

## Real-Time Payments Funding Agents 101



For real-time payments to work, every transaction is made possible by a pre-funded balance account that allows the transaction to clear and settle at the same time that the actual transaction is being made. For example, on The Clearing House's (TCH) RTP® network, every credit union and bank on the network has a position on the RTP funding account, which is held at The Federal Reserve Bank of New York. A funding agent can manage a financial institution's position on their behalf and provide financial institutions with the liquidity needed on weekends and holidays, which ensures that their account retains a sufficient balance.

In a Callahan-hosted [webinar](#), Toby Thomas, VP, Product Marketing Strategist at Corporate One FCU, and Mark Majeske, SVP Faster Payments at Alacriti, discussed what credit unions should know about using funding agents to connect to real-time payment rails.

Majeske began by sharing three major considerations that credit unions have when going into real-time payments (or faster payments in general):

1. **Fraud Prevention** – augmenting the enterprise fraud system to address the needs of real-time payments
2. **UI and UX** – credit union branded, member-based applications
3. **Funding Agent Services** – the RTP network and the FedNow<sup>SM</sup> Service

“Alacriti provides credit unions with [solutions](#) for all three and helps with funding agent services for credit unions through a partnership with Corporate One FCU. Corporate One has an excellent level of expertise in providing funding agent services to credit unions, and we felt that it was really a complement to Alacriti’s product offering. So, we’ve created an integrated implementation of faster payments and funding agent services in one effort, making the onboarding process for real-time payments easier and have less friction,” Majeske shared.

## About Corporate One FCU

Thomas provided more background about Corporate One FCU. “As a trusted payments, investments, and funding solutions partner to credit unions for more than 70 years, Corporate One has worked diligently over the last decade to develop an expertise in the future of our industry: real-time payments. Since joining the Federal Reserve Faster Payments Task Force in 2015, Corporate One has provided a consistent and respected credit union voice at every level of bringing real-time payments to the United States, often as the only credit union representative. We’ve known for years now that the RTP network and the upcoming FedNow<sup>SM</sup> Service are going to really change the payments landscape and we have made it our business to become a leading, real-time payments partner for credit unions, building in-house solutions to meet the needs of financial institutions of all sizes. In September 2019, Corporate One committed to being the first credit union-specific financial institution to become a funding agent for credit unions on TCH’s RTP network, and in January 2021 we received our official certification. We’re proud of that and hope to help more institutions going forward.”

Corporate One is also participating in the FedNow Pilot Program (with the service scheduled to launch in mid-2023), providing the foundation for expertise on how it works and will work. “I want to start with the basics on the settlement and funding. When you join the RTP network as a participant, you will have a choice on how you will fund and settle those transactions,” shared Thomas. “The RTP network requires a pre-funding of any transactions that are sent through the network. Any credit pushes (for example, the credit send) on this must be pre-funded, and they also settle in the same account that is pre-funded. So, one of the decisions that you’ll have early on is whether you’re going to manage those pre-funded amounts on your own or have someone do it for you. And that’s where a funding agent comes in.”

## How Funding Agents Work

The RTP network is a 24/7/365 network. There are no more business days, holidays, weekends, or batch settlements. Instead, the network uses a reconciliation window that goes from midnight to midnight. During that time, the pre-funded requirements and balances are held separately in a joint account at the Federal Reserve Bank of New York, which needs to be managed with regularity. The participant must have this joint account regardless of a credit union’s home region for a federal reserve bank (e.g., Chicago, Atlanta, Cleveland, etc.). So, without a funding agent, there is a need for a separate, joint account.

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Instead of the credit union owning this joint account or being a participant in the joint account at the Federal Reserve Bank of New York, a funding agent can step in and hold the account on behalf of the credit union. Funding agents move the money back and forth between the credit union's account and the Federal Reserve Bank of New York's account. There are different profiles on the network.

The Send profile allows members to send payments through the RTP network, which requires a joint account at the Federal Reserve Bank to be pre-funded. This account needs to be monitored 24/7/365. For example, if the available funds get low during off hours (e.g., 3:00 p.m. on a Saturday), the credit union's accounts could run out of funds. The joint account is electronically monitored, so there will be alerts saying that the funds are getting low, and then, of course, another alert should the account run out of funds. When that happens, the transactions will cease.

Currently, the only way to fund the account is through Fedwire, which isn't always open. This is something for credit unions who choose to manage their account on their own to consider. As an example of a funding agent function, Corporate One pre-funds the account for the credit union, manages the limits, and reacts to the alerts. Although the credit union would receive the alerts as a courtesy, they wouldn't need to react to the alerts.

**Watermark:** Describes the benchmark used for a financial institution to receive an alert. Once the watermark is hit, alerts are sent out, which could be at any time.

**Net Send Limit:** Daily net amount that balance and joint account can go negative. E.g., with a net sum limit of \$50,000, the number of transactions that members are sending vs. the credit union receiving cannot exceed \$50,000.

When a financial institution gets close to exceeding its net send limit, an alert will go out, requesting a reaction to fund the account. A funding agent can ensure that the money is moved even outside of normal business hours. The amount of additional liquidity given depends on the arrangement that the funding agent has with the financial institution.

## Benefits of a Funding Agent

Traditional payment methods, such as check processing and wires, are done during business days with batch processing. For instance, even Same Day ACH has several different settlement periods throughout the day, and the batch files do not happen during non-business days, including weekends and holidays. The 24/7/365 facilitation and management of real-time payments is a key benefit of funding agents. Figuring out how to manage the settlement and how it's going to be monitored is very new for a lot of financial institutions.

"Your settlement dollars will typically go into your correspondent account where you probably do other settlements today. Some other types of settlements may be processed through a settlement account that you have at your bankers' bank or your credit union. A funding agent simplifies processing so, it's not a drain on your resources. You don't have to have somebody monitoring and managing it every day. I think that it takes the pressure off of having to figure out where those resources are going to come from when you have a lot on your plate just getting onto the network and figuring out how those processes are going to work—working with someone like Alacriti on getting those payments into your institutions and having that ability to send a payment," said Thomas. "Typically, the funding agents (I know that Corporate One does, for example.) have convenient consolidated access to reports. So, you can go to one place to see all of your different settlement reports. Funding agents simplify the reconciliation process. Even though you've been doing batch processing for a long time, you'll find the consolidated access to reports very convenient and easy to use, and I think you're going to find the reconciliation piece of it to be much cleaner."

There are different profiles for real-time payments. The **Receive-Only profile** means that real-time payments are only received by the credit union; they are unable to send real-time payments. The use of funding agent services can be very useful with the Receive-Only profile, even though there is no pre-funding requirement. As an example, Corporate One offers a complimentary service as a funding agent for Receive-Only participants to ease onboarding to the RTP network. With this service, the credit union wouldn't have to set up an account at the Federal Reserve Bank in New York. Instead of funds being held in a non-interest bearing account, the funds would be held in an interest-bearing account with the balance managed by the funding agent; the credit union would have convenient access to reports, and no extra fees to wire the money. Right now, any time money has to move back and forth, even though the money may be going from a Fed account to a Fed account, Fedwire is the only way to get money in and out of that account in the case of a Receive-Only participant. With a funding agent, the credit union can put the money wherever it is preferred (e.g., in a settlement account at their correspondent bank).

With a **Send profile**, that's when transactions must be pre-funded. Funding agents do the 24/7 facilitation and management, reducing the burden on the credit union. There is typically a lower pre-funding requirement when a financial institution uses a funding agent. One of the questions asked during the webinar was, "What do credit unions do if they already set up a joint account for a Receive-Only profile but would like to start using funding agent services?" Thomas answered that the funding agent would notify The Clearing House, and the credit union would close the account that they have at the Federal Reserve Bank of New York account and then join the funding agents' group. However, this transition isn't necessary if the credit union starts with a funding agent from the beginning when they do Receive-Only.

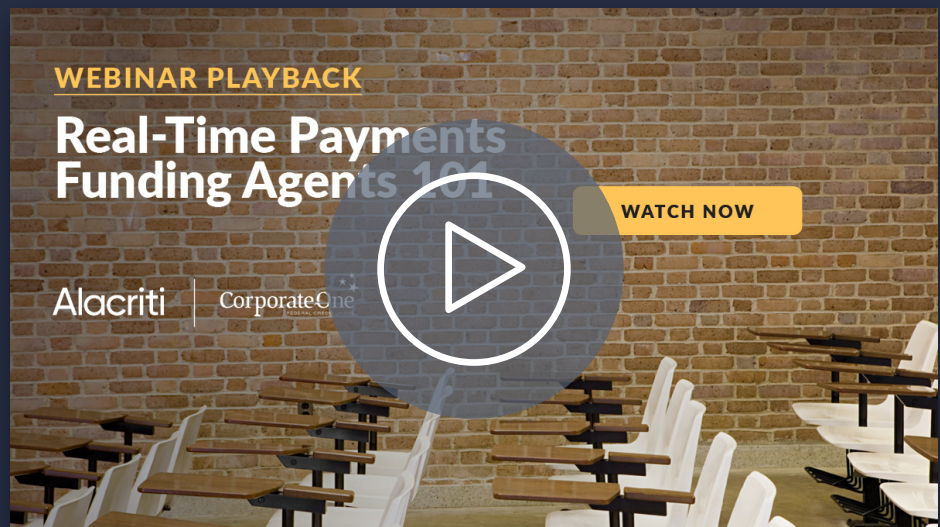
During the webinar, it was asked why some financial institutions use a funding agent but still have to manage their own pre-funded positions. Thomas explained that some funding agents (like Corporate One) will provide the pre-funding, manage positions, and send limits, so the credit union does not have to have their actual money in the joint account at the Federal Reserve Bank of New York. However, there are two models. The other model is that the credit union will have its own money in the joint

account at the Federal Reserve Bank of New York, and the funding agent simply manages it. They're moving money in and out of the account on behalf of the financial institution, but it's still their money. The funding agent is not fronting the money or pre-funding for the financial institution. If alerts are sent out, there's an agreement on how those will be handled. "Corporate One is considered a funding provider, and we pre-fund the account for all of our members. So, anyone that wants to come onto the network, we will pre-fund that account for them, manage it, and react to those alerts for them, so they basically don't need to do anything."

## Conclusion

Aite-Novarica has recognized Alacriti as one of the top payment hub vendors in its report, [Aite Matrix: Payment Hub Vendors](#). As part of Alacriti's [Cosmos Payments](#) solution, Alacriti offers funding agent services through a partnership with Corporate One FCU. This provides a connection to real-time payment rails with liquidity management certainty, all from one vendor. Other solutions offered related to real-time payments include fraud prevention and customer-facing overlays (UX). And having everything under one umbrella makes it easier than working with each vendor individually, and one unified platform to connect to all the payment rails (e.g., Visa Direct, FedNow Service, TCH's RTP network, ACH, and FedWire Funds Service) makes payments more efficient and convenient for both members and credit unions.

To find out what credit unions should know about using funding agents to connect to real-time payments rails, watch the full webinar, **[Real-Time Payments Funding Agents 101](#)**, featuring Corporate One FCU and Alacriti.



Alacriti's centralized payment platform, [Cosmos Payments](#), provides innovation opportunities and the ability for members to make smart routing decisions at the credit union to meet their individual needs. Credit unions can unify payment processing all in one cloud-based platform—ACH, the FedWire Funds Service, TCH RTP network<sup>®</sup>, Visa Direct, and soon, the FedNow<sup>SM</sup> Service. To speak to an Alacriti payments expert, please [contact us](#) at (908) 791-2916 or [info@alacriti.com](mailto:info@alacriti.com)

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