



November 7, 2007

Announcing 2008 Federal Reserve Financial Services Fees

To All Federal Reserve Financial Services Customers:

Over the past few years the financial services industry has experienced dramatic changes in the way payments are made and processed. The shift from paper to electronic alternatives has been remarkable and has certainly set the stage for an increasingly efficient payments industry. This evolution has spurred the Federal Reserve Banks to invest in contemporary technologies that allow for continued operational efficiencies and provide an infrastructure for more standard products and fees.

As the electronic payments environment grows in magnitude and impact, the Federal Reserve Banks continue to deliver innovative product offerings for financial institutions of all sizes. Enabling a smooth transition to electronic payments is essential to the success of the payments industry and must occur in response to customer expectations and business needs.

To underscore the importance of electronic payments, the Federal Reserve Banks plan to continue to enhance Check 21-enabled product offerings and reduce fees for electronic check processing. Additionally, 2008 access solutions will include increased value-added, electronic services that help to provide for risk mitigation and business information analysis. Efficient, low-cost delivery of payments over these electronic access solutions will be enhanced with the addition of expanded service packages.

Federal Reserve Financial Services 2008 fees are designed to promote the migration toward efficient electronic alternatives, thus helping to move the financial services industry toward greater adoption of electronic payment processes. Increasing the efficiency in the payments system ultimately helps the financial services industry as a whole.

The 2008 fee increases generally affect non-electronic payment processing services. Fee changes will take effect January 2, 2008, except where otherwise noted.

Check 21 Adoption Expected to Accelerate

It is clear from the rapid increase in Check 21 adoption that financial institutions recognize the value of electronic check processing. Growth in Check 21-enabled products is expected to accelerate even more rapidly in 2008. As such, the Federal Reserve Banks plan to continue to enhance Check 21-enabled product offerings and reduce fees for electronic check processing. To encourage the continued adoption of end-to-end electronic check processing, the Federal Reserve Banks will, on average, decrease electronic check processing fees by 3.2 percent, though the actual price decreases to customers should be greater as more paying banks adopt FedReceipt[®] services. In addition, the Federal Reserve Banks will eliminate the 3 p.m. ET and 6 p.m. ET deadlines on Sunday evening only, and will introduce several new deposit options that allow Image Cash Letter (ICL) depositors to pay different fees in exchange for improved availability.

Specific changes in Federal Reserve electronic check fees for 2008 include:

- Decrease in electronic endpoint prices at early deposit deadlines by \$0.003 per item
- Deposit **discounts** for FedReceipt forward customers will increase from \$0.003 to \$0.004. Only FedReceipt customers that deposit FedForward[®] ICLs will be eligible for the discount
- Decrease in Check 21 Fine Sort fixed fees

- Decrease in the discounts for the Alternative Pricing Option for FedForward deposits
- Decrease in the deposit discount for FedReceipt returns customers to \$0.01

Paper-based Check Clearing Migrates to Electronic Clearing

The increase in the use of Check 21 to clear checks has had a significant effect on traditional check collection services. As paper check clearing migrates to more electronic clearing, the Federal Reserve Banks will take steps to simplify and standardize the paper-based product suite. These steps include the elimination of products and deposit deadlines that have little or no volume, more standardized pricing across Federal Reserve Bank offices and the recently announced migration of Payor Bank Services to Check 21-enabled presentment services.

In 2008, paper-based check processing fees, including fees for clearing items drawn on substitute check endpoints, will increase an average of 12.5 percent due primarily to the fixed costs associated with handling and transporting paper.

Specific changes in Federal Reserve Bank paper-based check processing fees for 2008 include:

- Increase substitute check prices by \$0.003 per item through the 10 p.m. ET deposit deadlines and by \$0.005 per item across all other deadlines
- Increase paper-to-image fees by \$0.03 per item across all dollar thresholds
- Reduce the number of group sorts, as well as reduce the number of eligible endpoints

For office-specific details, please refer to the local Check Services fee schedules that are posted on FRBservices.org.

The Federal Reserve Banks will implement two additional changes in mid-2008. The first of these changes will be the elimination of City processing zones in Federal Reserve Bank offices that no longer process checks. As a result, some large City endpoints may shift to become High Dollar Group Sort (HDGS) endpoints. The second will be explicit pricing for those depositors that use transit point service sites. Information regarding these changes will be communicated early in the first quarter.

FedLine[®] Customer Access Services Offer Enhanced Value-added Electronic Access Packages

Electronic payments and accompanying electronic access methods are evolving. The Federal Reserve Banks will continue their efforts to advance access to electronic payments services to deliver to our customers contemporary solutions that are designed to be reliable, secure, efficient and cost effective.

This year, the Federal Reserve Banks are focused on the migration of customers from the legacy Computer Interface (CI) platform to the FedLine DirectSM or FedLine CommandSM access solutions. All current CI customers must complete conversion of their Fedwire[®] Funds, Fedwire Securities and FedACH[®] Services to FedLine Direct or FedLine Command by year-end 2008. Additionally, the Federal Reserve Banks are engaged in a network upgrade project, whereby customers using Frame Relay connections must upgrade their network connection by April 30, 2008.

Last year, the pricing structure of FedLine Customer Access Services was simplified, providing customers with service packages rather than individual component pricing for select Account Services along with their Electronic Access Services. These changes were based on customer preferences and established a foundation to build upon for future enhancements.

Overall, the impact of price changes should be very minimal on customers. We are keeping the structure the same, but adding some additional services into the packages.

In 2008, we will increase the customer value of FedLine Customer Access Services by:

- Enhancing FedACH Risk[®] Origination Monitoring Service and adding Receiving Depository Financial Institution (RDFI) File Alert Services
- Augmenting current Accounting Information Services
- Adding FedEDI[®] Plus Service

The new FedEDI Plus Service will offer significantly more robust reporting and delivery of information capabilities than have been available with the existing FedEDI translation services. This upgrade to a Web-based tool will offer enhanced reporting and e-mail delivery functionality. Customers using FedLine Web[®], FedLine Advantage[®], FedLine Direct or FedLine Command access solutions will be able to subscribe to FedEDI Plus for no additional fee. FedEDI Plus will also be available as a component of the electronic access packages at a nominal fee.

In 2008, volume-based tiering of the criteria set fees for the FedACH Risk Origination Monitoring Service will be implemented. By reducing the fee-related barriers to use of the service, we hope to expand ACH risk management practices more broadly across financial institutions.

The addition of the value-added suite of FedEDI Plus and the enhancement of FedACH Risk Management Services, along with Accounting Information Services, demonstrates that the Federal Reserve Banks are responding to customer requests for ease of use, simplicity and innovation.

A la carte Options

In 2008, we will continue to offer a simplified pricing structure, providing easy access to our services. Electronic Access options not included in the FedLine Customer Access Services described above will be offered separately.

By keeping the structure the same, but adding some additional services into the packages, customers who currently subscribe to these services separately may see a price decrease by selecting a bundled option. This will provide them with additional features at a lower cost.

FedACH Services Fee Decreases

FedACH will eliminate the \$2.50 per file input file processing fee in 2008. This will reduce the overall costs of ACH origination via FedACH for customers who are sending points.

The ACH industry continues to experience double-digit volume growth, which is expected to continue for the next three to five years. As electronic payments continue to gain in prominence, the Federal Reserve Banks want to assist customers in capitalizing on these trends, which have influenced the Federal Reserve Banks to reduce costs and barriers to this efficient electronic payment processing method.

For nearly 40 years, the Federal Reserve Banks have been providing financial institutions ACH expertise with a highly reliable, high-quality and cost-effective service. The reduction in the input file processing fee further emphasizes our commitment to service that helps enable financial institutions to provide the best ACH services to their customers. Having robust ACH services is beneficial to meeting the needs of their customers. FedACH Services can help optimize processing flexibility and provide the tools needed, while helping to capitalize on growth and revenue opportunities.

Wholesale Services Continue to Upgrade Technology and Provide Incentives to use Online Transactions

Wholesale Services continue to modernize and enhance services to meet business demands in the wholesale payments market. There are slight changes in wholesale fees in 2008.

Fedwire Funds

Decrease in transfer fees across all tiers from \$0.29, \$0.19 and \$0.09 to \$0.26, \$0.17 and \$0.08 respectively.

Fedwire Securities

No change to Fedwire Securities fees.

National Settlement Service

No change to the National Settlement Service fees.

FedCash[®] Services Fees Remain Stable

In 2008, the focus will continue to be on operational efficiencies and continuing to ensure the integrity of our nation's currency as deposits and orders are processed through the Federal Reserve Banks. The Federal Reserve Banks remain committed to providing FedCash Services to depository institutions.

The Uniform Cash Access Policy (UCAP) fee, which is now standardized at \$35 per deposit or order above the basic level of free access, will not change. Additionally, the fee for cross-shipping, which is derived from cross-shipping volume, will remain stable at \$5.

Online Resources Provide More Detail

The Federal Reserve Board of Governors' press release provides an overview of the national fee changes. It is available online at FRBservices.org, along with the 2008 national fee schedules. Local Check Services fee schedules reflecting 2008 pricing, along with a list of changes that apply to each district, are also available at FRBservices.org.

If you have any questions about these fee changes and how they will affect your organization, please contact your account executive. The Federal Reserve Banks welcome your comments about how we can continue to deliver products and services that best meet your needs and foster efficiency in the payments system. We appreciate your business and look forward to continuing to build our relationship in 2008.

The Financial Services logo, "FedReceipt," "FedForward," "FedLine," "FedLine Direct," "FedLine Command," "Fedwire," "FedACH," "FEDACH Risk," "FedEDI," "FedLine Web," "FedLine Advantage" and "FedCash" are trademarks or service marks of the Federal Reserve Banks. A complete list of marks owned by the Federal Reserve Banks is available at FRBservices.org.