

2012 Report on Check Cashers and Basic Banking Fees

Prepared by the Massachusetts Division of Banks



2012 REPORT ON CHECK CASHER AND BASIC BANKING FEES

Overview

This report analyzes consumer costs to cash checks at licensed check cashers in Massachusetts and compares these costs to those charged by state and nationally chartered banks that offer a Basic Checking Account, or an alternative low-cost checking or savings account option, following the guidelines provided by the Massachusetts Community and Banking Council. The report is a follow-up from the [2010 Report of Check Casher and Basic Banking Fees](#).

The information is organized in five parts. The first section describes the features of the Massachusetts Basic Banking Program. The second section describes the check cashing industry and its regulation in Massachusetts. The third section presents a direct comparison of fees charged by check cashers with fees charged by financial institutions with Basic Checking Account options. The fourth section compares the fees charged by check cashers in 2009 and 2012. The fifth section summarizes the findings of the report and highlights some key recommendations.

I. Basic Banking for Massachusetts

The Massachusetts Community and Banking Council (MCBC) was founded in 1990 as a collaborative endeavor of the Massachusetts Bankers Association and community representatives to encourage investment in the Commonwealth's low- and moderate-income communities.

In May 1994, the MCBC established its voluntary Basic Banking for Massachusetts program to encourage Massachusetts banks to establish low cost checking and savings accounts. These types of accounts create a valuable opportunity for Massachusetts residents to access banking services without incurring excessive fees for simple check-cashing transactions. The Basic Checking Account features a maximum monthly charge of \$3. This account allows a minimum of 15 free withdrawals, including at least 8 checks, per month. The Basic Savings Account features a maximum of \$25 to open, a deposit requirement of no more than \$10 to waive monthly fees, and a maximum monthly charge of \$1. Approximately 50% of banks offering a Basic Checking Account option do not impose fees for ordering checks, and 89% allow completely free withdrawals on a monthly basis.

Currently, over 125 banks in Massachusetts, which includes over 85% of the Commonwealth's state chartered banks, participate in the Basic Banking for Massachusetts program. Communities where the Basic Banking for Massachusetts program is not available tend to be rural communities, many of which are in the western portion of Massachusetts. In most cases, however, nearby banks participate in the Basic Banking for Massachusetts program. A listing of banks participating in the program can be obtained by calling the MCBC at (857) 350-4916 or by going to: http://www.mcbc.info/basic_participating.

Bank participation in the Basic Banking for Massachusetts program is also a favorable consideration in the Division of Banks' (Division) assessment of a state-chartered bank's record of meeting the banking service needs of low- and moderate-income individuals and neighborhoods under M.G.L. c.167 §14, the Commonwealth's Community Reinvestment Act.

II. The Check Cashing Industry in Massachusetts

In May 1994, the Massachusetts Legislature mandated that any person or entity engaged in cashing checks, drafts, or money orders for a fee in excess of \$1.00 per item must be licensed by the Division. M.G.L. c. 169A is implemented through regulation 209 CMR 45.00 *et seq.* which outlines the policies and procedures for the licensing and regulation of check cashers.

Currently, the Division licenses 62 companies as check cashers and a total of 155 locations. The size of licensed entities varies. Over 75% of the check cashers are licensed to conduct business at one location only. In comparison, the four largest check cashers comprise 54% of the total licensed locations in Massachusetts. Since 2009, the number of licensed check cashers has increased by 5%, and the total number of locations licensed by the Division has increased by 3%.

Before conducting the business of a check casher in Massachusetts, the Division must issue a license to that business. An applicant for a license must submit a written application which includes supporting documentation reflecting the financial responsibility, character and fitness, and business experience of the applicant; and a demonstration of public need for a check cashing establishment. A public hearing is also held on each initial application in the city or town where the check casher proposes to operate in order to ensure public input during the application process.

State law does not set or limit the fees for cashing checks. Check cashers, however, are required to post a schedule of fees and charges in a clear and conspicuous place within each location where it is licensed to conduct business. The schedule must identify the percentage that will be charged to cash both a specific type of check (e.g. payroll, insurance, government, personal, money order, etc.) as well as a particular dollar amount or range. The posting requirement is designed to permit comparison shopping of fees among check cashers. Licensed check cashers are also required to post the license issued by the Division in the place of business, and provide each customer with a receipt of the transaction.

Check cashers are required to file a complete schedule of check cashing fees and charges with the Division each year, as well as audited or reviewed financial statements, and an Annual Report which gathers information on the volume of checks cashed and information on other services offered onsite. Any changes in check cashing fees or charges, or hours of operation which occur between filing periods, must be immediately filed in writing with the Division.

Check cashers are examined by the Division to verify compliance with M.G.L. c. 169A and its implementing regulation, as well as other applicable state and federal laws.

III. Cost Comparison – Check Cashers vs. Basic Banking Checking Account

Based on rate information collected from 59 state licensed check cashers in February 2013 and the parameters set forth in the Basic Banking for Massachusetts program, a review was conducted to compare the fees a consumer would pay to cash a check at a licensed check casher, as opposed to that of a Basic Checking Account.

Table One and Chart One summarize the average percentages charged by check cashers to cash payroll, insurance, government, lottery, personal, drafts, and money orders. Average

percentages charged are provided for checks with face values of less than \$100, \$100-\$500, \$500-\$1000, and more than \$1,000. The average percentages charged range from a low of 2.05% for payroll of \$100-\$500 to a high of 4.75% for personal checks less than \$100.

Table One: Average Percent Charged by Check Cashers

	Percent Charged for Checks <\$100	Percent Charged for Checks \$100-\$500	Percent Charged for Checks of \$500-\$1000	Percent Charged for Checks >\$1,000
Payroll	2.73	2.05	2.09	2.42
Insurance	3.0	2.49	2.52	2.72
Government	2.77	2.2	2.2	2.48
Lottery	2.99	2.47	2.5	2.66
Personal	4.75	4.42	4.31	4.37
Drafts	3.33	2.77	2.83	2.97
Money Orders	3.22	2.79	2.82	2.96

Chart One: Average Percent Charged by Check Cashers

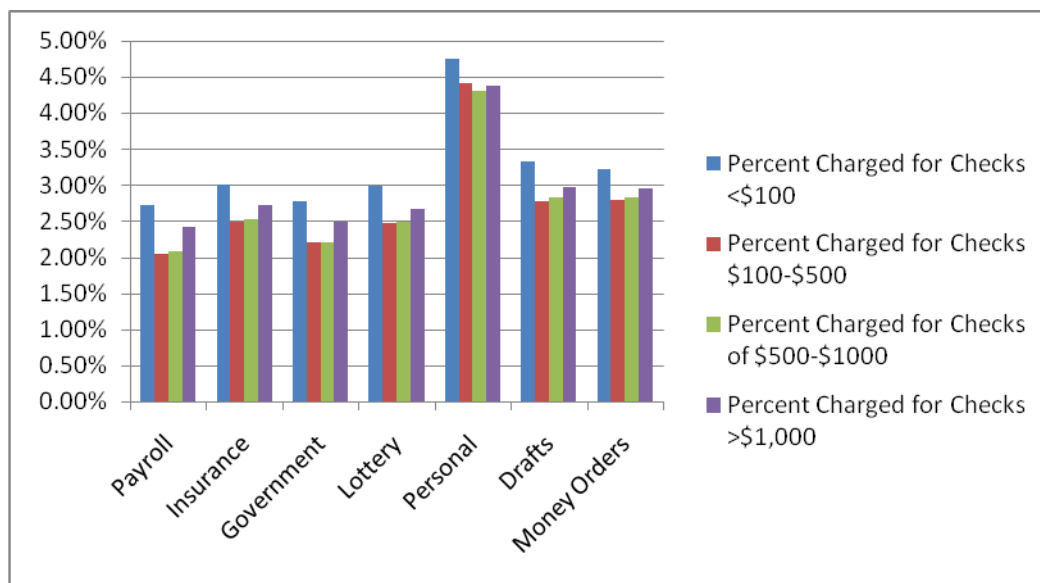


Table Two presents a comparison of fees a consumer would pay utilizing a check casher, as opposed to a Basic Checking Account. Information is provided for individuals with net annual income ranging from \$5,000 to \$53,741. The monthly and annual fees to utilize check cashers were determined by using the average percentages paid to cash payroll checks as listed in Table One. These fees assume the weekly cashing of payroll checks and the purchase of 8 money orders per month (comparable to the minimum allotment of 8 checks per month for Basic Checking) at an average cost of \$0.75 per money order. Fees charged to cash checks other than payroll were not included in the analysis, however it is important to note that monthly and

annual fees will be greater if personal, government and other checks are cashed by consumers at check cashers.

In all cases, consumers utilizing check cashers would pay considerably more in fees than if they were using a Basic Checking Account. On a monthly basis, consumers would pay between 5.5 and 35 times the maximum fees charged to maintain a Basic Checking Account. Annual fees paid to check cashers would range from \$197.99 to \$1,272.49 to cash weekly payroll checks and write money orders.

Table Two: Fee Comparison of Check Cashers vs. Basic Banking Checking Account

ANNUAL NET INCOME	CHECK CASHERS		BASIC BANKING PROGRAM	
	Monthly Fees	Annual Fees	Monthly Fees	Annual Fees
\$5,000	\$16.50	\$197.99	\$3.00	\$36.00
\$10,000	\$21.77	\$261.23	\$3.00	\$36.00
\$20,000	\$37.54	\$450.47	\$3.00	\$36.00
\$30,000	\$54.23	\$650.77	\$3.00	\$36.00
\$40,000	\$70.31	\$843.69	\$3.00	\$36.00
\$53,741¹	\$106.04	\$1,272.49	\$3.00	\$36.00

IV. Check Casher Fees – 2009 vs. 2012

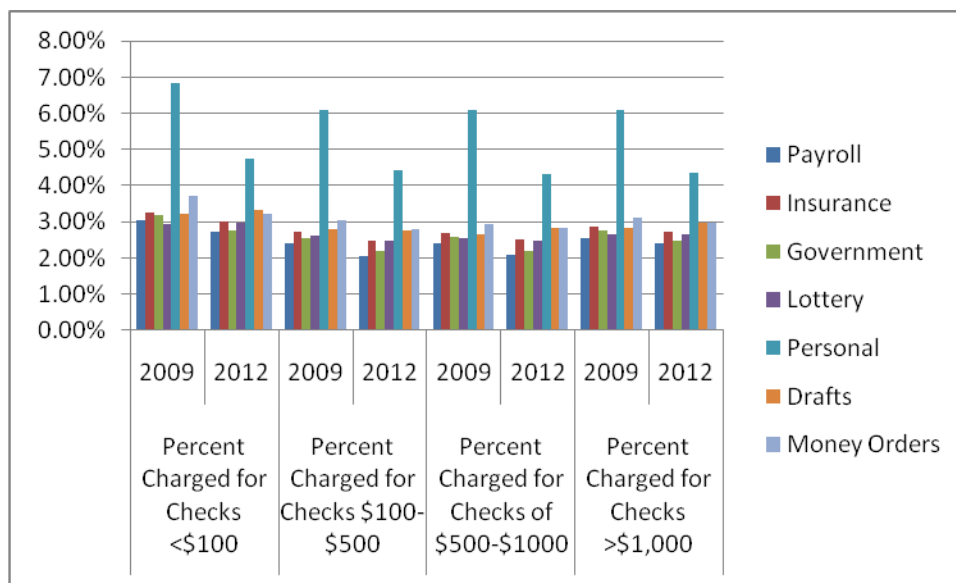
Table Three and Chart Three compare the rates charged during 2012 versus the rates charged in 2009. Of the seven types of checks that are detailed in Table One, the rate to cash six of the seven types of checks decreased between 2009 and 2012, by an average of 0.4%. Most of the decreases in rates were modest, however the rate to cash personal checks decreased most significantly (by an average of 1.8%) between 2009 and 2012. While the observed trend of decreasing rates charged by licensed check cashers in Massachusetts is positive for consumers, it is important to highlight that the \$3.00 fee for basic banking accounts has remained constant for over a decade.

¹ Annual net income levels were measured in increments of \$10,000 with the exception of the initial \$5,000. The per capita personal income in Massachusetts in 2011 was \$53,471, according to the U.S. Department of Commerce Bureau of Economic Analysis.

Table Three: Check Casher Fees – 2009 vs. 2012

	Percent Charged for Checks <\$100		Percent Charged for Checks \$100-\$500		Percent Charged for Checks of \$500-\$1000		Percent Charged for Checks >\$1,000	
	2009	2012	2009	2012	2009	2012	2009	2012
Payroll	3.05%	2.73%	2.39%	2.05%	2.40%	2.09%	2.56%	2.42%
Insurance	3.27%	3.00%	2.72%	2.49%	2.70%	2.52%	2.85%	2.72%
Government	3.17%	2.77%	2.55%	2.20%	2.57%	2.20%	2.75%	2.48%
Lottery	2.95%	2.99%	2.61%	2.47%	2.56%	2.50%	2.67%	2.66%
Personal	6.83%	4.75%	6.08%	4.42%	6.08%	4.31%	6.10%	4.37%
Drafts	3.21%	3.33%	2.78%	2.77%	2.66%	2.83%	2.82%	2.97%
Money Orders	3.70%	3.22%	3.05%	2.79%	2.93%	2.82%	3.11%	2.96%

Chart Three: Check Casher Fees – 2009 vs. 2012



V. Summary of Findings

The 2012 data, as well as the findings outlined in the [2010 Report of Check Casher and Basic Banking Fees](#) generally indicate that rates imposed by check cashers in Massachusetts have consistently declined since 1999. Nonetheless, consumers are still paying, on average, 5.5 to 35 times more per month the maximum fees charged to maintain a Basic Checking Account to cash weekly payroll checks and write money orders.

It is important to caution that while check casher rates are decreasing, consumers who choose to utilize the services of check cashers are urged to shop around for the best fee and to verify the location's license status with the Division, as unlicensed check cashers may charge

exorbitant fees far in excess of the rates charged by licensed companies.² Licensing information for check cashers may be verified by visiting the [NMLS Consumer AccessSM](http://www.nmlsconsumeraccess.org) website at www.nmlsconsumeraccess.org, or by calling the Division's Consumer Assistance Unit at 617-956-1501.

Despite the noted concerns with unlicensed check cashers, licensed check cashers may be preferred by some consumers when monthly check cashing fees are minimal and services are infrequently used.³ Notwithstanding some of the benefits provided to some by this industry, including extended business hours and other services offered, such as money transmission and bill payment, consumers are encouraged to access financial education programs to fully consider the financial impact of relying solely on check cashers for basic check cashing transactions, particularly when more affordable options exist through a Basic Banking account or similar product at a Massachusetts state-chartered bank or credit union.

A significant advantage of a Basic Checking Account is that it will foster the development of a banking relationship. This type of relationship is essential in that it can be used to lay the groundwork for establishing future credit relationships. This will assist in creating greater lending opportunities and increase the access to credit and other banking services to consumers throughout the Commonwealth. In addition to the advantages of the Basic Checking Account, Massachusetts law reflected in M.G.L. c. 167, section 46 requires banks doing business in the Commonwealth to cash government benefit checks, such as social security checks, without imposing a check cashing fee regardless of whether the recipient maintains a bank account at such bank.

For more information on the Massachusetts Basic Banking program, go to the MCBC website at www.mcbc.info/basic_banking.

**FOR ADDITIONAL INFORMATION
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
WWW.MASS.GOV/CONSUMER
617-973-8787 or 888-283-3757**

**DIVISION OF BANKS
WWW.MASS.GOV/DOB
Consumer Hotline
617-956-1500**

² Massachusetts General Laws Chapter 169A, section 2 prohibits any person or entity from engaging in cashing checks, drafts or money orders for a consideration in excess of one dollar per item without first obtaining a license from the Commissioner of Banks. Further, section 13 of the law sets forth that anyone who cashes a check for more than \$1.00 and who is not licensed by the Division may be punished by a fine of not more than five hundred dollars or by imprisonment for not more than six months, or both. To protect the citizens of the Commonwealth, the Division, often in conjunction with law enforcement agencies, takes action against individuals or entities found to be engaging in unlicensed check cashing activity. Anyone with information on unlicensed check cashers operating in the Commonwealth is encouraged to share that information with the Division's Consumer Assistance Unit.

³ Goodman, Michael, "The Need for Financial Education in New Bedford," *Communities & Banking* 23, no. 2 (spring 2012): 27.

Appendix: Profile of the Division of Banks

The Division's mission is to ensure a sound, competitive, and accessible financial services environment throughout the Commonwealth which fosters public confidence, ensures that consumers have the information they need to make wise financial choices, and fosters the ability for financial institutions to compete on a level playing field. The Division's 160 managers, examiners, and support staff are responsible for conducting financial safety and soundness, consumer compliance, community reinvestment act compliance, information technology, and trust examinations of the 213 Massachusetts state-chartered banks and credit unions. Accordingly, the Division plays a key role in maintaining depositor confidence in the local banking system and fostering a positive impact on the Commonwealth's economy.

The Division is also charged with the licensing and examining of over 560 companies and 5,300 individuals engaged in mortgage lending and brokering; and the licensing and supervision of an additional 760 non-bank financial entities and over 2,500 agent/branch locations including check cashers, money transmitters, small loan companies, consumer finance companies, and debt collectors.