

Inside EasCorp



INSIDE

- Now is the Time!.....1
- Myths and Misconceptions about the FedNow Service2
- Consumers Warned about Non-Bank Payment Apps3
- NCUA Reports on Cybersecurity and Credit Union Resilience4
- Mixed Findings in the Fed's July Beige Book.....5
- USPS Postage Increase Awakens Debate: Paper or Electronic?.....5
- DeposZip Tips & Tricks6
- Upcoming Events6

More inside!



Congratulations to EasCorp and Vertifi Software, two of the just over 50 financial institutions and service providers live on the FedNow® Service!

Now is the Time!

After several years of discussion and development, the Federal Reserve's FedNow® Service—the central bank's new "high speed highway"—is now live, a critical step in the modernization of the U.S. banking system.

In a press release issued by the Federal Reserve on July 20, Chair Jerome Powell said, “The Federal Reserve built the FedNow Service to help make everyday payments over the coming years faster and more convenient. Over time, as more banks choose to use this new tool, the benefits to individuals and businesses will include enabling a person to immediately receive a paycheck, or a company to instantly access funds when an invoice is paid.”

Thirty-five credit unions and banks, including six corporate credit unions, and sixteen service providers are now live on the service, but the Fed anticipates it will be some time before widespread adoption and integration with digital banking platforms provide consumers and businesses the full benefits of this payments infrastructure. Ubiquity is key to its success. And, with no regulatory mandate to join this network, some financial institutions may wait to invest in and implement this new instant payment service.

Still, industry experts remind us that market demand for faster and more efficient payments is there, and that no single payment rail today serves all use cases. Credit unions and banks are not deciding whether or not they should replace an existing service, but whether there is a competitive or strategic advantage to adding instant payments, through the Fed or through the private network rail, to their existing portfolio now. The risks of operating in a real-time environment, some analysts say, will very soon become the cost of operating a modern digital banking platform and batch processes that don't meet consumer need may slowly decline.

As early adopters of the service with FedNow capabilities live today, we are here to help you navigate these decisions. To learn more about EasCorp's or Vertifi's instant payment solutions, please contact Michael O'Brien (mobrien@eascorp.org) at 800.428.1144, Ext. 3324.

Myths and Misconceptions about the FedNow Service

Since the Federal Reserve's 2019 announcement of their intent to build a 24/7/365 interbank settlement service, misinformation has circulated about the agency's true goals, network functionality, and the potential risk to businesses and consumers. Rumors and misinformation will damage public perception and slow adoption of the new payment rail. Credit unions can play a role in educating their members and highlighting its benefits to individuals and to the U.S. economy. We encourage you to continue to research these issues and have provided some sources at the bottom of this article to gather the information you need to serve your members.

Myth: *The Fed has built a payment processing platform directly for businesses and consumers.*

Fact: The FedNow Service is a processing and messaging infrastructure designed to speed up the time it takes to move money through the banking system and to enable insured financial institutions to provide safe and efficient instant payment services. However, while the Federal Reserve built this network with end-to-end capability, they have not built any customer-facing products themselves. The Federal Reserve is relying on financial institutions and service providers to build innovative FedNow products and services that meet market demand. Only financial institutions can adopt and use FedNow, and determine how and when instant payments powered by the FedNow service are made available to their customers.

Myth: *The FedNow Service gives the central bank the power to monitor, freeze, or seize private bank accounts.*

Fact: Federal Reserve Bank officials and banking experts assert this instant payments platform in no way authorizes the agency to monitor, freeze, or seize accounts for any reason. The FedNow Service supports financial institution to financial institution transactions only and cannot access an individual or business account at a financial institution or assert any controls on how their monies are spent. Financial institutions are already required to report suspicious financial behavior and risks related to money laundering or terrorism, and FedNow will not expand this standard surveillance.

Myth: *FedNow is a step toward a U.S. Central Bank Digital Currency and the elimination of cash.*

Fact: Central Bank Digital Currency (CBDC) is defined as "a digital liability of a central bank that is widely available to the public," or, more simply, a digital version of paper currency. Since the advent of private-sector digital banking products, including digital wallets and cryptocurrency, policymakers have been considering the potential benefits and risks of a U.S. CBDC and related technologies, including distributed ledgers. In 2022, the Fed issued *Money and Payments: The U.S. Dollar in the Age of Digital Transformation* to provide a foundation for policy discussions. However, because these conversations ran parallel with the development of the FedNow Service, many believe the projects are connected. The Federal Reserve has repeatedly contested these claims noting that the FedNow Service is neither a form of currency nor a step toward the elimination of cash or any other form of payment. And, while the Fed is involved with a number of technological initiatives to assess the feasibility of a future digital currencies, they have not yet determined that a CBDC would improve the U.S. domestic payments system. Industry experts agree that any consideration of CBDC will require significant legal, compliance, financial, technological, and regulatory review. Knowing this, the Fed will only proceed with a CBDC with "broad public and cross-governmental support," including "clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law."

Sources:

<https://www.federalreserve.gov/central-bank-digital-currency.htm>

<https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf>

<https://www.frbservices.org/binaries/content/assets/crsocms/resources/rules-regulations/fednow-operating-procedures-july-2023.pdf>

<https://www.icba.org/newsroom/blogs/main-street-matters/2023/01/25/myth-busting-truths-about-fednow>

Consumers Warned about Non-Bank Payment Apps

According to 2022 surveys by Consumer Reports and the Pew Research Center, more than three quarters of Americans have used a payment app such as Venmo, PayPal, CashApp, or Zelle® in the past year. Payment apps are now one of the most commonly used financial apps, second only to a consumer's primary financial institution's own digital banking app. In fact, payment app transaction volume quadrupled between 2018 and 2022, and, if this growth trend continues, is expected to reach or exceed \$1.6 trillion by 2027.

The Consumer Financial Protection Bureau (CFPB) is monitoring fast-growing, non-bank payment apps which they believe may "sidestep the safeguards that local banks and credit unions have long adhered to." They released a consumer advisory in June 2023 focused specifically on the security of peer-to-peer (P2P) nonbank payment apps. While these apps are convenient, the agency warns that these closed loop solutions—operated by tech companies with or without a business relationship with banks or credit unions— are not suitable substitutes for traditional bank accounts. Unlike credit union or bank accounts with deposit insurance through the NCUA or FDIC, funds held in nonbank payment apps may be unprotected. In the event there is a financial crisis, a bank run, or a company failure, the CFPB warns, consumer funds stored in these apps could be at risk.

As the report explains, digital payment applications emerged in the late 1990s, and are regulated as money services businesses (MSBs), but are not subject to the regulatory scrutiny of traditional depository institutions or to those regulations regarding account sweeps, data storage and privacy, and insured funds, all designed to protect consumers. Non-bank apps generate revenue by charging merchants to accept payments on their platform or by charging customers for basic or ancillary services, including expedited account transfer. Most non-bank apps allow customers to store the value of their transactions on the app itself, transferring out of the closed loop system to a bank account only upon request, and then invest those funds in loans or bonds without paying interest on customer balances. These apps are under no obligation under federal law to report on the status of their total deposits and value of stored funds, but it is estimated that billions of dollars are stored on these platforms annually. On the consumer level, user agreements often do not disclose the details of these transactions, and it is clearly in the vendor's best interest to hold the funds. Even those non-bank apps that advertise deposit insurance in partnership with a bank or credit union may be misleading consumers; this insurance only protects against the failure of the depository institution, not of non-bank company.

The full CFPB Issue Spotlight (*Analysis of Deposit Insurance Coverage on Funds Stored Through Payment Apps*, June 1, 2023) and the related Consumer Advisory are available online at www.consumerfinance.gov. In the former, credit unions will find valuable information for educating their members on risks of non-bank payments apps as well as supporting data on the benefits of products developed by traditional depository institutions themselves.

Q2 Financials Available

EasCorp's 2nd Quarter Financial Report is now available online in the Due Diligence section of the website for anyone with an EasCorp- or Vertifi-issued digital certificate and Due Diligence authorization. For assistance, please contact Implementations and Support (support@vertifi.com) at 800.428.1144, Ext. 2.

SAVE THE DATE

Since 1998, EasCorp's ALM Academy, presented in partnership with ALM First Financial Advisors, has provided educational and professional development opportunities for staff at all levels of your organization as well as your board members. EasCorp's 2023 ALM Academy will be held October 24 to 25 at the MHA Conference Center in Burlington, MA. Registration opens soon. To learn more, contact Kevin Peters (kpeters@eascorp.org) at 800.428.1144, Ext. 3354.

NCUA Reports on Cybersecurity and Credit Union System Resilience

A significant and evolving risk to the financial system, cybersecurity is one of the top supervisory priorities of the National Credit Union Administration (NCUA). In late June, the agency released to the House of Representatives and the Senate the annual *Cybersecurity and Credit Union System Resilience* report on the measures taken by the NCUA and by federally-insured credit unions to strengthen cybersecurity.

Highlights of the report, available online at www.ncua.gov, include:

- Regulations related to technical, administrative, and physical safeguards for member records
- Policies surrounding information security examinations and supervisory guidance
- The agency's hiring and training practices
- A detailed list of current and emerging threats to the financial sector, including geopolitical tension, ransomware, supply chain risk, and other scams

In this year's report, the NCUA also pushed Congress again to restore the agency's authority, which sunset in 2001, to examine third-party vendors, including CUSOs. While the agency is the only one of the prudential banking regulators lacking that authority, several credit union trade groups have opposed Congress granting this power, citing regulatory overreach and budget concerns.

Holiday Coin & Currency Reminder

In observance of Labor Day, all Federal Reserve offices will be closed on Monday, September 4, 2023. As a reminder, cash orders prepared by the Federal Reserve Bank must be placed two business days in advance of delivery (e.g., orders must be placed by 11:30 a.m., ET on Monday for Thursday delivery). If you have any questions regarding your cash orders, please contact Taylor King (tking@vertifi.com) at 800.428.1144, Ext. 3516 or the Payment Systems Department (corrsvc@eascorp.org) at Ext. 4 in advance of the holiday.

Gap Letter Published

In March 2023, EasCorp and Vertifi posted their 2022 Statements of Standards for Attestation Engagements, No. 18 (SSAE) and Reporting Controls at a Service Organization (SOC 1, Type 2), as well as Vertifi's Report on Controls at a Service Organization Relevant to Security, Availability, and Confidentiality (SOC 2) for the period of January 1, 2022, to December 31, 2022. On June 2 the companies posted their Gap (or Bridge) Letter for the SOC 1 and SOC 2 reports representing controls for the period between the end of its review period and close of the calendar year. These reports are available on the Due Diligence pages of our websites for anyone with an EasCorp- or Vertifi-issued digital certificate and Due Diligence authority. For more information, please contact Implementations and Support (support@vertifi.com) at 800.428.1144, Ext. 2.

CU Kids at Heart Makes 2023 Donation



On Thursday, July 13, the Credit Unions Kids at Heart® Board of Directors, including Chair Jane Melchionda, and members of the Team, visited the laboratory of Dr. Dipak Panigrahy to deliver their 2023 donation. The group also learned about the lab's recent advances in the study of inflammation and the development of pediatric brain tumors. In addition to the donation made to the CJ Buckley Memorial Fund for Pediatric Brain Cancer Research at Beth Israel Deaconess Medical Center, the Team also made a \$300,000 donation to Boston Children's Hospital for research on Cerebral Palsy, Moyamoya disease, pediatric epilepsy, and other seizure disorders.

Fed's Beige Book Cites Moderate Growth as Inflation Begins to Ease

In mid-July, the Federal Reserve issued its latest Beige Book, a periodic publication featuring a national summary and commentary on the economic conditions across the twelve Federal Reserve (Fed) districts. The Beige Book collects qualitative information from Bank directors, businesses, community organizations, economists, market experts, and other sources through interviews and questionnaires to supplement the agency's other data collection and analysis on various economic activities and emerging trends.

In this issue, Fed economists stated that overall economic activity has increased slightly across the United States with only two of the twelve districts reporting modest declines. Several districts noted that tourism and travel growth was “robust” even as consumer spending remains mixed and sales of big ticket items such as automobiles have changed little from last quarter.

Overall job growth improved, even while certain sectors of the employment market, including health care and hospitality, struggle to find workers. Still, there seems to be cause for optimism in this area for future reports. The National Summary states that “the unusually high [employee] turnover rates in recent years appear to be returning to pre-pandemic norms.” Most districts reported modest income in pricing, citing that consumers have become more sensitive to price increases. Input prices for construction companies have eased from record highs last year. Inflation is expected to remain stable or to ease slightly over the next few months.

The Boston district echoed the findings of the National Summary with slightly expanding growth at a modest pace. Consumer spending and retail sales were up slightly. The labor market increased moderately, with wage growth falling back to more normal levels than the last few years. Many respondents in the hospitality sector cited that worker shortages have forced them to become more efficient and operate with a smaller staff. Inflation has been more stable across most sectors. Home sales have increased very slightly, as homeowners are reluctant to sell their current home and swap their current low fixed mortgage rate for higher rates. Commercial real estate has been moderately weaker in recent months, with fewer firms and less need for office space.

Read the full report at www.federalreserve.gov.

USPS Postage Increase Awakens Debate: Paper or Electronic?

On July 9, 2023, new mailing and shipping service rates went into effect at the United States Postal Service. These price adjustments reflect the agency's efforts to combat its own rising operating expenses and U.S. market conditions, and are the first step toward a 10-year plan for achieving financial sustainability by reducing projected losses. The rate changes include a three cent increase to first-class mail and domestic postcards and a five cent increase to international letters and postcards. This adjustment—the second by the agency this year—will also impact the cost of presorted and bulk (or, marketing) mail rates.

Credit unions looking to combat these rising postage costs may consider moving their members to electronic rather than paper statements. Delivered directly to your members via email, Vertifi's eStatements are easily archived or printed. And, without the costs of postage, paper, and envelopes, credit unions will see significantly reduced production costs. Whether or not you choose eStatements or paper, however, cannot be driven by cost savings alone, and must depend on the needs of your membership. Electronic statements can cause friction for those without stable, private internet access, and many find it easier to monitor and reconcile account activity with a paper statement. By reviewing both the members' needs and the operational and cost considerations, you will determine whether paper, electronic, or a mix of both, work best for you and your members.

If you have any questions about Vertifi's Statement Rendering Services, please contact Joe Bean (jbean@vertifi.com) at 800.428.1144, Ext. 3304.



Remote Deposit Capture Helpful Tips and Tricks

DeposZip RDC end users are segmented into risk profile tiers, each with its own funds availability and other settings based on the level of risk these end users pose. Review the number and configuration of these tiers periodically to ensure distinct categories of end users are grouped together and that the system tools balance their and your needs. To learn more, please contact the Implementations and Support Department (support@vertifi.com) at 800.428.1144, Ext. 2, or contact the Sales Team (sales@vertifi.com) for a DeposZip performance review.

New NCUA Rule on Cyber Incident Reporting

A new rule from the NCUA will go into effect on September 1 requiring federally insured credit union to notify the NCUA as soon as possible, within 72 hours, after it reasonably believes that a reportable cyber incident has occurred.

Chairman Todd M. Harper said, “Through these high-level early warning notifications, the NCUA will be able to work with other agencies and the private sector to respond to cyber threats before they become systemic and threaten the broader financial services sector.”

Learn more at www.ncua.gov/newsroom.

UPCOMING EVENTS

EasCorp's Invitational Golf Tournament
Benefitting Credit Unions Kids at Heart®
Monday, September 11, 2023
Tedesco Country Club, Marblehead, MA

Association of Credit Union Senior Officers
Wednesday, September 20, 2023
Annual Meeting &
The Newest Payments Rail
MHA Conference Center, Burlington, MA

Wednesday, December 6, 2023
Meet the Regulators
MHA Conference Center, Burlington, MA

ALM Academy
Presented in Partnership with ALM First
Tuesday, October 24 - Wednesday, October 25, 2023
MHA Conference Center, Burlington, MA

*For more information about the events listed above,
please call 800.428.1144, Ext. 3300
or email to admin@eascorp.org.*



35 Corporate Drive
Suite 300
Burlington, MA 01803
781.933.9950
800.428.1144

www.eascorp.org
www.vertifi.com

