



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

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# ***CHECK CASHERS ARE GOOD BANK CUSTOMERS***

**Financial Service Centers Of America, Inc.**

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# **CHECK CASHERS ARE GOOD BANK CUSTOMERS**

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## **INTRODUCTION**

The Check Casher industry affords great opportunities for banks and credit unions interested in serving this regulated and dynamic market sector.

Check Cashers specialize in delivering basic retail financial services – offering convenient locations, extended hours of operation, and transparent and affordable transaction fees. Classified as “Money Services Businesses” (“MSBs”) by the U.S. Treasury Department, Check Cashers provide a range of financial services and products, including check cashing, remittances, money order sales and utility bill payment services, to name a few.

Check Cashers make up an economically significant industry. A recent industry survey shows that there are an estimated 13,000 Check Casher business locations in the U.S., conducting more than 350 million transactions each year, and providing approximately \$106 billion in various products and services to an estimated 30 million customers.<sup>1</sup> According to an industry survey commissioned by the U.S. Treasury Department and performed by KPMG, total MSB check cashing activity alone is estimated at \$80 billion annually.<sup>2</sup>

Check Cashers are effective at meeting the financial needs of their customers. A recent FiSCA national customer satisfaction survey showed that 95% of customers rated our services as “good to excellent,” and 92% rated the overall value of our services as “good to excellent.”<sup>3</sup>

Check Cashers also take pride in the fact that most of their employees are hired from the very communities that they serve. The industry employs more than 60,000 people nationwide.

The vast majority of Check Cashers are independent entrepreneurs operating multiple branch locations. A dozen or so large chains operate locations in several states. The industry has experienced strong growth over the past two decades.<sup>4</sup>

For banks and other depositories, the Check Casher industry represents an opportunity for fee-based revenues, including deposit and per-item transaction fees, interest income on credit lines, cash delivery fees and other fees. Many banks have found Check Cashers to be excellent, profitable customers, whose accounts can be efficiently and safely managed, and who can significantly add to their bottom line.

## **FINANCIAL OPPORTUNITIES FOR BANKS**

Banks can derive significant benefits from having Check Cashers as customers.

Although figures vary by state and location volume, Check Cashers pay on average \$12,650 per location in annual bank fees. Busier Check Cashers can expect to pay more than \$20,000 per location – or \$100,000 or more per year for average size multi-branch operations.<sup>5</sup>

That income includes bank fees for deposit services, check clearing, return item processing, vault cash delivery, armored car services, and funds availability charges and interest on credit lines. These revenues flow to banks over and above those from traditional business banking services used by Check Cashers.

## ***Checks and Cash and Banks***

Placing their own capital at risk, Check Cashers provide customers with immediate cash for payroll, tax refunds, government benefits and other types of checks.

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 can 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.

Checks constitute the bulk of deposits to operating accounts. Lots of checks. Checks that a Check Casher was willing to advanced his own funds to negotiate. And key to this business is minimizing returns, currently averaging less that 1%, of which 80% to 90% are ultimately collected. Due to improved security features (e.g., watermarks and thermal ink) on many types of payroll and government-issued checks, and with strict customer ID requirements, Check Cashers are able to keep bad check losses to a minimum.

## ***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 1<sup>st</sup> and 3<sup>rd</sup> business days of each month.

Banks provide cash to Check Cashers by permitting them to draw against uncollected funds, i.e., 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. Pledges of other assets and/or guarantees may also be required.

For delivery of operating cash, Check Cashers pay banks and/or armored car services for regular delivery of vault cash and coins.

## ***Check 21 Remote Deposit***

Check 21 Remote Deposit Capture (RDC) has revolutionized Check Casher and bank relationships. RDC allows a Check Casher to scan images of check deposits and present them electronically to the bank for first deposit, without having to physically process and deliver the paper checks to the bank.

RDC greatly facilitates a bank's ability to process and monitor volume check deposits, thereby reducing overall processing costs. RDC benefits to Check Cashers include faster check clearing,

increased funds availability and reduced trips to the bank. Check 21 enabling legislation and RDC technology also make it possible for banks to service check cashers outside of the bank's immediate geographic footprint. With the advent of RDC, it is now possible for a bank in California to serve a Check Casher in New York.

RDC is now offered as a direct service by many banks serving the Check Casher industry. Also, a growing number of third-party processors specialize in this area, facilitating Check Casher and bank depository relationships.

Banks serving the industry have found that RDC has greatly improved the efficiency and has reduced costs associated with banking high volume Check Cashers.

### ***Know Your Customer and New Technology***

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

Check Cashers are experts at verifying customers and reducing NSF items – and require their tellers to adhere to strict customer ID requirements. Additionally, specialized technology widely used in the industry facilitates this process. Many Check Cashers utilize Point of Sale (POS) data systems that create a "file" for each customer and record all business activity. POS systems allow Check Cashers to quickly verify customer identities and record transaction histories, including images of all checks and ID documents presented. These systems also facilitate state and federal recordkeeping requirements, including BSA/AML compliance and reporting.

Every Check Casher knows that he is ultimately responsible for the checks he cashes. Check Cashers normally charge a transaction fee based on a small percentage of the face value of the check (e.g., 2% or 3%), therefore the margin of error is slim. If he cashes a bad check, the full amount will come directly out of his "pocket". To reduce these potential losses, Check Cashers diligently verify customer identities. Check Casher tellers are required to closely scrutinize each new customer and any transactions that may appear unusual. New customers must normally produce multiple forms of identification before they can cash a check. Most Check Cashers retain digital or photographic images of all customers and their identification documents.

Payroll checks represent between 80% and 90% of most Check Casher volumes. Other types checks commonly cashed include tax refunds, government benefits and unemployment checks, insurance or attorney settlement checks, and other types of instruments. As a general rule, Check Cashers do not accept personal checks, dated or old checks, checks from out-of-state or unknown makers, or other items that have a high potential for NSF returns.

### ***A Regulated Industry***

Check Cashers are a regulated industry. At the state level, Check Cashers are regulated in most U.S. state jurisdictions, typically by state banking departments or other state financial regulators. State regulation of Check Cashers typically includes licensing or registration requirements, mandatory recordkeeping requirements, periodic financial examinations, annual financial reporting requirements, regulation of fees chargeable and various consumer protections.

Virtually every state in the U.S. with any sizable Check Casher industry has enacted legislation to regulate these businesses.

Check Cashers are also regulated at the federal level. Check Cashers are subject to many of the same federal Bank Secrecy Act (BSA) requirements as banks. Check Cashers are subject to mandatory BSA reporting and recordkeeping requirements, and periodic BSA compliance examination by IRS examiners.

As of the end of 2001, all Check Cashers and other MSBs have been required to register biennially (i.e., every two years) with the U.S. Treasury Department. Additionally, they must implement four-part Anti-Money Laundering programs, including written policies and procedures, appointment of compliance officers, mandatory employee training programs, and periodic independent examination of compliance programs.

Like banks and other financial institutions, Check Cashers are subject to BSA reporting and recordkeeping requirements, including Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs). They are also required to maintain detailed records for monetary instrument sales and remittance activity at certain levels as mandated by BSA regulations.

Check Casher industry compliance with BSA regulations is overseen by the federal Financial Crimes Enforcement Network (FinCEN), with the examination function administered by the Internal Revenue Service (IRS). In a typical IRS "Title 31" review, IRS examiners will go on-site to review the Check Casher's books, records and systems to ensure that the business is maintaining an appropriate AML program, including compliance with federal reporting and recordkeeping requirements. The IRS examination process is rigorous.

## **THE "HIGH RISK" MYTH**

The cashing of standard payroll checks, tax refunds and government benefits checks presents a very low risk for potential money laundering activity.

Nevertheless, the Check Casher industry has suffered from a misperception that we are an inordinately "high risk" as compared with other types of financial institutions or businesses. This conclusion has been reached with little weight given to the actual compliance record of the industry.

Notwithstanding all of the concern and recent attention on the topic, given the 13,000 or so business locations operating in the U.S. and the \$80 billion in estimated annual transaction dollars, there is a paucity of actual cases involving Check Cashers and money laundering. Although no financial industry is without its "bad apples," due to industry regulation and recordkeeping requirements, Check Cashers do not present an easy vehicle for money laundering activity.

Since 2001, the IRS has conducted tens of thousands of examinations of Check Cashers as required by BSA regulations. Nevertheless, as evident in the "Enforcement Actions" section of the FinCEN website ([www.fincen.gov](http://www.fincen.gov)) only a small handful of Check Cashers have been cited for BSA violations by FinCEN. During that same period, however, FinCEN has issued hundreds

of millions of dollars in penalties against other types of financial institutions, including depositories.

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 specifically exempted from federal Suspicious Activity Reporting requirements.

*“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.”*

In short, check cashing transactions are simply not a convenient vehicle for money laundering, and the industry as a whole has maintained a strong record for BSA/AML compliance.

### ***Industry-Wide Compliance***

The industry has taken great measures to ensure wide-scale compliance. In 1993, FiSCA issued compliance guidance that set the standard for the industry: The *FiSCA Compliance Manual* and a corresponding *FiSCA Employee Handbook*. These manuals were the first of their kind for the non-bank financial institutions industry – and were favorably reviewed by FinCEN and utilized by IRS as guidance materials for examination procedures.

Since that time, the FiSCA manuals, which pre-dated USA Patriot Act requirements by nearly a decade, have been periodically updated and supplemented based on regulatory changes.

More recently, FiSCA has maintained an Internet-based compliance training and examination program, which includes courses for both MSB tellers and compliance officers. The program has trained tens of thousands of Check Cashier employees nationwide. Check Cashers and their employees can go directly to the FiSCA website ([www.fisca.org](http://www.fisca.org)) to register online for the online courses – and receive a certification attesting to their completion of this thorough training program.

In addition to FiSCA’s own efforts, the industry has also received significant BSA educational support from both FinCEN and IRS. In 2004, FinCEN issued detailed BSA educational materials and interactive CD designed to educate MSBs about their regulatory compliance responsibilities. Additionally, IRS regularly offers BSA training workshops and seminars, printed materials and other outreach programs to help educate the industry.

### ***BSA and Patriot Act Requirements***

Following implementation of the USA Patriot Act, Check Cashers must adopt BSA/AML programs to reasonably prevent the business from being used to facilitate money laundering or other financial crime. The program must cover the following core requirements:

- Adopt written BSA/AML policies and procedures;
- Designate a qualified compliance officer to oversee the program;
- Maintain an ongoing BSA/AML employee training program; and

- Schedule periodic, independent examinations of the program by qualified examiners.

FinCEN has since published various industry compliance guidance and updates, available at [www.fincen.gov](http://www.fincen.gov). Additionally, in December 2008, FinCEN published a comprehensive MSB Examination Manual, which provides detailed guidance to examiners and industry on appropriate compliance requirements.

## **CHECK CASHER PRODUCTS AND SERVICES**

The Check Casher industry has flourished due to its ability to identify and service the needs of its customers. Check Cashers offer an extensive portfolio of fee-based products and services tailored to the unique needs of their customers. Examples include the following:

- Cashing of Payroll, Tax Refunds, Government Benefits and Other Checks
- Money Transfers (as agents of Western Union, MoneyGram and other licensed remitters)
- Utility Bill Payments
- Money Order Sales
- Prepaid Debit Card Products
- Direct Deposit
- Deferred Presentment Loans and other Small Loan Products
- Income Tax Preparation
- Pre-Paid Telephone Cards
- Currency Exchange
- Automobile Registration
- Public Housing Authority Rent Payments
- Sale of Lottery Tickets
- Photocopier and Fax Services

## **WHO CHECK CASHERS ARE**

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

According to the State of New York, “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.”

Unlike the traditional banking model, which is based on a deposit relationship that supports the costs of ancillary services, the check cashing “pay as you go” 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.

Customers like Check Cashers for the transparency of their fees. 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 former New York State Banking Department Superintendent Diana Taylor “MSBs fill a need in many markets. For many individuals and families, especially in low-income and urban communities, MSBs may be the only means of access to cash or the only avenue for sending funds to family members abroad.”

### **Dedicated to Customer Service**

Consumers choose to use Check Cashers because they are in convenient locations, offer extended hours of operations (some 24 hours per day), and transparent and affordable fees. A recent FiSCA national customer satisfaction<sup>6</sup> survey showed that:

- 92% of customers rated the overall value of the services received as **good to excellent**;
- 95% of respondents rated the overall quality of services received as **good to excellent**;
- 80% rated **most features** of their experience at Check Cashers as either “**excellent**” or “**very good**”.

### **The Customers We Serve**

Contrary to common misperception, Check Casher customers are from all walks of life and do not fit into a single demographic. The majority of our customers are banked and employed full time. Industry surveys have shown that the profile of people who use the services offered by Check Cashers is broad:

- Slightly younger than the general population
- Employed full-time (75%)
- Primarily low-and-moderate income
- Maintain at least one traditional bank account (58%)

## **STRONG SUPPORT FOR THE INDUSTRY**

*Many bankers and regulators have expressed strong support for the Check Casher industry. The following are just a few examples.*

“First Bank of Delaware (“FBD”) continues to promote our willingness to accept MSB’s (including check cashers) that are in need of cash management solutions. We see the industry as a way to expand our revenue opportunities through the offering of remote capture technology, cash vault services and various forms of financing. By bundling these services together we are able to develop relationships outside the bank’s traditional geographical footprint. Our services provide check cashers a one-stop solution to all of their banking needs.

We have found our clients to ‘know their customer’ and adhere to their obligations as they pertain to BSA/AML regulations. Our compliance oversight process has been well received by all of our MSB’s. Our clients are making risk-based decisions each day with their customers and understand why we need to have similar controls in place to manage the risks associated with this program. Banks seeking to enter this market should ensure they too have controls in place and are structured internally to adhere to the interagency guidance for banking MSB’s. This guidance is essential to the success of our program and it helps to have clients that recognize the importance of compliance and our oversight pledge to our regulators.

Risk aversion has plagued the MSB industry and caused the bank discontinuance challenges that operators face today. Mitigating and understanding those risks are critical for institutions. We persistently assure our existing and potential customer base of our long term commitment to the MSB space. We look forward to being a part of the continued success of the industry and most importantly assisting in the servicing of the unbanked population.”

*Mickey J. Durkin, Sr. Vice President  
First Bank of Delaware  
Philadelphia, Pennsylvania  
January 2010*

\* \* \*

"We have been providing a full range of banking services to our check cashing customers in the Chicago Metropolitan area for over 50 years. Our check cashing customers provide needed services in the many diverse communities in our area. MB Financial Bank looks forward to a continued relationship with our customers in this industry."

*Thomas D. Panos, President, Chief Commercial Banking Officer  
MB Financial Bank  
Chicago, Illinois  
January 2010*

\* \* \*

“It is our opinion at UCB that legitimate MSBs are vital to serving the underserved and unbanked population.”

“We service a little over 500 MSBs. We look at their financial statements as well. They are doing very well by paying the fees so it has been a significant income to the bank.”

*Keith Ward, President and Chief Executive Officer  
United Central Bank  
Garland, Texas  
At FDIC ComE-IN meeting on MSBs, Oct. 2007*

\* \* \*

“The check cashers provide immediate availability to funds in a safe clean environment. They provide money transfer services, money orders sales, and bill payment services, where someone can come in and pay their utility bills on the date they are due for a price less than the cost of a postage stamp. In some cases, they do tax preparation services, document retrieval and, in Illinois, they actually do license work. Now, far be it from me to second-guess any government organization, but, in Illinois, you can go get a license plate or renewal sticker at a check casher for a small fee, and it takes about 2 minutes; or, you can go down to the department of motor vehicles and spend the afternoon. ... I choose the check casher. At any rate, so do a lot of other individuals.”

“Now I have found MBS businesses to be excellent clients, far safer than most any other business. They are very easy to monitor and regulate.”

*Michael Lynch, Vice President  
Banco Popular  
Chicago, Illinois  
At FDIC ComE-IN meeting on MSBs, Oct. 2007*

\* \* \*

“While the current business environment is hard on MSBs, there are U.S. banks that will gladly accept them as customers. Certain banks recognize that MSBs, if properly evaluated for risk and competently managed, can significantly add to their bottom line, given the size of the MSB industry and the fact that in certain areas of the world, MSBs are the most commonly used method to transfer funds.

This realization has driven a new trend in the banking industry, leading to banks that consider themselves "MSB friendly" and are actively seeking the entities as customers. These banks appear to be the future leaders, realizing an important trend and employing robust risk management methodologies while increasing their profitability. Embracing MSBs leads to an increase in overall compliance cost, but these banks have demonstrated that the profits far outweigh the costs.”

*David Gragg, Executive Vice President  
Gateway National Bank, Dallas, Texas*

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*From 6 Steps for Community Banks to Succeed with Money Services Businesses, Kathlyn L. Farrell, CRCM, ABA Bank Compliance Journal, Jan./Feb. 2006*

\* \* \*

“The check cashers are critical to the Nation’s economy and to the world’s economy. ‘They are regulated by us and the IRS enforces those regulations’”

*William Fox, Director, FinCEN, 2004*

\* \* \*

“MSB’s fill a need in many markets. For many individuals and families, especially in low-income and urban communities, MSB’s may be the only means of access to cash or the only avenue for sending funds to family members abroad.”

*Diana Taylor, Superintendent  
New York State Banking Department*

\* \* \*

“MSBs are key components of a healthy financial sector, and it is very important that they have access to banking services.”

*U.S. Treasury Secretary John Snow*

\* \* \*

“We are aware of this problem [i.e., access to depository services] and agree with you that it threatens to undermine the accomplishments we have made over the past several years in enhancing the security and transparency of the Money Services Business industry. We take very seriously the important role that check cashers and other Money Services Businesses play in providing financial services to segments of our society that may not have access to the more traditional banking system. To that end, we remain committed to working with organizations such as the Financial Service Centers of America and your members to ensure continued access to bank accounts.”

*William Langford Jr., Associate Director for Regulatory Policy and Programs  
Financial Crimes Enforcement Network (FinCEN)*

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*Quotes from hearing on **BANK SECRECY ACT'S IMPACT ON MONEY SERVICES BUSINESSES**, Wednesday, June 21, 2006, U.S. HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT, COMMITTEE ON FINANCIAL SERVICES, Washington, D.C.*

“MSB’s provide a valuable service to consumers, and in some instances are the only financial services available to them.”

*Honorable Spencer Bachus, Chairman of the Subcommittee*

\* \* \*

“I know firsthand that the financial services industry, in many cases, made a decision not to open banks in that area, so the check cashers were really the only way that many people could achieve services.”

“So, they were very important, and I saw firsthand during my days on the city council the service that they provided to my constituents there, and continue to provide throughout New York City.”

“As a New Yorker, I know money services businesses form a very important part of the financial services district industry in my home town, and many of my constituents depend on their services for their financial needs.”

*Congresswoman Carolyn Maloney, Ranking Member of the Subcommittee*

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## **ABOUT FINANCIAL SERVICE CENTERS OF AMERICA (“FiSCA”)**

FiSCA, founded in 1987, is the national trade association for more than 7,000 individual financial service centers across the United States. FiSCA members provide a wide variety of financial services and products to their communities, including check cashing, money orders, money transfers, and electronic bill payment services, automatic teller machine access, government benefit and payroll payments, small dollar short-term loans, electronic tax preparation, prepaid debit cards, deposit acceptance services, public transportation fare and token sales, motor vehicle license plate and title distribution, postage stamp sales and numerous other services. To learn more about FiSCA, visit our website at [www.fisca.org](http://www.fisca.org).

For more information about Check Cashers and opportunities to bank them, please contact:

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<sup>1</sup> FiSCA – Member Customer Survey, Cypress Research Group (2006)

<sup>2</sup> Money Services Business Industry Survey Study, KPMG (2005).

<sup>3</sup> FiSCA – Member Customer Survey, Cypress Research Group (2006)

<sup>4</sup> Money Services Business Industry Survey Study, KPMG (2005).

<sup>5</sup> Survey of FiSCA Member Companies, Cypress Research Group (2009)