

The Financial Divide:
An Uneven Playing Field

*Bank Financing of Check Cashers and Payday Lenders in California
Communities*

March 2005



California Reinvestment Coalition

The Financial Divide

The California Reinvestment Coalition

The California Reinvestment Coalition is now a coalition of more than two hundred organizations advocating increased access to bank services, loans and investments for California's low-income communities and communities of color. CRC efforts include research on the financial services industry, technical assistance to local community coalitions, and creation of new financial products for California's culturally and economically diverse communities.

Bank CRA commitments negotiated by CRC members add more than \$20-30 billion annually in lending, investment and services to California communities. These agreements provide access to financing for affordable housing, consumer and small business loans, investments, grants, branch locations, and deposit accounts.

CRC also does action research on banking and financial issues. Its reports include *Who Really Gets Home Loans*, *Helping Small Businesses Grow*, and *No Credit for Those Who Need It*.

Writer and Researcher: Alan Fisher

California Reinvestment Coalition

474 Valencia Street, Suite 110
San Francisco, California 94103
(415) 864-3980, fax (415) 864-3981
www.calreinvest.org

Acknowledgments

The California Reinvestment Coalition wishes to acknowledge the assistance of Jean Ann Fox, Matthew Lee, Kevin Byers, Jim Bliesner, Bill Kennedy, Maeve Elise Brown, Robert Buck, Roberto Barragan, Sharon Kinlaw, Josh Stillman, Drew Miazga, Geoff Smith, and many others. In addition, CRC wants to thank the Consumer Federation of America, the Center for Economic Policy Alternatives, the Center for Responsible Lending, the Woodstock Institute for their work on this issue. CRC also appreciates the financial support of the Friedman Foundation, Evelyn and Walter Haas Jr. Fund, McKay Foundation, and others.

The Financial Divide: An Uneven Playing Field

Driving through California towns and cities, the economic division between lower-income and wealthier neighborhoods is reflected in the starkly separate locations of check cashers and payday lenders in lower-income neighborhoods on the one hand and mainstream banks and savings & loans in wealthier neighborhoods on the other. This two-tier consumer finance system has a dramatic negative impact on California's diverse communities. In contrast to outward appearances, the two seemingly-separate financial sectors are, in fact, two faces of a seamless financial web.

Check cashers and payday lenders crowd the streets of lower-income neighborhoods seeking to lure consumers through their doors with charming customer service while they dramatically overcharge them. In California communities like West Oakland or Pacoima or National City, banks are scarce and fairly-priced alternatives are few for the residents. Instead there are financial price-gougers:

- Check cashers that charge two percent or more to cash payroll checks that could be deposited for free into a mainstream checking or savings account.
- Payday lenders that charge 500 plus annual percent rate (APR) when an expensive credit card charges interest of 20 percent annually or less.

This California Reinvestment Coalition study of check cashers and payday lenders in five California counties reveals the growing inequities between these two economies and the role that mainstream bank financing of price gougers has played in their growth as shown by public financial reports and other data. The study's core findings are:

- Financial institutions have removed their bank branches from most lower-income communities while they profit from financing high-priced and highly profitable check cashers and payday lenders in these same neighborhoods.
- The lack of retail competition from bank branches in these communities has created this lucrative opportunity for price-gouging check cashers and payday lenders.

The Profits of Predatory Lending

The lack of bank and savings & loan branches in lower income communities and communities of color has created a price-gouging opportunity for rapidly-expanding check cashers, payday lenders, and finance companies that prey on consumers with few financial alternatives. The lack of competition from mainstream finance and huge profit opportunities have meant that the number of check cashers and payday lenders has increased nationally from 2,000 in 1996 to 22,000 in 2003 and is still growing. The lack of competition means that finance companies pull in hundreds of millions of dollars in revenues while their executives take home million dollar salaries. Dollar Financial Group reports that its profit margin per store is 32.3 percent. The presence of these price gougers has dramatically lessened personal financial opportunities for low-income people whose choices are limited to high cost, low quality financial products that take their scarce financial resources and block their path to asset building.

Banks vs. Check Cashers

Looking at California communities, the financial divide between traditional and predatory finance can be seen in neighborhood after neighborhood.

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- In Los Angeles' San Fernando Valley, Encino and Pacoima exemplify this division. Pacoima has a population (90,000) which is roughly twice the size of Encino (40,700) while average income is skewed in the opposite direction (\$40,000 to \$91,475). Encino has one check casher and twenty-seven bank branches. Pacoima has nine check cashers and two bank branches; one of which just opened last year. The cities are twelve miles apart.
- The wealthy City of Piedmont (10,952) is half the size of the nearby neighborhood of West Oakland (19,684) while its household income (\$134,270) is more than four times that of West Oakland (\$27,545). Piedmont has three bank branches and no check cashers. West Oakland has no bank branches and three check cashers.
- Thirty-five miles apart on the Pacific Coast in San Diego County, the cities of Carlsbad and National City exhibit similar disparities. Carlsbad's population (78,000) is a little larger than National City's (54,000); its average income (\$65,145) is more than twice as high as National City(\$29,826). Carlsbad has 25 banks and two check cashers compared to National City's five bank branch and twelve check cashers.

The Price Paid by Californians

This loss of opportunity in lower-income neighborhoods is reflected in individual financial hardships at the local level. An average user of check cashers and payday lenders spends one thousand additional dollars (\$1,000) annually more than the cost of mainstream products. But, when the picture broadens to the state level, it exhibits immense and devastating economic disadvantages for the daily lives of lower income Californians:

- An estimated 5.2 million Californians¹ use check cashers and are charged at least a two percent fee to cash their checks. Using the California average income of \$47,493, this costs Californians \$4.9 billion (\$4,900,744,729) annually.
- An estimated 1.5 million² California households use a payday lender 11 times annually³ for a \$300⁴ advance at a \$45 fee (\$15 per \$100) each time at a cost of \$757 million (\$757,291,590) annually.

¹ United States General Accounting Office Report to the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives, September 2002, on Electronic Transfers states that twenty-eight percent of all U.S. adults are unbanked. So, it is estimated that 5,159,439 Californians are unbanked.

² "As many as 14 million of the 105 million U.S. households used payday lenders in 2003, according to analyst Dennis Telzrow of Stephens Inc., a Little Rock, Arkansas-based investment bank." "Preying on the Poor" by Edward Robinson, Bloomberg Magazine, January 2005. This is 13.3 percent of U.S. households. Applied to California, it is 1,529,882 households.

³"California: Stop legal loan sharks" Editorial, Los Angeles Times, p.B10, May 14, 2001.

⁴California Financial Code Section 23035 limits the face value of the check to \$300.

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This means that at least \$5.7 billion comes out of lower-income Californians' pockets annually just due to the high charges of check cashers and payday lenders. This \$5.7 billion does not even include probable further loss of funds due to high charges from refund tax loans, rent-to-own stores, subprime mortgage lenders, pawnbrokers, and others. These billions go to unscrupulous finance companies and are lost to families who are struggling on limited budgets.

Studies clearly show that payday lending impacts women and African Americans disproportionately. A broad national survey⁵ of payday borrowers conducted last year identified two of three respondents as women. An Illinois study⁶ found more than 60 percent of payday borrowers being sued by a major payday lender were women. The Payday Loan Industry Newsletter stated in 2003⁷ that 60 percent of the payday customer base were women. The Center for Community Capital⁸ found that African-American households were almost twice as likely to borrow from a payday lender as white households in North Carolina. The Center and a more recent study⁹ of payday lending in the San Fernando Valley found that payday loan offices favor locations in neighborhoods with majority minority populations.

Banks Finance the Predators

While most Americans have witnessed this two-tier financial system, the connections between mainstream financial institutions and these usurious lenders are much less obvious.

- First, these usurious lenders are filling the void left by conventional financial institutions' retreat from low-income communities and communities of color.
- Second, and more covert, is the fact that mainstream banks finance the payday lenders, check cashers, and other "subprime" financial subsidiaries that trap lower income people and people of color in a system of lower-tier finance that costs significantly more than the mainstream products offered by these same financial institutions.
- Third, the major financial institutions – Bank of America, Citigroup, Washington Mutual, Wells Fargo Bank and others – have corporate structures that include high-priced consumer finance company subsidiaries. So, they also operate the price-gouging lending directly.

⁵ "Payday Advance Consumer Satisfaction Survey," by Patricia Cirillo, Cypress Research Group, May 2004.

⁶ "Greed: An In-depth study of the Debt Collection Practices, Interest Rates and Customer Base of a Major Illinois Payday Lender," March 2004.

⁷ "Tribune Enterprises," Payday Loan Industry Newsletter, Issue 03-10, 2003.

⁸ "Payday Lending: a Business Model that Encourages Chronic Borrowing" by Michael Stegman and Robert Farris, Center for Community Capitalism, University of North Carolina, 2003.

⁹ "A Survey of Check Cashers in the San Fernando Valley" by Roberto Barragan and Arthi Varma, Valley Economic Development Center, December 2004.

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These two ostensibly separate financial structures are in fact complementary faces of the same financial system separated by a thin veneer of pretense. The California Reinvestment Coalition (CRC) studied these predatory lenders and the financial links between them and major financial institutions in five California counties. Lending records show that Bank of America, JP Morgan Chase, U.S. Bank, Union Bank of California, Wells Fargo Bank, Westamerica Bank and other financial institutions are lending hundreds of millions of dollars to underwrite the activities and growth of usurious check cashers and payday lenders.

It is a myth that check cashers and payday lenders are a cash business that finances itself. In fact, CRC found that the majority are underwritten by mainstream capital. In Fresno and Sacramento Counties, sixty percent of the check cashers and payday lenders are supported by major financial institutions (see Appendix B). In Alameda County, Los Angeles and San Diego it is nearly as prevalent. In addition to the banks listed above, they are also financed by Banco Popular, Hanmi Bank, Westamerica Bank, Saehan Bank, and Merchants Bank. So, instead of these mainstream financial institutions directly providing reasonably priced financial products to lower-income communities and communities of color, banks profit from check cashers and payday lenders who prey upon these consumers.

This is particularly apparent with the new giants of predatory consumer lending:

- Dollar Financial Group maintains a \$60 million revolving credit line with Wells Fargo Bank. Dollar operates as Money Mart in California where 119 of its 1,130 stores are located. In 2004, their gross national revenue was \$246.4 million.
- Advance America has a \$300 million credit facility with Bank of America. Advance America Cash Advance Centers have 303 of their 2,290 stores in California. In 2004, their gross national revenue was \$489.5 million.
- ACE Check Cashing has a \$200 million revolving credit line with Wells Fargo and JP Morgan Chase Banks. Ace America's Cash Express operates 130 of their 1,327 stores in California. In 2004, their gross national revenue was \$253 million.

From Mom & Pop to National Franchises

This bottom-dwelling financial tier is no longer little Mom and Pop stores. As can be seen above, it is an already huge, consolidating industry that offers highly profitable franchises charging usuriously high prices for financial services. It has grown 1100 percent nationally from 1996 to 2003. The amount of payday lending grew 84 percent¹⁰ in Washington State in just the last three years according to a report released recently by that state's Department of Financial Institutions. There were 1.55 million payday loans made in 2003 in Washington State or one and a half loans for every state resident who is sixteen years old or older.

California has 6,446 locations licensed by the state to do check cashing or payday lending. This is more than five times as many locations as McDonald's Hamburgers has in the state. Half of these licensees are liquor stores, groceries, and convenience stores for whom this is a secondary business. The remaining 3,106 are retail consumer outlets whose primary business is predatory

¹⁰ From \$580.5 million in 2000 to \$1.07 billion in 2003. Payday Lending Report, Statistics & Trends for 2003, Washington State Department of Financial Institutions, January 2005.

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finance: check cashing and payday lending. Three hundred and three of these solely predatory locations, or ten percent, are owned by one financial corporation, Advance America. Across California, two-thirds, or 2,186 of the 3,106 primarily payday and check cashing outlets are chains of three or more outlets (see Appendix A). In the five counties studied, sixty to eighty percent of these predatory lenders are chains consisting of three or more stores. In Sacramento County, eight of ten of these outlets are chains. It is big business to over-charge those with few alternatives.

Three of the largest of these predatory lenders in California are actually bank subsidiaries. Union Bank of California has its own check cashing outlet, 15 offices of Cash & Save, as well as a partnership with Nix Check Cashing which has 59 outlets, all of them in the Los Angeles area. Banco Popular's subsidiary Popular Cash Express has 55 outlets almost all of which are in the Los Angeles area also. Bancomer Financial Services, a subsidiary of Mexico's second largest bank Bancomer, has 18 outlets in Southern California.

Beyond investments and debt financing, banks also "provide cash to check cashers by permitting them to draw against uncollected funds, e.g., checks that have been deposited but have not yet been cleared."¹¹ In contrast, regular consumers are not allowed to draw against their deposits until they have cleared. Chase Manhattan Bank, Citibank, Fleet Financial, HSBC and other banks have partnered with check cashers in New York, New Jersey and Connecticut to provide payroll services for the employees of the banks' commercial customers.¹² These banks would evidently prefer to send potential customers to check cashers rather than serve them directly.

A number of the national predatory lenders hide behind national bank charters to avoid state regulation. Dollar Financial Group and ACE have an arrangement with Republic Bank, QC Holdings (California Budget Financing and USA Checks Cashed) with County Bank of Delaware and First Bank of Delaware has been partnering with the Cash Store, Check' N Go and Dollar Financial. ACE used Goleta National Bank near Santa Barbara, California, until recently when the Office of the Comptroller of the Currency ordered them to cease underwriting payday loans. A just-issued FDIC Financial Institution Letter: Guidelines for Payday Lending is a good tentative step toward stopping the evasion of state regulation. It describes concerns regarding the high risk nature of payday lending and its substantial growth.

As a result of this two-tier infrastructure, the poor pay more for inferior financial products while being ignored by mainstream financial institutions. The dimensions of lower-tier finance nationally have increased geometrically in the last decade so that check cashing revenue is more than \$60 billion and payday lending more than \$40 billion annually. For one example of the high profits involved, Dollar Financial Group's operating margin on its stores in 2004 was 34.8 percent and its revenue per store was \$407,000; this is an extremely profitable business. And, despite much discussion of the high level of risk, net write-offs by Dollar were only 0.25 percent of the face value of checks cashed.

¹¹ "Check Cashers are Good Bank Customers" published by the Financial Services Centers of America, page 2.

¹² Ibid, page 3.

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Most people use check cashers because of barriers placed in their way by mainstream banks, such as distant branch locations and inappropriate products. CRC's just-completed survey of its members has many comments about these issues.

- "There is a shortage of branches in our neighborhoods. So, teller and ATM lines are very long."
- "We recently found that it is very expensive for low-income people without checking accounts to cash their checks at the local bank. This is a serious need."
- "There is no attention to the needs of low-income consumers."
- "The few bank personnel that are bilingual only know certain set products and cannot answer many questions."
- "What you hear from groups in minority communities has not changed — that banks have moved out and left their job to groups like non-profits that offer loan assistance and something other than ATM's."

Dennis Telzrow, the consumer finance analyst at Stephens, Inc., estimates that the payday loan center industry, which makes small high-interest loans for a short period of time (traditionally "until next payday"), is growing at a rate of 15 percent a year. "The payday loan product has the strongest growth among financial service offerings and is not well known on Wall Street. Growth opportunities are high in this industry¹³," he explains. "People in the lower income level live paycheck to paycheck. If they need a loan of some sort, they don't have much of an alternative, and that is why the payday loan is so strong."

Mis-Treatment of Military Personnel

Among those targeted by payday lenders and check cashers are military personnel. The greatest concentration of these usurious finance companies in the United States is in the zip code bordering Camp Pendleton in San Diego County¹⁴. A New York Times article¹⁵ reported that 26 percent of all military households have had a payday loan. The Department of Defense has identified payday lending as one of ten key issues in its official "Key Issues - the Department of Defense / States Military Partnership." It states "payday lending practices have proven to be detrimental to Service members who have chosen these loans as a way of overcoming immediate needs for cash." It suggests working toward state statutes that cap interest rates and establish usury ceilings.

In Georgia last year, local military commanders were leaders in passing state statutes to limit payday lending interest rates in the face of strong opposition from the payday lending industry.

¹³ "Stephens Inc.: DRILLING DOWN INTO FINANCIALS" BY Meghan Leerskov, Buyside Magazine, 2005.

¹⁴ "Rent-a-Bank Payday Lending," Consumer Federation of America and the US Public Interest Group, November 2001.

¹⁵ "Seeking Quick Loans" by Diana Henriques, December 7, 2004.

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Retired Admiral Charles S. Abbot, President of the Navy-Marine Corps Relief Society, terms payday lenders “just legalized loan sharks¹⁶.”

Summary

Millions of Californians are paying much higher rates for credit than they should, which directly impacts their ability to pay their families' basic expenses. Military personnel are specifically targeted by payday lenders. As can be seen, mainstream banks play the role of financing many of these predatory lenders while they offer minimal access to the neighborhoods on which the predators prey. The financial damage to hundreds of thousands of families as a result of this financial divide is rarely exposed to the public and even more rarely acted upon and remedied.

CRC Prototypes

The California Reinvestment Coalition has developed two product prototypes (see Appendix C) that banks can use to directly compete with check cashers and payday lenders. CRC has proposed these prototypes to California's major financial institutions. None have yet adopted either product.

- The Essential Bank Account: Many lower-income people have difficulty with “free” checking accounts and e-banking because their major payee, their landlord, won't accept personal checks or e-payments and the danger of expensive insufficient funds charges or “bounce protection.” The Essential Bank Account has direct deposit and withdrawal only by ATM, point of sale or money order. Thus, the customer has a money order for the landlord and other payments and cannot incur insufficient funds charges. Since the financial institution controls payments, it could also allow the bank to lower the barriers of ChexSystems so that more people can open accounts.
- The Quick Consumer Loan: The majority of borrowers are unable to repay their payday advance within the initial two week period and, with rollovers, may end up with interest greater than the initial loan. The Quick Consumer Loan is a two-month loan at 30 percent APR. It does allow partial payment but not rollovers.

Recommendations

- Financial institutions must recognize the financial potential of lower-income communities and communities of color by 1) implementing products and marketing that is more appropriate for them and 2) opening branches in their neighborhoods.
- Cities and counties should restrict the proliferation of predatory lenders with zoning restrictions and other land use tools.
- The State of California should 1) restrict interest rates charged by these predatory lenders and 2) stop rollovers by payday lenders.
- The federal financial regulators should 1) end financing of and partnerships with predatory lenders by banks and savings & loans and 2) mandate that bank locations and products allow full access by under-served communities.

¹⁶ Letter to Washington State Senator Darlene Fairley in support of bills to tighten regulation of payday lending.

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Appendix A - Major California Check Cashers and Payday Lenders

The following chart identifies the check cashers and payday lenders whose bank debt was reflected in public UCC loan filings in California. The first column is the debtor business, the second column reflects the number of outlets of that corporation in California, and the third is the number of outlets nationally (if known).

The major check cashers are often subsidiaries of national chains. For example, Money Mart is a subsidiary of Dollar Financial Group with 1,130 stores nationally. California Budget Financing and USA Checks Cashed are subsidiaries of QC Holdings which has 295 stores across the country. In fact, all of the major California check cashers listed below are either national or international with the exception of Nix Check Cashing.

Major California Check Cashers and Payday Lenders	Outlets	
	CA	US
ADVANCE AMERICA, CASH ADVANCE CENTERS	303	2,290
CHECK 'N GO	174	1,100
CHECK INTO CASH	139	715
ACE AMERICA'S CASH EXPRESS	130	1,111
MONEY MART	119	1,130
CALIF. BUDGET FINANCE	65	295
NIX CHECK CASHING	59	59
CALIFORNIA CHECK CASHING STORES, INC.	58	
GIROMEX, INC.	56	
POPULAR CASH EXPRESS	55	
CASH PLUS	42	80
USA CHECKS CASHED	39	
TRAVELEX CURRENCY SERVICES INC.	25	
BANCOMER FINANCIAL SERVICES, INC.	18	

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Appendix B - Loans by County

The following charts identify the check cashers and payday lenders whose bank debt was reflected in public UCC loan filings in the five California counties that were studied. The first column is the debtor business, the second column reflects the number of outlets of that corporation in the particular county, and the third is the bank lender.

(Please note that some check cashers and payday lenders have more than one credit relationship. In that case, the number of outlets is only listed once.)

Alameda County

<u>Debtor</u>	<u>Outlets</u>	<u>Lender</u>
Advance America Cash Advance Centers	9	US Bancorp
Advance America Cash Advance Centers		Wells Fargo Fin Leasing
California Budget Finance	1	US Bank NA
California Check Cashing Stores	7	Union Bank of California
Cash & Go	3	JP Morgan Chase
Cash 1	3	Banco Popular
Check Into Cash	4	Bank of America
Check 'N Go of California	8	PNC Bank NA
Check 'N Go Worldwide		National City Bank
Giromex Inc	2	Merchants Bank of CA
Money Mart	8	Wells Fargo Bank

Fresno County

<u>Debtor</u>	<u>Outlets</u>	<u>Lender</u>
ACE America's Cash Express	7	Wells Fargo Bank
Advance America Cash Advance Centers	23	US Bancorp
Advance America Cash Advance Centers		Wells Fargo Fin Leasing
Broadway Liquor and Deli	1	United Commercial Bank
California Budget Finance	6	US Bank NA
Cash Plus	3	Hanmi Bank
Cash Plus		Westamerica Bank
Check Into Cash	5	Bank of America
Check Into Cash of California		Bank of America
Check Into Cash of California		National City Bank
Check 'N Go of California	8	PNC Bank NA
Check 'N Go Worldwide		National City Bank
Money Mart	12	Wells Fargo Bank
Popular Cash Express	3	Banco Popular

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Los Angeles County

<u>Debtor</u>	<u>Outlets</u>	<u>Lender</u>
ACE Cash Express	38	Wells Fargo Bank Texas
Advance America Cash Advance Centers	59	US Bancorp
Advance America Cash Advance Centers		Wells Fargo Fin Leasing
American Check Cashing	1	JP Morgan Chase Bank
Area Check Cashing Centers	4	Wilshire State Bank
Area Check Cashing Centers		Orange Community Bank
Area Check Cashing Centers		Wilshire State Bank
Associated Foreign Exchange	7	Union Bank
Azteca of California, Inc.	2	Corus Bank
Bancomer Financial Services	12	Bancomer
Benny's Market	1	Hanmi Bank
Benny's Market		Saehan Bank
California Budget Finance	16	US Bank NA
Cash 1	2	Banco Popular
Cash In a Flash	4	Union Planters Bank
Cash In a Flash, Inc.		Banco Popular North America
Cash Plus	14	Merchants Bank of CA
Check Advance Services, Inc.	3	Wells Fargo Financial Leasing, Inc.
Check Into Cash	31	Bank of America
Check 'N Go of California	42	PNC Bank NA
Check 'N Go Worldwide		National City Bank
City Check Cashers	8	Banco Popular North America
Continental Currency Services	26	Bank of California
Currency Services of California	10	Union Bank of California
Fast Cash, Inc.	1	California Bank & Trust
Gentri Finance	1	Hanmi Bank
Giromex Inc	23	Merchants Bank of CA
Giros Internacionales	8	Merchants Bank of CA
Mexico Check Cashing	1	Merchants Bank of CA
Mexico Check Cashing		Merchants Bank of CA
Money Machine	5	Merchants Bank of CA
Money Mart	23	Wells Fargo Bank
Money Mart		Banco Popular
Nix Check Cashing	55	Union Bank of California
Omnipol Capital, Inc.	1	Merchants Bank of CA
Payday Advance	4	Banco Popular
Payday Advance		US Bancorp
Popular Cash Express	44	Banco Popular

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Su Casa De Cambio	4	Merchants Bank of CA
Sun's Cash Express	1	Merchants Bank of CA
Travelex Currency Services	4	Barclays Bank, Sec Trustee
USA Cash Services Management, Inc.	1	Wells Fargo Bank

Sacramento County

<u>Debtor</u>	<u>Outlets</u>	<u>Lender</u>
ACE Cash Express	13	Wells Fargo Bank Texas
Advance America Cash Advance Centers	17	US Bancorp
Advance America Cash Advance Centers		Wells Fargo Fin Leasing
California Budget Finance	2	US Bank NA
California Check Cashing Stores	13	Union Bank of California
Cash & Go	7	JP Morgan Chase
Cash 1	3	Banco Popular
Check Into Cash	6	Bank of America
Check 'N Go of California	6	PNC Bank NA
Check 'N Go Worldwide		National City Bank
Money Mart	14	Wells Fargo Bank
Sunrise Check Cashing	1	US Bancorp
Travelex Currency Services	1	Barclays Bank
USA Cash Services	8	US Bank NA

San Diego County

<u>Debtor</u>	<u>Outlets</u>	<u>Lender</u>
ACE Cash Express	3	Wells Fargo Bank Texas
Advance America Cash Advance Centers	23	US Bancorp
Advance America Cash Advance Centers		Wells Fargo Fin Leasing
Baja-Mex Currency Services	5	Wells Fargo Bank
Cash N Advance Centers of CA	4	Bank of America
Cash Plus	3	Hanmi Bank
Cash Plus		Westamerica Bank
Check Advance Services	2	Wells Fargo Fin Leasing
Check Cashing Etc.	5	Travelers Express Co.
Check Into Cash of California	7	Bank of America
Check Into Cash of California		National City Bank
Check 'N Go of California	13	PNC Bank NA
Check 'N Go Worldwide		National City Bank
Giromex Inc	4	Merchants Bank of CA

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Payday Now Inc	1	Banco Popular NA
The Check Cashing Place	21	Mid Am Bank
The Check Cashing Place		Union Bank of CA
Travelex Currency Services	5	Barclays Bank

Appendix C - CRC Bank Product Prototypes

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THE ESSENTIAL BANK ACCOUNT

California Reinvestment Coalition (CRC) is advocating for a low fee account known as the *Essential Bank Account*. Such an account could serve as a gateway into the financial mainstream for 20% of the population that is considered “unbanked.” The *Essential Bank Account* has free money orders in lieu of checks and would allow account holders to draw their accounts down without incurring fees for non-sufficient funds (NSF) and/or for having their accounts be in the negative.

The following is a list of general problems amongst banks’ low cost or “free” checking accounts:

- Monthly service fee if customer does not have minimum balance
- Excessive fees for NSF which puts customer in danger of being listed on ChexSystems
- Existing deposit only accounts (no checks) require customers to pay bills on-line
- Fees often assessed for exceeding allowable transactions with a live teller or calls to customer service

The *Essential Bank Account* would have following features:

- Direct Deposit
- No checks
- ATM/Debit Card with unlimited use
- Unlimited teller access and telephone customer service (live and pre-recorded)
- Five free money orders per month
- No minimum deposit to open and no minimum balance to maintain
- Account Statement (hard copy, not on-line)
- Loosened ChexSystems screening: Non fraudulent activity older than 1 year is disregarded if overdraft has been paid
- Publicized acceptance of Matrícula Consular as well as other foreign government-issued identification cards (i.e., Consular Identification cards) for primary identification
- Publicized acceptance of alternative identification (i.e., utility bills) for secondary identification
- No enrollment in a “bounce protection” plan

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THE QUICK CONSUMER LOAN

California Reinvestment Coalition (CRC) is advocating with banks and savings & loans for a low cost consumer loan known as the *Quick Consumer Loan*. This lending product is designed as an alternative to payday lending. The *Quick Consumer Loan* has a longer term, lower interest rate and does not allow extension of the loan.

The following is a list of general problems with payday loans:

- High interest rates of 400 to 500 percent APR
- Allows loan to rollover endlessly causing the interest cost to sky rocket
- Borrower cannot make partial payment

The *Basic Consumer Loan* would have following features:

Customer with direct deposit and regular paycheck
Loan at \$1 per \$40 borrowed (30 percent APR)
Term of loan = two months
Loan cannot be taken out for a third consecutive month
Partial payments allowed
Loan is only available maximum of three times per year with at least one month between loans