

# Survey of Non-Bank Financial Institutions

for

Department of the Treasury

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## Final Report

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## Executive Summary

Dove Consulting was contracted by the Department of the Treasury to survey non-bank financial institutions (NBFIs) in four US markets. The NBFIs surveyed were selected because their primary business activity is check cashing and/or money transmission, which is only one segment of the full range of money service businesses.

The purpose of this research was to gather new information on this growing financial services industry segment for Treasury in the context of its broader EFT '99 research. Although the NBFIs industry has grown rapidly over the last few years, there has been little empirical research on the nature of the industry – its size, competitive structure, pricing and profitability. As these entities become more prominent players in the financial services industry generally, it will be of interest to researchers and policymakers to understand how NBFIs compare with traditional financial institutions. By commissioning this study, Treasury hoped to gain new data on NBFIs' business structures – where they locate, what products and services they offer, and the fees they charge. Additionally, Treasury was interested in gauging the availability and demand for EFT products offered through NBFIs.

Together, Treasury and Dove selected four markets in which to survey NBFIs during December 1999 and January 2000: the cities of Atlanta, Georgia; Boston, Massachusetts; San Antonio, Texas; and San Diego, California. These markets were selected to be surveyed because they represent four different US regions, encompass different racial/ethnic segments of the US population, and are located in states with different NBFIs regulatory environments. Based on the Treasury requirement that at least 30 NBFIs be surveyed in each market, Dove obtained responses from 130 NBFIs across the four markets: Atlanta (36); Boston (31); San Antonio (31); and San Diego (32).

The NBFIs participation rates for this survey are summarized for each market and business type in the Table 1.1 below:

Survey Participation Rate

	Atlanta		Boston		San Antonio		San Diego		Overall	
	#	%	#	%	#	%	#	%	#	%
Total NBFIs* (InfoUSA)	110		34		121		106		371	
NBFIs surveyed	98		34		68		73		273	
Participating NBFIs	36	<b>37%</b>	31	<b>91%</b>	31	<b>46%</b>	32	<b>44%</b>	130	<b>48%</b>
Total Chain NBFIs (InfoUSA)	30		20		57		30		135	
Participating Chain NBFIs	18	<b>60%</b>	20	<b>100%</b>	26	<b>46%</b>	7	<b>23%</b>	71	<b>53%</b>
Total Indep. NBFIs (InfoUSA)	80		14		64		76		236	
Participating Indep. NBFIs	18	<b>23%</b>	11	<b>79%</b>	5	<b>8%</b>	25	<b>33%</b>	59	<b>25%</b>
Participating Chain NBFIs	18	<b>50%</b>	20	<b>65%</b>	26	<b>84%</b>	7	<b>22%</b>	71	<b>55%</b>
Participating Indep. NBFIs	18	<b>50%</b>	11	<b>35%</b>	5	<b>16%</b>	25	<b>78%</b>	59	<b>45%</b>

\* InfoUSA's database is primarily gathered through yellow and white page listings. InfoUSA representatives verify that the database is updated on a monthly basis.

Table 1.1

The 130 responses Dove received represented a 48% response rate to the strictly voluntary survey. Significantly, 112 of the 130 respondents (86%) answered survey questions requesting information on their revenues and 84 of the 130 respondents (65%) provided cost information, which enables this study to offer information on these firms' financial performance<sup>1</sup>.

Dove surveyed NBFIs in these four markets to obtain information on their products and services, their revenues and costs, and their facilities. Additionally, Dove performed mapping of NBFIs locations and other financial service providers in these four markets to examine locational and demographic factors that may be relevant to the growth and success of NBFIs.

Due to the small sample size, the results of this research are not intended to be statistically representative of the NBFIs industry as a whole, nor should the results be used as the basis for national estimates.



## Summary of Key Observations

Based on this survey of NBFIs, there are eight key observations:

### 1. Product Availability at Non-Bank Financial Institutions

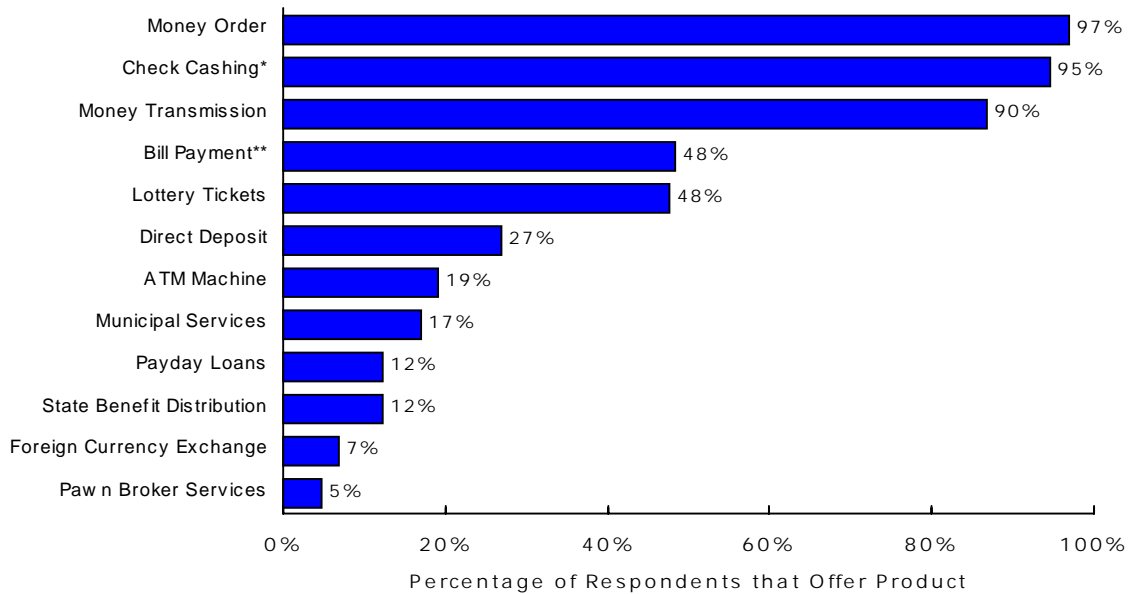
**Non-Bank Financial Institutions offer a wide range of financial services and perform transactions that are needed by the underbanked population.** Across all four market areas studied, the three most commonly offered products by survey participants include: Check Cashing (95%), Money Orders (97%) and Money Transmission (87%) services. Other financial services that were not as widely available include Bill Payment (48%), Direct Deposit Services (27%) and ATMs (19%).<sup>2</sup> Some NBFIs offer a “one-stop shopping” format in their stores, while others limit the financial services offerings to money transmission and money orders. The availability of the products and services studied across all NBFIs participating in the survey is depicted in Figure 1.1.

Direct Deposit service products, which allow customers to access their electronically deposited payments at a NBFIs, are offered at 27% of the responding NBFIs through a variety of banks. Surveyed NBFIs offer two types of direct deposit services:

- One type of product sends federal payments electronically to an ATM card-accessible account.
- The other type of product allows the NBFIs to charge the customer a fee for printing his/her federal check, and then charge the customer its standard fee to cash the check.

NBFIs respondents reported that these newly available Direct Deposit products were not popular in the marketplace because the price to the consumer is higher than cashing a paper check, and the revenue to the NBFIs is lower than cashing a paper check.

Overall Product Availability among NBFi Respondents



\* Check cashing services were offered at 94.6% of the NBFIs included in our study. The remaining NBFIs only offered money transmission and not check cashing services.

\*\* Bill payment includes respondents that offer electronic bill payment and/or accepts utility payments.

\*\*\* Although they were specifically surveyed as to the availability of rent-to-own services and courier services, none of the responding NBFIs offered such services.

Figure 1.1

## 2. Convenient Hours of Operation

**The participating NBFi outlets are convenient for their customers, because they are open more days and for longer hours than most banks.** Of the surveyed outlets, 96% were open on Saturdays and 26% on Sundays. On average, NBFIs are open for 66, 68, 63 and 77 hours per week in Atlanta, Boston, San Antonio and San Diego respectively.

## 3. Convenient Service and Location

**NBFi respondents offer convenient locations and provide services using the language preferences of their customers.** Important elements in NBFIs' success include three service dimensions that are not necessarily provided by traditional banks:

- Collectively across all four markets, NBFi staff speak at least nine different languages, perhaps to meet the need of the non-English speaking population.
- NBFIs tend to be conveniently located along major public transportation system routes and/or major intersections. Among respondents, 61% of NBFi outlets are within half a block of public transportation route.
- The average NBFi was located closer to a bank branch and an ATM than to another NBFi. Across the four markets studied, the average distances between all NBFIs and the nearest NBFi, bank, ATM, and post office is 0.63, 0.52, 0.39 and 1.06 miles respectively. This suggests that NBFIs may serve a different customer segment than banks.

#### 4. Product Pricing and Volume

**Survey responses demonstrated a substantial difference in product prices between chain and independent operators, and across different market areas.** Check cashing and money orders were the two highest volume services offered. The following chart shows that chain NBFIs achieved both higher volumes and higher check cashing fees than independent outlets. Chain NBFIs also sold more money orders, but at lower prices than independent outlets did. Prices and volumes were highest in the Boston market, since there are fewer NBFIs per capita and those outlets are mostly chain operations.

Check Cashing and Money Order Average Fee and Volume Data

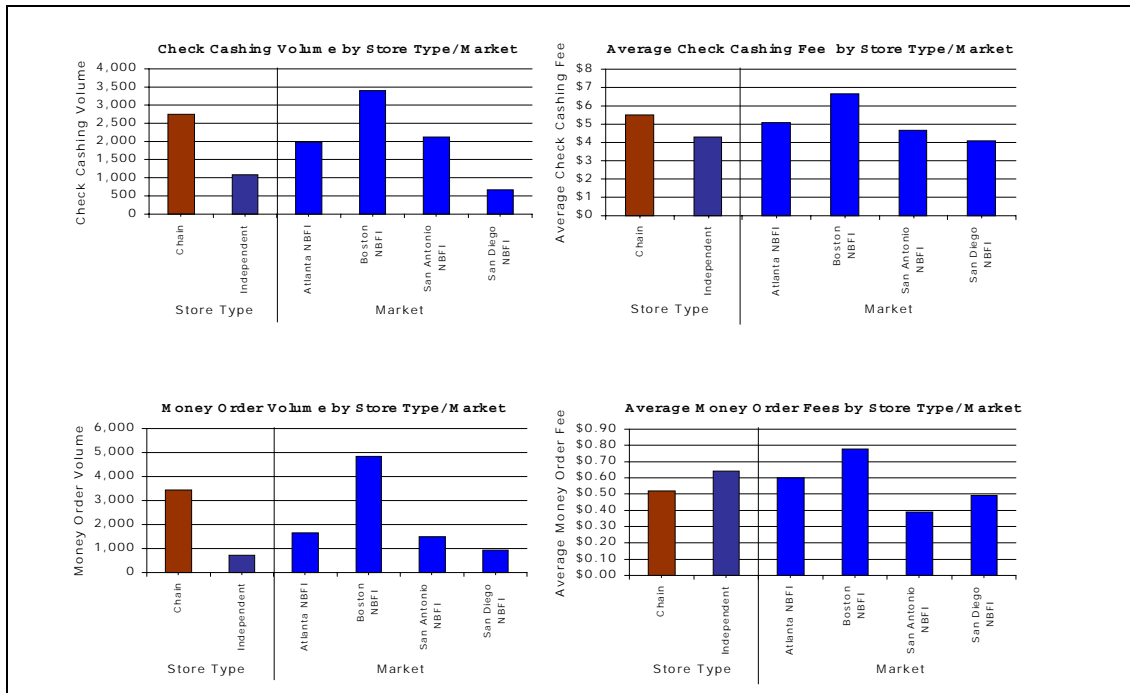


Figure 1.2

#### 5. NBF Check Cashing Volume Characteristics

**Government checks represent less than 16% of the checks cashed by the surveyed NBFIs; the overwhelming majority is composed of payroll checks (80%).** The majority of NBF outlets do not cash personal checks, and when they do, they generally charge a rate that is more than twice the fee for payroll and government checks.

#### 6. Annual Revenue per NBF Outlet

**The annual revenues per NBF outlet varied dramatically among the four markets studied. The survey results ranged from an average of \$324,500 in Boston to \$84,300 in San Diego.** On a product mix basis, 66% of all responding NBFIs' revenue was derived from check cashing fees. Money Transmission and Money orders contributed 18% and 10% of total revenues respectively. Although loans accounted for only 3% of surveyed NBFIs' revenue across all four markets, in San Diego, where NBFIs are permitted to originate payday loans<sup>3</sup>, fees charged for payday loans accounted for 16% of the average store's revenue.

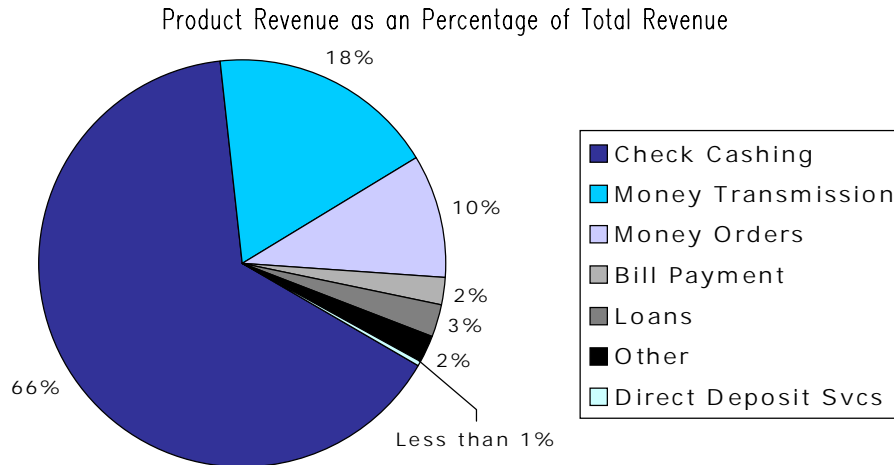


Figure 1.3

7. NBFIs Operating Costs

**Operating costs for survey participants averaged 66% of sales.** The largest cost for NBFIs are salaries and payroll expenses that, on average, accounted for 27% of revenue. Rent was the second largest expense accounting for about 11%, followed by 9% for cash and money services and 7% for bad debt. Collectively, third-party expenses, corporate overhead and management fees, advertising and marketing accounted for another 7% of total revenue. All other pretax expenses accounted for 6% of revenue.

8. NBFIs Profitability per outlet

**Based on the revenue and cost information gathered in the survey, the overall average pretax return on sales was 34%.** Pre-tax returns on sales and average revenues reported in each of the markets indicated that annual pre-tax income ranged from \$32,500 in San Diego to \$95,000 in Boston. The survey responses also indicated that annual pre-tax income averaged \$39,000 at independent NBFIs and \$65,000 at chain NBFIs.

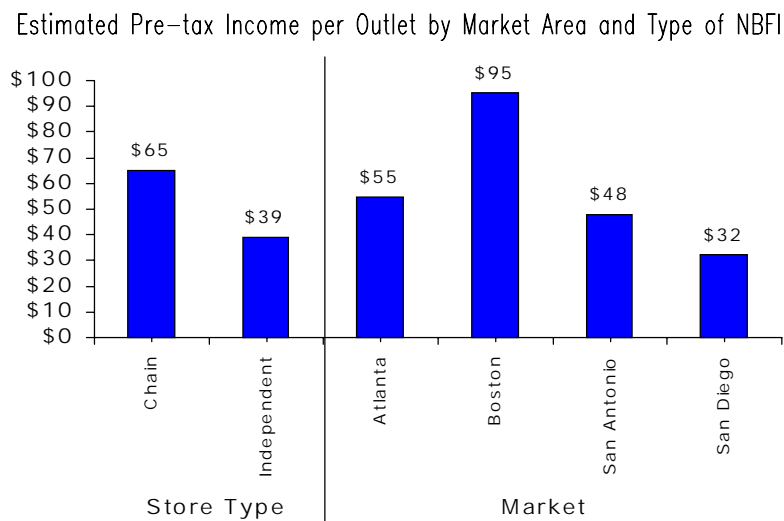


Figure 1.4

## Background

A January 2000 Federal Reserve study estimated that 9.5% of families in the U.S. did not have any type of transaction account (checking, savings, and money market deposit accounts, money market mutual funds, and call accounts at brokerages) in 1998<sup>4</sup>. This figure has declined significantly since 1995, at which time 13% of families in the U.S. did not have any type of transaction account<sup>5</sup>. The study offers the following reasons cited by respondents for their family for not having a checking account<sup>6</sup>:

Reasons Why Unbanked Families Do Not Have Checking Accounts

<b>Reason</b>	<b>1989</b>	<b>1992</b>	<b>1995</b>	<b>1998</b>
Do not write enough checks to make it worthwhile	34.4%	30.4%	25.3%	28.4%
Minimum balance is too high	7.7%	8.7%	8.8%	8.6%
Do not like dealing with banks	15.0%	15.3%	18.6%	18.5%
Service charges are too high	8.6%	11.3%	8.4%	11.0%
Cannot manage or balance a checking account	5.0%	6.5%	8.0%	7.2%
No bank has convenient hours or location	1.2%	0.8%	1.2%	1.2%
Do not have enough money	21.2%	21.2%	20.0%	12.9%
Credit problems	*	0.7%	1.4%	2.7%
Do not need/want an account	*	3.2%	4.9%	6.3%
Other	6.8%	1.9%	3.5%	3.1%
Total	100%	100%	100%	100%

\* Responses not coded separately in 1989.

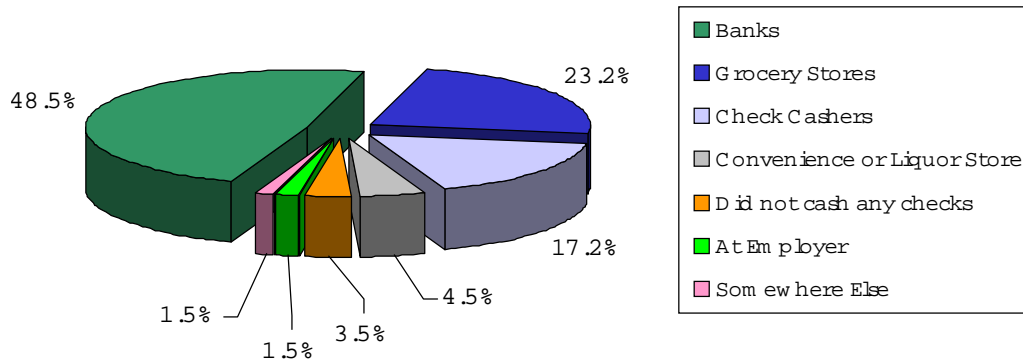
Table 2.1

A 1998 Dove analysis of survey data gathered for the Financial Management Service (FMS) by Shogull/Booz Allen indicated that 24% of Federal benefit check recipients do not have bank accounts<sup>7</sup>. Some industry experts estimate that 30 to 40 million US households are either unbanked and/or have sub-prime credit risks, and that 40% of US households are without unsecured credit cards<sup>8</sup>.

A portion of the unbanked population uses banks for their financial service needs, but many have turned to alternatives. NBFIs, such as check-cashing outlets (CCOs), have emerged as niche industries for the unbanked population. A 1997 study of families without deposit accounts and incomes below \$25,000 found that 46% of respondents had used a check-cashing outlet in the past year. The study also identified that 71% of

unbanked respondents had a checking or savings account at some point in the past. Figure 2.1 shows where these unbanked respondents cashed their checks most often<sup>9</sup>:

### Where Lower-Income Households without Deposit Accounts Cash Their Checks



Source: Filene Research Institute, 1997

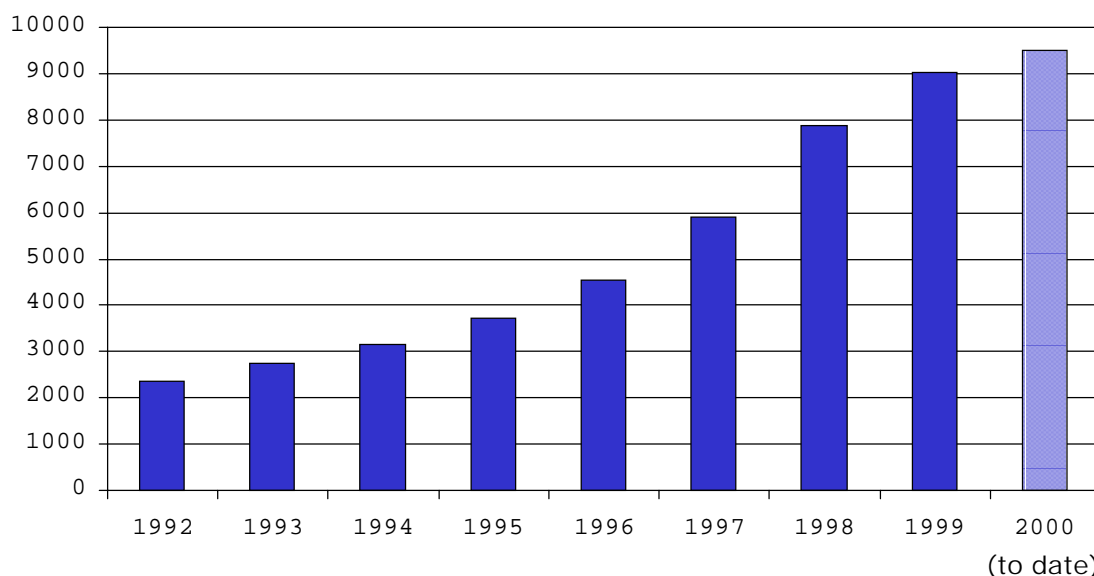
Figure 2.1

### Non-Bank Financial Services Industry

NBFIs offer a range of services including check cashing, money orders, money transfers, bill payments, payday advance loans, as well as a variety of other services that are offered at traditional financial institutions. NBFIs often offer one-stop shopping for their customers' non-financial services related needs as well by providing photocopying, faxing, lottery tickets, postage stamps, and pre-paid phone cards.

Most check cashers represent full-service NBFIs, typically offering their customers the full range of services listed above. The check cashing industry is growing rapidly, cashing over 180 million checks annually with a face value of \$60 billion, and collecting almost \$1.5 billion in fees<sup>10</sup>. InfoUSA, the largest business database company, reports that there are currently over 9,500 stores in the United States that classify their primary line of business as check cashing<sup>11</sup>. This number has grown from just over 7,100 in June 1998<sup>12</sup>. An additional 1,300 stores listed check cashing as a secondary line of business<sup>13</sup>. Approximately 831 stores in Illinois classify their primary line of business as currency exchange, which is local terminology for check cashing outlets<sup>14</sup>. In addition to businesses that list check cashing as a primary or secondary line of business, as Figure 2.1 shows, thousands of financial institutions, grocery stores and liquor stores offer check cashing services, sometimes without charging fees. This estimate does not include approximately 200 ATM check cashing machines—made by InnoVentry Corporation, 7-Eleven Inc., Greenland Corporation, and Ace Cash Express—that cash checks. The chart below estimates the growth of such firms over the last seven years<sup>15</sup>:

Number of Check Cashing Outlets in the US



Source: InfoUSA estimates, 2000

Figure 2.2

According to InfoUSA, close to 10,000 businesses classify their primary line of business as money transfer services<sup>16</sup>. Over 40,000 additional stores offer money transmission services as an ancillary service, and therefore are not included in this study. Nearly all money transmission outlets are either Western Union or MoneyGram agents, who manage approximately 31,000 and 20,000 agents respectively<sup>17</sup>. Western Union was acquired by First Data Corporation in 1996. MoneyGram, which was owned by First Data until 1996, is now owned by Viad Corporation. Many stores that offer money transmission services overlap with check-cashing outlets, but it is difficult to track duplicates because the same stores often operate under multiple names with different phone numbers.

This research focused on businesses whose primary SIC code is check cashing services, currency exchange, or money transfer services, as they best represent the NBFII industry for the purposes of this study<sup>18</sup>. Dove eliminated overlapping outlets for the selected markets.

#### Non-Bank Financial Institution Chains

Dove analysis found that two major chains, Ace Cash Express (ACE) and Dollar Financial Group (DFG), operate approximately 12% of the total number of check cashing outlets in US. Although public information is limited, Dove identified five companies in addition to ACE and DFG that operate more than 100 CCOs each. Together, the following chains operate approximately 20% of the total number of CCOs in the US. The remaining 80% of the outlets are mostly one to ten-store independently owned operations.



Leading NBF Chain .. SIC. Code. 609903:. Check. Cashing. Services

<b>Company</b>	<b>Operates Under</b>	<b># of Outlets</b>	<b># of States</b>	<b>Founded</b>	<b>Headquarters</b>
Ace Cash Express, Inc.	Ace Cash Express	926	29	1968	Irving, TX
Dollar Financial Group, Inc.	Money Mart	250	15	1979	Berwyn, PA
MS Management	USA Checks Cashed	180	7	1966	North Brook, IL
Cash America International Inc.	Mr. Payroll	144	12	1984	Forth Worth, TX
Eager/Hershman Partnership	Variety of names	144	IL, FL, CA	1942	Des Plaines, IL
Multi-States Financial Corporation	Variety of names	130	12	1960	Chicago, IL
Pay-O-Matic Corporation	Variety of names	101	NY, NJ	1950	Syosset, NY
<b>Total of Seven Largest Chains</b>		1,875 (20%)			
<b>Total of Remaining NBFIs</b>		7,625 (80%)			
<b>Total NBFIs (SIC 609903)</b>		9,500			

Table 2.2

## Study Objectives

The Treasury Department commissioned this study to gather empirical data and qualitative observations about NBFIs in four urban US markets. Treasury's objective in commissioning the study was to gather new information about the rapidly growing non-bank financial services industry, including data on the number and types of establishments, geographical distribution, products and services offered, transaction volumes, pricing and store profitability. Additionally, Treasury wished to gauge the availability and demand for third-party direct deposit products in the context of the EFT' 99 project. These products allow customers to receive payments, including federal benefits, at an NBF facility that are electronically deposited at a bank.

### Market Selection Criteria

Based on the task order, Dove and Treasury were to select four urban markets in which to survey check cashers and money transmitters. Dove conducted a zip code-level GIS examination of these outlets across the US, and reviewed existing state regulations governing these industries. Based on these analyses, Dove and Treasury selected four cities that represented a range of geographies, NBF market penetration, and applicable state regulation.

Maps of check cashing outlets (CCOs) in four US regions are displayed below.

Geographic Distribution of Check Cashing Outlets: United States

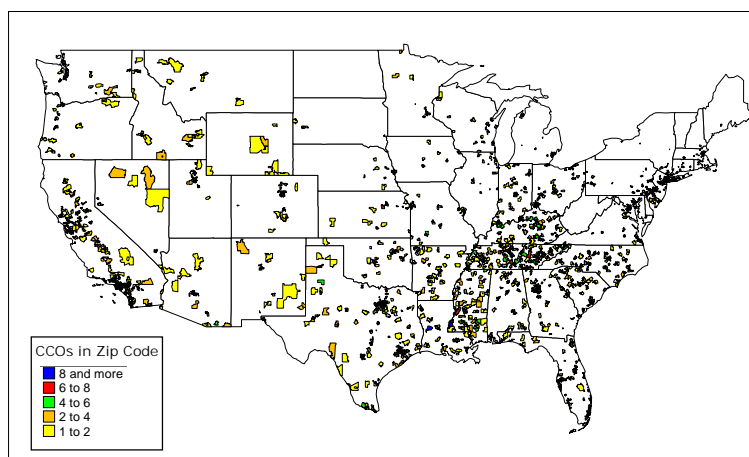


Figure 3.1

Confirming the literature on this industry, NBFIs tend to be located in metro areas where a large portion of the US lower-income population resides.

The following maps represent the number of the check cashing outlets (CCOs) in the United States by zip code. They do not include the approximately 831 stores in Illinois, which are mostly in Chicago, that classify their primary line of business as currency exchange.

Geographic Distribution of Check Cashing Outlets: Northeast

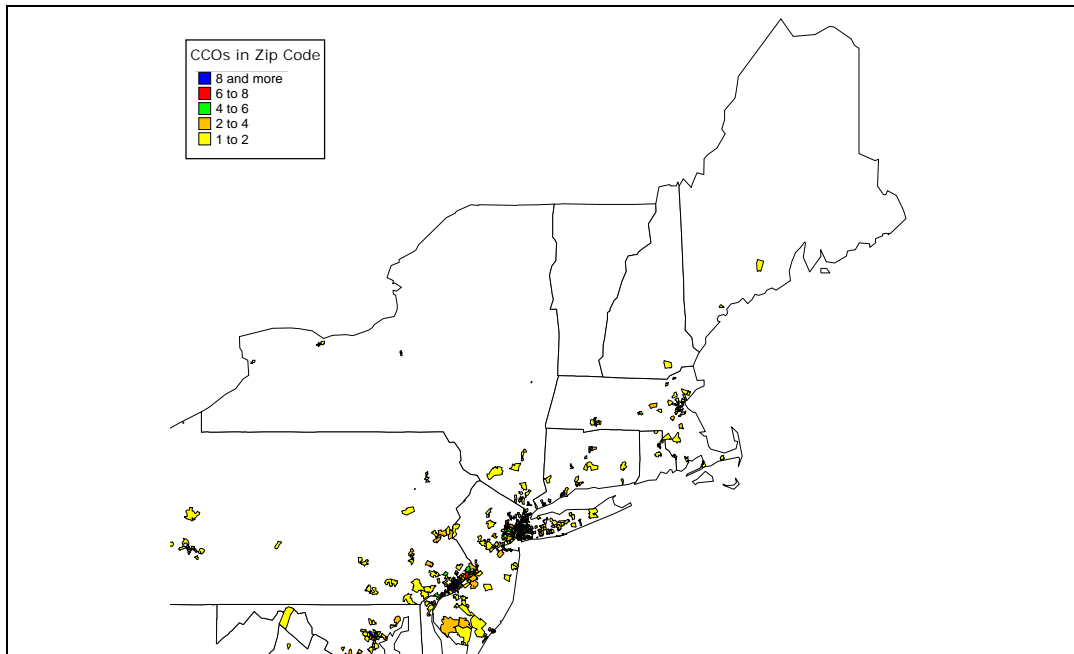


Figure 3.2

Geographic Distribution of Check Cashing Outlets: Southeast

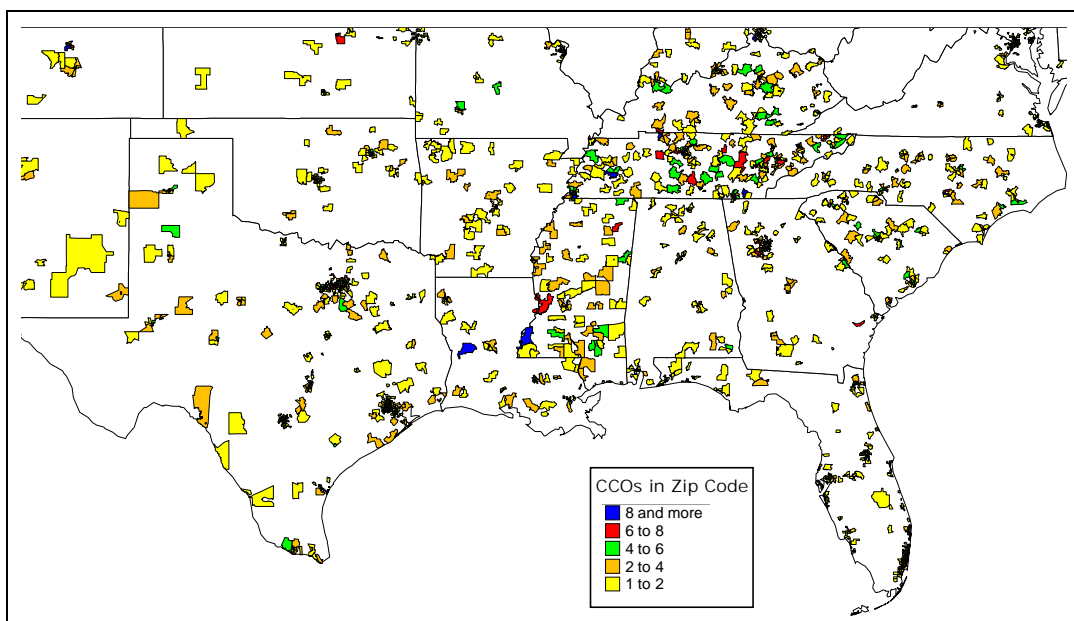


Figure 3.3

### Geographic Distribution of Check Cashing Outlets: Upper Midwest

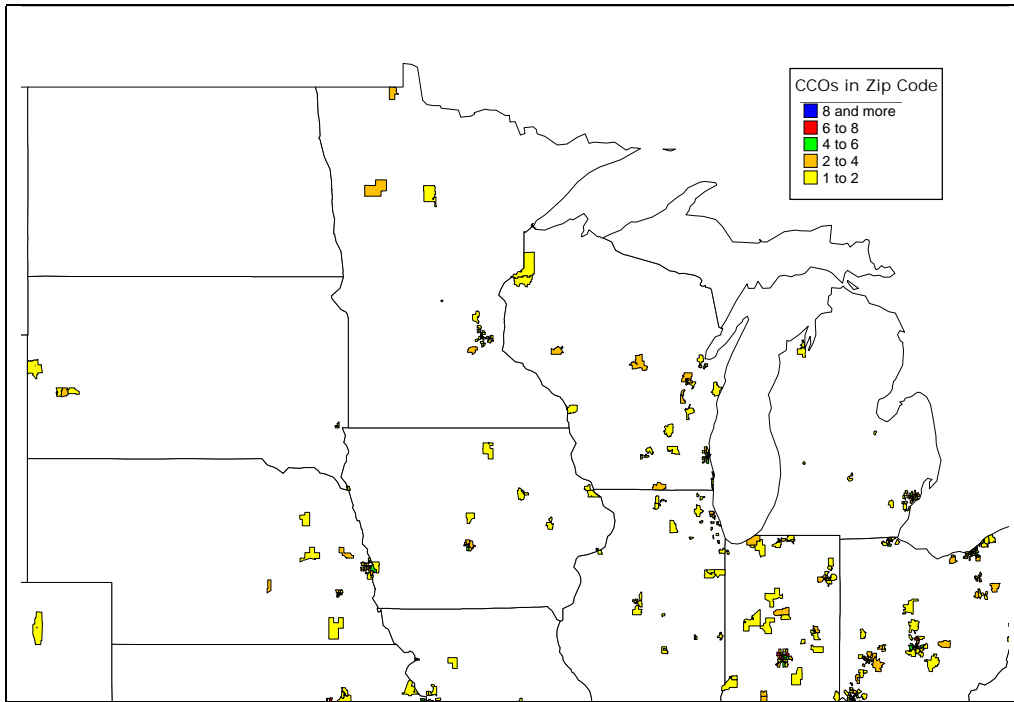


Figure 3.4

### Geographic Distribution of Check Cashing Outlets: West

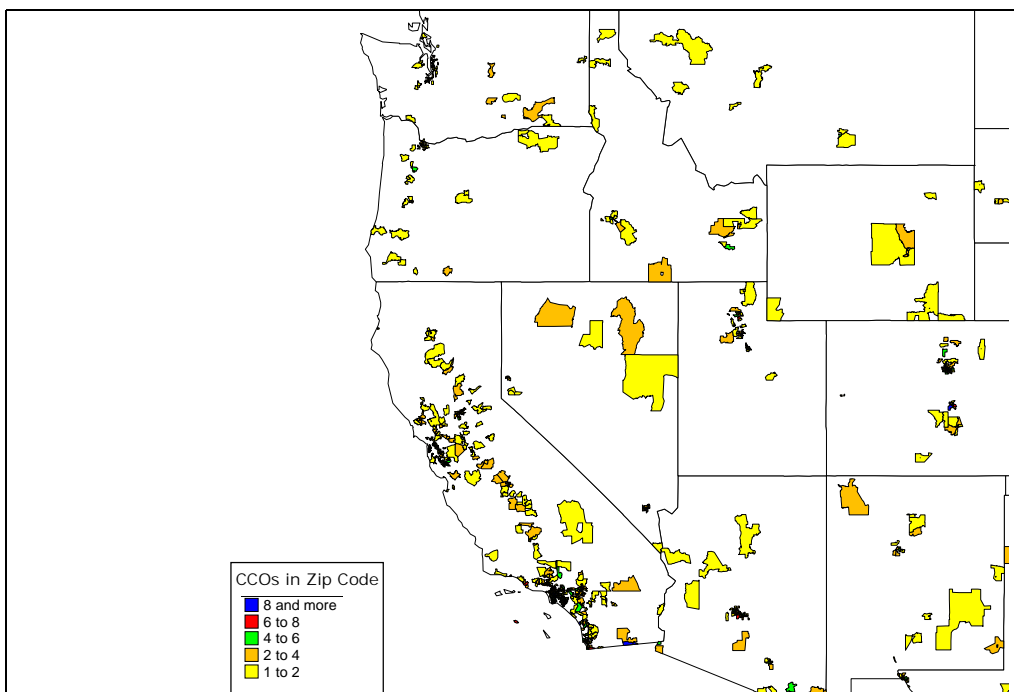


Figure 3.5

*Selection Criteria. Recommended. Markets. for Study*

The following matrix represents the four NBFi markets that Dove and Treasury agreed to study. Each of the markets captures a unique attribute that would be instructive to explore further. Refer to the market summaries section for more detailed information on regulations.

Market Comparison

	<b>Atlanta</b>	<b>Boston</b>	<b>San Antonio</b>	<b>San Diego</b>	<b>Nationwide</b>
<b>1990 Census Data</b>					
Median Family Income	\$25,173	\$34,377	\$26,885	\$39,318	\$35,225
Household Income < \$25,000	54%	42%	53%	36%	42%
Household Income < \$50,000	80%	60%	84%	70%	76%
Population	394,017	574,283	935,933	1,110,549	248.7MM
Percentage Minority	69%	37%	28%	33%	20%
Hispanic Origin (of any race)	2%	11%	56%	21%	9%
Number of Households	155,752	228,464	326,761	406,096	91.9MM
<b>1999 Data</b>					
Number of NBFi Outlets	110	34	121	106	19,500
Number of FI Branches/Offices	218	186	216	235	74,000
NBFi outlets per 1000 (1990) Households	.71	.15	.37	.26	.21
FIs Branches/Offices per 1000 (1990) Households	1.40	.82	.66	.58	.80
Check Cashing Regulations	Yes	Yes	No	Yes	28 States
Payday Loan Prohibited	Yes	Yes	Yes	No	19 States

Notes: Percentage minority is defined as (total population - white population)/total population. Hispanic origin (of any race) data from the 1990 Census is also included in the above table. Number of NBFIs include all businesses that whose primary SIC code is check cashing services or money transfer services. For the nationwide category, these numbers are 9,500 and 10,000 respectively. The above San Diego data does not include NBFIs, FIs, or Census data for San Ysidro, the small town in between San Diego and the Mexican border.

Table 3.1

The markets were selected based on a review of secondary research and databases, analyses of the national distribution of Check Cashing outlets and discussions with Treasury.

## Research Methodology

### *Research Objectives*

The study was conducted with the purpose of gathering anecdotal data to provide case studies and to provide descriptive data on the NBFi industry in each of the four geographic areas. Key research objectives were to gather the following information on NBFIs in each of the four markets to be studied:

- Size
- Products and Services
- Competitive Structure
- Pricing
- Profitability

### *Sampling Process*

#### Sample Population

The population surveyed included businesses within the four selected cities that listed either check cashing or money transmission as their primary industry classification in the InfoUSA database. This definition limited the survey population to those businesses that derive the bulk of their revenues from one of these two activities. Exceptions were grocery stores and pharmacies that had a separate NBFi operating on premises. Also excluded from the survey population were non-depository institutions that provide financial services other than check cashing and money transmission, such as retail foreign currency exchange outlets and travelers check issuers<sup>19</sup>.

#### Sampling Frame

Dove identified the number of check cashing outlets and money transmitters in each market area through compiled databases and cross-verified the InfoUSA database with local telephone directories.

In Atlanta, San Antonio, and San Diego, a probability sample was used. Names of NBFIs were drawn through random selection from telephone directories and other appropriate listings for the geographies. In Boston – a smaller NBFi market – each NBFi in the area was contacted. Overall, 74% of the NBFIs in the market areas studied were contacted and asked to participate in the survey.

Participation Rate by Market

<b>Market</b>	<b>Number of NBFIs In Market</b>	<b>Number of NBFIs Contacted</b>	<b>Percent Contacted</b>
Atlanta	110	98	89%
Boston	34	34	100%
San Antonio	121	68	56%
San Diego	106	73	69%
<b>Total</b>	<b>371</b>	<b>273</b>	<b>74%</b>

Table 4.1

Sample Selection

The sample was drawn from the telephone directories using a random selection procedure in the larger markets, specifically Atlanta, San Antonio and San Diego.

Sampling Plan

NBFIs in each area were identified and contacted during December 1999 and January 2000. As anticipated, many of the respondents were difficult to interview by phone, and personal visits were required to obtain the needed participation. Dove completed the surveys in each market using three survey stages.

*Stage 1: Telephone Research*

Using a quota of 30 NBFIs in each market, Dove contacted NBFIs in each market to gather data on product lines, hours of operation, business practices, and volumes.

These telephone-screening calls were used to verify that the NBFIs organization provides the services of interest:

- Check cashing (payroll, federal government, other government, other)
- Direct deposit services (by source)
- Third party electronic accounts

After these services were confirmed, we mailed the survey form included in Appendix 1.

*Stage 2: Mail/Fax*

Before sending out the surveys, Dove called participants to introduce the survey, ask preliminary questions, and determine whether they have the capability to complete the survey in English. Dove faxed and/or mailed a letter to a number of NBFIs requesting their participation in the research and a copy of the detailed survey forms. Dove did not send follow-up notes, but called those recipients who did not respond and asked them to complete the survey and either mail or fax it back. Dove provided a postage-paid return envelope and toll-free numbers for participants who chose to complete the survey by telephone.

### *Stage 3: Field Visits*

After the first wave of telephone research and mail/fax survey stages were completed, Dove conducted field observations and interviews to gather information that we could not have obtained otherwise. Dove field researchers used the data forms to capture data through both personal interviews with staff and materials provided to customers at the facility. This permitted Dove to corroborate information gathered through prior stages and to fill many holes that were left due to non-response.

Additionally, the field visits enabled Dove to gather site location and facility data on operations, staffing, signage, layout and distance to other sites (e.g., traffic corridors, public transportation, proximity to financial institutions and ATMs, etc.). The field visit yielded diagrams, photographs, and latitude and longitude readings taken using a Hertz NeverLost GPS receiver.

The following table summarizes the data elements that were gathered at each stage of the research collection process. The researchers learned that the response rate and their ability to gather information increased when they followed up the mailing with a personal visit to the store. Each market required three days of fieldwork to reach the quota. It is unlikely that the required number of surveys would have been gathered without the fieldwork.

Data Element Collection by Method

<b>For each location</b>	<b>Publicly Available Data</b>	<b>Stage 1 Phone Survey</b>	<b>Stage 2 Fax/Mail Survey</b>	<b>Stage 3 Field Research</b>
Inventory of financial services offered		X	X	X
Price schedules		X	X	X
Product lines (see below)			X	X
Revenues	X		X	X
Costs and expenses	X		X	X
Policies		X	X	X
Hours of operation	X	X	X	X
Staffing	X		X	X
Facility characteristics		X	X	X
Ownership data, affiliation	X		X	X

Table 4.2

The product lines were inventoried to identify the other activities and services that were conducted out of the same facility. The services tracked included:

- Check cashing service (personal, payroll, federal government and other government)
- Money Transmission
- Bill payment
- Direct deposit services
- Deferred deposit (payday loans)
- Lottery tickets
- Rent-to-own products
- Municipal services (e.g., licenses, public transportation fares)
- Money orders
- Consumer loans
- State benefit distribution
- Foreign currency exchange
- ATM Machine
- Pawn broker services



## Survey Administration

The survey was conducted using a six-page long paper-based questionnaire. A draft version was developed and was pilot tested in Boston. Based on feedback from the pilot test, several revisions were made to the format, flow and wording of the questions. Suggestions from Treasury and OMB staff were incorporated into the structure of the revenue and cost questions on pages 5 and 6. A copy of the survey form is included in Appendix 1.

After receiving Treasury and OMB approval for the survey form OMB # 1505-0173 on December 16, 1999, Dove immediately started to administer the survey in the four geographic areas using the methodology described in Chapter 4.

Dove was able to achieve its goal of obtaining at least 30 survey responses in each market through a combination of phone, mail, and fax responses, as well as a large number of onsite interviews. The following chart and table demonstrate the overall participation rate by market:

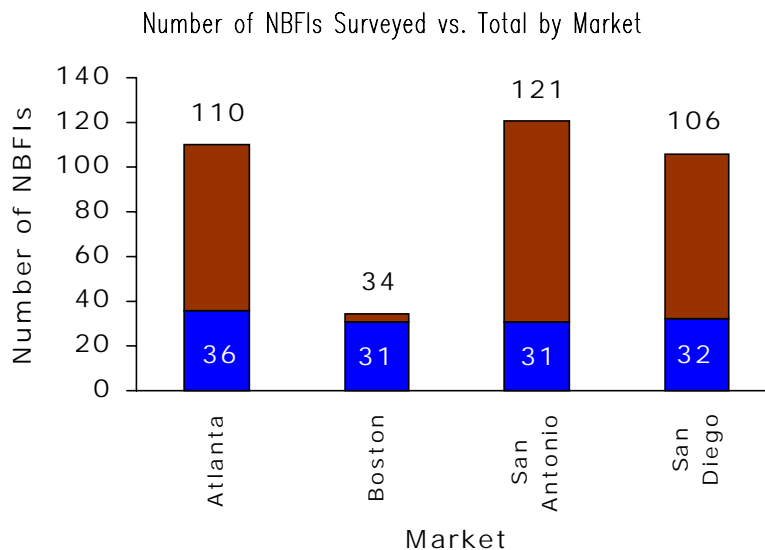


Figure 5.1

NBFI Participation Rate by Market

	Atlanta		Boston		San Antonio		San Diego		Overall	
	#	%	#	%	#	%	#	%	#	%
Total NBFIs* (InfoUSA)	110		34		121		106		371	
NBFIs surveyed	98		34		68		73		273	
Participating NBFIs	36	<b>37%</b>	31	<b>91%</b>	31	<b>46%</b>	32	<b>44%</b>	130	<b>48%</b>
Total Chain NBFIs (InfoUSA)	30		20		57		30		135	
Participating Chain NBFIs	18	<b>60%</b>	20	<b>100%</b>	26	<b>46%</b>	7	<b>23%</b>	71	<b>53%</b>
Total Indep. NBFIs (InfoUSA)	80		14		64		76		236	
Participating Indep. NBFIs	18	<b>23%</b>	11	<b>79%</b>	5	<b>8%</b>	25	<b>33%</b>	59	<b>25%</b>
Participating Chain NBFIs	18	<b>50%</b>	20	<b>65%</b>	26	<b>84%</b>	7	<b>22%</b>	71	<b>55%</b>
Participating Indep. NBFIs	18	<b>50%</b>	11	<b>35%</b>	5	<b>16%</b>	25	<b>78%</b>	59	<b>45%</b>

\* InfoUSA's database is primarily gathered through yellow and white page listings. InfoUSA representatives verify that the database is updated on a monthly basis.

Table 5.1

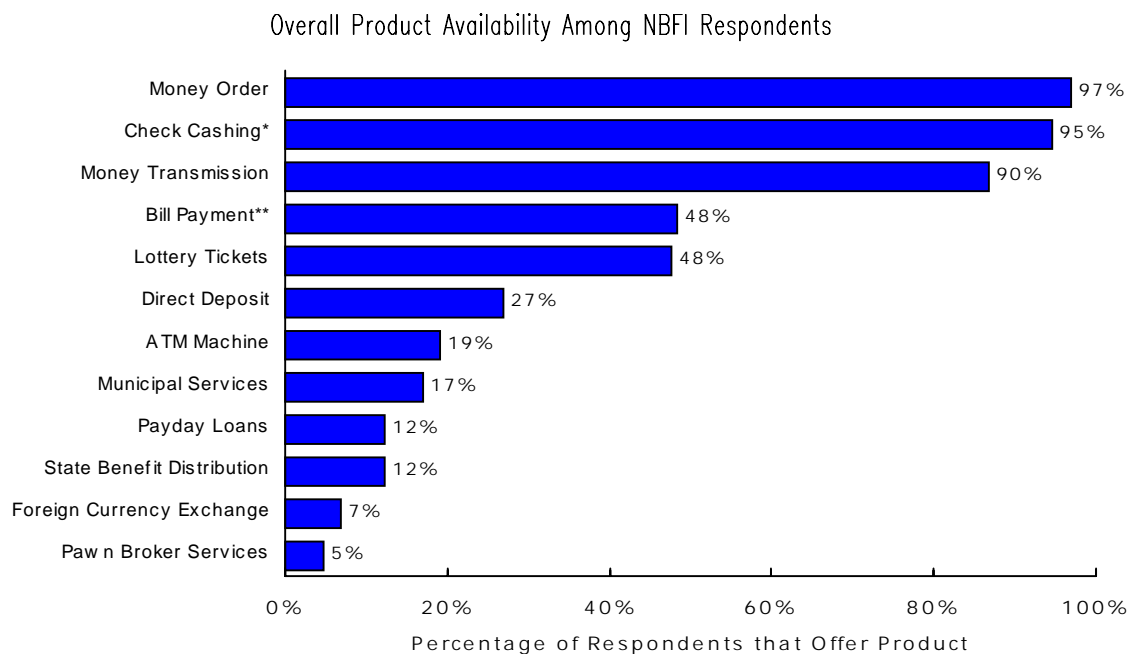
Overall, the respondent population contains slightly more chain outlets than independent outlets (55% to 45%). Among respondents, the chains are represented at about twice the rate that respondents are among their respective populations (53% to 25%).

In Atlanta, Boston and San Antonio, chains are represented at a higher rate in the respondent sample, and as a percentage of their total population. This is especially pronounced in San Antonio, where 84% of the respondents were chains, and 46% of all chains responded versus 8% of independents. In San Diego, the reverse was true – 78% of respondents were independents, and 33% of all independents responded versus 23% of chains.

## Key Observations

### 1. Product Availability

NBFIs provide their customers with convenient “one-stop” shopping for their financial service needs. In addition to check cashing, NBFIs provide an array of other services that are useful to their customers, ranging from money orders to lottery tickets and public transportation passes.



\* Check cashing services were offered at 94.6% of the NBFIs included in our study. The remaining NBFIs only offered money transmission and not check cashing services.

\*\* Bill payment includes respondents that offer electronic bill payment and/or accepts utility payments.

\*\*\* Although they were specifically surveyed as to the availability of rent-to-own services and courier services, none of the responding NBFIs offered such services.

Figure 6.1

### *Check Cashing*

Check cashing was available at all NBFIs surveyed, except for seven NBFIs in Boston that offered money transmission but not check cashing. In terms of the types of checks that the surveyed NBFIs cashed, payroll check cashing was the most widely available, followed by government check cashing and then personal check cashing. NBFIs generally either cashed all types of government checks – federal, state and local – or none at all<sup>20</sup>.

### *Other Services*

Other than check cashing, the two other widely available products were money orders (97% of outlets surveyed) and money transmission (87% of outlets surveyed). There were some variations in the availability of these products across markets. For instance, money orders were almost universally available in all four of the cities, and in San Antonio, 100% of surveyed outlets offered money orders. Money transmission was slightly more difficult to find. While 100% of Boston outlets offered this service, only 75% of Atlanta outlets and 78% of San Diego outlets offered the service.

Table 6.1 shows the availability of products and services at the NBFIs surveyed in each of the four markets studied:

Product Availability by Market

<b>Product</b>	<b>Atlanta</b>	<b>Boston</b>	<b>San Antonio</b>	<b>San Diego</b>
Money orders	94%	97%	100%	97%
Check Cashing	100%	77%	100%	100%
Personal	44%	65%	45%	41%
Payroll	100%	77%	100%	97%
Federal government	97%	77%	97%	91%
Other government	81%	74%	97%	81%
Money Transmission	75%	100%	97%	78%
Bill Payment	39%	74%	65%	18%
Lottery Tickets	4%	65%	29%	53%
Direct Deposit Services	36%	61%	-	9%
ATM Machine	19%	3%	13%	41%
Municipal Services (licenses, public transportation fares)	-	58%	-	13%
Payday Loans	-	-	23%	28%
State Benefits Distribution	14%	-	32%	3%
Foreign Currency Exchange	-	1%	-	25%
Pawn Broker Services	6%	3%	-	9%

Notes: Products such as payday loans and pawnbroker services are widely available at outlets that specialize in these services. The survey population for this study did not include these types of outlets. The products section of the survey included a space for "other services", however, none of the respondents indicated that they offered other services.

Table 6.1

## Direct Deposit Products

Dove identified two types of direct deposit products available at NBFIs in the markets studied. The first type of product sends federal payments electronically to an ATM card-accessible account. The other type of product allows the NBFi to charge the customer a fee for printing his/her federal check. Once the check is printed, the NBFi typically charges the customer its standard fee to cash the check. Although 35 of the 130 responding (27%) NBFIs offer direct deposit service products through Western Union, Corus Bank, Bank of Delaware, River City Bank, and Bank of Agriculture and Commerce, very few customers have signed up. Among the 27% of NBFIs that offer these products, the average number of direct deposit customers per store is 22. In contrast, the average outlet that cashes federal government checks cashes about 200 monthly. NBFi managers attributed this to the marginal benefits provided to the customer from these products, which also tend to require additional fees without adding convenience. NBFIs do not benefit either, particularly when they lose their check cashing fee and instead earn a small commission for a customer signing up for a Western Union Cash Card or Delaware Bank Card.

Over 80% of respondents in each market – 87% of respondents overall – were aware of direct deposit products. Approximately 99% of chain and 75% of independent respondents were aware of these services. Direct deposit service products were offered through a variety of banks at 35 (27%) out of the 130 NBFIs that participated in the Treasury survey. The following chart illustrates the breakdown among these banks in each market:

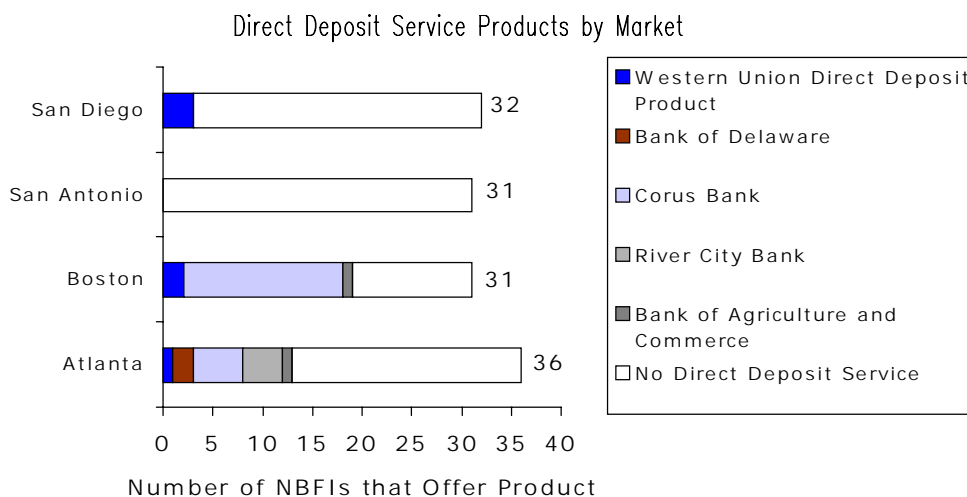


Figure 6.2

Many NBFi managers told researchers that they were initially worried that EFT '99 would negatively impact their paper check cashing business as federal benefits recipients enrolled in direct deposit at traditional financial institutions. At that stage, direct deposit was to have been mandatory for recipients, with waivers available on a limited basis. However, now that EFT '99 has moved to a purely voluntary format, in which recipients can choose to continue receiving their benefits by paper check, most NBFi managers confided that they have been neither adversely affected by EFT '99 nor found their own direct deposit products particularly successful.

Western Union offers two direct deposit products, Benefits Quick Cash and Cash Card, through Western Union Industrial Bank in Colorado.

- Benefits Quick Cash allows customers to have Western Union wire their federal checks to any Western Union agent. The customer pays a fee of \$7.50 per month for this service, and can receive his or her money in cash or check.
- The Western Union Cash Card enables customers to receive a direct deposit of both payroll and Federal benefit checks. On the payment date, Federal recipient payments are electronically deposited by the paying agency into the recipient's FDIC insured account at Western Union Industrial Bank in Colorado. The recipient's funds are then immediately transferred into a non-FDIC insured account in the recipient's name at the same bank. Customers can withdraw cash from their account at any participating Western Union agent or at any PLUS or MAC ATM. They can also use the card to make a purchase at any PLUS or MAC point-of-sale (POS) terminal. Western Union charges a monthly maintenance fee of \$5.50 plus \$1.00 for each Western Union agent withdrawal or ATM transaction. The customer may incur an additional ATM surcharge as well. Western Union charges \$0.50 for each POS transaction. Western Union provides cardholders with a toll-free customer service number.

DBC Financial Inc. offers an ATM card product (Delaware Bank Card) for which they charge a set-up fee of \$19.95, a monthly account service fee of \$9.95, and a cancellation fee of \$39.95. On the payment date, Federal recipient payments are electronically deposited by the paying agency into the recipient's FDIC insured account at County Bank in Rehoboth Beach, Delaware. Customers can withdraw cash from their account at any PLUS or MAC ATM. They can also use the card to make a purchase at any PLUS or MAC point-of-sale (POS) terminal. Delaware Bank Card charges \$0.95 for each ATM cash withdrawal, and the customer may incur an additional ATM surcharge as well. Delaware Bank Card charges \$0.95 for each POS transaction. Delaware Bank Card provides cardholders with a toll-free customer service number. DBC Financial Inc. has recently stopped marketing their Delaware Bank Card product through check cashing outlets and is currently completely redesigning their product and marketing plan.

Corus Bank offers a direct deposit product called SecureCheck through NBFIs chains in Boston and Atlanta. This product allows NBFIs to print their customer's monthly federal check for a fee of \$1.50. The customer then pays a standard check cashing fee to receive a cash payment.

River City Bank offers a product that is similar to the Corus Bank direct deposit product. This product allows NBFIs to print their customer's federal check for a fee of \$2.95 per transaction. The customer then pays a standard check cashing fee to receive a cash payment.

Bank of Agriculture and Commerce also offers a product that is similar to the Corus Bank direct deposit product. This product allows NBFIs to print a customer's federal check for a fee of \$3.00 per transaction. The customer then pays a standard check cashing fee to receive a cash payment.

## 2. Convenient Hours of Operation

Dove's research indicates that NBFIs are likely to be more convenient for their customers than financial institutions due to the number of hours and days per week that they are open. On average, NBFIs are open for 66, 68, 63 and 77 hours per week in Atlanta, Boston, San Antonio, and San Diego respectively. Three 24-hour locations were omitted from the above averages to prevent skewing of the results.

Days of Operation by Market Area and Type of NBF

Market/Type	24-hour	Open M-F	Open Saturday	Open Sunday
Atlanta	-	36	32	5
Boston	2	31	30	6
San Antonio	-	31	31	3
San Diego	1	32	32	20
Chain	1	71	66	10
Independent	2	59	59	24

Table 6.2

Our analysis reveals a substantial difference between the median hours of operation of surveyed chain NBFIs and surveyed independent NBFIs. On average, surveyed independent stores are open for 74 hours per week while chains are open 65 hours per week. The following chart shows the median hours of operation among the surveyed NBFIs. Ninety-six percent of surveyed outlets were open on Saturdays, and 26% were open on Sundays. The median hours shown on the chart for Saturday and Sunday represent only those outlets open on those days.

Hours of Operation by Market Area and Type of NBF

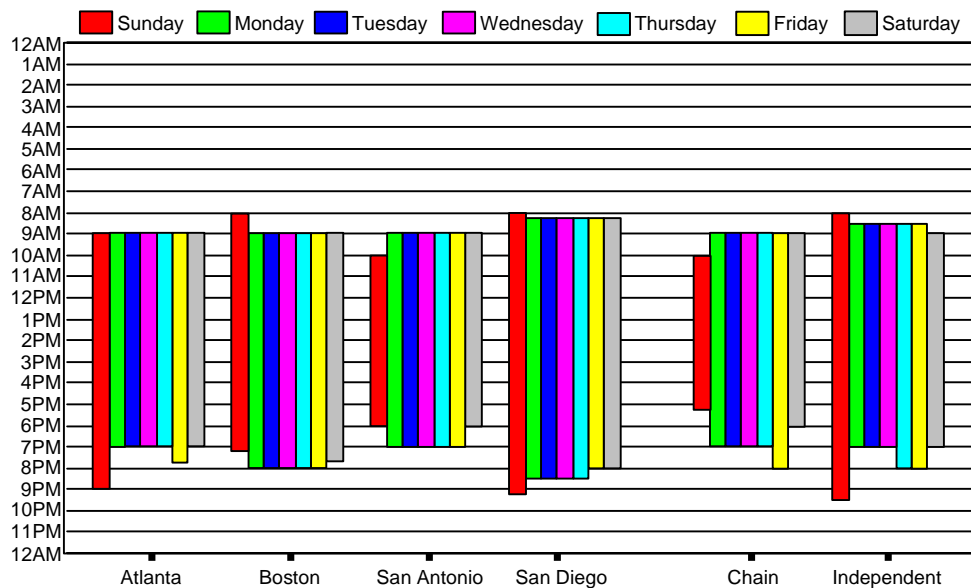


Figure 6.3

### 3. Convenient Service and Locations

The survey results suggest that NBFIs employees speak a wide range of languages. English was spoken at all responding outlets, while Spanish was spoken at almost two thirds of these outlets. Massachusetts State law requires Check Cashing Outlets to post fee schedules in both English and Spanish. The languages spoken at the stores partially reflect the ethnic make-up of the stores' clientele, as seen in the data in the following Table. Thus, 84% of respondents in San Diego have at least one employee who speaks Spanish. Almost 97% of San Diego respondents reported that they have some customers that speak Spanish. In contrast, only one third of responding Atlanta NBFIs have an employee who speaks Spanish and 50% reported that they have customers that speak Spanish.

Languages Spoken at NBFIs by Market

Language	Atlanta		Boston		San Antonio		San Diego	
	Employees	Customers	Employees	Customers	Employees	Customers	Employees	Customers
English	100%	100%	100%	100%	100%	100%	100%	100%
Spanish	36%	50%	81%	84%	68%	94%	84%	97%
Portuguese	-	-	7%	61%	-	-	3%	-
Chinese	-	3%	-	68%	-	-	4%	4%
Korean	11%	11%	-	7%	-	-	-	4%
Other*	11%	11%	16%	19%	-	-	18%	21%

\*Other includes: Arabic, Italian, Russian, and Vietnamese.

Table 6.3

#### *Locational Convenience and Accessibility*

##### Mass Transit

In general, both chain and independent check cashing stores are located near mass transit or public transportation systems. Sixty-one percent of both types of stores were less than half a block from public transportation. All of the chain stores surveyed were within a block of mass transit systems, however, 14% of the independent stores were more than a block from public transportation, and nearly 6% were ten or more blocks away from public transport. The independent stores attempted to alleviate this problem with the provision of parking either on-street or off-street, and they did have more available parking than the chain stores did.

##### Parking

Fifty-six percent of independent operations had on-street parking, and the average number of available off-street parking spaces was 25. Among the chain stores, only 35% had available on-street parking, and the mean number of off-street spots was 18.



## *Proximity of Alternatives*

MapInfo Professional 5.5 mapping software and Cartesian coordinate data were used to calculate the distances in each market between all NBFIs and the closest bank, ATM and post office<sup>21</sup>.

Based on the geographic distance analyses, in three of the four markets, NBFIs tend to be farther from other NBFIs than they are from bank branches. This is inconsistent with the notion that NBFIs serve areas that are not generally served by banks, and instead suggests that NBFIs may be serving a different customer segment than that of banks. This finding is also supported by the literature in this area: (a) John Caskey found that the decline in bank account ownership over the 1980s could not be explained by the closing of bank branches in low-income communities<sup>22</sup>; and (b) The Federal Reserve found that when families without checking accounts were asked for the primary reason why they do not hold such an account, only 1% of respondents cited the lack of a convenient bank branch (see page 11)<sup>23</sup>.

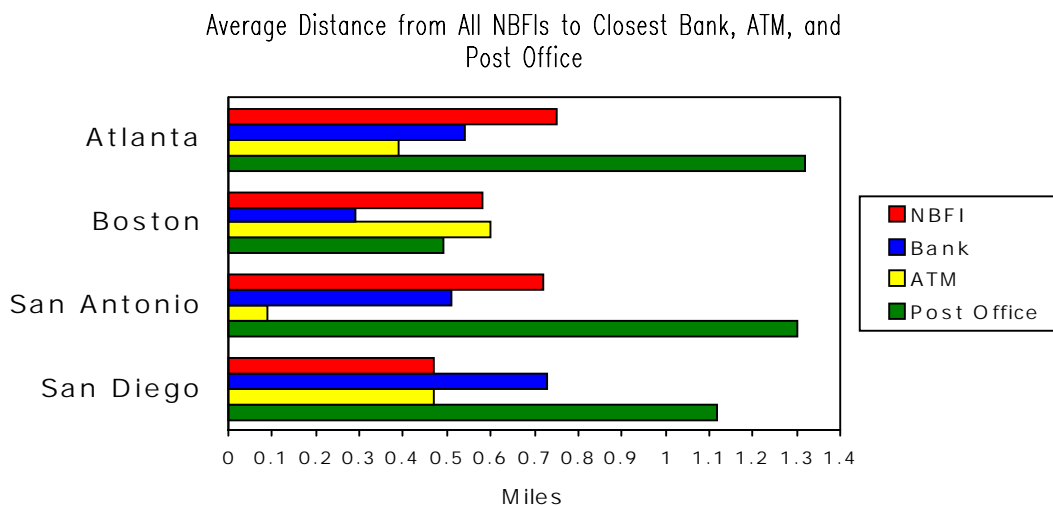


Figure 6.4

Appendix 2 lists the distances in miles from each NBFI to the closest bank, ATM, post office and other NBFI, as well as averages of these distances by city. See market summary and maps for more detail on NBFI, bank, ATM, and post office locations.

Statistical methods were used to examine various possible relationships in each zip code studied between economic/demographic factors and the number of NBFIs. The correlation matrix below shows that:

- There was a statistically significant correlation between the number of NBFIs in a zip code (both total and per capita) and the percentage of working adults who worked fewer than 50 weeks per year in 1989.

- There was an inverse relationship (though not as significant) between NBFIs per capita and median family income in 1989, suggesting that there may be more NBFIs in lower income zip codes than in higher income Zip Codes.

The percentage of working adults in a zip code who worked less than 50 weeks in 1989 and zip code median family income in 1989 also exhibited a strong correlation . This suggests that the relationships noted above are not necessarily independent.

Correlations

		# of NBFIs	NBFIs per capita	Percent minority	Median Family Income	Working Adults < 50 weeks/year
<b># of NBFIs</b>	Correlation		-.112	.098	-.103	** .281
	Sig. (2-tailed)		.247	.150	.130	.000
	N		108	218	219	164
<b>NBFIs per capita</b>	Correlation	-.112		.021	*-.206	** .503
	Sig. (2-tailed)	.247		.832	.032	.000
	N	108		107	108	107
<b>Percent minority</b>	Correlation	.098	.021		**-.473	** .404
	Sig. (2-tailed)	.150	.832		.000	.000
	N	218	107		218	218
<b>Median Family Income</b>	Correlation	-.103	*-.206	**-.473		**-.599
	Sig. (2-tailed)	.130	.032	.000		.000
	N	219	108	218		162
<b>Working Adults &lt; 50 weeks/year</b>	Correlation	** .281	** .503	** .404	** .599	
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	164	107	218	162	

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Table 6.4

#### 4. Product and Service Pricing

The following table shows the average fee by product for each of the markets that were surveyed:

Average Fee by Product

<b>Product</b>	<b>Atlanta</b>	<b>Boston</b>	<b>San Antonio</b>	<b>San Diego</b>
Check Cashing	\$5.10	\$6.68	\$4.65	\$4.10
Direct Deposit Services	\$3.82	\$2.21	-	\$7.50
Money orders	\$.61	\$.79	\$.40	\$.49
Money Transmission	\$17.41	\$19.71	\$15.04	\$16.27
Bill Payment*	\$2.79	\$.15	\$1.54	\$.42
State Benefits Distribution	\$.60	-	\$.60	-
Payday Loans	-	-	\$25.00	\$23.15
ATM Machine	\$2.64	\$2.00	\$1.38	\$1.73
Lottery Tickets	\$1.00	\$1.00	\$1.00	\$1.00

\* Many NBFIs do not charge a fee for utility payments. For example, most Boston utility companies, with the exception of cable, allow their customers to pay bills for no charge through their agent locations.

Note: Respondents did not include pricing information for Foreign Currency Exchange, Municipal Services, or Pawn Broker Services, because there is a wide range of prices for each of these categories of services.

Table 6.5

#### *Check Cashing Fees*

Check cashing fees are generally based on the face value of the check and the risk associated with that check. There were noticeable differences between fees when comparing different markets as well as chain versus independent operations. Boston NBFIs had considerably higher fees and volumes than any other market in our study. San Antonio's payroll and government check cashing fees were the lowest among the markets that we studied. This was somewhat surprising, since the state of Texas does not regulate check cashers. The heavy competition among the three major San Antonio NBFIs chains has kept fees below those of markets that enforce fee ceilings.

The survey results indicate that the fee for cashing a check equal to the average Social Security benefit (\$707 in 1998) ranges from about \$9 in San Antonio to \$16 in Boston. For the average Supplementary Security Income benefit (\$365 in 1998), the fees ranges from \$5 in San Antonio to \$8 in Boston<sup>24</sup>. The following three charts show the fee schedules for cashing payroll, government, and personal checks for each of the markets and types of NBFIs gathered by Dove Consulting in December of 1999 through January 2000:

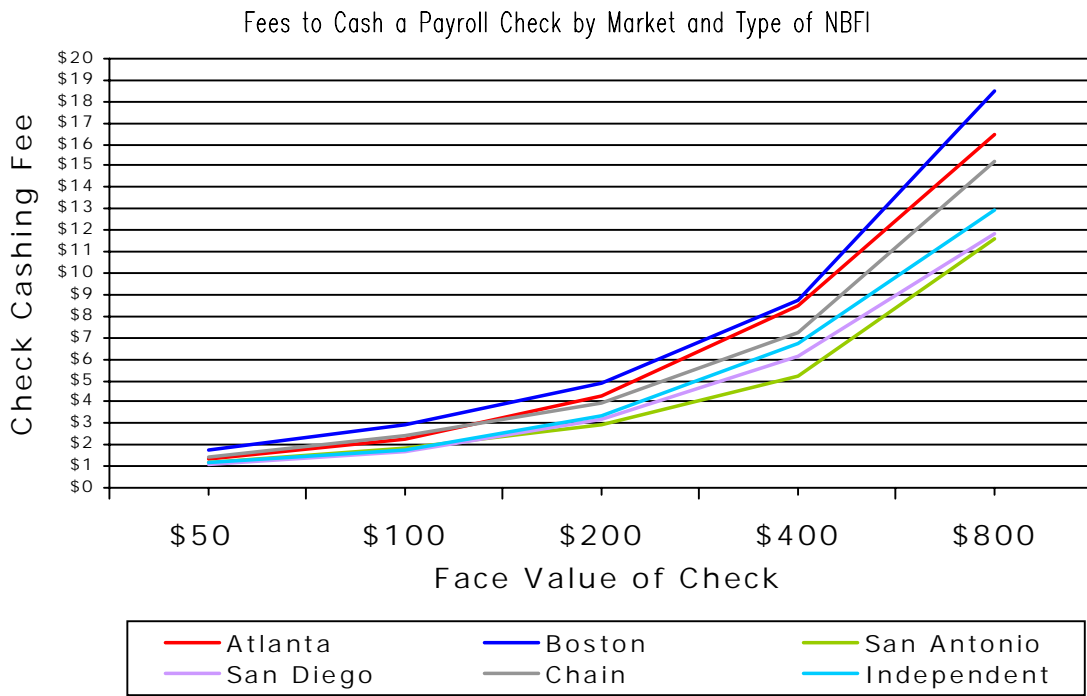


Figure 6.5

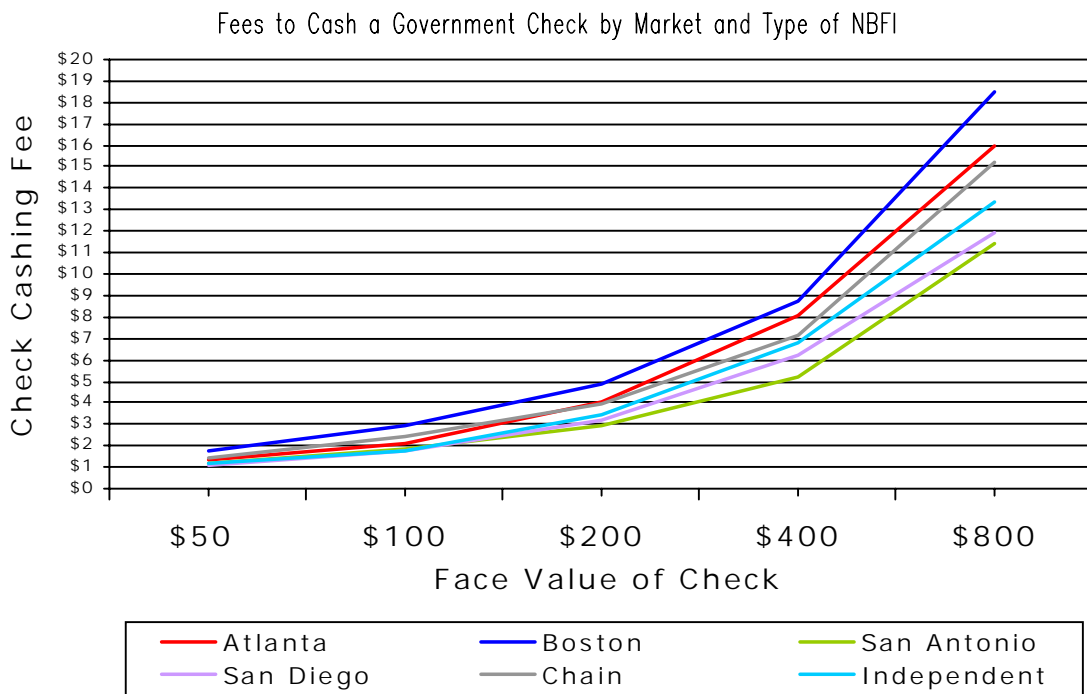


Figure 6.6

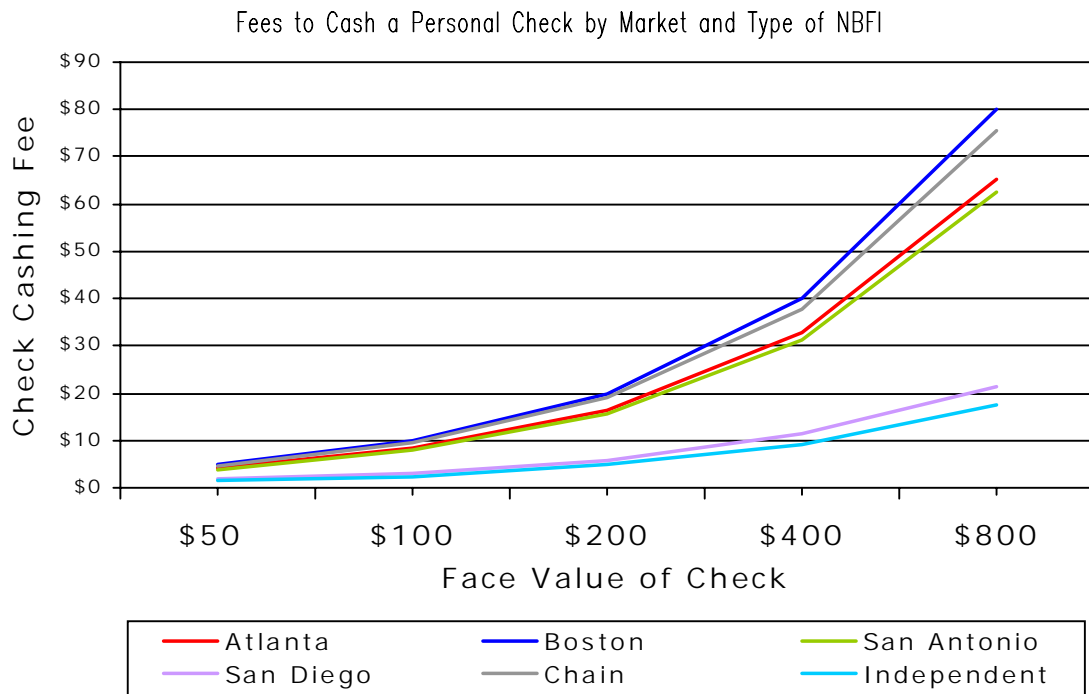


Figure 6.7

Chain NBFIs appeared to generate more than twice as much check cashing volume as independents, even though they charge higher fees on average at all check face value points.

Check Cashing Volume and Fees by Market and Type of NBFi

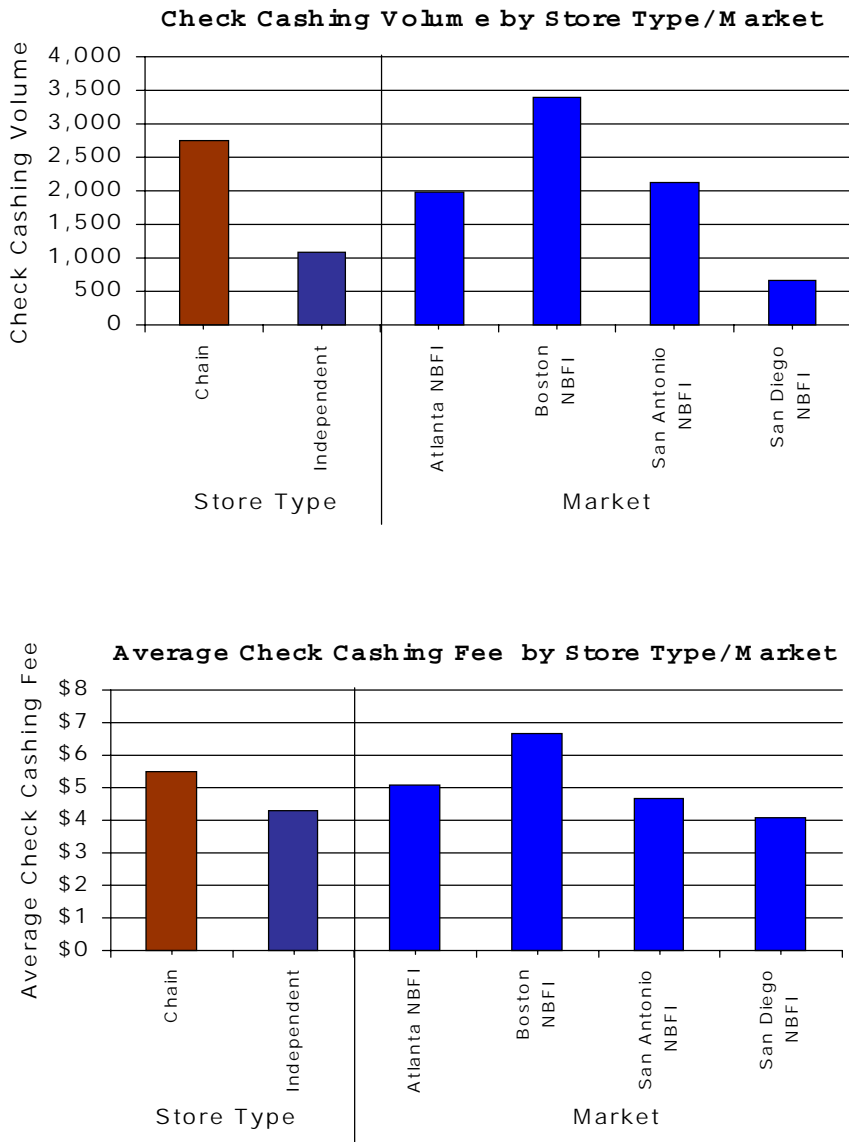


Figure 6.8

*Money Orders*

Chain NBFIs appeared to generate nearly five times the volume that independents did for money orders, and generally charged approximately \$0.10 less per money order. Chains may leverage their ability to negotiate more favorable contracts with money order suppliers and offer lower priced money orders to attract customers.

Check Cashing Volume and Fees by Market and Type of NBFi

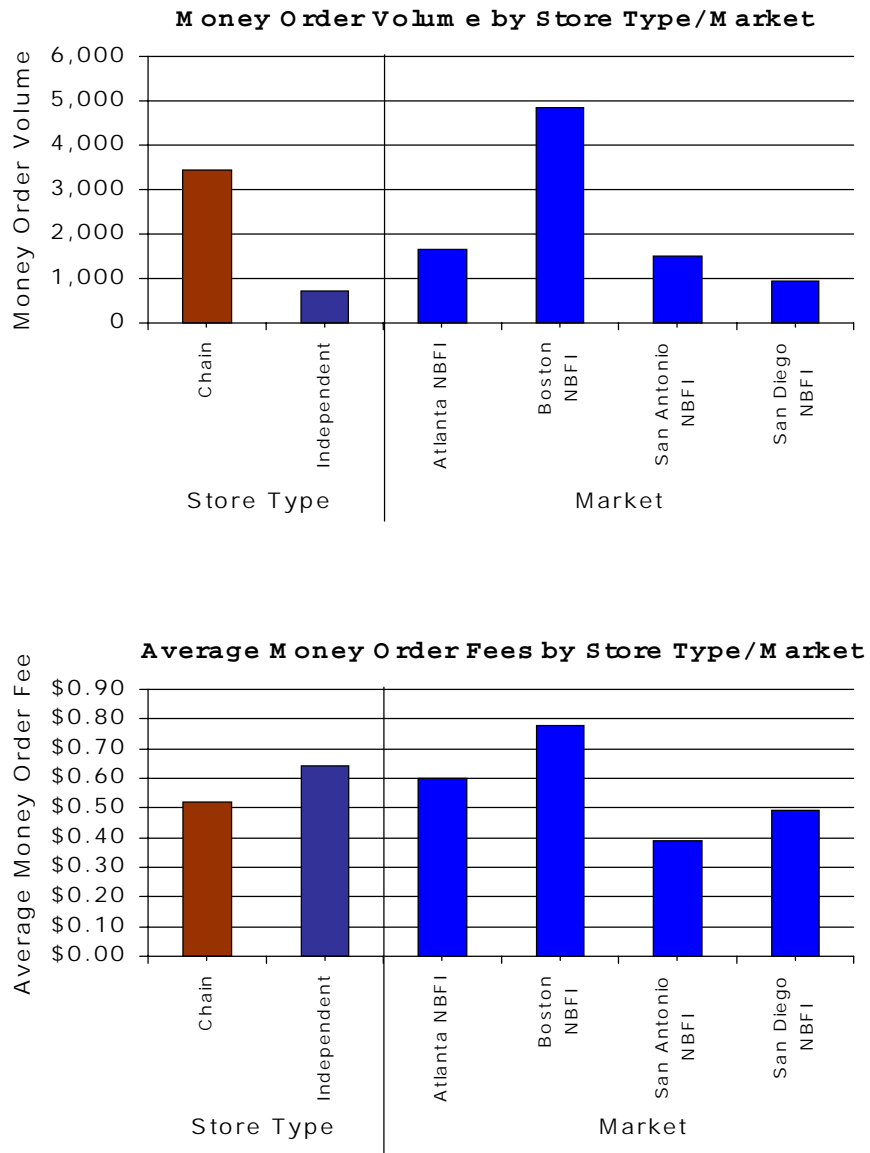


Figure 6.9

## 5. NBF1 Check Cashing Volume Characteristics

Check cashing and money orders were the two most used financial service offerings among the NBFIs in our study. Based on the survey results, more than 80% of the checks cashed at NBFIs were payroll checks. Federal and other government checks accounted for about 16% of the check volume.

The following tables show the average monthly product volumes at NBFIs that participated in the survey by market and by business type:

Product Availability and Average Monthly Volumes by Product Line

Product	Atlanta		Boston		San Antonio		San Diego	
	% Offering	Avg Vol	% Offering	Avg Vol	% Offering	Avg Vol	% Offering	Avg Vol
Money orders	94%	1,651	97%	4,761	100%	1,494	97%	922
Check Cashing	100%	1,976	77%	3,376	100%	2,120	100%	669
Personal	44%	19	65%	43	45%	43	41%	60
Payroll	100%	1,598	77%	3,283	100%	1,733	97%	509
Federal government	97%	177	77%	307	97%	214	91%	117
Other government	81%	102	74%	27	97%	188	81%	70
Money Transmission	75%	187	100%	317	97%	114	78%	202
Bill Payment	39%	151	74%	4,512	65%	254	19%	1,505
Lottery Tickets	44%	8,617	65%	2,000	29%	3,022	53%	2,307
Direct Deposit Services	36%	15	61%	30	-	-	9%	7
ATM Machine	19%	7	3%	365	13%	862	41%	125
Municipal Services (licenses, public transportation fares)	-	-	58%	3000	-	-	13%	152
Payday Loans	-	-	-	-	23%	60	28%	191
State Benefits Distribution	14%	68	-	-	32%	32	3%	-
Foreign Currency Exchange	-	-	1%	800	-	-	25%	4,608
Pawn Broker Services	6%	2,010	3%	110	-	-	9%	1,300

Note: Total check cashing volume does not equal the sum of check sub-categories.

Table 6.6

Product Availability and Average Monthly Volumes by Product Line

Product	Independent		Chain	
	% Offering	Avg Vol	% Offering	Avg Vol
Money orders	97%	711	97%	3,358
Check Cashing	90%	1,087	100%	2,629
Personal	26%	63	68%	33
Payroll	88%	757	100%	2,250
Federal government	83%	106	99%	254
Other government	62%	91	99%	140
Money Transmission	74%	129	99%	253
Bill Payment	23%	806	25%	2,056
Lottery Tickets	52%	6,787	45%	1,919
Direct Deposit Services	1%	20	40%	24
ATM Machine	26%	185	14%	296
Municipal Services (licenses, public transportation fares)	1%	1,505	27%	2,558
Payday Loans	1%	110	20%	133
State Benefits Distribution	1%	0	21%	44
Foreign Currency Exchange	12%	4,608	1%	800
Pawn Broker Services	10%	1,338	0%	0



Table 6.7

## 6. Annual Revenue per NBFi Outlet

Based on the data collected, the revenue per NBFi outlet varied substantially among markets, ranging from a high of \$324,700 in Boston to a low of \$84,300 in San Diego. One factor potentially driving this difference was that the San Diego responses included many smaller independent outlets, as two of the three larger chains chose not to participate in the study. Additionally, many of the NBFIs in San Diego were also retailers who were listed in telephone directories as check cashing outlets, but also sold other products, such as liquor and groceries.

Based on their observations, the field research team indicated that revenues per NBFi would be substantially higher if all major NBFi chains in San Diego had participated in the survey.

Dove Consulting was able to secure participation from the larger NBFIs in Atlanta, Boston and San Antonio. The average revenue by product line was highest in Boston, where efficient and well-located outlets face little competition and compete effectively against banks and provide convenient check cashing and payment services for their customers. Specifically, the check cashing, money order and money transmission services were the largest revenue sources.

The following table provides estimates for the revenue by product line for the NBFIs surveyed. This estimate is based on a simple average of two questions in the survey:

- The average volumes multiplied by the average fee gathered in question four of the survey
- The distribution of mid-point intervals in question five on sales volume in the survey

Average Revenue by Market Area and NBFi Type

Revenue	San Diego	Atlanta	Boston	San Antonio	Average
Check Cashing	30,207	120,940	209,470	117,011	118,962
Direct Deposit Svcs	67	471	911	-	408
Money Orders	4,658	11,399	44,970	5,965	17,959
Money Transmission	24,424	22,741	61,863	14,878	32,803
Bill Payment	1,256	2,682	6,592	4,659	4,156
Loans	13,510	139	-	2,881	4,436
Other	10,223	1,448	902	2,242	4,186
<b>Total</b>	<b>\$ 84,345</b>	<b>\$ 159,819</b>	<b>\$ 324,708</b>	<b>\$ 147,635</b>	<b>\$ 182,911</b>
Revenue	Independent	Chain	Average		
Check Cashing	59,392	166,963	118,962		
Direct Deposit Svcs	53	943	408		
Money Orders	7,521	24,213	17,959		
Money Transmission	14,347	38,965	32,803		
Bill Payment	368	5,624	4,156		
Other	14,689	2,519	4,186		
Loans	643	3,306	4,436		
<b>Total</b>	<b>\$ 97,014</b>	<b>\$ 242,533</b>	<b>\$ 182,911</b>		

Table 6.8

Note: Average revenue was adjusted to reflect the number of NBFi outlets in each market that provides a particular service. For example, the adjusted average revenue would be the mean revenue for those NBFIs for a service in a market times the percentage of NBFIs in that market that

provided that service. This method thus understates the revenue for stores that provide a given product for all products that are not universally offered in a market.

The survey results indicate that the average revenue per outlet was \$97,000 for independents and \$242,500 for chain NBFIs. See Chapter 8 – Case Studies – for analysis of revenue and cost differentials between chains and independents.

Product Revenue as an Percentage of Total Revenue

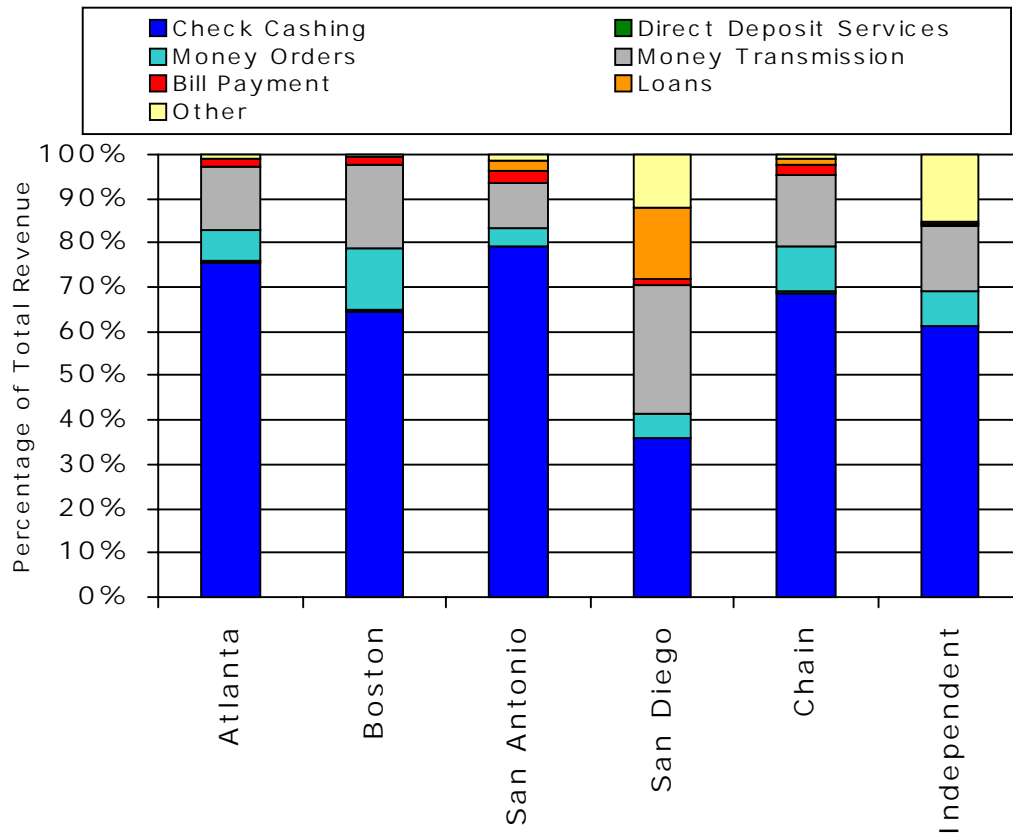


Figure 6.10

In the markets where payday loans are prohibited, check cashing accounted for 71% of the average outlet’s revenue, followed by money transmission and money orders at 16% and 10% of revenues respectively. In San Diego, fees from payday loans represented approximately 16% of the revenues.

## 7. NBF1 Operating Costs

Operationally the two largest costs for NBFIs are employees and rent. Overall, the average facility size was 1470 square feet, with 954 of that devoted to lobby area, and the remaining 516 square feet allocated to the back office. There was significant variation in average office size among the four surveyed states. The following graph shows store size differences between both markets and business types:

Store Size by Market Area and Type of NBF

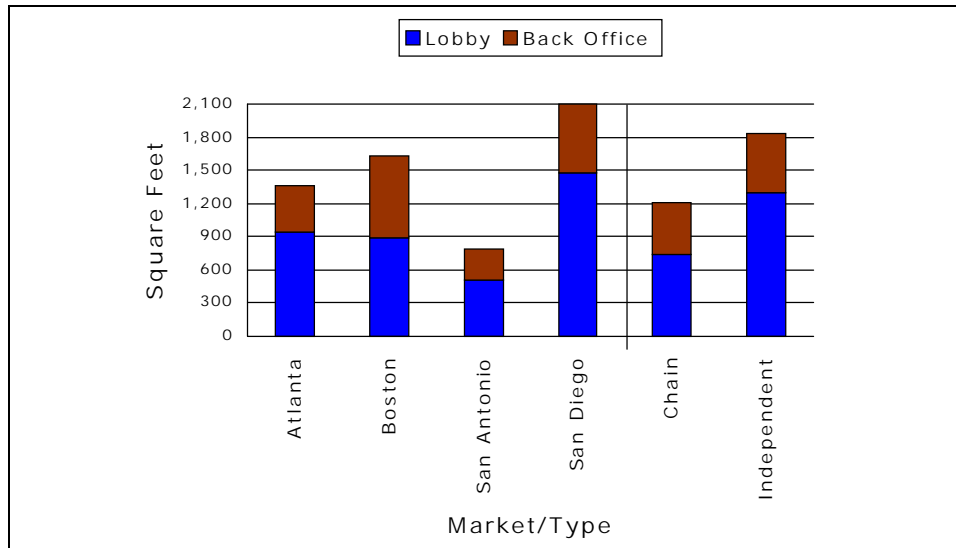


Figure 6.11

The largest facilities were found in San Diego, where the average total square footage was 2100 square feet—1482 square feet for lobby and 618 for back office. San Antonio facilities were the smallest; the average total square footage was 788—505 for lobby and 283 for back office. The most common type of building for a check cashing outlet in San Antonio was as part of a strip mall. In the three other states surveyed, the most common type was a storefront. None of the outlets surveyed in Boston were located in strip malls.

It is interesting to note the differences between the size of the average independent check cashing outlet and the average chain check cashing outlet. For independent stores, the average size was a total of 1,835 square feet, with 1,294 square feet devoted to the lobby area and 541 square feet to the back office. Meanwhile, the average chain store was much smaller: The average total square footage was 1,228, with 736 square feet for lobby space and 492 for the back office. The difference in facility size effectively translates to a corresponding difference in overhead costs—the average independent store will pay a higher percentage of their revenue than the average chain store.

The difference becomes even more noteworthy when one considers the set-up and staffing of the chain stores versus the set-up and staffing of the independent stores. The following table demonstrates staffing differences between market areas and type of NBF:

Staffing Levels by Market Area and Type of NBF

Market/Type	Mean Number of Teller Windows	Mean Number of Tellers on Duty
Atlanta	2.8	1.8
Boston	4.4	2.9
San Antonio	2.9	1.6
San Diego	2.7	1.8
Chain	4.1	2.5
Independent	2.2	1.5

Table 6.9

Chain stores had nearly twice as many teller windows as the independents—an average of 4.1 teller windows for the chains compared to an average of 2.2 for the independent outlets. Moreover, there was a higher average number of tellers on duty in the chain stores. For chain stores this number was 2.5; for independents the average number of tellers working was 1.5.

There are also significant differences among markets in terms of store set-up and staffing. The average Boston check-cashing outlet had 4.4 teller windows and 2.9 tellers on duty. The mean number of teller windows for the other three states was between 2.7 and 2.9; the mean average numbers of tellers on duty ranged from 1.6 to 1.8. One possible explanation could be that Boston has the fewest number of NBFIs among the four markets studied, with only 0.15 NBFIs per 1,000 households (see Table 3.1). Because there is a lower supply of check cashers, there is a larger demand per store. Thus, by having a higher number of teller windows and tellers on duty, Boston NBFIs outlets are attempting to meet customer demand.

These variations between chain stores and independents indicate that the average chain store spends less of its resources on overhead costs such as rent, yet utilizes its space more thoroughly, by installing more teller windows and keeping more tellers on duty.

Table 6.10 shows the survey findings on costs as a percentage of sales revenue by market and business type:

Composite Cost Structure as a Percentage of Total Revenue by Market Area and Type of NBFIs

<b>Expenses</b>	<b>Atlanta</b>	<b>Boston</b>	<b>San Antonio</b>	<b>San Diego</b>	<b>Average</b>
Salaries and Payroll Expenses	31.9%	32.3%	20.0%	22.5%	26.7%
Direct Expenses (Rent, Utilities, etc)	9.5%	6.0%	12.0%	14.8%	10.6%
Cash and Money Services	1.7%	9.3%	20.0%	5.2%	9.0%
3rd party	0.8%	4.5%	1.0%	6.9%	3.3%
Bad Debts	6.1%	4.0%	8.0%	7.8%	6.5%
Corporate Overhead and Management Fees	0.9%	1.8%	4.7%	2.4%	2.4%
Advertising and Marketing	0.6%	4.8%	0.0%	1.2%	1.6%
All Other Pre-Tax Expenses	14.4%	8.0%	2.0%	0.8%	6.3%
<b>Total Costs</b>	<b>65.8%</b>	<b>70.7%</b>	<b>67.7%</b>	<b>61.5%</b>	<b>66.4%</b>
<b>Expenses</b>	<b>Independent</b>	<b>Chain</b>	<b>Average</b>		
Salaries and Payroll Expenses	23.2%	30.2%	26.7%		
Direct Expenses (Rent, Utilities, etc)	11.2%	9.9%	10.6%		
Cash and Money Services	9.3%	8.8%	9.0%		
3rd party	4.2%	2.4%	3.3%		
Bad Debts	5.9%	7.0%	6.5%		
Corporate Overhead and Management Fees	1.5%	3.4%	2.4%		
Advertising and Marketing	1.3%	2.0%	1.6%		
All Other Pre-Tax Expenses	3.0%	9.6%	6.3%		
<b>Total Costs</b>	<b>59.7%</b>	<b>73.2%</b>	<b>66.4%</b>		

Table 6.10

## 8. NBF1 Profitability per Outlet

Based on the survey data, the average pre-tax return on sales for NBFIs is in the range of 29% to 39% of sales revenue. Due to confidentiality concerns only 84 of the 130 participating NBFIs (65%) provided the requested cost data. Although these estimated profit margins might appear to be high, they are fairly close to the 32% average documented in the 1998 Income Statements filed with state regulators in Massachusetts. The other markets did not have corroborating evidence from financial information reported to state authorities.

The higher margins in San Diego and San Antonio may be due to fees associated with short-term lending businesses allowed in those states. For example, payday loans are available at NBFIs in California and consumer appliance and car title loans are available in Texas. The data suggest that NBF1 respondents that offer payday loans may do so without significant increases in their fixed costs for labor and occupancy. There may, however, be an increase in costs for funding the loans (especially if the check casher is funding them through an affiliated bank - see Market Summary for San Antonio).

Average pre-tax income for NBFIs in each market and business type was calculated using pretax profit margin and average revenue. Estimated pre-tax income ranges from \$32,000 per year in San Diego to \$95,000 per year in Boston. The composite cost structure in Table 6.10 suggests that chains may clear lower pre-tax margins because of higher labor and corporate overhead costs. Though independent respondents exhibited higher pre-tax returns on sales, with their lower average revenue per store, their estimated annual pre-tax income was only \$39,000, compared to \$65,000 for responding chains.

Estimated Pre-tax Income per Outlet by Market Area and Type of NBF1

	<b>Atlanta</b>	<b>Boston</b>	<b>San Antonio</b>	<b>San Diego</b>	<b>Average</b>
Estimated Pretax Margin	34.2%	29.3%	32.3%	38.5%	33.6%
Estimated Revenue	\$ 159,819	\$ 324,708	\$ 147,635	\$ 84,345	\$ 182,911
<b>Estimated Annual Pre-tax Income</b>	<b>\$ 54,720</b>	<b>\$ 95,139</b>	<b>\$ 47,686</b>	<b>\$ 32,447</b>	<b>\$ 61,416</b>
	<b>Independent</b>	<b>Chain</b>	<b>Average</b>		
Estimated Pretax Margin	40.3%	26.8%	33.6%		
Estimated Revenue	\$ 97,014	\$ 242,533	\$ 182,911		
<b>Estimated Annual Pre-tax Income</b>	<b>\$ 39,143</b>	<b>\$ 65,015</b>	<b>\$ 61,416</b>		

Table 6.11



Estimated Pre-tax Income per Outlet by Type of NBF1 and Market Area



Figure 6.12

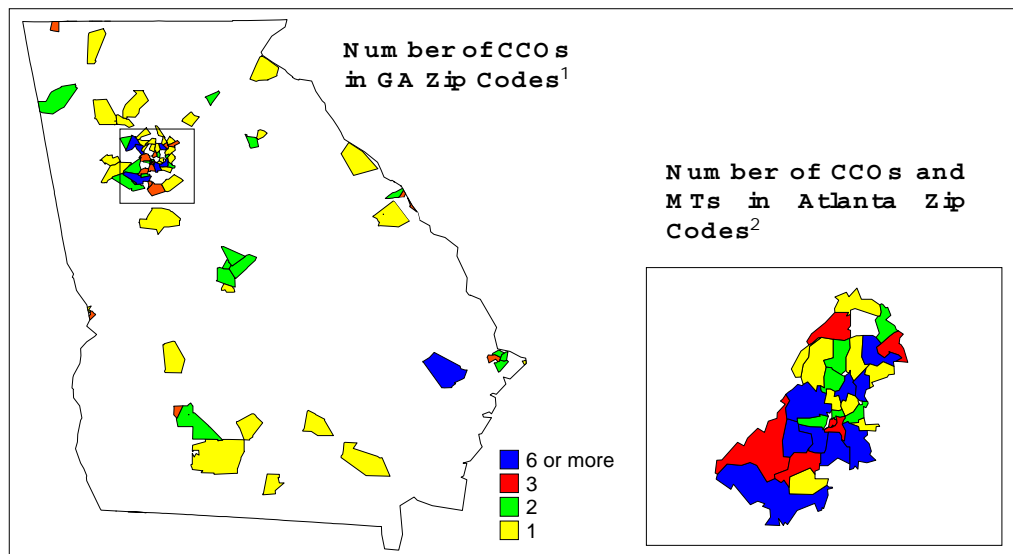
## Markets Summaries

Four diverse market areas were selected for this study to provide the Department of the Treasury areas with information about the similarities and differences in NBFI operations across a range of regulatory and demographic dimensions. Each market was selected in an effort to understand the extent to which unique market specific attributes may explain the growth and role of NBFIs in providing financial services to the underbanked. Although there were many similarities among the four markets, particularly among cities with the same national chains, our analysis also found several noticeable differences with respect to prices, product offerings, access to traditional financial service providers, geography, demographics and regulatory environments. The summaries show that each of the markets studied tended to have its own competitive environment, which resulted in disparate pricing and profitability.

### *Atlanta NBFI Market*

Dove's research indicates that there are 110 NBFIs (as defined for the purposes of this study) operating in the city of Atlanta. The following map represents the number of NBFIs per zip code in the Atlanta area:

Atlanta Market Map



<sup>1</sup> Dove Analysis based on InfoUSA Powerfinder 1999 1<sup>st</sup> edition (data from June 1998).

<sup>2</sup> InfoUSA, October 1999.

Figure 7.1

## Overall

Although the Atlanta NBFIs market is relatively fragmented, two chains have a strong presence, Ace Cash Express (14 stores in Atlanta) and Atlanta Check Cashers (five stores in the city of Atlanta and 28 in the metro area). Overall, chains account for 27% of the NBFIs outlets in Atlanta. The remaining 73% of the Atlanta NBFIs market is made up of independently owned check-cashing outlets as well as large and small grocery and liquor stores that offer financial services to customers.

## Regulations

The Georgia Department of Banking and Finance regulates the check cashing industry in Atlanta. The state has placed a fee ceiling of 5% or \$5.00, whichever is greater, for payroll checks, 3% or \$5.00, whichever is greater, for state benefits and Social Security checks, and 10% for personal checks.

Payday advance loans are illegal in Georgia, and none of the NBFIs that participated in our study offered any form of payday loan product.

## Customers

Atlanta has large African-American and Hispanic populations. According to several NBFIs managers, many of the members of these populations who live in low-income areas use NBFIs for their financial service needs. Managers stressed hours and overall convenience as the main reasons for their customers to use NBFIs over banks. They also mentioned high bank fees and difficulty in opening a bank account because of bad credit as key reasons that their customers prefer NBFIs. One manager stressed that very few people in low-income communities are ever taught the value of a bank account or how to manage and balance a basic checking account.

Atlanta 1990 Census Demographic Data

Population	394,017
Median Family Income	\$25,173
Percentage Minority	69%
Percentage of Working Adults that Work Fewer than 50 Weeks Per Year	38.7%

Table 7.1

Products and Fees

Atlanta NBFIs offer a full range of financial and non-financial service related products. Overall check cashing fees appear to be relatively high in the Atlanta market, particularly on checks with high face values. Atlanta Check Cashers and Atlanta Cash It Here, both owned by Multi States Financial Corp., appear to have significantly higher volumes than other Atlanta area check-cashing outlets. The following chart shows the average respondent's fee schedule for cashing a payroll, government, and personal check in the Atlanta market:

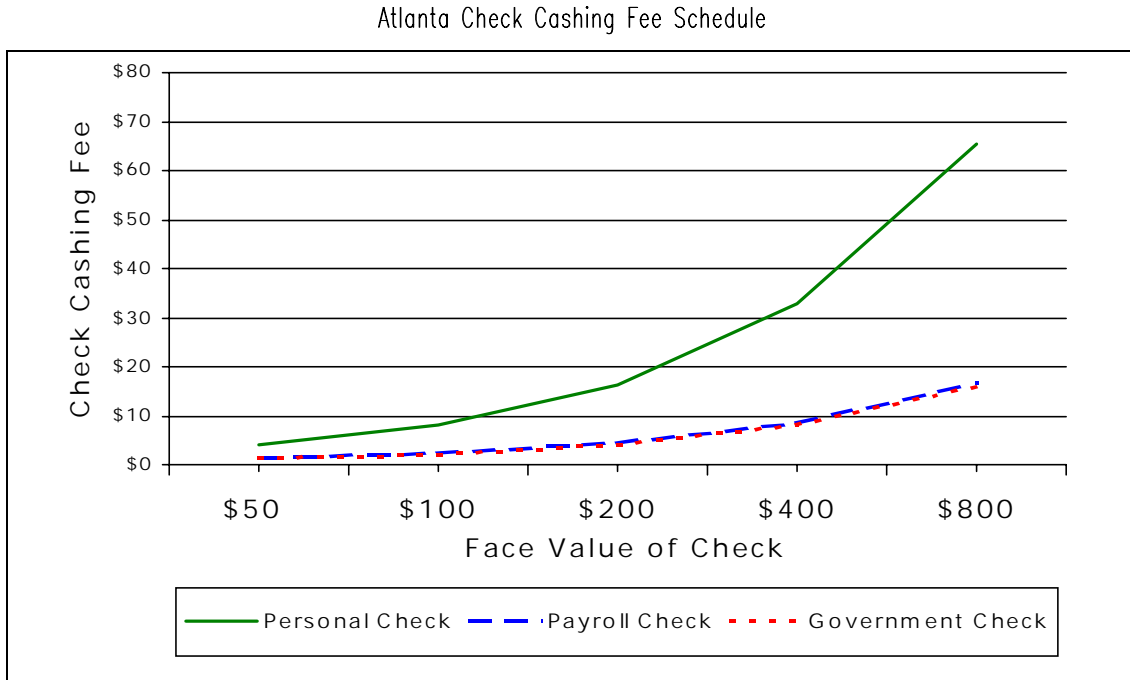


Figure 7.2

Thirteen of the 36 (36%) NBFIs in Atlanta that responded to the survey offer direct deposit services. One of the major Atlanta NBFIs chains offers a service through Corus Bank and charges customers the standard check cashing fee plus an additional fee of \$1.50. Other banks that offer direct deposit service products through Atlanta-area NBFIs include River City Bank, Western Union Industrial Bank (Western Union's Benefits Quick Cash and Cash Card products), Delaware Bank, and Bank of Agriculture and Commerce. Although Atlanta NBFIs managers initially worried that EFT '99 would have a negative impact on their paper check cashing business, they have not been adversely affected nor found the above direct deposit products particularly successful. Several respondents offer Western Union's direct deposit service products, but very few customers have signed up as of yet. NBFIs managers attributed this to the pricing. They stated that customers really do not benefit from the Western Union product, because they pay additional fees without gaining any added convenience. Further, NBFIs do not benefit either, since they lose their check-cashing fee to a small Western Union commission.

#### Access to Other Financial Service Providers

The following table shows the average distance between Atlanta NBFIs and other financial service providers. It appears that NBFIs are operating closer to banks and ATMs than with other NBFIs.

	Closest NBFi	Closest Bank	Closest ATM	Closest Post Office
Atlanta Average	.75 miles	.54 miles	.39 miles	1.32 miles

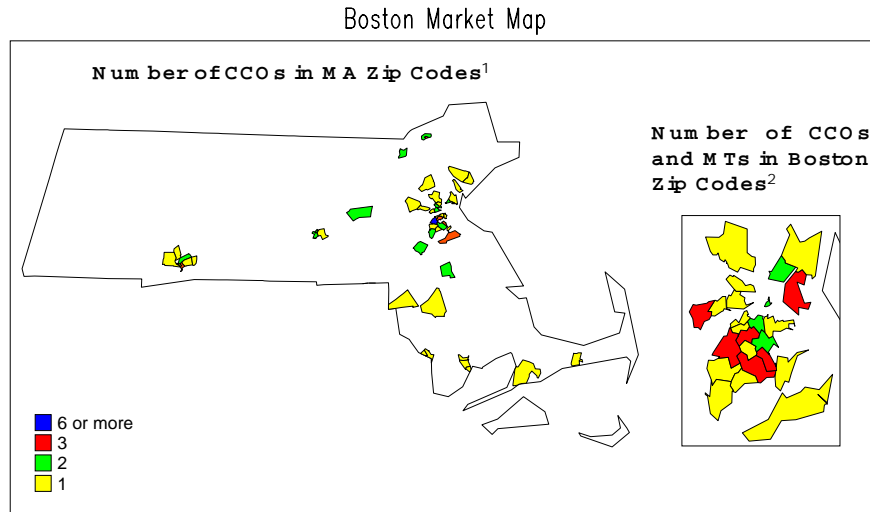
The maps of Atlanta provided in the appendix appear to be consistent with the relationship between median family income and the number of NBFIs in zip code. There tend to be more NBFIs in lower income areas and fewer in higher income zip codes. Lower income areas appear to have fewer banks and ATMs. And, as previously mentioned, there also appears to be a similar relationship between the number of weeks worked and the number of NBFIs in a zip code. But, these variables may be related and not independent.

Treasury had hypothesized that intermittent workers may make up a sizeable portion of the NBFi customer base, and that NBFIs would locate in neighborhoods with workers who may not be employed year-round. For the Atlanta market, on a zip code basis, there was a significant correlation between the number of NBFIs and the percentage of working adults who worked fewer than 50 weeks in 1989 (R-squared= .28).

The maps also suggest that NBFIs appear to coexist with FIs in Atlanta.

## Boston NBF I Market

Dove's research indicates that there are 34 NBFIs (as defined for the purposes of this study) operating in the city of Boston. The following map represents the number of NBFIs per zip code in the Boston area:



<sup>1</sup> Dove Analysis based on InfoUSA Powerfinder 1999 1<sup>st</sup> edition (data from June 1998).

<sup>2</sup> InfoUSA, October 1999.

Figure 7.3

Overall

Dove's research indicates that the Boston NBF I market is dominated by one chain, Boston Check Cashers, which operates 16 stores in the city of Boston. A second chain, All Checks Cashed (owned by New Money Express), which operates three stores in the city of Boston, did not respond to the survey. Overall, chains make up 53% of the market. The remaining 47% of the Boston NBF I market is made up of independently-owned check cashing outlets as well as small grocery stores that offer money transmission services to their customers.

Regulations

Massachusetts regulates the check cashing industry, but has not placed any fee ceilings on checking cashing services. Check cashing outlets must submit audited or reviewed financial statements annually. Payday advance loans are illegal in Massachusetts, and none of the NBFIs that participated in our study offered any form of payday loan product.

The Massachusetts Community and Banking Council established its voluntary Basic Banking for Massachusetts program in 1994. This program was designed to encourage Massachusetts banks to establish low cost checking and savings accounts which would permit individuals typically unable to afford these services to establish banking relationships. Banks that offer these accounts receive Community Reinvestment Act credit. The Basic Checking Account features a maximum monthly charge of \$3.00. This account allows a minimum of 8 free withdrawals a month and a \$10.00 minimum

balance. Currently, 153 banks based in Massachusetts and over 80 percent of bank branches participate in the Basic Banking for Massachusetts program<sup>25</sup>.

Customers

Boston NBFIs managers described their customers as mostly working class minorities, many of whom seem to be immigrants. Many of the locations have bilingual employees, and Massachusetts State law requires fee schedules to be conspicuously posted in both English and Spanish. Boston NBFIs offer convenient hours, including two outlets that are open 24 hours a day and virtually all locations are on or very close to a mass transit system route.

Boston 1990 Census Demographic Data

Population	574,283
Median Family Income	\$34,377
Percentage Minority	37%
Percentage of Working Adults that Work Fewer than 50 Weeks Per Year	37.4%

Table 7.2

Products and Fees

Boston NBFIs offer a full range of financial and non-financial service-related products. Although many Boston area banks offer \$3.00 a month checking accounts through the Massachusetts basic banking program, overall check-cashing fees are higher in the Boston market than in other markets. The following chart shows the average respondent's fee schedule for cashing a payroll, government, and personal check in the Boston market:

Boston Check Cashing Fee Schedule

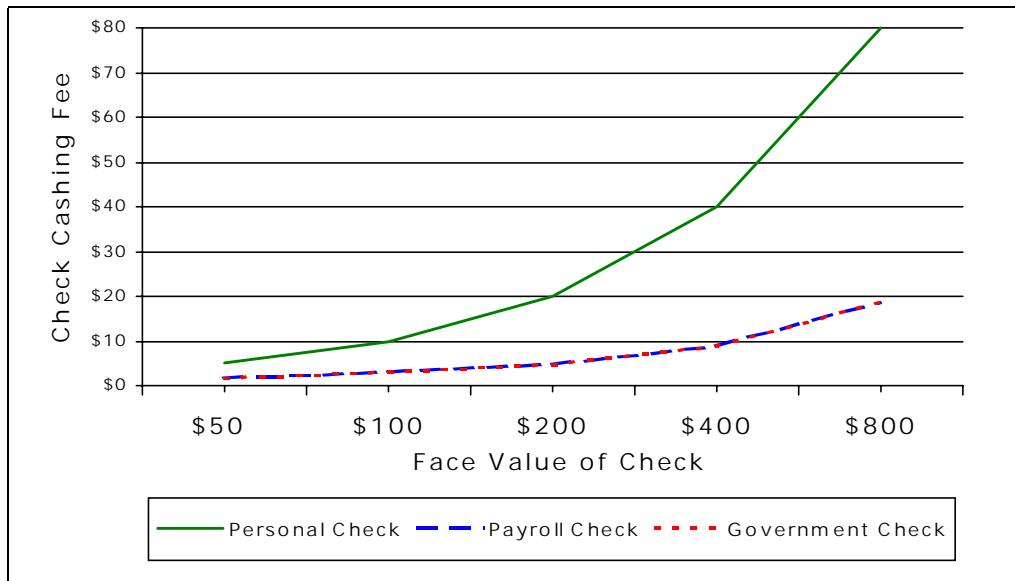


Figure 7.4



Unlike the other markets in the study, none of the surveyed Boston grocery stores/pharmacies that offer money transmission offered check-cashing services. Among the Boston NBFIs that Dove visited, MoneyGram appears to have a very low penetration rate versus Western Union.

Although many Boston NBFIs offer direct deposit service products, these services do not appear to be popular with customers. Boston Check Cashers offers a direct deposit product at all of their locations through Corus Bank, and charges customers the standard check cashing fee plus an additional fee of \$1.50. Other banks that offered direct deposit service products through Boston area NBFIs included Bank of Agriculture and Commerce and Western Union Industrial Bank (Western Union's Benefits Quick Cash and Cash Card products). As in the other markets, virtually none of the Boston area Western Union agents had ever had customers use either of these products.

#### Access to Other Financial Service Providers

The following table shows the average distance between Boston NBFIs and other financial service providers. Boston NBFIs tend to be closer to bank branches than other NBFIs, and are about the same distance from ATMs and post offices as they are from other NBFIs.

	Closest NBFI	Closest Bank	Closest ATM	Closest Post Office
Boston Average	.58 miles	.29 miles	.60 miles	.49 miles

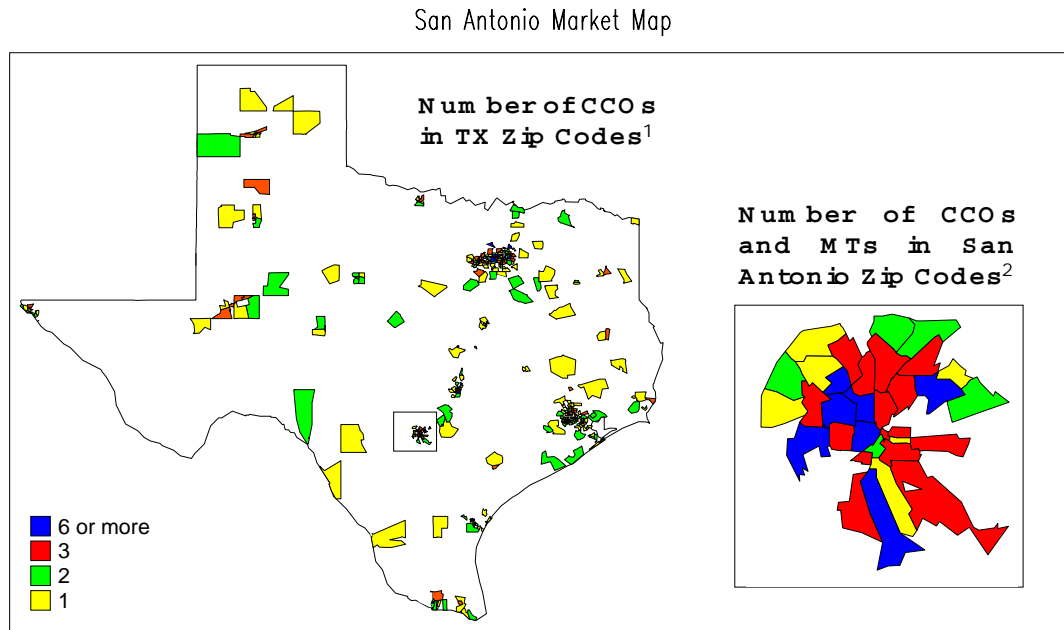
The maps of Boston provided in the appendix do not indicate any clear relationship between median family income and NBFIs in lower income areas.

For the Boston market, on a zip code basis, there was not a significant relationship between the number of NBFIs and the percentage of working adults who worked fewer than 50 weeks in 1989 (R-squared = .03).

Overall NBFIs appear to be evenly distributed across the zip codes on a population basis, but it does appear that chain NBFIs tend to be located in zip codes with the highest percentages of minority residents. The maps show that there appear to be more FIs and ATMs in the zip codes with higher percentage minority populations than there are NBFIs, suggesting that NBFIs and FIs coexist in the Boston market.

## San Antonio NBF I Market

Dove's research indicates that there are 121 NBFIs (as defined for the purposes of this study) operating in the city of San Antonio. The following map represents the number of NBFIs per zip code in the San Antonio area:



<sup>1</sup> Dove Analysis based on InfoUSA Powerfinder 1999 1<sup>st</sup> edition (data from June 1998).

<sup>2</sup> InfoUSA, October 1999.

Figure 7.5

## Overall

The San Antonio market is dominated by three large chains—Ace Cash Express (28 stores), USA Checks Cashed (16 stores), and Moneybox (13 stores). Overall, chains account for 47% of the San Antonio NBF I market. The remaining 53% of the outlets are independently owned check-cashing outlets as well as large and small grocery and liquor stores that offer financial services to customers. Another concept that is becoming successful in San Antonio is offering check cashing through armored cars that park in front of large factories and companies on paydays. Dove visited only one store that also owned an armored car, but learned that there are at least five more in San Antonio.

## Regulations

Texas does not currently regulate the check cashing industry. Although payday advance loans are illegal in Texas, one check cashing chain offers payday loans as an agent of Banco Popular. The chain receives a commission from Banco Popular for each payday loan that is processed through their outlets. The product is therefore not covered by Texas laws that prohibit non-banks from offering short-term loans. Further, several businesses offer short-term loans by using car titles or appliances as collateral.

Customers

San Antonio's substantial Hispanic population (56% of the city's total population) constitutes a majority of NBFIs customers in that city, according to NBFIs managers there. Several managers stressed convenience and comfort of carrying cash as the main reasons for customers to cash checks rather than use bank accounts. Some managers mentioned that their customers feared bouncing checks and the high expense associated with maintaining a checking account as other key reasons for not using banks.

San Antonio 1990 Census Demographic Data

Population	935,933
Median Family Income	\$26,885
Percentage Minority	28%
Percentage of Working Adults that Work Fewer than 50 Weeks Per Year	39.5%

Table 7.3

Products and Fees

Although there are no check cashing regulations or state-imposed fee ceilings in Texas, check cashing fees were lower than in the other markets, ranging between one and two percent. This may be due to heavy competition among the three chains that have a large presence in the San Antonio market. Contrary to previous research findings, large chains appear to charge fees above the market average, while continuing to have significantly higher volumes and revenues. This can most likely be attributed to the company operated chains properly leveraging large market share and prime outlet locations.

The following chart shows the average respondent's fee schedule for cashing a payroll, government, and personal check in the San Antonio market:

San Antonio Check Cashing Fee Schedule

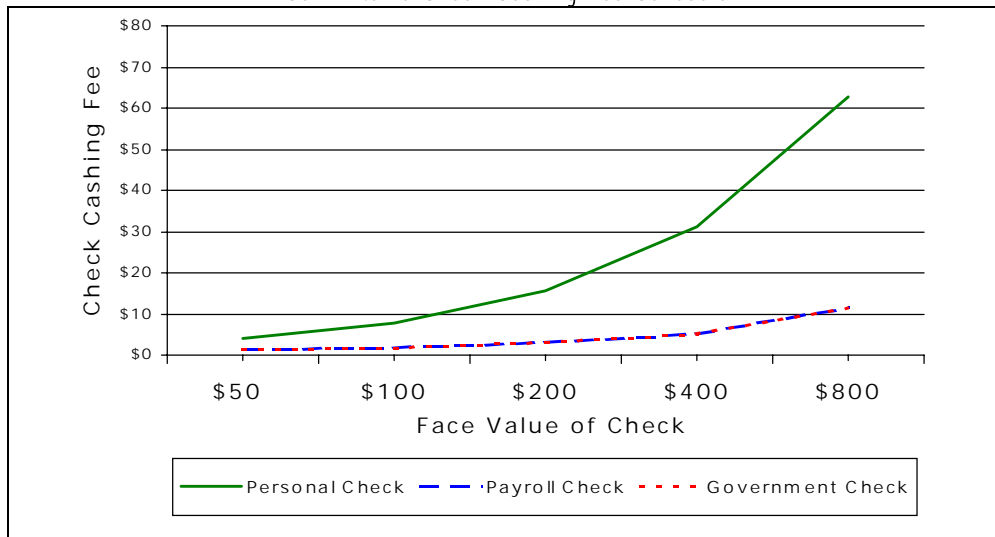


Figure 7.6

None of the San Antonio NBFIs that Dove visited offered any kind of direct deposit service, even though all of the Western Union agents (which many of the surveyed NBFIs were) are eligible to offer Benefits Quick Cash and Cash Card services.

Access to Other Financial Service Providers

The following table shows the average distance between San Antonio NBFIs and other financial service providers. San Antonio NBFIs tend to operate in close proximity to ATMs, and on average are closer to banks than they are to other NBFIs

	Closest NBFI	Closest Bank	Closest ATM	Closest Post Office
San Antonio Average	.72 miles	.51 miles	.09 miles	1.30 miles

The maps of San Antonio provided in the appendix show evidence consistent with the slight inverse relationship between the median family income in a zip code and the number of NBFIs per capita in that zip code (see Chapter 6; Proximity of Alternatives). The median family income maps did not identify the presence of any NBFIs in zip codes where the Median Family Income exceeded \$42,000.

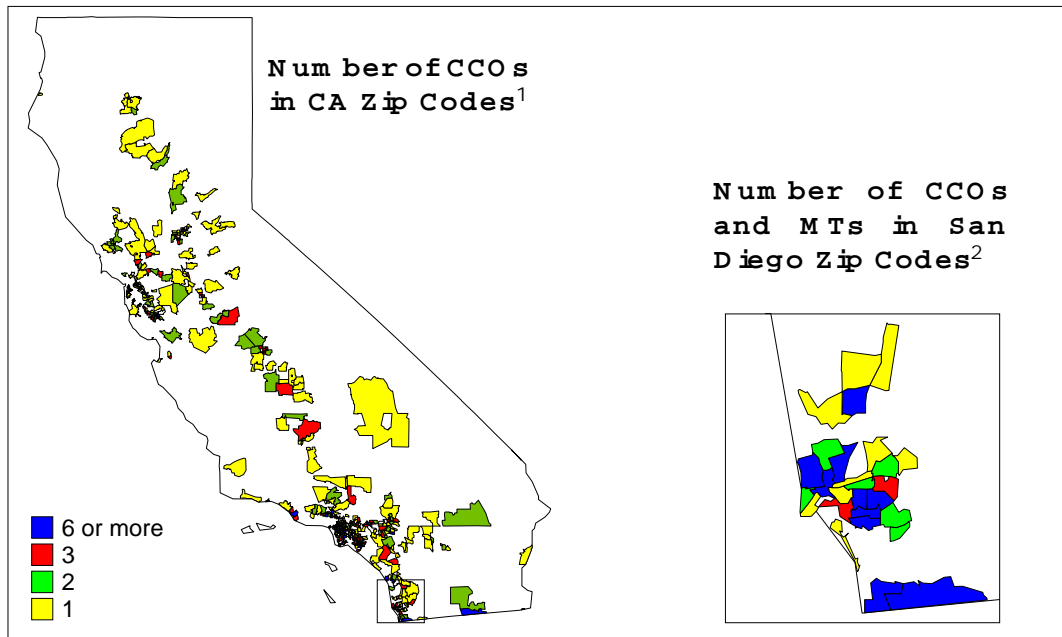
For the San Antonio market, on a zip code basis, there was a significant relationship between the number of NBFIs and the percentage of working adults who worked fewer than 50 weeks in 1989 (R-squared = 0.39).

The San Antonio maps also show how close in proximity NBFIs are to FIs and ATMs. There appear to be FIs and ATMs in all of the zip codes served by NBFIs, suggesting that NBFIs and FIs coexist in San Antonio.

## San Diego NBFi Market

Dove's research indicates that there are 106 NBFIs (as defined for the purposes of this study) operating in the city of San Diego. The following map represents the number of NBFIs per zip code in the San Diego area:

San Diego Market Map



<sup>1</sup> Dove Analysis based on InfoUSA Powerfinder 1999 1<sup>st</sup> edition (data from June 1998).

<sup>2</sup> InfoUSA, October 1999.

Figure 7.7

## Overall

The San Diego NBFi market has four competing chains, The Check Cashing Place (14 stores in San Diego and 21 in San Diego County), USA Checks Cashed (nine stores in San Diego and 14 in San Diego County), Money Tree (three stores in San Diego and nine in San Diego County), CheckStop (one store in San Diego and six in the San Diego County). Overall, chains make up 28% of the San Diego NBFi outlets. The remaining 72% of the outlets are independently owned check-cashing outlets as well as large and small grocery and liquor stores that offer financial services to customers. Overall check cashing fees appear to be relatively low in the San Diego market. San Ysidro, the small town between San Diego and Mexico, had over ten NBFIs within a two-block area.

## Regulations

The check cashing industry is currently regulated in California. The state places a 3% fee ceiling or \$3.00, whichever is greater, for payroll or government checks if the customer has a photo ID. Without an ID, a customer can be charged up to 3.5% or \$3.00, whichever is greater.

Payday advance loans are legal in California and are widely available throughout the San Diego area. Although most California NBFIs offer payday loans, the majority of San Diego payday lenders offer these loans as primary or monotype businesses. California law allows payday lenders to charge customers a maximum fee of 15% of the face value of a check. This translates into a customer writing a check for \$117.65 in order to receive a \$100 loan for a period of two weeks (15% of \$117.65=\$17.65).

Customers

Although San Diego has a large Mexican immigrant population, Dove observed that NBFIs also attracted middle-class, non-minority customers too. Managers of NBFIs stressed hours and overall convenience as the main reasons for customers to use them over banks. Managers also mentioned that many of their customers prefer to have their total paycheck in cash so that they can budget their weekly expenses.

San Diego 1990 Census Demographic Data

Population	1,110,549
Median Family Income	\$39,318
Percentage Minority	33%
Percentage of Working Adults that Work Fewer than 50 Weeks Per Year	38.6%

Table 7.4

Products and Fees

The following chart shows the average respondent's fee schedule for cashing a payroll, government, and personal check in the San Diego market. Of the three large chains that did not participate in our study, two cash personal checks, at a rate of 5%. This is a lower rate than the other markets studied.

San Diego Check Cashing Fee Schedule

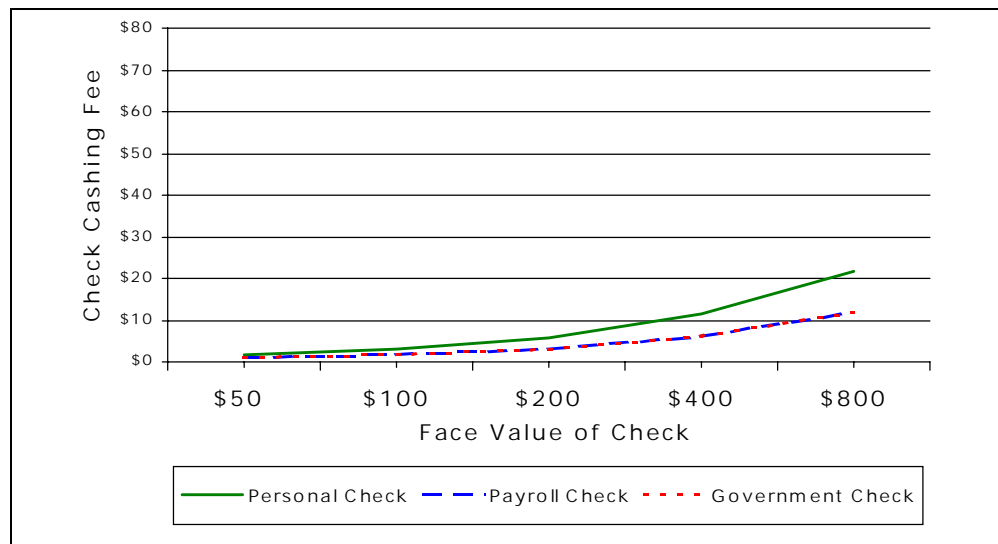


Figure 7.8

Direct deposit products were only available through Western Union agents at the San Diego NBFIs that Dove visited. Only a small number of stores offered Western Union's direct deposit service products, for which virtually no customers have signed up. As in other markets, NBFIs managers attributed this to the fact that customers really do not benefit from the Western Union product, in that they pay unnecessarily high fees for no added convenience.

Access to Other Financial Service Providers

The following table shows the average distance between San Diego NBFIs and other financial service providers. San Diego was the only market studied in which NBFIs tended to be closer to other NBFIs than to banks. This is most likely due to the high density of NBFIs – and limited number of banks – in San Ysidro, the small border town between San Diego and the Mexico.

	Closest NBFIs	Closest Bank	Closest ATM	Closest Post Office
San Diego Average	.47 miles	.73 miles	.47 miles	1.12 miles

The San Diego maps provided in the appendix suggest that NBFIs tend to be present in zip codes where Median Family Income is less than \$35,000. On a zip code basis, there was a significant relationship between the number of NBFIs and the percentage of working adults who worked fewer than 50 weeks in 1989. As noted in Chapter 6, it is not clear that either of these variables are causal, since there was also a significant relationship between median family income and intermittent workers in 1989.

The maps indicate that NBFIs coexist with other financial service providers in San Antonio; every zip code with an NBFIs also had FI branches or ATMs.

## Case Studies

### *Chain NBFIs*

#### Overview

Chain NBFIs comprise 84 of the 371 outlets identified in the four markets studied (Atlanta, Boston, San Antonio, and San Diego). Chains operate stores in convenient locations in high volume markets. Their strategies rely heavily on providing their customers with a full range of retail financial services while maintaining a larger network of stores than those of their competitors in the market.

Ace Cash Express (ACE), the largest nationwide check cashing chain, is the only publicly traded check cashing chain in the United States. Dollar Financial Group, the second largest chain, has publicly traded bonds. Stockholders in the company include management, as well as Goldman, Sachs & Company and Leonard Green & Partners L.P. The following chart compares the two chains from information available in their SEC filings:



### Comparison Between Ace Cash Express and Dollar Financial Group

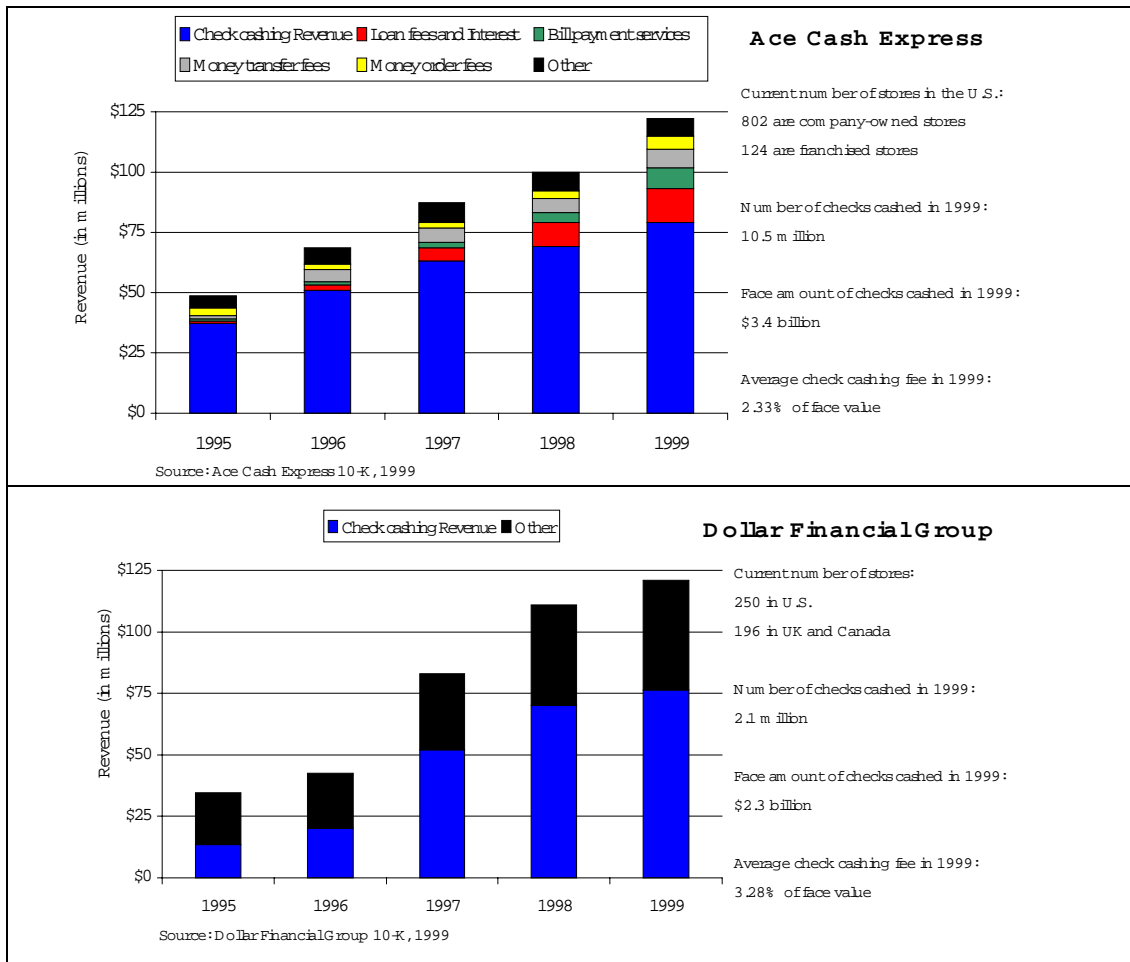


Figure 8.1

Overall, Dove surveyed a total of 10 different national/regional chains within the four markets studied. Regional NBF chain networks are almost identical to national NBF chains, particularly in regard to their financial resources, operating tactics, and coordinated marketing strategies. Chains tend to have modern and clean interiors, with a manager and employees shielded behind two to six bulletproof glass teller windows.

#### Characteristics of a Chain NBF

- **The average chain achieves higher revenue levels than independent outlets.** Within the four markets studied, the average chain achieves \$242,500 in total annual revenue. Regional chains often achieve slightly higher revenues than national chains. This is primarily due to regional chains' ability to leverage all of the benefits that a national chain does, but with a deeper focus on their own markets and lower corporate and management fees.

- **Chain NBFIs typically offer a wide range of financial and non-financial related services.** These services include check-cashing, money orders, money transmission, bill-payment, and, where legal, payday loans. Many chain outlets also offer lottery tickets, public transportation passes, photocopying and faxing services, postage stamps and phone cards.
- **The average chain NBFIs cashes a higher volume of checks than independent outlets.** The average chain outlet within the markets studied cashed 2,629 checks each month, compared to the 1,087 checks cashed by the average independent operator. This difference in check cashing volume can best be explained by the convenient locations of many chain NBFIs, particularly their close proximity to major intersections and mass transit routes, as well as the business impacts of brand recognition and a coordinated marketing strategy.
- **The fees charged by national chains are higher than those charged by independent NBFIs.** In the four markets studied, the chain NBFIs charged an average of \$5.50 per check cashed, whereas the independent check cashers charged nearly 30% less for the same transaction, an average of \$4.25. The independent check cashers charge lower fees to establish a loyal customer base and to compete with the larger chains, which are widespread in the markets in more convenient locations. Although check-cashing fees are higher among chain NBFIs, chains usually charge less for money orders.
- **Chain NBFIs tend to be open fewer hours than independent NBFIs.** Although some chains, particularly on the regional level, are open 24 hours and/or on Sundays, the average chain in our study is open from 9:00 a.m. until 7:00 p.m., Monday through Thursday, 9:00 a.m. until 8:00 p.m. on Friday, 9:00 a.m. until 7:00 p.m. on Saturday, and closed Sunday.
- **Chain NBFIs have smaller stores than independent outlets, while having more employees and teller windows, and closer proximity to major intersections and mass transit routes.** Specifically, the average chain NBFIs employ 2.5 tellers, has a combined lobby/office space of less than 1,300 square feet, and is 0.3 blocks away from the nearest mass transit stop. Overall, it appears that the chains use their industry knowledge to minimize costs and maximize the usefulness of their store's space.

#### Competitive Analysis

Chain NBFIs compete with all other check cashing stores, grocery stores, banks, and any retail businesses that cashes checks, sells money orders, or provides money transfer services. National chain NBFIs are particularly invulnerable to new entrants. A new competitor would have difficulty threatening a well-established large chain that already has a coordinated marketing strategy, high brand recognition, and a loyal customer base. A major competitive advantage for chain NBFIs is that many of them offer frequent member cards. These cards often offer discounts and allow a customer to cash checks at any outlet within a chain's network.

The alternative avenues to customers forces chain NBFIs to compete on fees, additional services, and hours. Although chains' fees appear to be higher on average, customers would seek an alternative financial service provider if fees became too high.

Unlike independent NBFIs, which are constrained by their limited bargaining power, chain NBFIs are able to leverage their size to negotiate more favorable contracts with banks and money order and transmission providers.

Substitute products and services may offer a competitive advantage over the high fees associated with a national NBFI. Customers may be willing to trade off a large number of locations for a conveniently located independent outlet that charges lower fees. If a large network of outlets is a customer's priority, then a bank may be a viable alternative.

The rivalry among the existing chain NBFIs contributes substantially to the competition of this industry segment. The chains in the four markets leveraged their strong market presence and brand recognition to charge higher fees. The competitive markets, particularly those with more than one chain, keep pricing in close proximity to the overall market averages.

#### Financial Analysis

A basic financial analysis of the revenues and expenses of chain NBFIs reveals that they are more profitable than the other players in this industry.

- **The average annual revenue of chain NBFIs is higher than independent outlets.** The average chain outlet that responded to the Treasury survey generated per-store annual revenues of \$242,500.
- **The average chain outlet that responded to our study incurs average annual per-store expenses of \$177,500.**
- **The average chain outlet achieves greater pre-tax profits than the average independent outlet.** The average chain outlet had a net income of \$65,000 per year, representing 28.6% of total revenues. In contrast, independents generated a higher profit rate on a smaller revenue base per outlet.

#### The Future of National Chain NBFIs

Large chains have positioned themselves to benefit from industry consolidation. Many national and regional chains now offer payday loans, where laws permit, to offer financial services for the growing banked population. Large chains have the funding and resources necessary for developing new products to attract both new and old customers, such as direct deposit products or check cashing ATMs. At a time when everything is becoming electronic, these and other innovations may be necessary for NBFIs to compete effectively in the future and to ensure their long-term success.

## *I n d e p e n d e n t N B F I*

### Overview

Independent check cashers comprise 236 of the 371 check cashers identified in the four markets studied (Atlanta, Boston, San Antonio, and San Diego). Because independent stores make up 64% of the check cashing outlets in these cities, it is useful to understand the characteristics that set the independent check cashers apart from regional and national chain NBFIs. While the chain outlets have developed a coordinated and strategic approach to offering check cashing and other financial services, the independent stores offer nearly all of the same services, but at lower prices. These lower fees, combined with good customer service with a personal touch, are the keys to independent check cashers' ability to compete.

Store A, the independent NBFi upon which this case study is based, is located on a major road in San Antonio. The store is both modern and clean, and the owner and two employees sit in the back office shielded behind two bulletproof glass teller windows.

### Characteristics

- **Store A generated approximately \$144,000 (\$12,000 per month) in 1999.** This revenue level is consistent with other independent outlets in this market.
- **Store A provides many of the same services offered by chain NBFIs.** These service offerings include check cashing, money orders, money transmission, phone cards, transportation passes, and lottery tickets. In an effort to become more competitive and increase revenues, Store A also offers on-site check cashing services to large companies through the use of an armored car. Like many independent operations, Store A is willing to cash personal checks for regular clientele. Chains often refrain from such activities.
- **Store A cashes approximately 850 checks each month, compared to the 2,629 checks cashed by the average chain operator.** This significant difference in check cashing volume can best be explained by the convenient locations of many chain NBFIs, as well as the business impacts of brand recognition and a coordinated marketing strategy.
- **Store A, and other independent outlets in the markets studied, charged lower fees than chain NBFIs.** Store A charged an average of \$4.95 per check cashed. In the four markets studied, the independent NBFIs charged an average of \$4.25 per check cashed, whereas the chain check cashers charged nearly 30% more for the same transaction, an average of \$5.50. The independent check cashers charge lower fees to establish a loyal customer base and to compete with the larger chains, which are widespread in the markets in very convenient locations.

- **The hours of operation of the average independent check casher are more extensive than those offered by the chain NBFIs.** Store A is open from 9:00 a.m. until 7:00 p.m., Monday through Thursday, 9:00 a.m. until 7:30 p.m. on Friday, 9:00 a.m. until 5:00 p.m. on Saturday, and closed Sunday. Although these hours are not more extensive than the average San Antonio chain, on average, an independent store is open 8.3 hours more each week than a chain operation. Specifically, the average independent check casher is open 73.8 hours each week and is operational on Sundays. In contrast, the chain NBFIs are open 65.5 hours each week, 11% fewer hours than the independent stores. The longer working hours allow the independents to become more competitive vis-à-vis the larger chain stores.
- **When compared to chain NBFIs, the average independent check casher is larger in size, has fewer employees, and is farther away from mass transit stops.** Specifically, the average independent outlet is storefront, employs 1.5 tellers, has a combined lobby/office space of over 1,800 square feet, and is 1.6 blocks away from the nearest mass transit stop. In contrast, the average chain/franchise NBFIs is part of a strip mall, employs 2.5 tellers, has a combined lobby/office space of under 1,300 square feet, and is 0.3 blocks away from the nearest mass transit stop. This last point supports the idea that chain NBFIs are situated in the most convenient locations. Store A resembled the size and location of a chain by having an 800-square foot lobby/office space, with two tellers on duty, and being situated only 0.5 blocks away from the nearest bus route.

#### Competitive Analysis

As is evident from the points mentioned above, the average independent check casher faces strong competition from chain NBFIs as well as other small independent operators. The independents compete with the larger chain stores and with each other in terms of location (namely convenience for the customer), positioning, fees, services, and hours of operation.

The constant threat of new check cashing outlets opening greatly affects the competitive landscape for the independent NBFIs. Despite the intense competition among existing firms, well-located and organized outlets can be lucrative for independent and chain NBFIs alike. Therefore, the industry as a whole is vulnerable to new entrants, many of whom are implementing the one-stop shopping model by incorporating the check cashing services in supermarkets, grocery stores, and malls.

The alternatives for customers are affecting the competitive positioning of the independents and causing them to have to compete on fees, additional services, and hours. The independent check cashers have positioned themselves as economical neighborhood financial centers with a personal touch, going beyond the proposition of the chain stores. By doing so, the independents have attracted a loyal customer base that values lower fees and more extensive hours.

Independent NBFIs often have difficulty negotiating as good of a deal with banks for cash and money services as chains, which adversely affects their ability to compete and their profitability. The low check volume of the independent check cashers limits their ability to negotiate favorable terms with servicing banks. Store A, for example, pays 20% of their total revenues to a bank for cash, credit, and money services. They pay the prime rate plus 1% on an average float of five days, during which time Store A's checks are in the process of being credited to their account. Chain NBFIs, on the other hand, may be able to negotiate immediate credit on funds, or may have sufficient cash reserves to finance their daily operations and cash needs.

Substitute products and services, such as the affiliation products of the chain NBFIs, can threaten the independent NBFIs' ability to compete. For example, one chain offers customers a connected database similar to branch banking in its 20+ stores in San Antonio. This allows customers to cash checks conveniently at multiple locations around the city. Such networks severely limit the ability of the independents to compete on convenience.

During the trade audits in the four markets, several independent NBFIs reported that their pricing policies were influenced by those of other independents in the area. In general, the independents underpriced for check cashing services vis-à-vis chain outlets, but continued to compete below this ceiling among fellow independent stores. As such, the presence of independent outlets and the portfolio of products and services they offer, together with their pricing policies, will drive the competition in this industry segment.

#### Financial Analysis of Independent NBFIs

A basic financial analysis of the revenues and expenses of the independent and chain NBFIs reveals that, in general, all check cashing outlets are generating significant profits.

- **The average annual revenues of independent operations are lower than chain NBFIs.** This disparity in revenues results from independent check cashers' lower fees and lower volumes. Store A generated approximately \$144,000 in revenue in 1999. This is within \$4,000 of the average San Antonio respondent, but well above the average respondent across all markets.
- **The hours of operation for independent outlets and higher bank fees result in higher costs and reduced profitability.** Store A incurred \$90,720 (63% of total revenues) in expenses in 1999, which, as a percentage, is slightly below other San Antonio respondents and the average respondent across all four markets. Independent check cashers may pay up to 20% of total revenues to the servicing banks that provide cash credit, and other financial services. In addition to these high costs, the independents have greater operating costs associated with extensive working hours and the inability to benefit from economies of scale. The following chart represents a basic cost analysis of Store A:

## Financial Analysis of an Independent San Antonio NBF

Revenues: \$144,000 - Expenses: \$90,720 = Pre-Tax Income: \$53,280

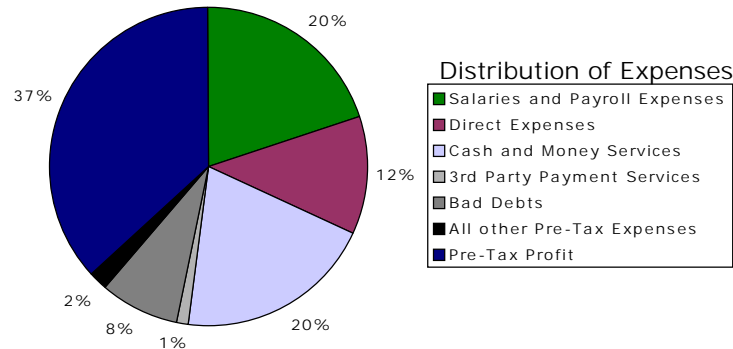


Figure 8.2

- **Although lower than those of chains, the earnings of the independent NBFs are still profitable.** Store A, for example, generated a pre-tax net income of \$53,280 in 1999, which is a 37% pre-tax return on sales. This is a slightly higher pre-tax return than other San Antonio respondents and a slightly lower pre-tax return than the average respondent within the four markets studied.

### The Future of Independent NBFs

In the last few years, the independent check cashers have witnessed a decline in the number of checks cashed. This is a result of heightened competition in the industry and an increase in direct deposit services in the market, particularly with regard to federal check recipients. As such, the independent check cashers are deploying new innovative services—such as armored check cashing vans—in an effort to remain competitive with chains. The future prosperity of the independent check cashers lies in delivering a unique product offering that emphasizes convenience, location, personal service, low fees, and extensive hours of operation.

# Appendices

1. Treasury Letter/Mailed Questionnaire
2. NBF1 Listings (includes proximity analysis)
3. Detailed Market Maps





DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

OMB 1505-0173

Dear Financial Services Provider:

The Department of the Treasury is surveying nondepository financial service providers in Atlanta, Boston, San Antonio and San Diego in order to understand more about services offered by these providers.

Your facility was selected from a sample of Boston providers to help us in this survey. Completing this survey is not required by law. However, your answers to this survey will provide very important input to us in understanding financial services in your community. Please take the time to answer all the survey questions.

We have contracted with a private research firm, Dove Consulting, to collect responses to the survey. Before Dove Consulting shares any information with Treasury, any answers that could be used to identify you or your facility will be **REMOVED**. We will ensure that these answers are kept **CONFIDENTIAL**, and will not share your completed survey with any other outside party.

Please fax the completed survey to Dove Consulting at (617) 482-1470 **by January 5, 2000**. If you are unable to return it by fax, please fold and send the survey in the provided pre-paid response envelope.

If Dove Consulting has not received your survey by this date, a representative may visit your facility to conduct an on-site interview. If you have any questions about the survey, you may call the toll-free number: 1 (800) 895-3900 Ext. 275 from 9:00 AM to 5:00 PM Eastern Standard Time.

Thank you very much for your assistance in answering these questions and providing information about your products and services.

Sincerely,

Michael S. Barr  
Deputy Assistant Secretary  
Community Development Policy

**Paperwork Reduction Act Notice**

*We estimate that it will take you 20 minutes to complete this survey. Any comments or suggestions regarding this form and/or its burden should be sent to: Office of Community Development Policy, US Department of the Treasury, 1500 Pennsylvania Avenue NW, Rm 2412MT, Washington, DC 20220.*

# Department of the Treasury

## Non-Bank Financial Institutions Survey



**Dove Consulting will ensure the confidentiality of all responses to this survey, and will not release any data that could be used to identify your facility to the U.S. Department of the Treasury or any other party.**

**ESPAÑOL:** Si usted necesita una copia en español, por favor llame a Kate Garnica al numero gratuito 1-800-895-3900 Ext. 255

## 1. Company Information:

- 1.1. Name of Employee: \_\_\_\_\_
- 1.2. Title:  Owner  Manager  Representative  Other \_\_\_\_\_
- 1.3. Company Name: \_\_\_\_\_ D/B/A \_\_\_\_\_
- 1.4. Address: \_\_\_\_\_  
\_\_\_\_\_
- 1.5. Telephone number: \_\_\_\_\_
- 1.6. Type:  Independent Operation  Company-Owned Chain Operation  Franchise Operation
- 1.7. Parent Company: \_\_\_\_\_
- 1.8. State License/Registration # (if applicable): \_\_\_\_\_
- 1.9. Store Manager/Owner's name: \_\_\_\_\_
- 1.9.1. Approximately how close to this location does the manager/owner live? within 1 mile  within 5 miles  more than 5 miles
- 1.9.2. Office Address: \_\_\_\_\_  
\_\_\_\_\_
- 1.9.3. Telephone number: \_\_\_\_\_ Ext. \_\_\_\_\_
- 1.9.4. Fax number: \_\_\_\_\_

## 2. Customer Service:

- 2.1. Hours of operation by Day of Week (Open AM/Close PM)  
S \_\_\_\_/\_\_\_\_ M \_\_\_\_/\_\_\_\_ T \_\_\_\_/\_\_\_\_ W \_\_\_\_/\_\_\_\_ T \_\_\_\_/\_\_\_\_ F \_\_\_\_/\_\_\_\_ S \_\_\_\_/\_\_\_\_
- 2.2. Approximate number of customers served each month \_\_\_\_\_
- 2.3. What languages do your customers speak?  English  Spanish  Portuguese  Chinese  Korean  Other: \_\_\_\_\_
- 2.4. What languages do your employees speak?  English  Spanish  Portuguese  Chinese  Korean  Other: \_\_\_\_\_
- 2.5. Does your facility have a preferred member program?  Yes  No
- 2.5.1. If so, what criteria are used for selecting those members? *Please Describe* \_\_\_\_\_
- 2.5.2. What are the benefits for those members? *Please Describe* \_\_\_\_\_

**3. Direct Deposit Services (Direct deposit services are products that allow customers to receive payments at your facility that are electronically deposited at a bank):**

- 3.1. Are you aware of “direct deposit” programs for federal check recipients?  Yes  No
  - 3.1.1. What do you think about these “direct deposit” payment programs? \_\_\_\_\_
- 3.2. Do you expect direct deposit products to change how many federal government paper checks are cashed at your facility?  Yes  No
  - 3.2.1. If yes, in the last 12 months, how much has the number of federal government paper checks cashed changed \_\_\_\_\_%
- 3.3. Do you offer “direct deposit” products at your facility?  Yes  No
  - 3.3.1. If yes, of your customer s who receive federal payments, approximately what percentage are direct deposit customers \_\_\_\_\_% vs. Paper Check \_\_\_\_\_%
  - 3.3.2. If yes,  The customer’s payment kept in an account in the customer’s name, or  pooled with the payments of other direct deposit customers
  - 3.3.3. What bank provides this service? \_\_\_\_\_
  - 3.3.4. Initial withdrawals provided:  Always in cash  Always by check  Customers choice
- 3.4. By which, if any, of the following methods can customers access their direct deposit payment?
  - 3.4.1. Making an employee-assisted withdrawal  Yes  No
  - 3.4.2. By using a ATM card  Yes  No
    - 3.4.2.1. Fee for cash withdrawals at that bank’s ATMs \$\_\_\_\_\_ per cash withdrawal (not surcharges)
    - 3.4.2.2. Fee for cash withdrawals at other ATMs \$\_\_\_\_\_ per cash withdrawal (not surcharges)
    - 3.4.2.3. Number of cash withdrawals that a customer may make per month \_\_\_\_\_
  - 3.4.3. By using a debit/check card at point-of-sale (POS)?  Yes  No
    - 3.4.3.1. If yes, what is the fee your institution charges for a POS transaction? \$\_\_\_\_\_per transaction
- 3.5. Could a Direct Deposit customer visit the bank that initially receives the direct deposit
  - 3.5.1. For customer service  Yes  No
  - 3.5.2. To access funds from the account  Yes  No
- 3.6. Your store's Money Transfer Service Partner (if applicable):  Western Union  MoneyGram  Other: \_\_\_\_\_

#### 4. Products available at this location:

Services Offered (via Telephone/fax)				Please Attach Fee Schedule or Describe Transaction Fees below				
Offer (circle)	Product	Estimated # of monthly transactions	Average fee per transaction	Fee for a \$50 transaction	Fee for a \$100 transaction	Fee for a \$200 transaction	Fee for a \$400 transaction	Fee for a \$800 transaction
Yes / No	Check Cashing							
Yes / No	Personal							
Yes / No	Payroll							
Yes / No	Federal government							
Yes / No	Other government							
Yes / No	Direct Deposit Services* (3rd party electronic accounts)							
Yes / No	Federal government payments							
Yes / No	Payroll							
Yes / No	Money orders							
Yes / No	Foreign Currency Exchange							
Yes / No	Money Transmission							
Yes / No	Courier Services							
Yes / No	Accept Utility Payments							
Yes / No	Electronic Bill Payment							
Yes / No	State Benefits Distribution							
Yes / No	Deferred Deposit (Payday Loan)							
Yes / No	Municipal Services (licenses, public transportation fares)							
Yes / No	ATM Machine							
Yes / No	Pawn Broker Services							
Yes / No	Rent-to-Own Products							
Yes / No	Lottery Tickets							
Yes / No	Other Services:							

\*Definition: Direct deposit services are products that allow customers to receive payments at your facility that are electronically deposited at a bank.

**5. Please indicate the approximate sales revenue at this facility for each product line listed below:**

Annual Revenue	Less than \$4,999	\$5,000-\$9,999	\$10,000-\$24,999	\$25,000-\$49,999	\$50,000-\$99,999	\$100,000-\$149,999	\$150,000-\$199,999	More than \$200,000
Check Cashing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Direct Deposit Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Orders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Money Transmission	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bill Payment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**6. Please provide estimated expenses as a percentage of the revenue for this facility:**

<b>Expenses</b>	
Salaries and Payroll Expenses	%
Direct Expenses (Rent, Utilities, etc)	%
Cash and Money Services	%
3 <sup>rd</sup> Party Payment Services (Western Union, Money Orders, etc.)	%
Bad Debts	%
Corporate Overhead and Management Fees	%
Advertising and Marketing	%
All Other Pre-Tax Expenses	%
<b>Total</b>	%

**7. Facility Characteristics:**

- 7.1. Approximately how large is your facility (Square Feet) Lobby \_\_\_\_\_ square feet Back office \_\_\_\_\_ square feet
- 7.2. Facility type:  Standalone  Shared facility with another business
- 7.3. Facility building  Storefront  Strip mall  Building  Kiosk  Other: \_\_\_\_\_
- 7.4. Security features  Locked door/buzzer  cameras  teller cage
- 7.5. Number of teller windows \_\_\_\_\_ Number of tellers on duty \_\_\_\_\_ Number of guards \_\_\_\_\_
- 7.6. Distance to mass transit \_\_\_\_\_ blocks
- 7.7. Parking on Street  Yes  No Number of Parking spaces off street \_\_\_\_\_
- 7.8. Please sketch a diagram (on the back of this page) detailing roads, intersections, transportation, and other financial service firms in your area.

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<sup>1</sup> Given the constraints of the study, Treasury did not ask Dove to survey traditional financial institutions for similar information on their products, prices and profitability.

<sup>2</sup> Forty-eight (48) percent of surveyed NBFIs also offered Lottery Tickets as an inducement to attract customer traffic.

<sup>3</sup> Payday loans were also available through Banco Popular in a small number of NBFIs in San Antonio.

<sup>4</sup> Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, January 2000.

<sup>5</sup> Arthur B. Kennickell, Martha Starr-McCluer, and Annika E. Sunden, "Family Finances in the U.S.: Recent Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, January 1997.

<sup>6</sup> Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, January 2000.

<sup>7</sup> Dove Analysis based on Booz Allen & Hamilton/Shugoll Research Mandatory EFT Demographic Study, 1997

<sup>8</sup> Stephens Inc., Specialty Finance Industry Report, March 9, 1999.

<sup>9</sup> John Caskey, Lower-Income Americans, High-Cost Financial Services, Filene Research Institute, 1997.

<sup>10</sup> Dove Analysis based on "Where Cash is King", Fortune Magazine, June 8, 1998.

<sup>11</sup> InfoUSA, March 2000.

<sup>12</sup> Dove Analysis based on InfoUSA Powerfinder 1999 1<sup>st</sup> edition (data from June 1998).

<sup>13</sup> InfoUSA, October 1999.

<sup>14</sup> InfoUSA, March 2000.

<sup>15</sup> Check-Cashing Outlet defined as businesses that are listed in InfoUSA's telephone database under the primary SIC code 609903 (check cashing services).

<sup>16</sup> InfoUSA, October 1999. SIC Code # 609910: Money Transfer Service.

<sup>17</sup> First Data Investor Relations, November 30, 1999. Viad Corporation Investor Relations, November 30, 1999.

<sup>18</sup> SIC Code # 609903: Check Cashing Services, SIC Code # 609901: Currency Exchange, SIC Code # 609910: Money Transfer Service.

<sup>19</sup> Coopers & Lybrand, Non-Bank Financial Institutions: A Study of Five Sectors, Financial Crimes Enforcement Network, February 1997.

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<sup>20</sup> Some respondents did not differentiate between “federal” and “other” government checks (see Appendix 1 – Questionnaire) and therefore left the “other” category blank.

<sup>21</sup> ATM location data is from the 1998 Visa Plus Network CD-ROM Directory. Post offices were included in the analysis for two reasons: (1) they are suppliers of some financial services that NBFIs offer, such as money orders; and (2) Treasury is participating in a pilot in which ATMs are being placed in post office lobbies in six lower-income communities that are underserved by traditional financial institutions.

<sup>22</sup> John P. Caskey. *Fringe Banking: Check-Cashing Outlets, Pawn Shops and the Poor*. Russell Sage Foundation, 1996.

<sup>23</sup> Arthur B. Kennickell, Martha Starr-McCluer, and Brian J. Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, January 2000.

<sup>24</sup> Social Security Administration, Annual Statistical Supplement, <http://www.ssa.gov/statistics/Supplement/1999/tables/html/index.html>.

<sup>25</sup> The Massachusetts Division of Banks Check Casher Report, March 1999.