



A Texas bank responds to ACH risk

We're continuing our look at the FedACH RiskSM Origination Monitoring Service, specifically through the eyes of its current customers. In the September issue of *FedFocus*,¹ we presented the experiences of a selection of customers coast to coast. In this issue, we focus more closely on the experiences of the First National Bank of Central Texas, a Waco-based community bank with \$310 million in assets.

Senior vice president, Steven B. Mullens, took the time to detail his bank's situation. Mullens explained that his bank has had a long-standing relationship with a processor in Waco that brought to its business a number of third-party originators. "We've gone through numerous growing pains in terms of monitoring transactions and managing file limits for each of those originators."

First National Bank of Central Texas was among the pilot customers to first use the FedACH Risk Origination Monitoring Service, which is offered as part of the suite of FedACH Risk Management Services. "We used to pay auditors to conduct on-site audits and had OCC examiners go out and talk with our processor," Mullens recounted. "With the Fed's service, I now create historical reports and retain them for review later by auditors and examiners."

Of course, compared to other payments means, automated clearinghouse (ACH) processing offers numerous advantages. However, because originating depository financial institutions (ODFIs) are responsible for settling payments originated into the ACH system using their routing transit numbers (RTNs), they benefit from closely monitoring their origination exposure. Manual risk monitoring can be very time consuming and subject to human errors, which is why the FedACH Risk Origination Monitoring Service—with preset preferences and automated e-mail alerts—may benefit ODFIs of all sizes. "Our processor sets up separate company IDs in the FedACH Risk Origination Monitoring Service for our customers to monitor each separately. I have 11 of the largest that I monitor on a daily basis, and we intend to have more," Mullens explained.

According to Mullens, First National Bank of Central Texas goes through a strenuous due diligence process. "It's been a work in process all along. The Fed's service has allowed us to set precise batch limits. Before, there was some guesswork involved in setting those limits. We're now able to adjust those caps as needed and can respond quickly if an originator will be encountering unusual activity for a short period of time (e.g., collecting tax payments, etc.). We agree to totals and modify their limits."

Thanks to the automated service, a problem is either corrected or the customer is shut down, Mullens further explained. "We're able to respond so much more quickly...we're able to nip a problem in the bud before it gets out of hand," he said.

Mullens' organization uses the FedACH Risk Origination Monitoring Service's automated caps to hold and reject batches that fall outside preset limits. "If a customer begins operating

outside the tolerances we set, I can retain a report electronically that I can e-mail to others in our organization and our vendor,” explained Mullens. “We’re very happy with how that works.”

An added benefit of the service is that “it’s made our relationship with our processor stronger. They understand the risks involved because of the special contractual relationship we have with them,” Mullens shared. “If any damages come about as a result of originators, they have potential monetary liability. They appreciate having another set of eyes looking at our potential risk.”

As the first service of its kind in the ACH industry, the Federal Reserve Banks’ FedACH Risk Origination Monitoring Service enables ODFIs to:

- Set and control debit and credit caps in three different ways: RTN, Company ID Inclusive, Company ID Select
- Monitor accumulated credit and debit totals over a single processing day or across multiple exposure days
- Set end-of-day defaults to release or reject pended batches in extraordinary circumstances where batches remain pended at the end of the day
- Receive e-mail notification of caps that are exceeded
- Provide access for authorized/credentialed personnel to ACH monitoring information from virtually any Internet connection
- Generate a variety of useful reports (e.g., criteria summary reports and historical management criteria and origination monitoring event reports)
- Monitor ACH risk as part of an integrated ACH and account management system

At the end of the day, Mullens sees the primary benefit of the FedACH Risk Origination Monitoring Service for his bank as its ability to “reduce the potential for significant losses for the bank. I don’t think anyone originating ACH transactions can afford to be without it—the risks are too great,” he added. “There are a lot of crooks out there trying to run through things they shouldn’t be, so it’s crucial to monitor what’s going through the system on a daily basis,” he concluded.

To find out more about the FedACH Risk Origination Monitoring Service, visit www.frbervices.org/Retail/fedachRisk.html. There you will find:

- An informative online seminar, “Shedding Light on ACH Risk”
- A series of dramatized Webisodes titled “From the Shadows of Risk”
- A carefully researched white paper, “ACH Risk: Here and Now”
- A quick quiz to help you gauge your ACH risk preparedness
- A checklist to determine your organization’s readiness for the service

You'll also find contact information for your District FedACH[®] Sales Specialist, who can help you sign up for the FedACH Risk Origination Monitoring Service today.

¹ Available online at www.frbservices.org/Retail/pdf/FedACHRisk_article0906.pdf.

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