet browser and access to FedLine Web.

Your institution could be just days away from a secure solution to ACH risk mitigation concerns. Call your FedACH sales specialist to find out more.

Origination	
Items in small files (<2,500 items)	\$0.0030
Items in large files (>2,500 items)	\$0.0025
Receipt Items	\$0.0025
Addenda Records	\$0.0010
Web-derived Returns / NOCs	\$.30
FedPhone-derived Returns / NOCs	\$2.00
Facsimile Exception Returns/NOCs	\$15.00
Information Extract File Subscription	\$20.00 /RTN /Month
Account Servicing	\$25.00 /RTN /Month
FedACH Settlement	\$20.00 /RTN /Month

FedACH Risk Origination Monitoring Service

Monitoring Criteria (per set of criteria)

For sets 2-20	\$8.00 /Month
For sets 21-150	\$4.00 /Month
For sets 151 and above	\$1.00 /Month
Batch Monitoring	\$.0025

FedEDI Plus

Scheduled Report Generated	\$0.20/report
On Demand Report Generated	\$0.75/report
Secure Delivery (e-mail)	\$0.20/report

FedACH International Services

Item Originated to:	Canada	\$0.0390
	Mexico	\$0.67
	Austria, Germany, Switzerland, United Kingdom	\$2.00
Return Received from:	Canada	\$0.77 (surcharge)
	Mexico	\$0.69 (surcharge)
	Austria, Switzerland	\$5.00 (surcharge)
	Germany, United Kingdom	\$8.00 (surcharge)
	Same day Recall of Item – Canada Service	\$4.00 /\$7.00
	Item Trace - Canada Service	\$3.50 /\$5.00
	Item Trace - Mexico Service	\$11.50

¹ Refer to www.frbsservices.org for additional details



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