WOODSTOCK INSTITUTE

Advancing Economic Security and Community Prosperity

July 7, 2017

Via Hand Delivery

Secretary Bryan A. Schneider
Director Francisco Menchaca
Illinois Department of Financial & Professional Regulation
James R. Thompson Center
100 W. Randolph Street, Ninth Floor
Chicago, Illinois 60601

Re: **Request for Reconsideration & Woodstock Counterproposal**

Dear Secretary Schneider & Director Mechaca:

We are writing to request that you reconsider your decision issued June 19, 2017, regarding the maximum allowable rate for check cashing at Illinois currency exchanges. As we have previously stated, increasing the maximum allowable check cashing rate is tantamount to a tax increase on the unbanked and underbanked, who are disproportionately lower-income, less-educated, younger, African American, Hispanic, and working-age persons with disabilities.

In the written submission we tendered on May 19, we suggested establishing a tiered or stratified rate schedule based on the type of check being cashed, e.g., government check, personal check, payroll check, etc. We pointed out that, of the 25 states that set rates on check cashers, Illinois is one of only four states that does not stratify rates based on the type of check. We offered various examples, including Connecticut, which caps the rate at 1% for certain public assistance checks and at 2% for all other checks, and South Carolina, which caps government-issued and printed payroll checks at 2% and allows a higher rate for other checks. We also pointed to the state of Pennsylvania, which last year *lowered* the rates that could be charged on government and public assistance checks. The Department's Statement of Findings (p. 12) erroneously listed Pennsylvania's outdated rates. Effective last year in Pennsylvania, the rate on government and public assistance checks was lowered to 1.5% and .5% respectively.

The Department's Statement of Findings barely mentions our suggestion to adopt a stratified rate schedule, and it fails to explain why a stratified rate schedule, which is used by the vast majority of states that regulate rates, is not appropriate for Illinois. A stratified rate schedule could be devised that would be revenue neutral (as compared to the newly proposed rate schedule) but would take into account the varying levels of risk associated with different types of checks as well as the financial insecurity of the recipients of certain types of checks. As we stated in our written submission to the Department, 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). Also, 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. Additionally, we know that the population that receives paper checks, especially for government benefits, is small, so currency exchanges stand to lose little revenue if a lower rate is charged for these types of checks. Per below, the lost revenue could be offset by increasing the rates charged for unregulated services.

The Department's Statement of Findings also did not address the portion of our submission regarding the ways, other than increasing the check cashing rate, that the industry could increase revenue. At the public hearing on May 9, industry representatives stated that they charge "less than market rates" for 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. The industry's expert report shows that the revenue attributable to "Other Income" has grown by 33% from 2008 to 2015 (see Schedule 1). The industry could continue to grow this income stream as means of offsetting (at least in part) the loss of check cashing revenue.

In light of the foregoing evidence, Woodstock respectfully requests that you consider the following proposal as an alternative to the across-the-board rate increase set forth in the June 19 Statement of Findings.

Woodstock Counterproposal

1. Exempt government issued checks, including public assistance checks and government payroll checks (regardless of the amount of the check), from the rate increase. Thus, the current rate schedule would continue to apply to those checks.
2. Cap the rate on all printed payroll checks (except government payroll checks, which would be subject to the current rate schedule per the above) at 2.25%, the top rate under the current schedule. With this rate, the industry would still receive an increase as compared to the current rate schedule, but the rate would take into account (a) the low risk associated with printed payroll checks, and (b) the financial insecurity of workers who rely on currency exchange s for check cashing.

This is an extremely reasonable counterproposal in that it mostly accepts the increased rates as sought by the industry and proposed by the Department and carves out a fairly narrow sliver of checks to be subject to a relatively lower rate. Compare our proposal above to the lower rates on government checks in states like Connecticut, South Carolina, and Pennsylvania. Consider also that the rates on which we can agree are higher than the rates charged in all three other states that do not presently stratify rates: Delaware (2% or $4, whichever is greater), New York (2.03%), and West Virginia (1.1% or $1, whichever is greater). It bears mentioning that the industry in those states, which has been subject to essentially the same market forces and regulatory requirements as in Illinois, has continued to survive.

We know that, as part of the rulemaking process, the Department would be required to treat this as a "comment" and provide a response to the comment in its "Second Notice" filing. Based on that process, we would not receive a response until months from now. We request, however, that you provide us with a response before the deadline for initiating rulemaking, which is 30 days from the date of the Department Statement of Findings. By our calculation, the deadline for initiating rulemaking is July 19, 2017, so we request that you provide us with a response in writing by July 17.

Thank you, in advance, for your consideration. If, for any reason, you need to contact me, I can be reached at 312-368-0310 or at drand@woodstockinst.org.

Thank you.

Very truly yours,

Dory Rand

Dory Rand
President

cc: Governor Bruce Rauner (via hand delivery)
Sen. Jacqueline Collins (via e-mail)
Carter Klein, Partner, Jenner & Block (via e-mail)