



Community Development Finance's new nonprofit check cashing outlet in Fruitvale, California.

Community Perspectives: *Community Check Cashing*

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Rita S. recently walked into a friendly, clean, check cashing store in the Fruitvale neighborhood of Oakland, California and began to talk to the teller about cashing her check. She found out that the fee would be only \$6, or 1% of her \$600 check amount, rather than the \$18 or more which she would have paid at the check cashing store she had been using. She learned that the other costs for financial services were low also, most of them significantly lower than the fees charged at the other check cashing stores in the neighborhood. And she learned that she could receive financial coaching for her and her family at a nominal fee, as well as very low-cost small business services and support for her flower business.

If this doesn't sound like your ordinary checking cashing outlet, it's because it's Community Check Cashing, a program launched by the nonprofit Community Development Finance (CDF). CDF's goal is to create a nonprofit check cashing institution that will be a financially sustainable social enterprise offering lower prices and a broad range of financial services designed to help low income families move out of poverty and into the financial mainstream. CDF opened the store in May 2009 and it is believed to be the only nonprofit, full-service check cashing store in the country. The project is designed to provide low-income households with the services they want and need, without the asset-stripping characteristics common to the fringe banking industry.

Elements of the CDF Program

- Below-market priced financial services, including check cashing, bill payments, money orders, money wiring, and debit cards.
- A more affordable, alternative payday loan.
- Financial coaching and literacy training designed to assist low income households to increase their wealth-building capacity, enter the financial mainstream and help them move out of poverty.
- Small business assistance through below-market rate bookkeeping and financial coaching to help them develop proper methods of planning and creating systems.
- Social services assistance by offering information, counseling and referrals for housing, immigration, food, legal and other issues.
- Access to consumer and business loans and the creation of checking and savings accounts offered by CDF's bank/credit union partners.

Is Community Check Cashing Sustainable?

If you talk to check cashing and payday lending businesses, they justify their high fees as part of the cost of doing business. For CDF, launching and sustaining the program has involved a lot of testing of new ideas and learning the hard way that sometimes a good idea doesn't work in practice. What have we learned thus far?

First, we learned that it is possible to offer these services at lower prices without destroying profitability. We also learned that it's not easy to come up with the capital to launch a program like this, despite the fact that we were not seeking large amounts of funding. The initial storefront required approximately \$400,000 in equity or grant capital for build-out costs and to cover negative cash flow for the first two years, and up to \$200,000 in loans or grants for working capital to cash checks and to fund the payday loan alternative lending program. In the end, these grant funds came from foundations and some individuals while the loan funds were provided by a bank line of credit backed by a personal guarantor. Our expectation is that these costs will decrease for any future storefronts as CDF gains experience.

As for sustaining operations, the check cashing part of CDF's activities is designed to be self-sufficient after the initial start-up period capital is infused. We're on track to reach this point within two years or less. Check cashing is the main driver of our revenue, and each month the revenues from the check cashing operations increase. Getting to this point wasn't easy, however. Even with our marketing efforts, it has taken a lot of time for people to find out about us and for us to develop a strong customer base needed to make the business financially viable. Being in a location with a high volume of traffic has certainly helped, especially since we rely on volume rather than high prices to break even. While we expect the check cashing component to reach break-even shortly, we still must raise donations for the financial coaching, small business services, social services and administration, a little more than half of the overall budget.

Expanding CDF: New Markets and Products

In addition to our check cashing operations, we have been working hard to find products and programs that fit the specific needs in the neighborhood and develop revenue streams from a variety of products and services. For example, in June 2010, after a great deal of thought and preparation, we launched a small dollar loan program. Despite the bad reputation these loans have, bank overdrafts and NSF fees can be much more costly than pay day loans for many people. While we wanted to move away from the often predatory nature of payday and small dollar loans, we also had to balance the fact that these loans do tend to have very high default rates and adjust for our



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lack of capital to cover losses. We have tried to create a program that recognizes this balance through a payday loan that costs \$5 to \$7.50 per hundred dollars borrowed compared to the market rate of \$15 per \$100 borrowed over a 14 day period. We also have developed a credit repair loan which would cost \$3.75 per \$100 borrowed. One way we keep the default risk low is by undertaking more careful screening and application processes to help pick customers who are more likely to repay. It makes the process slower, but because of our mission, we are comfortable with doing fewer but more responsible loans. Our initial target is to generate between 50 and 100 loans a month, and then depending on the loss rate, grow to as many as 200.

We have also made excellent progress with our financial coaching and services to small businesses, but demand is not as high as we had hoped. Customers tend to be interested in our helping them through a crisis, but when the crisis is over, they often do not seem to want to put in the longer term work to stabilize and improve their long term future. This has been true for households as well as the small businesses. We think we will break through this situation, but it will take longer than we thought. At the same time, we are helping a number of households and businesses through some difficult times and saving

them a considerable amount of money, which we see as a valuable service to the community. Based on our December 2010 activities, we estimate that we have saved residents of Fruitvale at an annualized rate of about \$150,000. We have also saved our clients additional money through our counseling activities, especially the negotiations with credit card companies. And that includes just the quantifiable impact of our work; it does not include other elements that are not measurable but add significantly to the quality of life of our customers.

We would like to expand CDF to other neighborhoods that have a heavy reliance on check cashing businesses, and we are considering using a franchise model as one possible means to assist with any possible expansion; other options include joint ventures with nonprofits and perhaps banks or credit unions, providing technical assistance to other nonprofits, providing back-office support to others, creating lower-cost variations of this model, etc. We are also working to expand the products and services that CDF offers.

Conclusion

The ultimate goal is to recast the current dual financial services sector – from check cashing and payday lending to pawnbrokers, rent-to-own stores, and subprime lenders – so that lower-income households can access the financial services they need in a way that doesn't trap these households in a cycle of poverty and debt. Our goal as a society needs to be finding the ways to make all of these products – whether available from mainstream banking institutions or the more alternative institutions – less costly, more efficient in filling financial needs, and developed in conjunction with other products and training programs that help low income people move into the financial mainstream if and when they want to. CDF's efforts are designed to be complementary to efforts provided by mainstream financial institutions and programmatic, legal and statutory efforts provided by various advocacy organizations. We believe CDF is working in that direction, and we hope that our lessons will help the whole field develop better financial services for low-income families. **CI**