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Advancing Economic Security and Community Prosperity

Submission of Dory Rand, President of Woodstock Institute to the Director of the Division of Financial Institutions, Illinois Department of Financial and Professional Regulation

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My name is Dory Rand and I am the President of Woodstock Institute. I have been a licensed attorney in Illinois for over 34 years. I previously served on the Federal Reserve Board's Consumer Advisory Council, the Consumer Financial Protection Bureau's Consumer Advisory Board, and the State Banking Board of Illinois. I received my B.A. and J.D. degrees from The Ohio State University. As a former Senior Attorney with the Legal Assistance Foundation of Chicago (LAF), I am familiar with the financial conditions of low-income people and public benefit recipients in Illinois.

Woodstock is a leading nonprofit research and policy organization in the areas of equitable lending and investments, wealth creation and preservation, and access to safe and affordable financial products and services. Woodstock works locally and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. Our key tools include: applied research; policy development; coalition building; and, technical assistance.

The Illinois Currency Exchange Act provides that currency exchange customers are to be protected from being charged unreasonable and unconscionable rates for cashing checks and purchasing money orders. The Act further provides that the Illinois Department of Financial and Professional Regulation shall take into account a "reasonable profit" for currency exchanges. This question of reasonableness requires the Department to examine whether the population that uses currency exchanges for financial services can reasonably withstand an increase in rates.

In this submission, I refer to the unbanked and the underbanked. When I refer to a household as unbanked, I mean that no one in the household has a checking or savings account. When I refer to a household as underbanked, I mean that the household has an account, but also used an alternative financial services provider, such as a currency exchange or payday lender, in the past 12 months.

Research shows that unbanked and underbanked households are more likely to use currency exchanges than banked households, particularly for check cashing services.[1]

[1] Rhine, S. L., Greene, W.H., & Toussaint-Comeau, M. (2006). The Importance of Check-Cashing Businesses to the Unbanked: Racial/Ethnic Differences. *The Review of Economics and Statistics, 88*(1), 146-157; Use of Financial Services by the Unbanked and Underbanked and the Potential for Mobile Financial Services Adoption. (2012). *Federal Reserve Bulletin, 98*(4), 1-20.

People with checking accounts typically deposit checks and withdraw cash at ATMs or bank branches and pay nothing or a small fee depending on the features of the account and whether they use an ATM in their bank's network. The traditional, banked method for getting cash is, in general, considerably less expensive than cashing a check at a currency exchange. For example, I can take a $100 check, deposit it in my bank account, and withdraw $100 at one of my bank's ATMs for nothing. That same check, cashed at a currency exchange, would cost me $2.40. A $500 check, cashed at currency exchange, would cost me $11.25 under current Illinois rules.

Can currency exchange customers in Illinois reasonably withstand an increase in these rates? Let's look at who comprise the unbanked and the underbanked, the population that disproportionately relies on currency exchanges. In October 2016, the FDIC released the results of its most recent survey of unbanked and underbanked households. The FDIC survey found that unbanked and underbanked rates were higher among lower-income households, less-educated households, younger households, African American and Hispanic households, and working-age persons with disabilities.[2] Correspondingly, an increase in the maximum fees charged by Illinois currency exchanges would have the greatest impact on these segments of the population. As a matter of public policy, is it reasonable to target these populations for a rate increase? Lower-income households? Communities of color? People with disabilities? Woodstock Institute believes the answer is no.

Looking at households in Illinois, over 30 percent of households earning less than $15,000 per year were unbanked and an additional almost 20 percent of households earning less than $15,000 per year were underbanked.[3] Comparatively, for households in Illinois earning at least $75,000 per year, only one percent were unbanked, and about nine percent were underbanked. Quite clearly, policies that target the unbanked and underbanked are more likely to impact lower-income households, and a check-cashing rate increase would disproportionately impact lower-income households who are quite likely already struggling to make ends meet. Notably, the FDIC survey indicates that the most commonly cited reason for not having a bank account was not having enough money to keep in an account. Therefore, charging unbanked consumers more for check cashing would make it even harder for the unbanked to have enough money to become part of the financial mainstream.

Economic conditions have not improved such that lower-income households would be better able to withstand a rate increase now than the last time rates were increased in 2007. According to the Illinois Department of Employment Security's *Illinois Economic Report* for 2016, "[t]he pool of jobs left for those who have no post-secondary schooling and yet pay good wages is shrinking rapidly. Wages for this group **are declining** relative to the more educated workforce, which has led to the shrinkage of the nation's middle class." (Emphasis added.) The Navigant report's finding that the average check presented for cashing has declined by $38 also supports our position that Illinois residents' income is stagnating or declining.

Many states regulate the rates that can be charged for different types of checks. For example, Connecticut allows a maximum 1% check cashing fee for state-drawn checks payable within the state to recipients of public assistance, while all other types of checks are subject to a 2% rate. South Carolina caps government-issued and printed payroll checks at 2% and allows a higher rate (7%) for other checks such as personal checks. Of the 25 states that set rate caps on check cashers, Illinois is one of only four states that did not stratify rates based on type of check. Of the other three states without stratified rates, all have lower maximum rates than Illinois: Delaware allows 2% or $4, whichever is greater; New York allows 2.03%; and, West Virginia allows 1.1% or $1, whichever is greater.

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[2] Federal Deposit Insurance Corporation, 2015 FDIC National Survey of Unbanked and Underbanked Households, Executive Summary (2016), *at* https://www.fdic.gov/householdsurvey/2015/2015execsumm.pdf.

[3] Federal Deposit Insurance Corporation, 2015 Survey Results for Illinois (2017), *at* https://www.economicinclusion.gov/surveys/place-data.html?where=Illinois&when=2015.

Stratifying rates based on type of check allows check cashing entities to collect fees commensurate with the level of risk associated with cashing each category of check. (Personal checks pose higher risks and more costly verification efforts than government-issued or payroll checks). Importantly, stratifying rates would serve to protect vulnerable populations against burdensome rates. Lower rates for government-issued checks shields unbanked seniors and persons with disabilities who rely on Supplemental Security Income. Lower rates on payroll checks allow low-wage working households to keep a larger portion of their wages.

The industry's rate proposal should also trigger consideration as to whether a rate reduction may be appropriate. In June of 2016, Pennsylvania amended its Check Cashier Licensing Act, which included *reductions* to certain check cashing rates. Check cashing rates in that state are now capped at 1.5% for government checks, 0.5% for public assistance checks, 3% for payroll checks, and 10% for personal checks.

It is important to note that industry representatives at the May 9, 2017, hearing admitted that the cause of their claimed "depressed profits" is not solely due to the lack of a check-cashing rate increase. Other factors, such as consumers' increased use of direct deposit and income tax return preparation companies, have contributed to revenue loss and store closings. Furthermore, industry representatives stressed the risk of cashing personal checks, but did present credible evidence as to why government-issued and payroll checks that present little or no risk should be subject to a rate increase.

It is also worth noting that industry representatives who testified at the hearing admitted that 50 percent or more of their revenue is generated by services other than check cashing. Industry representatives also stated that they charge "less than market rates" for these other services, such as photocopies and notary services. The rates charged for these other services are not regulated under Illinois law and could provide the additional profitability sought without burdening vulnerable populations who need to cash their monthly Social Security and payroll checks.

In addition, industry representatives claimed at the hearing that, without the requested rate increase, more check cashers would close, but they did not present any credible evidence that approval of the requested rate increases would result in stores staying in business. In fact, it is possible that a rate increase would drive some of the unbanked customers who currently use their services to open lower-cost bank accounts instead, exacerbating industry revenue declines.

The foregoing data and research make clear that increasing the maximum rates at currency exchanges in Illinois would disproportionately impact vulnerable populations who already suffer from stagnating and declining income: lower-income people, less-educated households, communities of color, and people with disabilities. Increasing the rates would be tantamount to a regressive tax increase on the historically disadvantaged. This would be bad public policy and would not be reasonable as that term is contemplated in the Illinois Currency Exchange Act. Therefore, I urge you not to increase the maximum rates that may be charged by Illinois currency exchanges for any check cashing services. Given the stagnating and declining incomes of these consumers, lowering check-cashing rates to not more than 2% for government-issued and payroll checks would be appropriate.

In the alternative, if the Department decides to allow any rate increase, such increase should be limited to a very small increase in the rate for cashing checks only for checks other than government-issued and payroll checks.

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