



# CHECK CASHERS

ARE GOOD  
BANK

# CUSTOMERS

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

## TABLE OF CONTENTS

Introduction .....	1
Check Cashers Are Good Bank Customers .....	2
Check Cashers Do Not Launder Money .....	5
What Others Bankers Say .....	7
Check Casher Products and Services .....	8
Who Check Cashers Are .....	10
Who Check Cashing Customers Are .....	11
References .....	12
Dispelling the Check Exposure Liability Myth .....	14
Dispelling the Money Laundering & Monitoring Myths .....	14
Dispelling Other Myths .....	14

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## INTRODUCTION

The professional Check Cashing industry in the United States is comprised of check cashers and community currency exchanges, classified as Non-Bank Financial Institutions by the US Department of the Treasury.<sup>1</sup>

Although some large national chains do exist, the typical Check Casher is an entrepreneur operating several locations in local neighborhoods, that allow customers to get immediate cash for their payroll, government or other checks without waiting a week or more for the checks to clear or maintaining depository accounts against which to offset.

Collectively, Check Cashers process over 180 million checks annually, worth over \$60 billion, which generate almost \$1.5 billion in fee revenues.

In the last six years, the check cashing industry has more than doubled in size, growing to well over 6,000 neighborhood financial service centers.

The keys to the success of check cashing businesses are convenience and service, as well as attention to details and knowing your customers.

As bank customers, check cashing businesses generate bank fees for deposit servicing, check processing, vault cash delivery, funds availability charges and interest on credit lines, in addition to the revenues from traditional business banking services.

It is frequently difficult to introduce bankers to the Check Cashers, because many bankers do not fully understand why customers do not cash or deposit their checks at banks. Yet, up to 40 million Americans do not have bank accounts and satisfy most of their financial needs at check cashing locations -- frequently located in close proximity to bank branches.

Most of these customers are hard-working men and women many of whom live from one paycheck to the next and need immediate access to cash to satisfy their financial obligations. They use check cashers to obtain those specific services they need and they pay only for what they use. In this way, it is more accurate to view them as "Self-Banked" rather than "Un-Banked."

This book is designed to acquaint bankers with the check cashing business and to demonstrate how Check Cashers are good bank customers, as successful businesses and as partners to distribute financial services to many under-served communities.

<sup>1</sup>Throughout this portfolio, the term Check Casher refers to check cashers, community currency exchanges and similar establishments.

## CHECK CASHERS ARE GOOD BANK CUSTOMERS

The vast majority of Check Cashers, classified as Non-Bank Financial Institutions by the US Treasury, are independent entrepreneurs operating multiple offices that provide financial and related services to residents and businesses in local communities. A dozen or so large chains operate locations in several states.

Placing their own capital at risk, Check Cashers provide customers with immediate cash for payroll, government or other checks, without the security of offsetting deposit accounts, or waiting several days for a check to clear through the settlement system. In return, Check Cashers receive a fee based on the size of the check that compensates them for the cost of the transaction and subsequent processing, as well as a portion of the risk they have assumed.

### Specific Financial Rewards to Banks

Banks can derive significant benefits from having check cashers as customers.

Although figures vary by state and store, on average, a bank can expect a typical check cashing location to generate in excess of \$21,000 a month in direct service charges and interest income from an account maintaining an average daily balance of approximately \$100,000.

That income would include some \$13,000 from bank fees for deposit service, check clearing, return item processing, vault cash delivery, armored car services and the like, and \$8,000 from funds availability charges and interest on credit lines.

It is not uncommon for banks who make a business of supporting Check Cashers, such as Corus Bank, to report fee revenues of over \$200,000 a month.

These revenues flow to banks over and above those from traditional business banking services used by Check Cashers.

### Checks and Cash and Banks

By definition, checks and cash are the lifeblood of the check cashing industry. To supply them with cash and process cashed checks, Check Cashers must have solid relationships with banks that understand this business and support its needs.

Like any business enterprise, an operating account is essential to Check Cashers. Being in a financial business, Check Cashers manage their accounts scrupulously. Because of the liquid nature of their business, Check Cashers normally maintain sufficient balances to cover an average large weekend's cash needs.

A significant source of operating cash comes from the float on sale of money orders which continues throughout a week, including Thursday and Friday paydays. Settlement with third-party money order companies is usually accomplished the first part of the following week.

Checks constitute the bulk of deposits to operating accounts. Lots of checks. Checks that a Check Casher was willing to advance his own funds to negotiate. And key to this business is minimizing returns, currently averaging less than 1%, 80% to 90% of which are ultimately collected.

Check Cashers shoulder the responsibility to complete detailed deposit tickets and work with their banks to expedite the deposit process, honoring cut-off times to get work through proof on time, handling deposit adjustments, processing and investigating returned items, and forecasting cash needs.

### Cash and Credit Lines

Check Cashers' cash needs are met in five fundamental ways: owner's cash, fees, float from money order sales, credit lines and advances against uncollected checks.

Check Cashers can forecast their cash needs with some certainty. Their primary needs revolve around local paydays, usually Thursdays and Fridays, and SSI and Social Security benefit paydays on the 1st and 3rd business days of each month.

Banks provide cash to Check Cashers by permitting them to draw against uncollected funds, e.g. checks that have been deposited but have not yet cleared. Banks typically treat the majority of these checks as cash, with the remainder considered advances against credit facilities, secured by the underlying checks. In some cases, pledges of other assets and/or guarantees may be required.

For delivery of vault cash, check cashers pay banks and/or armored car services.

### Bank - Check Casher Partnerships

By developing partnerships with Check Cashers, banks can leverage additional points of interaction with customers currently isolated from their services.

As articulated by John Hawke, then Deputy Under Secretary for Domestic Finance of the Department of the Treasury, "The role of the non-depositories is important. Customers may prefer dealing with intermediaries that are not financial institutions. Moreover, there is nothing to prevent nonfinancial intermediaries from partnering with traditional financial institutions."<sup>2</sup>

James Carr, Senior Vice President of Fannie Mae Foundation echoed this concept when he recommended that "Mainstream financial institutions can take a lesson from and form partnerships with [non-bank] service providers, creating efficient operating structures that lower costs and then pass the savings on to clients."<sup>3</sup>

Bank-Check Casher partnerships, such as Union Bank of California and Nix Check Cashing, leverage Check Casher locations in local neighborhoods bereft of bank branches. Such points-of-presence can be used as outlets for depository, credit, insurance and investment products, either directly or on a referral basis.

Check Cashers can function as vital links with small businesses in these communities for payroll services, micro-lending, cash handling, payments and other such services that would be too costly for banks to provide directly.

In New York, the State Banking Superintendent presided over the launch of a partnership between two Community Development Credit Unions and several multi-branch Check Cashers designed to increase the availability of financial services to underserved communities.

Credit Union members can make deposits and withdrawals at check

cashing stores, just as they would in a branch or at an ATM. The Check Cashers can help to sign up customers for Credit Union accounts, thereby encouraging the concept of thrift in customers that might otherwise have just kept their savings in their pockets.

Citibank partnered with the Financial Service Centers of America to open electronic accounts for recipients of federal benefits. Customers use a debit card to access funds at ATMs, rather than receiving a paper check which then had to be cashed.

Chase Manhattan Bank, Citibank, FleetFinancial, Signature Bank, Sterling Bank, HSBC and the Bank of New York have partnered with check cashers in New York, New Jersey and Connecticut to provide payroll services for the employees of the banks' commercial customers. Employees get quick, free access to their funds at hundreds of locations in the neighborhoods where they live or work.

Check Cashers are also exploring ways to provide additional financial services for their customers. One program under development is a stored value card that provides a safe alternative to pocketing the entire proceeds of a cashed check. The card also functions as a payment vehicle for purchases at stores with debit terminals.

#### **Know Your Customer**

Long before the USA Patriot Act made it mandatory, "know your customer" was a hallmark of the check cashing business. Hundreds of times each day, a Check Casher must evaluate his customers and the checks they present to determine the legitimacy of transactions.

Every Check Casher knows that he is ultimately responsible for the checks he cashes. If he cashes a bad check, it will likely come directly out of his pocket.

Accordingly, Check Cashers closely scrutinize new customers and unusual transactions. New customers must normally produce multiple forms of identification before they can cash a check. Even then, most Check Cashers photograph each customer and the check being cashed to minimize potential losses.

As payroll checks represent between 80% and 90% of most Check Casher volumes, knowledge of local businesses and their employees is invaluable in determining the authenticity of checks.

Although declining, government checks comprise the next largest segment of check cashing volumes. It is rare for Check Cashers to entertain personal checks, except for well-established local customers.

#### **Regulation**

In 32 states, Check Cashers are regulated, normally by State Banking Departments or Departments of Financial Institutions. These regulations include regular examinations and submission of financial reports.

As of the end of 2001, all Check Cashers and money service businesses (MSBs) had to register with the U.S. Department of the Treasury and to comply with the Bank Secrecy Act and USA Patriot Act. Compliance includes maintenance of specific records, periodic examinations, Title 31 Audits by the IRS and Currency Transaction and Suspicious Activity Reporting.

#### **Self Regulation**

Check Cashers take their businesses and their position in the financial

<sup>2</sup> *Mandatory EFT '99, Financial Access in the 21st Century, February 11, 1997*

<sup>3</sup> *Financial Services in Distressed Communities, August 2001*

services industry seriously. They comply with a wide range of regulations including the Bank Secrecy Act. They complete Currency Transaction Reports on all cash transactions over \$10,000 for a single customer in a single day, and maintain detailed records of all money transfers and monetary instrument sales in excess of \$3,000. Check Cashers file Suspicious Activity Reports for money transfers and monetary instrument sales wherever appropriate, not only to satisfy legal requirements, but to protect their investment in their business.

They abide by Codes of Conduct and Statements of Principles which they have commissioned through their trade association, the Financial Service Centers of America – FiSCA.

Since the enactment of the USA Patriot Act, FiSCA has revised and published two compliance manuals for the industry – *The FiSCA Compliance Manual: The Check Cashers' Guide to Compliance with the Money Laundering and Bank Secrecy Act Laws and Regulations*, and *The FiSCA Employee Handbook, The Check Cashers'*

*Employees' Guide to Compliance with the Money Laundering and Bank Secrecy Act Laws and Regulations*. It also created a Model Anti-Money Laundering Program for FiSCA members.

#### **CRA Impact**

The Community Reinvestment Act was created to ensure that financial institutions met the financial and banking needs of individuals and small businesses in under-served neighborhoods. In practice, Check Cashers provide the type of “alternative systems for delivering retail banking services...in low- and moderate-income geographies and to low- and moderate-income individuals” embodied in the CRA Service Test.<sup>4</sup>

Banks' support of Check Cashers not only abides by the CRA mandate to serve small businesses in underserved communities, but also facilitates a broad extension of services to the customers of check cashing establishments.

<sup>4</sup> 12 C.F.R. 228.24(d)(3)

## CHECK CASHERS DO NOT LAUNDER MONEY

Although often misperceived as potential "hot-beds" of money laundering activity, the Bank Secrecy Act actually observes that the basic business of Check Cashers is inconsistent with money laundering behavior. Money Laundering seeks to camouflage deposits into the banking system, whereas check cashing takes money out. For that reason, check cashing activities were exempted from Suspicious Activity Reporting.

*"Because the operations of those businesses generally involve disbursement rather than receipt of funds, the appropriate definition of suspicious activity involves issues not present to the same degree in the case of money transmitters and money order and travelers check services."*

Only when Check Cashers engage in money transmission and money orders is there a requirement for Suspicious Activity and Currency Transaction Reporting.

In practice, the check cashing industry has experienced less than ten violations of anti-money laundering regulations in the last ten years. An enviable record among both non-bank and insured financial institutions.

### **Agents, Not Principals**

However, few Check Cashers act as principals in transferring money or in issuing money orders. Rather most act as agents for such global companies as Western Union/ISP and TravelersExpress/MoneyGram. Therefore, banks concerned about monitoring Check Cashers for potential money laundering should look at the companies for

whom they act as agents. Western Union/ISP and Travelers Express/MoneyGram are the money transmission and money order subsidiaries of First Data Corporation [NYSE: FDC] and Viad Corporation [NYSE: VVI], respectively. Combined, these two companies account for the majority of money transfers and money orders used in the world. They conduct this business through worldwide agent networks comprised of financial institutions, drug stores, grocers, retailers, convenience stores, check cashers, currency exchanges and other merchants.

Long before enactment of the USA Patriot Act, both Western Union/ISP and Travelers Express/MoneyGram had developed comprehensive systems for monitoring their money transfer and money order businesses for compliance with current laws and regulation in the United States and in over 180 countries.

### **First Line of Defense**

Western Union/ISP and TravelersExpress/MoneyGram know that the best opportunity to detect suspicious activity is at the point of sale. They recognize the critical importance of their agents in maintaining the integrity of their money transfer and money order businesses and evaluate prospective agents to verify their credibility and responsibility.

Western Union/ISP and TravelersExpress/MoneyGram provide policies, forms and training materials to ensure that agents understand how to conduct these money businesses appropriately, and to take proactive steps to prevent, detect and report possible suspicious transactions

and money laundering activities. Agents are responsible for filing Suspicious Activity Reports (SARs) any time they detect unusual behavior and for filing Currency Transaction Reports (CTRs) for all cash transactions that total \$10,000 or more for a single customer at a single location in a single business day.

Further, agents are required to maintain detailed records of customer information for money order purchases of \$3,000 or more by or on behalf of a single customer at a single location in a single day.

### **Industry-Wide Compliance**

As early as 1993, the Financial Service Centers of America (FiSCA) undertook elaborate measures to ensure compliance within the industry. The primary work is *The FiSCA Compliance Manual: The Check Casher's Guide to Compliance with the Money Laundering and Bank Secrecy Laws and Regulations. The Check Cashers' Employees' Guide to Compliance with the Money Laundering and Bank Secrecy Act Laws and Regulations* was written for Check Cashers' employees.

These manuals were commended by the Financial Crimes Enforcement Network and used as a guide by the IRS.

Ten years before the USA Patriot Act, *The FiSCA Compliance Manual* provided the industry with a comprehensive guide to BSA requirements. It contained information on identification of "structuring" and other money laundering schemes, currency transaction and suspicious activity reporting, record-keeping requirements and implementation of BSA compliance programs and

auditing procedures. *The Employee Handbook* provided a hands-on guide written in language familiar to employees with testing which becomes part of an employee's personnel file.

In June 2002, FiSCA updated all manuals and guides and issued *The FiSCA Model Anti-Money Laundering Compliance Program Under the USA PATRIOT Act of 2001* which addressed all requirements of the Act, including specific policies and procedures, appointment of compliance officers, independent audits and employee training.

Further, the check cashing industry has had a representative on the US Treasury Department's Bank Secrecy Act Advisory Group since its inception.

#### **Back End**

On the back end, Western Union/ISP and TravelersExpress/MoneyGram have created sophisticated systems that continually monitor all aspects of their money transfer and money order businesses to detect any suspicious, illicit and/or illegal activities -- at the originating and receiving ends.

All transfers are automatically screened against the various control lists published by the Office of Foreign Asset Control (OFAC), as well as Executive Orders and other relevant sources to ensure that transactions do not violate regulations.

Western Union/ISP and TravelersExpress/MoneyGram also file CTRs and SARs every time they spot reportable activity, adding an additional level of monitoring to the anti-money laundering process.

#### **Large Debit Misperceptions**

Bankers often misperceive that when a Check Casher's account is debited by Western Union/ISP or TravelersExpress/MoneyGram for a relatively large amount that this means the Check Casher is making large transfers. In actuality, the amount of the debit likely represents many small transactions of \$500 or less. Bankers should actually see such activity as a sign of a very healthy check cashing location.

#### **Independent Money Transmitters**

It is important for banks to distinguish between professional Check Cashers who derive 10% to 12% of their business from money transfer activities as agents and independent money transmitters who derive virtually 100% of their business from this activity and frequently do so as principals. The risk parameters are significantly different between the two businesses.

#### **BSA and Patriot Act Compliance**

Out of all the "High-Risk Businesses"<sup>5</sup> identified in the Bank Secrecy Act, including travel agencies, broker/dealers, convenience stores, parking garages, lawyers and accountants, Check Cashers are undoubtedly better prepared to monitor potential money laundering transactions than all the others.

Out of the seven minimum elements of compliance for banks with the USA Patriot Act . . .

- Establish AML compliance standards, procedures and written policies
- Designate high-level personnel responsible for overseeing compliance with established standards, procedures and policies
- Exercise due care not to delegate substantial discretionary authority to individuals who might engage in or be associated with illegal activities
- Effectively communicate AML standards, procedures and policies to all employees and agents and conduct training that explains what is required of each
- Take reasonable steps to achieve compliance with AML policies by monitoring and auditing established programs and systems
- Consistently enforce disciplinary actions against those failing to detect offenses
- Take reasonable steps to respond to offenses, prevent further similar offenses, and update AML programs and policies accordingly

...**Check Cashers already comply with all seven.**

Bankers concerned about the incremental expense of and responsibility for monitoring potential money laundering and BSA violations by Check Cashers acting as agents for companies such as Western Union/ISP and TravelersExpress/MoneyGram should not hesitate to contact the compliance departments of these firms directly. All agents have these numbers on materials supplied by the companies.

<sup>5</sup>OCC BSA/AML Handbook, December 2000



## WHAT OTHER BANKERS SAY

"We are generally not concerned with their [Check Cashers] laundering money. They are cashing checks, which on average are about \$400. They do not take in large sums of cash, and if they were to do so, this would be readily apparent."

— *Michael Lynch, 1st Vice President, Corus Bank, Chicago, IL*

"Banco Popular started providing financing for check cashers in 1998 – a little over 3.5 years ago.

We see how structured the check cashing industry is and how profitable it is and how well-monitored it is and how the owners are intertwined in their businesses. And so we realized there's a huge positive there.

We went through our BSA policies and it was worth going through the exam. It made our 110 stores feel more confident that we're committed to the industry and that we understand what they're doing and how they operate.

We understand the industry and the owners understand it and we know how to service it correctly and not have any money laundering. No one's going to be money laundering \$400 checks and under.

The bank takes great measures to ensure compliance under the Bank Secrecy Act. Notwithstanding the costs associated with compliance, we have found our relationships with our check casher customers to be positive and profitable overall. We have found them to be good, law-abiding customers, who comply with both the letter and the spirit of the BSA. They are subject to the same anti-money laundering laws and regulations as banks, and their record with us has been very good."

— *Bill Ozanic, Vice President, Banco Popular*

"The bank has made a substantial equity investment in one of the largest Southern California check cashing operations. The bank has relationships with one Southern California-based check cashing operation and one in Northern California. All three of these operators are outstanding, successful, ethical businessmen and we've had a very good relationship with them. Their business is very profitable to Union Bank."

— *Thomas Buscher, Vice President, Union Bank of California*

## CHECK CASHER PRODUCTS AND SERVICES

Check Cashers offer an extensive portfolio of fee-based products and services tailored to the unique needs of their customers, including:

- Cashing of Payroll Checks
- Cashing of Government Checks
- Processing of Money Transfers
- Acceptance of Utility Bill Payments
- Sale of Money Orders
- Sale of Mass Transit Fare Cards/Tokens
- Sale of Pre-Paid Telephone Cards
- Sale of Postage Stamps and Envelopes
- Exchange of Foreign Currency
- Merchant Coin and Currency Services
- Collection of Automobile Registration and Public Housing Authority Rent Payments
- Sale of Lottery Tickets
- Income Tax Preparation
- Direct Deposit Services
- Photocopier and Fax Services
- Deferred Deposit Accounts/Consumer Loans

### **Cashing of Checks**

The check cashing industry processes over 180 million checks annually worth over \$60 billion which produce almost \$1.5 billion in fee revenues.

Roughly 80% to 90% of these checks are payroll checks with an average size of between \$500 and \$600.

With the advent of EBT and Direct Deposit, government checks, including Social Security, SSI, and other federal and state assistance payments comprise a

declining share of Check Casher volumes.

The check cashing business is estimated to continue growing at a rate of approximately 11% per year.<sup>6</sup>

### **Sale of Money Orders**

The check cashing industry is one of the largest sellers of money orders outside of the US Postal Service, accounting for roughly 22% of Money Orders sold in the US, worth about \$20 billion. Average fees for money orders range from \$0.40 to \$1.10. In some states there is no fee for money orders when sold in conjunction with a check cashing transaction. Banks normally charge \$1 to \$3 for money orders.

Money orders are a critical way for those without checking accounts to make payments for goods and services, particularly by mail. On average, check cashing customers buy at least ten money orders a year. They also buy money orders as a safe place to keep the proceeds of check cashing transactions.

The money order business is estimated to grow at a rate of 5% or less per year.<sup>7</sup>

### **Processing of Money Transfers**

The check cashing industry is a major processor of money transfers between workers in the United States and their families domestically and abroad. Check Cashers account for roughly 10% of US money transfers, worth about \$4 billion.

The money transmission business is estimated to continue to grow at a rate of approximately 15% per year.<sup>8</sup>

### **Acceptance of Utility Bill Payments**

Check Cashers provide convenient locations for customers to pay a variety of bills including most major utilities. Frequently, this is the only way for utility customers to pay bills at the last moment to avoid late charges.

### **Sale of Mass Transit Fare Cards/Tokens**

Check Cashers are major vendors of transit fare cards and tokens.

### **Sale of Pre-Paid Telephone Cards**

With a large proportion of low-income customers without in-home telephone service and of immigrants, Check Cashers are substantial sellers of pre-paid telephone cards.

### **Sale of Postage Stamps and Envelopes**

Check Cashers sell postage stamps and envelopes to provide convenient one-stop service for customers needing to pay bills by mailing money orders.

### **Foreign Currency Exchange**

Foreign exchange is a relatively new business for many Check Cashers. However, given the predisposition of foreign workers have for check cashing businesses, this service is anticipated to grow rapidly in line with increases in these populations.

<sup>6</sup> FinCEN, NBFJ Study, 28 February 1997

<sup>7</sup> FinCEN, NBFJ Study, 28 February 1997

<sup>8</sup> FinCEN, NBFJ Study, 28 February 1997

### **Merchant Coin and Currency Services**

It is not unusual for Check Cashers to supply bulk coin and currency services to local merchants, particularly in neighborhoods underserved by commercial banks.

### **Collection of Automobile Registration and Public Housing Authority Rent Payments**

In a number of states, Check Cashers distribute license plates and collect automobile registration fees and rent payments for public housing. Check cashing outlets are frequently more conveniently located and have longer hours than DMV and housing authority offices.

### **Sale of Lottery Tickets**

Owing to their convenient locations and participation in check cashing transactions, some Check Cashers sell a substantive quantity of state and national lottery tickets.

### **Income Tax Preparation**

Some Check Cashers, particularly larger chains, have established partnerships with tax preparation firms to serve the financial needs surrounding income tax filing and refunds for customers without bank accounts.

### **Direct Deposit Services**

On a national basis, the check cashing industry partnered with Citibank to provide direct deposit services for electronic benefit payments. Account holders receive debit cards usable at ATMs and point-of-sale.

On a local level, New York's Check Cashers and some Credit Unions have teamed up to offer a wide range of financial services, including direct deposit, to each other's customers.

### **Photocopier and Fax Services**

Frequently, Check Cashers are the only locations where consumers can make copies of important papers and send and receive faxes.

### **Consumer Loans/Deferred Deposit**

About half of all Check Cashers engage in providing short-term consumer loans, where allowed by law. Loans are secured by a personal check and are designed to be paid off in full within a matter of weeks.

## WHO CHECK CASHERS ARE

Professional Check Cashers are typically individual businesses operating multiple locations that serve their local communities by providing safe, convenient and timely financial services to residents and businesses.

According to New York State law, "Check cashers provide important and vital services to New York citizens...it is in the public interest to promote the stability of the check cashing business for the purpose of meeting the needs of the communities that are served."<sup>9</sup>

Unlike the traditional banking model which is based on a deposit relationship that supports the costs of ancillary services, the check cashing model provides financial and transaction services for a fee.

Unlike banks that wait until a check has cleared through the banking system to pay out proceeds, Check Cashers provide customers with immediate access to their money. Check Cashers assume the entire risk that a paid check will clear. They make that decision several hundred times a day, and they charge a fee that covers not only cost of the transaction, but a portion of the risk they bear.

Also unlike banks, customers pay only for services they use. There are no account maintenance fees; no minimum balance requirements; no NSF fees. This helps customers manage their personal finances.

In the words of the Comptroller of the Currency, "Nonbank institutions, such as check cashing outlets, are clearly meeting some of the current needs of the unbanked profitably..."<sup>10</sup>

He went on to observe that "most banks charge more for the same services."<sup>11</sup>

Quoting a 1999 study, Mr. Hawke detailed how the average minimum balance required to avoid fees for checking accounts at large banks was \$616. Consumers who could not maintain such a balance paid an average of \$218 a year or \$18 a month.<sup>12</sup>

### Profitable Businesses

By most measures, the check cashing industry is stable and profitable with virtually no history of bankruptcies or failures.

### Dedicated to Customer Service<sup>13</sup>

- 81% of customers ranked the overall quality of service received from FiSCA members as "excellent" or "very good."
- 75% said their outlet was "excellent" or "very good" in charging reasonable fees for the services they receive.
- 89% rated FiSCA members as "excellent" or "very good" in offering convenient locations.
- 88% rated the hours of operation of FiSCA member stores as "excellent" or "very good."
- 90% rated FiSCA members in the "excellent" or "very good" category when it came to treating customers with respect and courtesy.

- 89% said FiSCA member employees' willingness to help was "excellent" or "very good."
- 85% felt that the FiSCA member outlet was "excellent" or "very good" at getting them in and out quickly.
- 90% felt very strongly that FiSCA members offered products and services they needed.
- 89% rated the safety and the store environment offered by FiSCA members as "excellent" or "very good."

<sup>9</sup> 1994 NY Laws 546 § 1

<sup>10</sup> Community Development, Fall 2000

<sup>11</sup> OCC remarks at ABA Natl Community and Economic Development Conference March 18, 2002

<sup>12</sup> US Public Interest Research Group study, 1999

<sup>13</sup> FiSCA-commissioned independent research study, Eric Mower and Associates Market and Research Services, September 2000

## WHO CHECK CASHING CUSTOMERS ARE

The general assumption about the customers of Check Cashers is that they are poor, unfortunate people who frequent these establishments because they are uninformed and have no other choices.

But that is far from true.

Since 80% to 90% of the checks presented for cashing are payroll checks, most of these customers are gainfully-employed.<sup>14</sup> Like many workers in today's economy, however many live from paycheck to paycheck. Every cent is precious to them. And, they consciously seek out the best way to obtain the financial services they need.

Far from being ignorant of bank offerings, research indicates that over half of check cashing customers had previously had a bank account.<sup>15</sup> Many still do.

But with minimum balance requirements, monthly maintenance fees, per check charges, bounced check fees and other such costs, most Check Casher customers simply find bank accounts too expensive and too hard to manage for the amount of money at their disposal.

And some people just like cash. They can look inside their wallet and know exactly how much money they have.

According to surveys cited by the Comptroller of the Currency, "the principal reason people give for not having a bank account is that it costs too much for their needs."<sup>16</sup>

It is more than just a subtle distinction to see that these customers are not "un-banked", but rather "self-banked."

Consumers using check cashing facilities instead of banks do not necessarily consider themselves disadvantaged. As observed by Richard Harnack, chairman of the Consumer Bankers Association and Vice Chairman of Union Bank of California, "this population is not really underserved, it is merely served differently."<sup>17</sup>

Most banks do not cash checks for non-customers. Even with a bank account, a depositor must have a sufficient balance to cover all or most of the check or the bank will not cash the check until it has cleared. If a customer wants his money immediately, he must go to a Check Casher.

Similarly, most banks will not transfer money for non-customers. To move funds, 60% to 70% of self-banked consumers purchase 10 or more money orders a year. Banks normally charge \$1 to \$3 for money orders, while Check Cashers usually charge \$1 or less.

Many self-banked customers – individuals and businesses – have learned to use money orders as a secure alternative to a bank account for saving excess cash. And, unlike banks, Check Cashers accept payments for many utilities and sell stamps and envelopes in which to mail payments to others.

Last, but perhaps more important, many check cashing customers are

uncomfortable dealing with insured financial institutions. They feel self-conscious of the amount of money they have, their language skills, their education, their documentation – and they fear rejection. Frequently, they feel that bank records may compromise their privacy.

As a result, check cashing customers handle their financial needs by cashing their paychecks, purchasing money orders, paying bills and transferring money on a fee-for-service basis, rather than from a depository account. They do so in conveniently located stores, at hours that suit their lifestyles, with a minimum of documentation, with service people that reflect the culture, language and customs of the neighborhood.<sup>18</sup>

All of these factors explain why Check Cashers can thrive even in neighborhoods where bank branches exist.

In fact, according to a 2000 survey, some 58% of check cashing customers had a checking or savings account with a bank or credit union. Among the reasons these customers listed for using Check Cashers were being treated with respect and courtesy, availability of products and services they needed, convenient locations, a safe environment, employees that really tried to help, convenient hours of operation and ability to get in and out quickly.<sup>19</sup>

Out of all customers surveyed, roughly half said they would use a savings product if it were available from their Check Casher.

<sup>14</sup> *Survey of Non-Bank Financial Institutions for the Department of the Treasury, April 2000 pg 37*

<sup>15</sup> *OCC analysis of FRB 1992 Survey of Consumer Finance*

<sup>16</sup> *OCC remarks to ABA Community and Economic Development Conference, March 18, 2002*

<sup>17</sup> *Financial Access in the 21st Century, Feb 11, 1997*

<sup>18</sup> *Survey of Non-Bank Financial Institutions for the Department of the Treasury, April 2000*

<sup>19</sup> *Customer Satisfaction Research, Eric Mower and Assoc., September 2000*

## REFERENCES

### CHASE MANHATTAN BANK

**Peter Grassl**

*Vice President, Specialized Lending*

"The Chase and predecessor banks have been servicing the check cashing industry in New York State for close to 50 years. In the 90s, we started servicing check cashers in our neighboring states of New Jersey and Connecticut, and we are now the leading bank serving the industry in the tri-state area. We're looking to expand our business to Philadelphia and also to Texas.

We've developed a mutually beneficial relationship with the industry over these years. First and foremost, the State Banking Departments in NY, NJ and CT regulate and recognize the check cashing industry as legitimate businesses – as providing services that are needed in the communities they serve and these services are not exclusively check cashing.

Over the last 20 years, we've had only one loss and that's a pretty good record. Obviously our experience over the years has been favorable. We wouldn't stay in it if it weren't."

### CORUS BANK

**Michael Lynch**

*1st Vice President*

"Corus Bank is a relatively small bank in Chicago with approximately \$2.8 billion in assets. It services about 560 check cashers in the Chicago and Milwaukee area. We clear roughly 1.5 million checks and 1.5 million money orders a month generated by the currency exchanges. We ship about \$240 million in cash a month. That amounts to about half a million dollars in fee income a month for the bank.

That's the primary reason we're in this business.

In addition, servicing the Check Cashers helps us meet our CRA requirements, as we lend money to the operators for the acquisition of stores or the properties housing them. These qualify as small business loans to enterprises in low- to moderate-income areas, who employ a significant number of minorities.

I was talking to our OCC examiner about our Secure Check Program, which we developed in conjunction with the check cashers for the electronic receipt of government benefit checks. I was saying we should get CRA credit for this, as it is providing a useful service for many low- to moderate-income individuals. He felt these individuals would be better off with free EFT accounts being offered by many Banks. I pointed out that nationwide very few of these free EFT accounts have been opened, but yet my Check Cashers have managed to open about 60,000 such accounts from the Chicago area alone.

Further, I said, "Let's take a look at the program. Our recipient pays a Check Casher about \$6.50 a month to cash their check. They either buy a couple of money orders, or use their direct bill payment services, bringing their total 'banking costs' to about \$10.00 per month." I then gave him the anecdotal case of a gentleman who just dropped out of the Secure Check Program. He joined the "mainstream" of banking by opening a free-EFT account at a bank. This would be good, except there was one small problem; he's not very good at balancing his check book.

This was such a problem, that in his very first month with a "free" account he incurred \$340 in overdraft charges. I asked our examiner if this customer was better off using a Check Casher or in the mainstream of banking with his "free" account?

I said "I think he's better off with the Check Casher" and fortunately my examiner agreed with me and he said, "Yep, I'll give you credit for this." And so I was very happy with that. These are some of the reasons we like doing business with check cashers.

We are generally not concerned with their laundering money. They are cashing checks, which on average are about \$400. They do not take in large sums of cash, and if they were to do so, this would be readily apparent."

### UNION BANK OF CALIFORNIA

**Thomas Buscher**

*Vice President*

"The bank has made a substantial equity investment in one of the largest Southern California check cashing operations. The bank has relationships with one Southern California-based check cashing operation and one in Northern California. All three of these operators are outstanding, successful, ethical businessmen and we've had a very good relationship with them. Their business is very profitable to Union Bank.

We would welcome any Check Casher here in Southern California to go to a Union Bank office and inquire about opening a business account."

**BANCO POPULAR**

**Bill Ozanic**

*Vice President*

"Banco started providing financing for check cashers in 1998 – a little over 3.5 years ago.

We see how structured the check cashing industry is and how profitable it is and how well-monitored it is and how the owners are intertwined in their businesses. And so we realized there's a huge positive there.

We went through our BSA policies and it was worth going through the exam. It made our 110 stores feel more confident that we're committed to the industry and that we understand what they're doing and how they operate.

We are serving a community need that does not exist right now for low-income, unbankable sector of the community.

We understand the industry and the owners understand it and we know how to service it correctly and not have any money laundering. No one's going to be money laundering \$400 checks and under.

The bank takes great measures to ensure compliance under the Bank Secrecy Act. Notwithstanding the costs associated with compliance, we have found our relationships with our check casher customers to be positive and profitable overall. We have found them to be good, law-abiding customers, who comply with both the letter and the spirit of the BSA. They are subject to the same anti-money laundering laws and regulations as banks, and their record with us has been very good."

**JOHN P. CASKEY**

**Professor of Economics**

*Swarthmore College, and noted expert on "Banking the Under-banked"*

"To the extent that check cashing outlets can function as low-cost replacements for bank branches, this could substantially cut banks' operating costs. Not only could the Check Casher handle many consumer banking transactions, but it may also be able to meet the payment needs of many of the bank's local business clients. Bank/Check Casher hybrids could benefit bank and Check Casher customers. Check Casher customers would have convenient access to financial savings services and bank customers could gain additional locations in which to conduct their business.

I think it is likely that bank/Check Casher hybrids will be successful and become more common. The driving factor will be the opportunity to augment the revenues of both businesses without increasing their expenses commensurately. Check cashing outlets are probably better designed to offer banking services than are most branches to offer check cashing services, so partnerships could save banks significant infrastructure costs. In addition, a Check Casher partner would provide a bank with an immediate source of knowledge of knowledge of the check cashing business.

Check cashing outlets will likely augment their revenue by becoming agents for banks, taking deposits, dispensing cash, assisting with loan applications, and meeting the payment needs of a bank's local business clients."

**MERCHANTS BANK OF CALIFORNIA**

**Daniel Roberts**

*Chairman/Chief Executive Officer*

"Merchants Bank of California, N.A. has been serving the check cashing industry in Southern California since the Bank was purchased by a local check casher in 1994. We serve approximately 150 Check Cashers. Serving this industry is the Bank's primary focus, and has represented a substantial source of fee income for the Bank.

According to the July 2002 edition of the ABA Banking Journal, over the last 5 years Merchants Bank of California, N.A. has the highest Return on Assets for all 4,984 banks in the United States under \$100 million in assets.

"That's why we serve the check cashing industry."

## Dispelling the Check Exposure Liability Myth

**MYTH:** *The checks deposited by Check Cashers expose banks to greater liability of uncollectible funds than other similar retail businesses that handle large volumes of cash and checks.*

**TRUTH:** Banks provide cash to Check Cashers by permitting them to draw against uncollected funds, e.g. checks that have been deposited but have not yet cleared. Banks typically treat the major portion of these checks as cash, with the remainder considered advances against a credit facility until the checks clear. These loans are secured primarily by the underlying checks. In some cases, pledges of other assets and/or guarantees may be required.

Key to the check cashing business is minimizing returns, currently averaging less than 1%, 80% to 90% of which are ultimately collected.

Check cashing business are historically profitable and bankruptcies, defaults or failures are rare.

## Dispelling Money Laundering & Monitoring Myths

**MYTH:** *Check cashers are "high risk" accounts because of their potential role in money laundering.*

**TRUTH:** The basic business of Check Cashers is cashing checks, primarily issued by local corporate employers and government agencies. As this is disbursing money, not transferring it, FinCEN has recognized this model as being incompatible with money laundering.

Check Cashers that do money transfers, are licensed and act as agents of major companies such as Western Union or MoneyGram, who monitor all payments

for money laundering. Check Cashers file SARs and CTRs with IRS where applicable.

Additionally, FiSCA members have adopted a national Code of Conduct specifying ethical standards for the industry; created a Statement of Principles committed to vigorously combating money laundering; commissioned an anti-money laundering manual for the industry and conducts anti-money laundering educational seminars.

In practice, the check cashing industry has experienced less than ten violations of anti-money laundering regulations in the last ten years. An enviable record among both non-bank and insured financial institutions.

**MYTH:** *The cost of monitoring Check Cashers for Money Laundering activities is greater than other similar retail businesses that handle large volumes of cash and checks.*

**TRUTH:** Banks that support the check cashing industry have developed efficient and cost-effective models to monitor Check Casher accounts that have met the requirements of the BSA and Patriot Act in regular examinations. See References page 12.

## Dispelling Other Myths

**MYTH:** *Check cashers charge high fees to unsuspecting consumers.*

**TRUTH:** Check cashing fees must cover several costs of doing business, including cash handling, check clearing, transaction processing and risk management.

Unlike banks, Check Cashers bear the risk of collecting against all checks, rather than having a right of offset against deposit accounts.

In 32 states, Check Cashers are regulated, normally by State Banking

Departments or Departments of Financial Institutions.

In a 2000 nationwide survey, 81% of FiSCA member customers rated the service they received as "excellent" or "very good."

According to the OCC, "...most banks charge more for the same services...the average minimum balance required to avoid fees for checking accounts at large banks was \$616. Consumers who were unable to meet that minimum...paid an average of \$218 a year, or \$18 a month. Indeed, earlier surveys have strongly indicated that the principal reason people give for not having a bank account is that it costs too much for their needs."<sup>20</sup>

**MYTH:** *Check cashers prey on unsophisticated consumers who have no other alternatives.*

**TRUTH:** Check Cashers provide basic financial services to millions of Americans who prefer their fee-for-service delivery to deposit-based, relationship banking.

In fact, an estimated 60% of customers have or have had bank accounts, but choose to use check cashing stores for immediate cash access, convenience and other practical reasons.<sup>21</sup>

According to the OCC, "[unbanked consumers] have turned away from banks – or have been turned away by banks – in obtaining at least some of the financial services they regularly need."<sup>22</sup>

Additionally, Check Cashers have instituted many programs that give back to their local communities, including scholarship programs, school uniform programs, and the like.

<sup>20</sup> OCC remarks to ABA Natl Community and Economic Development Conf, Mar 18, 2002

<sup>21</sup> Customer Satisfaction Research, Eric Mower and Assoc., September 2000

<sup>22</sup> OCC remarks to ABA Natl Community and Economic Development Conf, Mar 18, 2002



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