

Draft

Report of the EOC Ad Hoc Committee on Check Cashing

The EOC Ad Hoc Committee on Check Cashing was formed after a meeting with Ald. Santiago Rosas to discuss his concerns with the high fees being charged to individuals that do not have checking accounts for cashing checks, particularly payroll checks.

The Committee gathered data and mapped the locations of credit unions, banks and payday loan establishments in the City of Madison. The Committee found that there are no banks, savings and loans or credit unions in South Madison that are located within the City of Madison.

It was noted that in Milwaukee, cash stores are moving into blue-collar neighborhoods. Check cashing stores do not actually cash checks. They provide payday loans. Wal-Mart now offers a low rate to cash checks.

Enemuoh-Trammell reported that she went to a payday loan establishment and witnessed a high level of courtesy and friendliness with which customers were treated, including calling people by name. She said that these establishments are good at establishing rapport with customers, thereby cultivating good consumer relationships.

Many low income individuals cannot access banks because of poor credit histories. Credit unions may have lower standards. Enis Ragland reported that credit union representatives made a presentation to members of the City of Madison's Neighborhood Resource Teams. Credit unions are beginning to offer pilot programs for individuals with poor credit ratings to set them up with accounts.

The City is looking for ways to keep payday loan establishments out of endangered neighborhoods. Ald. Zach Brandon stated that these establishments are starting to move out into the suburbs. The City has zoning restrictions. Perhaps these need to be strengthened.

The Committee met with Mark Olinger, Director of Planning and Development, and Norman Davis, Affirmative Action Division. It looked at a variety of issues. In September 2007, the zoning ordinance was strengthened to regulate the distance between certain types of establishments such as check cashing stores, pawn shops and auto-loan centers. The Committee discussed meeting with representatives of the Fair Housing Center of Greater Madison about the relation of this issue to predatory lending practices.

Equal Opportunities Division (EOD) staff provided a report on check cashing charges by financial institutions and by retailers such as grocery stores. The EOD has no authority to regulate or accept complaints against most financial institutions.

If there are different practices by retailers with regard to check cashing based on membership in a protected class, the EOD could accept complaints.

Many low-income individuals do not have checking accounts. These accounts usually charge fees that reduce the balance in their account. They frequently pay in cash. As a result, they need to find an establishment that will cash their paychecks. Establishments refer to these as “third-party” checks--checks written by someone other than the individual named on the check or the establishment cashing the check. Many establishments charge fees to provide this service.

Some banks have started to issue payroll cards—like a debit card. They are usually associated with agencies like Visa or MasterCard. Salaries are downloaded to the card holder’s (i.e., employee’s) account. They may use the funds anywhere a debit card is accepted to make purchases or withdraw cash. Banks are just starting to make this service available and the local US Bank requires that companies issue a minimum of 500 paychecks per pay period to be eligible for the program.

These programs may be a good solution to the reported problems. Perhaps finding a way to encourage this option would be worthwhile.

Here is information from US Banks’ webpage on their pay cards program:

U.S. Bank AccelaPay® Visa® Card



The prepaid U.S. Bank AccelaPay Visa Card replaces costly paper checks in a broad range of recurring business cash disbursement needs including payroll, commissions, travel advances and insurance claim distributions.

How It Works

Businesses deposit funds to an AccelaPay Visa Card account just like a direct deposit to a checking account. Cardholders can only access the funds transferred to the card, so there's no risk of debt. Anyone is eligible for the card, and there are no customer credit checks or bank accounts required.

The card is available to large business clients with 500+ "cardable employees" A cardable employee is any employee who is receiving a paper check today

Business Benefits:

- **Cost savings** - Reduce payment expenses by replacing costly paper checks with an efficient electronic payment solution. All funds are transferred into the account through ACH.
- **Versatility** - Use the card for a broad range of recurring business cash disbursement needs including payroll, commissions, travel advances, incentives and insurance claim distributions.

Employee Benefits:

- **Convenience** - Funds are automatically loaded to the card, so there's no need to cash or deposit a check.
- **Visa acceptance** - Accepted at millions of locations that accept Visa debit cards worldwide, as well as most ATMs.

- **Flexibility** - It's a great way to keep separate funds for vacations, gifts or day-to-day expenses.
- **Security** - If the card is lost or stolen, the funds are protected with Visa's Zero Liability policy.
- **Track spending** - Customers receive a detailed monthly account statement
- **Recurring payments** - Cardholders can use it to pay many recurring bills like utilities, health care and subscriptions

Nia Enemuoh-Trammell consulted with Steve Meili and his students at the UW Law School's Consumer Law Clinic. They discussed forging a coalition with other community-based organizations to explore the nature and extent of the problem and feasible solutions. The Clinic expressed particular interest in legislative measures on both the State and also the municipal level. They had explored how zoning laws could be used to regulate the industry.

After researching the problem, the limitations on the EOC's ability to regulate in this area and possible solutions, the Committee came to the conclusion that the most that could be done was to educate the community about options for addressing the problem. One of the key decisions, *Anchor Bank v. Equal Opportunities Commission* limits the authority of the commission to do anything with respect to regulation of these types of financial institutions.

Recommendation: That the City explore the use of zoning restrictions to regulate payday loan and check cashing establishments.

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