



FINANCIAL SERVICE CENTERS OF AMERICA, INC.  
A NATIONAL TRADE ASSOCIATION

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April 5, 2004

**Via Telefax**

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551  
Re: Docket No. R-1181  
Re: Recordkeeping, Reporting and Disclosure Requirements in  
Connection With Regulation BB (Community Reinvestment Act)

Public Information Room  
Office of the Comptroller of the Currency  
250 E Street, SW, Mail Stop 1-5  
Attention: Docket No. 04-06  
Washington, DC 20219  
Re: Community Reinvestment Act Regulation-12 CFR 25

Leneta G. Gregorie, Legal Division  
Room MB-3082  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429  
Re: Community Reinvestment-12 CFR 345

Information Collection Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, DC 20552  
Re: Community Reinvestment-12 CFR 563e

Dear Officials of the Federal Bank and Thrift Agencies:

The following comments are submitted on behalf of Financial Service Centers of America, in response to the proposed revisions to the Community Reinvestment Act ("CRA") Regulations.

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## **I. ABOUT FiSCA AND THE NEIGHBORHOOD FINANCIAL SERVICES INDUSTRY**

Financial Service Centers of America ("FiSCA"), is a professional trade association representing an expanding industry of financial services providers in local communities across the country. FiSCA was originally established in 1987 as the National Check Cashers Association ("NaCCA"), changing its name in 1999 to reflect the evolution of the industry.

FiSCA's members represent in excess of 5,000 neighborhood financial services centers and related businesses. In recent years, as a broader spectrum of consumers have sought increased financial service convenience, and alternatives to traditional banking relationships, community-based financial service centers have proliferated. Today, the neighborhood check casher has grown into a sophisticated full-service financial institution delivering a wide array of products and services, including money orders, wire transfers, motor vehicle registration, bill payments and delivery of government benefits, in addition to check cashing services. In some inner-city areas no longer served by traditional banks, check cashers have become the primary financial services resource.

We believe that the significant growth of the neighborhood financial services industry is a direct reflection of the burgeoning demand for the types of services offered by our members in the geographic areas in which they are offered. In a report prepared by Coopers & Lybrand for the Financial Crimes Enforcement Network of the United States Treasury Department ("FinCEN") entitled Non-Bank Financial Institutions: A Study of Five Sectors, dated February 28, 1997, the study indicated that, during a ten-year period beginning in 1987 and ending in 1996, the number of check cashers grew from slightly more than 2,000 to approximately 5,600,

representing a 260% increase.<sup>1</sup>

## **II. THE PROPOSED CRA AMENDMENTS**

While we note that the proposed CRA amendments do not directly impact upon our Members in that they are neither regulated financial institutions under the CRA nor are they the intended beneficiaries of CRA policy, neighborhood financial service centers offer necessary financial services to low- and moderate-income individuals and cannot be ignored in the mosaic of financial services.

FiSCA is not alone in this belief. John J. Hawke, Jr., the Comptroller of the Currency, in a March 18, 2002 speech before the American Bankers Association's National Community and Economic Development Conference, stated that:

... the OCC recently sponsored a survey of individuals living in low-and moderate-income neighborhoods of two major urban areas: Los Angeles County and New York City. We polled over 2,000 randomly selected individuals about their financial habits and experiences. From our results we can draw statistically valid inferences about the 2.6 million individuals who live in the low-and moderate-income neighborhoods in these two major urban areas. One inference that may be drawn from our study is that people who lack formal banking relationships may be just as responsive to market incentives as people who have those relationships. In other words, appearances to the contrary notwithstanding, check-cashing customers, payday borrowers, and consumers of other relatively high-cost nonbank products do business outside the banking system for practical – and economically rational – reasons. This is an exceedingly important point, because it is sometimes mistakenly assumed that people with low incomes lack the acumen to make sound decisions in their own self-interest.

In the February 6, 2004 Notice of Proposed Rulemaking, the Agencies noted, with

<sup>1</sup> Coopers & Lybrand, L.L.P., Non-Bank Financial Institutions: A Study of Five Sectors for the Financial Crimes Enforcement Network, February 28, 1997.

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respect to the issue of "Service Delivery Methods" under CRA's Service Test, that:

Many community organizations commented that the test should emphasize the placement of bricks-and-mortar branches in low- and moderate-income areas. A few financial institutions agreed, but most institutions that addressed the issue argued that putting less weight on branches and more on alternative service delivery methods was necessary to adequately measure the provision of services to low- and moderate-income individuals. Some community organizations stated that the weight given to alternative methods should depend on data showing their use by low- and moderate-income individuals, and a couple of financial institutions agreed that such data would be useful.

FiSCA agrees with each side of the debate, but, we submit, the commentators miss the point. Neighborhood financial service centers provide both bricks-and-mortar locations and alternative methods of delivering financial services to low- and moderate-income individuals. And, neighborhood financial service centers provide those services at lower costs than banks. Thus, it is FiSCA's position that CRA's Service Test should be given greater emphasis when evaluating the performance of banks and, more significantly, banks should in fact receive CRA credit when they establish that they provide banking services to neighborhood financial service centers that in turn provide needed financial services to low- and moderate-income individuals.

In the comments addressing "Banking Services and Nontraditional Service for Low- and Moderate-Income Individuals," the Agencies report that:

Community organizations believed that the service test should show special concern for the services available to and used by low- and moderate-income individuals. . . Many organizations also said that the service test should give weight to providing low-cost services and accounts to low- and moderate-income individuals and areas; a few said that credit for such services and accounts should depend on data demonstrating that they are used. (emphasis added).

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FiSCA agrees and supports amendments to CRA that would increase the gathering of such data. Further, it is our firm belief that, when such data is analyzed, it will show that a significant portion of low- and moderate-income individuals do not use banks for their day-to-day financial needs primarily because the services offered by banks are useless to those individuals. As recognized by Comptroller Hawke, many individuals in low- and moderate-income areas "do business outside the banking system for practical – and economically rational – reasons."

The steep growth in the number of neighborhood financial service centers also reflects the fact that they do provide a wide array of products and services that are conveniently available and that are used by low- and moderate-income individuals. These products and services include money orders, wire transfers, motor vehicle registration, bill payments, debit cards, phone cards and delivery of government benefits, in addition to check cashing services. These products and services are also conveniently offered at locations within the neighborhoods in which low- and moderate-income individuals reside, staffed by employees drawn from those neighborhoods and, in many cases, on a "24-7" basis.

Neighborhood financial service centers are also in the vanguard of providing innovative financial products to low-and moderate-income individuals. Through partnerships with banks and credit unions, neighborhood financial service centers have begun offering "point of banking" services at check cashing locations. At these POB's, customers can make deposits into bank and credit union accounts, in addition to conducting an array of other financial services. Certainly, by providing these outlets, neighborhood financial service centers afford the bricks-and-mortar locations at which individuals in low- and moderate income areas can obtain access to traditional

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bank accounts and services. In turn, equality of access to banking services is offered. By affording to banks the opportunity to obtain CRA credit by providing banking services to financial service centers, this non-traditional type of service is encouraged.

FiSCA also strongly disagrees with certain of the comments contained in the NPR which reported that:

Many organizations recommended that "payday lending," or "check cashing" activities should hurt, or at least not help, an institution's service test rating, although a few organizations qualified that check cashing should not prejudice a rating where the fee for the services is reasonable.

In addition to our strong opposition to any revision of the Service Test/Service Delivery Methods regulations that would penalize financial institutions engaged in "payday lending" or "check cashing," these comments again completely miss the point regarding the provision of financial services by neighborhood financial service centers to low- and moderate-income individuals. In the first instance, the undue attention given to check cashers in these comments stems from a fundamental misunderstanding of the important and necessary role played by check cashers in the mosaic of financial services. Neighborhood financial service centers provide the "first rung" of the ladder out of poverty. Moreover, the statistical evidence of the growth of this industry reflects the fact that low- and moderate-income individuals use neighborhood financial service centers for "economically rational" reasons. (See Statement of Comptroller Hawke). Recognition of this fact by the Agencies, banks and community organizations can lead to one conclusion: CRA credit should be available to financial institutions that provide banking services to neighborhood financial service centers.

It is also the fundamental misunderstanding of the structure of neighborhood financial

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service centers that provide check cashing services that has led to the phenomenon of banks discontinuing the accounts of check cashers. A survey conducted by FiSCA of its members indicates that more than 100 banks have discontinued doing business with check cashers. The problem created by bank discontinuance is especially acute in States such as New York, where the number of banks servicing check cashers is severely limited. This condition leads to an unhealthy concentration of check cashers in those few banks and could be disastrous to the low- and moderate-income individuals that utilize neighborhood financial service centers if there is further discontinuance. This lack of banking services also leads to a lack of competition, resulting in higher banking costs.

FiSCA submits that, a financial institution that discontinues providing banking services to neighborhood financial service centers (which provide retail financial services to low- and moderate-income individuals), for no other reason than that check cashing services are provided, should be penalized under the CRA. By terminating banking services to the providers of financial services to low- and moderate-income individuals, banks are in fact reducing the number and variety of financial services available to those customers. Clearly, the goals of CRA are inconsistent with such a result.

We thank the Agencies for the opportunity to participate in this process.

Very truly yours,



Gerald Goldman  
General Counsel

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cc: Gary Dachis, Chairman, FiSCA  
Board of Directors, FiSCA