

Neighborhood Banking Is About To Change

by {ga=mwinstongriffith}

Tuesday, June 21, 2005 12:00 AM - Last Updated Tuesday, August 26, 2014 03:24 PM

Imagine this: You walk to the corner store with your paycheck loaded on an electric card and slip it into an ATM-like machine. You take out a short term, high interest loan, download \$60 into a savings account, transfer 40 bucks to your checking account, pay your electric bill, send fifty dollars to your sister who lives overseas -- and, oh yes, purchase that George Forman grill you've been eyeing. Finally, the machine spits out \$31.35, coins and all, in cash that you requested. You do all this with one swipe of the card.

What is so tellingly futuristic about this scene is not the technology -- we're pretty much already there. It's the virtual walls you just crashed through which, for now at least, separate various forms of financial and commercial transactions.

No walls have arguably been more impenetrable than those between banks and check cashing stores, more politely known as financial service centers. Like the kind of neighborhoods they are associated with, check cashers have operated for years on the other side of the tracks from bank branches, kept apart by regulatory boundaries and divergent business cultures.

But lately, driven by new technologies and a growing appreciation for the enormous, untapped profit and market opportunities in low-income neighborhoods, maverick providers of traditional banking services and check cashers have been taking pages from each other's playbooks and, in some cases, even collaborating. This experimentation will not only shape the course of neighborhood banking in New York and nationwide, but also redefine who and what is considered part of the banking mainstream.

Different Worlds

Commercial banks, thrifts and even most credit unions have long looked down their noses on check cashing operations, and, by extension, the predominately low-income people who use them, concluding there was either too little profit to be gained, or too much respectability to lose, in this gritty business.

On the other hand, check cashing operations, which offer products and services like money orders, pre-paid debit cards, utility payments and remittances, dominate certain inner city turfs

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by deliberately shunning the alleged white collar elitism of the banking industry. The 660 check cashing centers in New York specialize in serving customers in search of a simple financial transaction, rather than the institutional relationship sought by retail bankers.

Despite their different worlds, a few banks, such as Chase and Banco Popular, have over the years attempted modest, fairly low-impact, forays into check cashing or have, on occasion, purchased check cashing operations. Yet none have brought non-traditional financial services into the core of their business or have used these so-called “fringe” services to link customers to banking products.

Outside New York, however, some banks have been testing check cashing services in their branch lobbies alongside traditional teller lines and are creating new financial service prototypes.

Pioneering In The Bronx

Taking careful note of developments in areas such as California and Ohio, the [Checkspring Community Corporation](#), headquartered in the Bronx, currently has a bank charter application pending in New York State. If its charter is approved, Checkspring will be poised to introduce a more fully integrated bank/check casher business model, the likes of which the New York City market has never seen.

Some of this territory has already been traveled through a collaboration between [RiteCheck](#), a prominent check cashing chain, and [Bethex Federal Credit Union](#), both of which serve low-income populations in the Bronx. In 2001 they piloted a program in which members of Bethex accessed their accounts through RiteCheck storefronts and cashed their checks at RiteCheck for free or at a reduced fee ([In PDF Format](#)) . The program worked so well that RiteCheck is expanding it to include partnerships with several new credit unions.

As options for electronically transmitting cash increase, and use of the traditional check

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diminishes, check cashers are trying to find new ways to engage customers and add value to their lives. In May of this year the [Financial Services Centers of America \(FiSCA\)](#), the trade association for check cashing operations, announced the roll-out of a “revolutionary”, [“All Access” Savings Program](#), which promises to provide “underserved Americans greater access to mainstream financial services” by giving check cashing customers the ability to make electronic deposits in federally insured, interest bearing, savings accounts.

7-Eleven and Wal-Mart In On The New Trend

While a few industry watchers I talked to in New York see these developments as more or less isolated events, Jennifer Tescher, the Director of the Chicago-based [Center for Financial Services Innovation](#), views them as part of a certifiable industry trend and realignment. She insists that “the entire financial services industry is dramatically changing in ways that weren’t even possible five years ago”.

Tescher points to the rise of the non-bank sector in financial services as an indicator of how segmentations within the financial services universe are dissolving. In 2003 the nation’s largest convenience store chain, 7-Eleven, using their own “virtual commerce” technology, [placed kiosks in a thousand of its convenience stores machines](#) that enabled customers to conduct ATM transactions, cash checks to the penny, purchase money orders, send wire transfers and pay bills.

A year later Wal-Mart raised the bar. Wal-Mart offers check cashing, money orders and wire transfers while also providing banking services in “Wal-Mart Money Centers”. Some analysts believe Wal-Mart, which targets low-income customers and is the world’s biggest retailer, is trying to create a physical and psychological, environment for the customer in which [banking, alternative financial services and shopping are collapsed into a single retail experience](#).

A Gold Rush In Low-Income Financial Services

The sudden “discovery” of the low-income financial services niche by retailers and mainstream

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bankers is propelled by the explosion in the alternative financial services industry. The lure of this market comes at a time when banks are finding intensified competition in middle class, suburban markets. Meanwhile, branch presence in low income areas has been steadily declining over the last thirty years. One quarter of Black and Latino families, as well as 25 percent of all American families making less than \$20,000 per year, don't have bank accounts.

The very idea of a "fringe" economy is somewhat misleading. About a quarter of the nation's gross domestic product reflects unreported income and a study conducted by [Social Compact](#) , which promotes business investment in inner city communities, estimates that Harlem, a poster child for fringe financial services, has a \$1 billion cash economy. And as low income families look for ways to move cash around, check cashers are there to serve them. The alternative financial services industry is racking up an estimated \$200 billion in transactions annually.

Of course alternative financial services are widely viewed as exploitative of poor people, particularly in states where there is a lack of regulatory restraint. Customers have very little opportunity to save and build assets using alternative financial services, and whereas banks have some semblance of a mandate to give back to communities where they do business because of the Community Reinvestment Act, check cashing operations have no such obligation.

But in the end, financial service centers are so compelling to their customers because they provide convenience and a wide range of options, with few questions asked: Money orders function as checking accounts. Where banks place holds on checks, check cashing offers immediate liquidity. Pre-paid debit cards, otherwise known as stored value cards, can facilitate everything from long distance phone calling and credit card purchases, to bill paying and, now, even limited-service savings accounts. The fact that check cashers charge, some say, unreasonable fees, is in a way no different that what low-income people expect from a bank or any other kind of capitalist institution doing business in the "hood.

[The Filene Research Institute](#) , which studies issues affecting the future of credit unions, believes so much in the future of alternative financial services that it has created a program that counsels credit unions on how to offer check cashing products. Citing what they see as the declining relevance of credit unions, thrifts and banks in certain areas, Filene issues a stern warning to depositories of all stripes: Begin adopting the ways of the check casher or perish.

Some banks have clearly seen the writing on the wall.

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Union Bank of California (UBC) owns and operates over 50 hybrid financial service outlets, in which check cashing services are offered in banks and stores, and banking services are offered in check cashing locations.

[KeyBank](#), just one of many enthusiastic UBC disciples across the country, has created “KeyBank Plus”, a separate product (and teller) line designed especially for low-income customers without bank accounts. Officials from KeyBank maintain that, once a customer enters a Plus branch, Key creates conditions that will prompt that customer to establish a long term - and higher profit margin “relationship”.

“The banking industry has done an amazing job of sending messages of exclusion through its product design and minimum balances.” says Edna Sawady, chief operating officer for community development at KeyBank. “At banks many customers fear that they won’t qualify for something”
“In check cashing lines you don’t run the risk of being rejected”.

Rising Challenges and Criticisms

Regulatory agencies will be challenged to catch up to, much less stay ahead of, these changes because the fundamental elements that help us make distinctions between financial services industries -- the deposit, the check, the branch, credit -- are themselves moving, morphing targets.

Pre-paid debit cards, for example, are exploding in popularity and operate in a virtually unregulated environment. As pre-paid debit cards are used to perform traditional banking functions, like checking, what classifications and regulatory jurisdictions will be applied to monitor and standardize their use?

Financial service entrepreneur Joe Coleman of RiteCheck, a co-engineer of the RiteCheck/Bethex collaboration, is leery of banks encroaching on his territory. He thinks RiteCheck and credit unions like Bethex, whose products are designed for low-income people, have a future together because “we have the same customers”

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New York poses its own particular restrictions for check cashers. One notorious service that is popular throughout the country, pay day lending, a type of short term, very high interest loan, is illegal in New York. More importantly New York requires that licensed financial service centers cannot operate within 3/10 of a mile from one another and cannot charge a check cashing fee exceeding 1.5 percent of the check's face value.

But ultimately, it is the low profit margin on fringe financial services (Coleman calls it "1 million people with a dollar") that is most daunting to institutions who don't measure success by the number of live bodies in their lobby. Even Joy Cousminer, president of Bethex and Joe Coleman's collaborator, acknowledges this tension. "Check cashers lose less money on a bad check than on a slow line. With us, it's exactly the opposite."

Cousminer also doubts that banks are actually interested in building relationships with poor people and believes banks are in fact keeping their check cashing and banking customers distinct and separate.

Whether banks using integrated bank-check cashing services are making money on the check cashing side, or through the "migration" of customers to the bank side, or both, is unclear. At least one of the bank representatives I spoke to refused to disclose that information. What is clear is if Checkspring, or any other New York bank, faithfully follows the UBC and KeyBank strategy, and doesn't mind masses of poor people in its lobby, it stands a fighting chance of turning a profit after a few years. UBC has been at it for thirteen years and Keybank is preparing to expand its program dramatically. Once one bank pulls it off in New York, others might follow.

Not everyone thinks this a good thing. Sarah Ludwig, executive director of the [Neighborhood Economic Development Advocacy Project](#) fears that banks will, in trying to turn a profit, give shorter shrift to the goal of building a bridge between the underserved and asset-building opportunities. "We've got this massive problem of low-income people needing essential financial services," says Ludwig, "but now banks are starting to provide services that not comparable to the services that are provided" in middle class areas.

For Ludwig, and many other advocates who are highly critical of the check cashing industry, alternative financial services are a symptom of the problem, not a solution. "The fringe products

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that banks offer will look cleaner and meet regulatory standards, but the bottom line is they are still inferior products.” There is an unequal, two-tiered financial services industry.” We shouldn’t try to serve the low-income market in a way that perpetuates this segmentation.”

Coleman shrugs off this criticism. “In banks there is a middle class prejudice. They want to sign you up. They think everybody wants to be like them...I know we are helping people. We are helping them build their lives.”

Mark Winston Griffith, a founder of the non-profit [Central Brooklyn Partnership](#) and a fellow at the Drum Major Institute for Public Policy, has been in charge of the community development topic page since its inception in 2003.Â

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