



December 20, 2012

Gary Beets, Director Kansas City Financial Center
Department of the Treasury
4241 NE 34th Street
Kansas City, MO 64117-3120

Re: Upcoming Changes to Social Security ACH Benefit Payments

Dear Director Beets:

The Clearing House Payments Company L.L.C. ("The Clearing House") respectfully submits this letter to request that the Department of the Treasury (Treasury) delay until March 1, 2013 the changes to certain ACH records of social security payments that are due to become effective for payments payable on January 3, 2013.¹ We are concerned that if the changes are not delayed, social security recipients will be negatively impacted because their payments may reject or may not be credited to them. Banks may also be unable to stop payments sent to deceased recipients and, thus, may have liability under the Treasury's reclamation rules.

In brief our reasons for requesting this delay are based upon the timing of the changes and the fact that the changes require software adjustments to bank and downstream customer systems.² These issues were discussed with Mr. Matthew Fineout on a call December 19, 2012. The call was attended by many of our member banks as well as credit union and community bank representatives³ who provided the following information:

¹ Established in 1853, The Clearing House is the nation's oldest payments company and banking association. The Clearing House is owned by 21 of the largest commercial banks in America. The Payments Company within The Clearing House clears and settles approximately \$2 trillion daily, representing nearly half of the U.S. volume of ACH, wire and check image transactions. The Clearing House Association is a nonpartisan advocacy organization within The Clearing House that represents the interests of its owner banks on a variety of systemically important bank policy issues.

² We recognize that similar changes were announced September 28, 2012 for changes effective to Cycle 2 payments dated October 10, 2012. We know that some financial institutions did express concern to FMS/Treasury about the short notice and impact of the October changes. Nonetheless the industry was able to quickly code or create manual processes to address the changes. However, we note that only three RTNs, rather than ten, had to be accommodated for the October changes. Further, financial institutions were not in a technology freeze at that time.

³ The following banks and organizations attended the call: Bank of America, Bank of NY Mellon, Branch Bank & Trust, Citibank, Comerica Bank, Deutsche Bank, ESL Federal Credit Union, HSBC Bank, Independent Community Bankers of America, JPMorgan Chase Bank, Manufacturer's & Trader's Bank, PNC Bank, TD Bank, Union Bank, U.S. Bank, and Wells Fargo Bank. Together these entities represent approximately 65% of ACH receipt volume in the country. Further, it is safe to assume that many, if not all, of the financial institutions that constitute the remaining 35% of receipt volume will have similar problems with the changes though they may not be aware of the changes or the impact of the changes yet.

- The announcement on November 29th gave the industry very little time to learn about, evaluate, and react to the changes in the information fields of ACH social security payments.
- The fields impacted by the changes⁴ are used by ACH systems to validate payments and create reports. If the systems are not re-coded to recognize the new field contents,
 - payments can reject,
 - financial institutions will be unable to create reports that enable care facilities, such as nursing homes, to allocate payments amongst social security recipients in their care, and
 - financial institutions will be unable to identify payments that should be stopped because the recipient is deceased.
- Resources are constrained during the holiday weeks. Further, most financial institutions “freeze” all technology changes in the weeks bridging the end and start of the calendar year. These technology freezes normally go into effect the first week in December and end the second week in January. This is done so that all systems and applications are locked down with no changes so that they can operate normally during this period of peak transaction volumes. Hence, many financial institutions are unable to make the necessary changes at this time or must invoke emergency procedures to make such changes. These procedures typically involve multiple levels of authorization and it may not be possible to get approvals at a time of the year when many people are on vacation.
- Many financial institutions use third party software for some or all of their ACH or posting systems. None of the vendors who provide this software have developed code to address the field changes yet.⁵
- For those financial institutions with in-house software, coding has been quickly developed. However, the institutions have not had sufficient time to complete their standard change control cycle and appropriate end to end testing. Therefore, there is some risk that the coding will not work as expected or that there may be unanticipated impacts to downstream systems.
- There will be reputational and customer relations issues for financial institutions if social security recipients do not receive their expected payments on January 3rd.

We urge Treasury to expeditiously consider and respond to our concerns as time is of the essence. Financial institutions expect to receive the first files with January 3rd payments as early as December 28th.

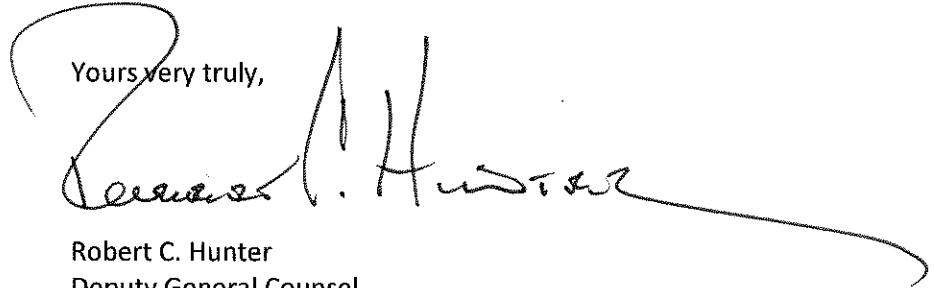
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⁴ Specifically, the changes to the Company Name and Company Identification fields impact edit and report functions of ACH systems.

⁵ One large vendor has informed their customers that they will not make a coding change available before the end of the year and is asking their customers to create manual workarounds for the effected entries.

Thank you for your consideration of our concerns. If you have any questions or we can be of assistance in any way, please do not hesitate to contact Alex Romeo at (212) 613-0101 or alex.romeo@theclearinghouse.org or Alaina Gimbert at (336) 769-5302 or Alaina.gimbert@theclearinghouse.org.

Yours very truly,

A handwritten signature in black ink, appearing to read "Robert C. Hunter". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

Robert C. Hunter
Deputy General Counsel
(336) 769-5314
Rob.hunter@theclearinghouse.org

cc:
Matthew Fineout, Management and Program Analyst
Department of the Treasury