Testimony of Brian Satisky

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on behalf of

Financial Service Centers of America

before the

Subcommittee on Financial Institutions and Consumer Credit

Regarding

"Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream"

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Good morning. My name is Brian Satisky. I am testifying this morning on behalf of Financial Service Centers of America (FiSCA) where I serve on the Board of Directors. I am the Vice President of A&B Check Cashers, located in the state of Maryland and I also serve as President of the Maryland Association of Financial Service Centers, Inc.

Financial Service Centers of America represent the more than 5,000 businesses which provide consumers with a variety of financial services including check cashing; money orders; atm's; electronic bill payment; and in some instances provide transit tokens and motor vehicle license plates. We hope to dispel some myths and provide some food for thought. We are in the financial mainstream, serving millions of Americans on a daily basis.

Our members believe that all consumers deserve access to essential financial services, whether they are offered by banks, credit unions, thrifts, or our service centers. The public policy goal should be to assure that *choices* are available—not to attempt to shoehorn consumers into a financial model which may not fit their circumstances. Everyone needs financial services: not everyone needs to get them from banks. Consumers should be able to make their own decisions about what services are optimal for their own needs.

In fact, for many consumers, the traditional banking model is not the best choice. The Federal Reserve Board's Survey of Consumer Finance reported that in 2001, 50.4 percent of those who don't have checking accounts used to have them. Obviously, their experience persuaded them that such accounts were not beneficial for them.

For these consumers, the choice to *not* have an account is appropriate. Comptroller of the Currency John Hawke said in a speech last year that “appearances to the contrary notwithstanding, check cashing customers…do business outside the banking system for practical—and economically rational reasons.”Further, he said, “This is an exceedingly important point, because it is sometimes mistakenly assumed that people with low incomes lack the acumen to make sound decisions in their own self-interest. “ The Office of the Comptroller of the Currency conducted a study in 2000 which showed that 97 percent of check cashing customers cash fewer than four checks per month. This is consistent with the findings of the Federal Reserve Survey which reported that consumers cited the small number of checks as the top reason they did not have depository accounts. Additional reasons cited for not maintaining a bank account included inconvenient hours and locations; bank service charges (including NSF charges); and the inability to manage or balance a checking account.

The fact of the matter is that the “unbanked” are actually by and large the “self-banked.” These individuals understand the costs and benefits of maintaining a banking relationship and have voted with their feet to utilize financial service centers and other non-bank financial service providers**.**

Most customers who have made the choice to use financial service centers are hard working – a recent study found 80 percent had full-time jobs – earning low to moderate incomes. These consumers understand the real costs of goods and services, making buying decisions on value and the total actual cost for transacting business.

Immediate Access to Funds

One factor that few people consider is that banks will usually not cash checks in amounts larger than the amount of funds on deposit. Check cashers will do so and make funds readily available to consumers who do not have to wait for a check to clear before accessing cash. This immediate access to cash, along with convenience, may explain why 58 percent of industry customers hold bank accounts in addition to using check cashing services.

Motivated to Serve

Unlike banks, which primarily derive their income from the spread between interest paid on deposits and loan portfolios, we rely on transaction fees. Our success depends on providing a high level of service in exchange for those fees. It is not realistic to expect banks to welcome customers who do not add much to the bottom line. *But these are our customers*. And they are pleased with our services. In a recent survey conducted by Eric Mower and Associates our service was rated either "excellent" or "very good" by 81 percent of respondents. In a report done for the Department of the Treasury in 2000, Dove Consulting found that check cashers offer convenient locations, use the language of customers, and are open longer and offer more convenient hours than banks.

Consumer Choice—the Link From Self-Banked to Banked

The evidence demonstrates that many consumers prefer to obtain their financial services at check cashers despite the efforts of government to direct them to depository institutions. There will always be some consumers for whom a depository account *does not* make economic sense. On the other hand, those who choose to obtain depository accounts should have the opportunity to do so. We believe that our infrastructure should serve as a conduit for them into the banking system. Check cashers have built an industry directly serving the people policy-makers are trying to reach. We can serve as the gateway to savings and lending products.

When the banks abandoned many of the nation's neighborhoods, our industry continued to serve the communities. Does it really make sense to ask these very banks to now take the lead to bring in those without accounts? Or should government turn to the industry which has continued to serve the public without special programs or government subsidies? Over the last several administrations, we've seen attempts to use "Electronic Transaction Accounts", EFT 99, First Accounts and others to serve our customers. These programs can and do come with substantial costs to taxpayers. As the House Appropriations Committee pointed out in its report on the FY 2003 Treasury Appropriations bill, for some consumers the cost to open each account averages almost $250. Doesn't it make more sense to turn to the industry that has the experience serving the targeted population? Last year, the General Accounting Office questioned the efficacy of the Electronic Transaction Accounts, stating "given the limited appeal of the ETA, we question whether the program will generate savings sufficient to offset Treasury's cost of maintaining and promoting the program."

Innovative Programs

Although many banks have abandoned neighborhoods, FiSCA members have found some financial institutions with which partnerships can be formed to the benefit of both parties and consumers. My company, A&B Check Cashing, is involved in a project in Southwest Baltimore city in which we have partnered with a federal credit union to provide services to a community that has lacked banking for the last five years. We call it "Our Money Place".

This partnership arose after a community group, Operation Reachout Southwest, sought a bank to serve the community but was rejected time and time again. Finally they came to the SSA Baltimore Federal Credit Union which agreed to serve the neighborhood but did not want to provide cash services. That's where we come in. Our company provides all of the cash services that are necessary for a full service financial institution to have. We will not only cash checks –but dispense free money orders for the customers to use as they see fit. If the customer has a savings account and wishes to make a deposit—A&B will cash their check and issue them a free money order in the amount that they want to deposit. They simply walk over to the credit union window and make the deposit. Additionally, Operation Reachout Southwest maintains a desk in our lobby that answers questions and provides financial literacy education and counseling. And at the end of the day, a neighborhood that had no banking now has a full service financial institution to serve them.

In New York, another FiSCA member, RiteCheck Cashing is in a cooperative venture with Bethex Federal Credit Union. In that case, the idea is to permit the credit union to expand its reach without incurring the expense of constructing and servicing branches. Bethex members can cash their checks at RiteCheck Cashing without incurring a fee. It is paid by the credit union at a rate below the normal 1.4 percent fee. In addition, marketing materials for Bethex are available at the check cashing locations as are loan applications.

In California, some Nix Check Cashing locations are co-located with Union Bank facilities, allowing consumers full access to depository services. The partnership teams with Operation Hope, a community group represented here today by its Chairman.

Other cooperative ventures with ATM networks and banks are serving many neighborhoods. A three-state coalition of check cashers has created an innovative system known as PayNet. Comprised of more than 500 licensed check cashers in New York, Connecticut and New Jersey, this system provides a solution to the payroll needs of employers and banks. Through PayNet, companies outsource their check cashing requirements. Once an employer joins PayNet, employees can use any of these locations to cash paychecks near home or work. Banks refer customers to PayNet because they find it efficient and convenient.

Several check cashers are now offering a pre-paid debit card through Netspend Corporation. It allows consumers to load cash onto a MasterCard which allows them to make purchases at thousands of locations. Our industry is looking to expand offerings to include a savings component.

In sum, we believe government should focus on encouraging and supporting choice, including bank and credit union links instead of merely inducing banks to serve additional consumers.

Bank Discontinuance

At the same time in which FiSCA members are working with some depository institutions to expand services in the neighborhoods, other banks continue to abandon our customers by refusing to serve check cashers. Over the past couple of years, some major banks have adopted a policy to refuse to serve our businesses. This follows guidance from the Office of the Comptroller of the Currency suggesting that check cashers and a few other businesses are at a "high risk for money laundering". This designation is false, misleading and damaging. Our industry's record of compliance is exemplary, and the Financial Crimes Enforcement Network (FiNCEN) has found the industry not to be at a higher risk than any other industry. The OCC has not provided information explaining any evidence on which they based their conclusion that we are a high risk.

Several banks have stopped serving long-time check cashing businesses, citing a higher compliance cost without providing any evidence. They have also been unwilling to quantify the cost and allow us to pay any additional fee. This problem can become acute for our customers. There are now only two major banks serving the industry in New York City, and with the loss of competition, fees are likely to rise. We have advised the Subcommittee of our concerns.

Many banks have also stopped verifying funds availability of customer accounts. This makes it difficult for our customers who are attempting to cash payroll checks, as check cashers need to be able to determine that there is likelihood that funds are available. Again, the harm goes to the customer who is not able to negotiate his or her paycheck. Even the recently passed Patriot Act encourages *all* financial institutions to verify funds to help fight against fraud and suspicious transactions. How can we comply if the banks refuse to assist us?

FiSCA intends to pursue these issues of bank discontinuance and lack of verification of funds with the subcommittee.

In summary:

1. We serve the self-banked.
2. We are the mainstream for this population.
3. We offer choices for consumers by partnering with banks and credit unions.
4. Government policy to attempt to direct consumers to banks without working with our centers is backwards, and should be reversed.
5. Banks should not be refusing to service our customers either by breaking relations with our businesses or by refusing to verify accounts.

I will be pleased to answer any questions you may have.