Bringing more Affordable Financial Services to the Inner City

The Bethex Federal Credit Union/RiteCheck Cashing, Inc., Partnership

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► From Competition to Collaboration: Examples of Bank/Check Casher Relationships

► Point of Banking Terminals: A Critical Technological Link

BuildingBlocks
A Practitioner's Guide to Planning and Financing Community Revitalization
President and CEO’s Message
By Stacey D. Stewart

As you may have noticed, this is our second BuildingBlocks issue this year that highlights innovative ideas for delivering financial services to low-income individuals and families. The reason we have chosen to focus on this crucial topic again is because easy access to wealth-building financial products and services is so essential to addressing the socioeconomic needs of any low-income population. The previous BuildingBlocks issue on this subject covered recent technological innovations that have enabled financial services providers to reach out to low-income consumers. This issue reviews an innovative partnership between a mainstream financial institution and an alternative lender that provides a wealth-building solution for low-income residents in New York City.

As many of you know, an estimated 10 million U.S. households have no relationship with mainstream financial institutions that offer tools to help Americans build wealth. Barriers on the supply and demand sides of the equation have created a chasm between low-income populations and mainstream financial institutions. On the supply side, lack of information about the characteristics, depth, and potential profitability of low-income markets, combined with a lack of customized products and services for these markets, have made it difficult for mainstream financial institutions to serve these markets at an optimum scale. On the demand side, the low-income population’s relative inexperience with and mistrust of formal financial institutions have made them unpopular in these communities.

In the absence of a robust market for mainstream financial services, alternative or fringe lenders now heavily populate lower-income, minority, and immigrant communities. Although these lenders do provide a service to traditionally underserved markets, the value of the service is outweighed by the unnecessarily high costs that many of them often charge. In addition, fringe lenders typically do not provide savings or other investment options to their customers, which makes it even more difficult for low-income consumers to access the vehicles necessary for wealth building.

One approach to enhancing the financial services options for lower-income consumers is to combine the unique products, services, and operations of fringe lenders with the savings and sophisticated credit options of mainstream lenders. That’s exactly what a federal credit union and a check casher have attempted in a pioneering effort initiated in October 2001. Bethex Federal Credit Union joined hands with RiteCheck Cashing Inc., to launch a pilot program that allows RiteCheck customers to take advantage of credit union membership without giving up the comfort and convenience of their check-cashing branch.

Michael A. Stegman and Jennifer S. Lobenhofer, the authors of this issue of BuildingBlocks, outline the financial services environment that enabled the emergence of a partnership of this nature. They detail the specifics of the partnership structure and provide a closer look at the organizations involved.

Since this alliance was formed, many other innovations dedicated to providing wealth-building opportunities to low-income populations have emerged. Future issues of BuildingBlocks will showcase other creative initiatives to help low-income individuals access a wider range of wealth-building financial options. Our intent is to stimulate the creation of more tools, services, and delivery channels to better meet the needs of underserved markets.

Stacey D. Stewart is President and CEO of the Fannie Mae Foundation.
Partnerships, joint ventures, and strategic alliances have become the reigning paradigm of the contemporary financial services sector in the United States. Still, when Bethex Federal Credit Union and RiteCheck Cashing, Inc., decided to join hands, eyebrows were raised. The reason was simple. The alliance was much more than an innovative partnership; it marked the union of two traditionally sworn enemies, credit unions and check cashers, and many wondered—to what end?

Realizing they share a customer base that is underserved by other financial institutions, Joe Coleman of RiteCheck Cashing, Inc., and Joy Cousminer of Bethex Federal Credit Union were already thinking of each other as potential partners when they met in 1997. Their ensuing discussions led to an ambitious joint venture focused on extending the credit union's services to lower-income consumers in the Bronx. The partners hope that the capability to make deposits through a check-cashing outlet (CCO), as well as the presence of credit union marketing materials in those outlets, will encourage unbanked check-cashing customers to open credit union accounts, begin to accumulate assets, and gain access to credit.

The Bethex/RiteCheck alliance has been operating successfully in eight CCOS since October 2001, and the hope is that the pilot will serve as a model for larger-scale collaborations that will include more credit unions and check cashers. In fact, other credit union/check cashier partnerships have been created in its image, an alliance between Actors Federal Credit Union and Manhattan MoneyBranch.

The Bethex/RiteCheck partnership helps the credit union advance its mission of economic empowerment without incurring the expense of acquiring or building additional branches. On the other hand, the check cashers hope that the availability of deposit services will increase the walk-in traffic and expand the overall volume of transactions. In addition, allying with Bethex, whose mission is to serve the needs of a low-income population, also presents the opportunity to improve their overall standing in the community and at least partially overcome the negative perception of their industry held by advocates for poor communities.
The goal of drawing more low-income people into the financial mainstream through credit union accounts is significant because an estimated 10 percent of all American families have no bank accounts. This figure includes 25 percent of African Americans and Hispanics, one-fourth of all families with incomes under $20,000, and nearly half of all families moving from welfare to work. In recent years, advocates and policy makers have grown to understand that bringing the unbanked into the financial mainstream is important because one’s banking status has profound implications for long-term family self-sufficiency. “Even controlling for income and other factors, low-income individuals with bank accounts are 43 percent more likely to have positive net financial assets than those without.”

At least part of the reason so many American families do not have bank accounts is the fact that there are no banks in the neighborhoods where they live. Because of mergers and increased competition from nondepository institutions, the number of financial institutions in the United States has declined significantly. Between 1975 and 1995, the number fell from about 18,600 to 12,200, a decline of about 35 percent. Continuing to fall steadily through the late 1990s, the number dipped below 10,000 by the end of 2000, representing an additional 17 percent decrease over the six-year period.

The second trend is the growth of the check-cashing industry. Check cashers have no doubt identified and filled a niche market, providing a variety of financial services to a primarily minority, urban, largely unbanked customer base. However, the industry is controversial. Advocates for the poor have criticized its fee structure as harmful to the low-income communities in which CCOs primarily do business.

Yet, relationships between check cashers and mainstream financial institutions are becoming more common, a trend that represents the third critical piece of backdrop for this case. Increasing competition in the banking industry and the saturation of middle-class suburban markets have led banks to try to develop new markets in inner-city neighborhoods. Banks are often reluctant to establish costly branches in low-income neighborhoods. Instead many engage in various types of alternative arrangements, some competitive and some collaborative, with check cashers. Few bank partnerships, however, use check cashers as a portal to their services or make an overt effort to provide a bridge into the financial mainstream for low-income unbanked customers. Herein lies the significance of the partnership between RiteCheck and Bethex Federal Credit Union.

The fourth and final trend is the growth of technological advances and its impact on reducing the cost of financial transactions while increasing opportunities for innovative partnerships. It is now possible for financial institutions to serve a wide array of the financial needs of low-income consumers without having to set up a branch office. Today, advanced check-cashing operations have access to the same technology and Automatic Teller Machine (ATM) networks that banks use. In fact, the Bethex/RiteCheck partnership works through Point of Banking (POB) technology (see sidebar 2), which allows the check casher to accept deposits on behalf of the credit union. Besides reducing the transaction costs, this POB technology makes the partnership feasible.

Bethex Federal Credit Union

Bethex originated as a cooperative formed by adult education teacher Joy Cousminer and her students, mainly welfare mothers, in 1970. Its primary mission since its inception has been the economic empowerment of low-income individuals and households in the Bronx. An outreach-focused organization, Bethex has grown from its original 600 members to nearly 11,000, and continues to add more than 1,000 new members per year. Its current assets are just under $10 million.

Bethex’s main office operates six days a week, and it has three branches open five days a week, and two branches open two days a week. One branch offers the added convenience of a 24-hour ATM. The credit union also provides service one or two days a week at “teller stations” in churches and a senior citizens center. The majority of Bethex’s clients (60 percent) are senior citizens and welfare and supplemental security income recipients; the remaining 40 percent are generally low-income earners who work for small employers that do not offer payroll deductions or direct deposit.

To keep lending rates and service fees as low as possible, Bethex accepts donated equipment and relies on rent-free office space. The credit union also pays lower salaries than other comparable institutions, often hiring welfare-to-work participants. Cousminer feels that minimizing costs and passing the savings along to members is an integral part of its goal to economically empower its members.

RiteCheck Cashing, Inc.

RiteCheck operates 11 CCOs in the Bronx and Manhattan, serving approximately 100,000 low- to moderate-income customers of diverse backgrounds, including African Americans, Haitians, Caribbeans, Asians, Russians, continued on page 6
From Competition to Collaboration:

Examples of Bank/Check Casher Relationships

Many banks have teamed with CCOS to offer complementary financial services. Others have chosen to compete head-to-head with check cashers by creating their own check-cashing arms or payroll debit cards as a means to tap into the unbanked market and generate brand recognition and loyalty among unbanked customers. Some arrangements are explicitly intended to serve as stepping stones to mainstream banking.

Many banks that have chosen to compete directly with check cashers for check-cashing revenue have instituted fees for non-account holders who cash checks in their branches. Union Bank of California charges 2 percent, less than the 3 percent market rate of check cashers. Bank of America changed from offering free check cashing to charging a $3 fee on payroll checks drawn on the bank’s business account holders. First Union Bank charges non-account holders $1 to cash payroll checks.

First Union does offer a free alternative for non-account holders to cash payroll checks. The bank created a patented electronic card that holds verified personal information about the customer. The card is designed to be more secure than other forms of identification, such as drivers’ licenses, which the bank found ripe with fraud because of the ease of counterfeiting. First Union hopes to market the card to other institutions, namely banks and grocery stores.

In another competitive strategy, a group of major banks is competing with check cashers to lure unbanked workers through an electronic payroll card. In a joint effort with Visa, which produces the cards, Bank of America, Bank One, FleetBoston, US Bancorp, and First Tennessee National introduced the Visa Payroll Card in July 2001. Employers can deposit wages directly onto a prepaid card, which then allows the employee to withdraw cash from an ATM or use the card as a debit card wherever Visa is accepted. Signup is voluntary for employees, who do not incur a monthly fee for using the card. This option allows banks to serve the unbanked market cheaply, through solely electronic accounts.

Other banks have created their own freestanding check-cashing operations. In an effort to become the principal financial services provider in the United States, Banco Popular established its own check-cashing arm, Popular Cash Express (PCE), in early 1998. PCE offers services typical of CCOS, as well as such expanded features as insurance and travel services, and is exploring offering credit cards and personal loans. By late 2000, PCE operated 75 retail financial service centers in New York, California, Texas, Arizona, Florida, and Washington, DC.

Union Bank of California (UBOC) has entered the business with Cash & Save, a program that uses education and consulting services to encourage check-cashing customers to transition to traditional banking services. Launched in South Central Los Angeles in 1993, Cash & Save provides a basic check-cashing service at fees lower than generally charged by CCOS but is distinct because of the full range of services it targets to lower-income, ethnic markets with large contingents of unbanked workers. These include a discounted rate for buying a money-order “plan” (six free money orders per month, plus a 1-percent check-cashing fee), no-fee, low-minimum-balance basic checking and savings accounts, a secured credit card, and direct deposit for electronic delivery of government benefits. The bank estimates that 40 percent of Cash & Save’s repeat customers had moved to traditional banking products such as checking.
and savings accounts by late 2000. By July 2001, Union was operating 15 Cash & Save outlets.

In addition, Union Bank entered an alliance with Nix Check Cashing and Operation HOPE, Inc., a community-based nonprofit, to provide financial services in inner-city Los Angeles neighborhoods. It acquired a 40 percent stake in Nix's parent company, Navicert Financial, Inc., with an option to acquire the remainder of the company in 10 years, during which time Union Bank will give 5 percent of the company's equity to Operation HOPE.

Twenty-six outlets now offer UBDC banking products along with check cashing, with 10 more to be added by the end of 2002. Union Bank offers applications for checking and savings accounts, home mortgage loans, and credit cards; a dedicated phone line with access to a customer service representative; a full-service ATM with no surcharge for nonbank customers; and small business loan and deposit services. Operation HOPE offers mortgage assistance and consumer and business credit education brochures, as well as a direct phone line to get information about and register for these financial education opportunities.

One bank chose to enter the check-cashing arena less directly, through a partnership with a fringe banker that is based on advanced technology. In 1999, Wells Fargo joined with Cash America, owner of pawnshops and CCOs, to develop automatic tellers that cash paychecks for people with or without bank accounts. The terminals, called Rapid Pay Machines (RPMs), are essentially ATMs that rely on face-recognition technology. The earliest RPMs were located in convenience stores, discount stores, and some Kroger supermarkets. In May 2000, the partnership, called InnoVentry, announced an agreement with Diebold to place similar machines in bank lobbies to enable unbanked employees to cash their payroll checks without having to stand in teller lines, thereby cutting down on per-transaction costs for the banks. In its first two years, this venture cashed $1.5 billion of checks.

South Americans, and Mexicans. The stores exemplify the volume-based, fee-for-service transaction business, offering check cashing as well as wire transfers, lottery tickets, utility bill and traffic citation payment, and sales of public transit passes, all processed by specialized technology and equipment.

RiteCheck outlets are open as early as 7:30 a.m. and close just before 6 p.m. on weekdays, and are open from 8 a.m. to 1:50 p.m. on Saturdays. RiteCheck's service menus are also available in Spanish, and typically the stores' cashiers reflect the language and culture of the neighborhoods where they operate.

Second, credit union members may also cash checks at participating CCOs for free or for a reduced fee. Bethex absorbs the fee on checks it has issued according to the rate structure used by members of PayNet, a cooperative network of check cashers and New York-area banks that allows CCOs to cash payroll checks from some of the banks' large clients. Bethex joined PayNet to facilitate its participation in the pilot. Usually the fee is lower than the state limit, though it depends upon the amount of the check (see table 3). Bethex members may cash payroll and other checks at participating CCOs for a 1.1-percent fee, discounted from the 1.4-percent maximum allowed under New York state law.

### Partnership Structure

The cooperative arrangement between Bethex Federal Credit Union and RiteCheck Cashing, implemented in October 2001, involves eight RiteCheck locations, four in the Bronx and four in Harlem, and includes three provisions. First, Bethex members are able to make deposits, loan payments, and withdrawals through the check cashers' POB terminals at no cost. These POB terminals are essentially manned ATMs located within cashier windows, and customers and cashiers conduct transactions jointly.
Table 1. Bethex Federal Credit Union Fee Schedule

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>RATE/ FEE</th>
<th>NOTES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lending</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal/consumer loan</td>
<td>16.5%</td>
<td>Unsecured loan can be taken out for an unspecified purpose;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>often used for emergencies.</td>
</tr>
<tr>
<td>Special-purpose loan</td>
<td>15%</td>
<td>Short-term loan, taken out for purposes such as paying taxes;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>typically extended to someone who already has a loan outstanding</td>
</tr>
<tr>
<td></td>
<td></td>
<td>with Bethex, but sometimes used to attract new members or start a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>payroll deduction.</td>
</tr>
<tr>
<td>Business purpose or debt-consolidation loan</td>
<td>11.75%</td>
<td>Member establishes a goal and Bethex puts that amount in a Goal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Saver account earning 3% interest. Accountholder then pays an</td>
</tr>
<tr>
<td></td>
<td></td>
<td>agreed-upon amount each month to pay off the loan at 6%. Account</td>
</tr>
<tr>
<td></td>
<td></td>
<td>withdrawals can only be made for the amount of equity that has been</td>
</tr>
<tr>
<td></td>
<td></td>
<td>accrued.</td>
</tr>
<tr>
<td>Car loan</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>“Goal Saver” loan</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share accounts</td>
<td>1% APR, compounded quarterly</td>
<td>$10 minimum balance “Goal Saver” account 3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership</td>
<td>$10 ($1 for children’s accounts)</td>
<td>One-time fee</td>
</tr>
<tr>
<td>Membership cancellation</td>
<td>$5</td>
<td>Exception in case of death (no fee)</td>
</tr>
<tr>
<td>Returned item (bounced check or ATM overdraw)</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Checking account</td>
<td>$5/month personal account/$15 business account</td>
<td>$100 minimum balance; unlimited checking</td>
</tr>
<tr>
<td>Money order</td>
<td>$1</td>
<td>Money orders available up to $1,000 for flat fee</td>
</tr>
<tr>
<td>Wire transfer</td>
<td>$8 domestic/$25 foreign</td>
<td></td>
</tr>
</tbody>
</table>

Deposit of a check requires two separate transactions, as check cashers cannot accept check deposits. Originally, Bethex members paid the 1.1-percent fee to cash their checks before making a cash deposit into their credit union accounts. When a similar pilot between Actors Federal Credit Union and the check cashier MoneyBranch began and showed higher deposit volume (nearly 900 in the first three months, compared with about 300 for Bethex/RiteCheck in the first eight months), the partners realized the check-cashing fee was likely hindering deposit transaction volume. Bethex now pays the fee for members who deposit their entire checks.

Third, Bethex marketing materials are available in participating CCOS. Packets contain applications for membership and loans that individuals may mail back or drop off at one of Bethex’s offices. Early in the partnership, a Bethex employee visited the CCOS three times a week to provide additional information on the credit union’s services and recruit members. Bethex has produced a video that will soon run on monitors above cashier lines in the CCOS, informing customers of Bethex’s services. The video’s voiceover is in English with Spanish captioning to ensure that the information reaches the target market.

Why It Makes Sense

Some in the credit union movement were surprised and somewhat dismayed by Bethex’s partnership with a check cashier, as the check-cashing industry is widely regarded as antithetical to the community development goal of empowering the poor. In fact, check cashers’ business model and fee structure have long been criticized as preying upon and exploiting underserved communities. Yet, both Bethex and RiteCheck are confident about the benefits of their alliance, both for themselves and their communities.

Check-Casher Perspective

Partnership with a depository institution such as a credit union allows CCOS like RiteCheck to offer access to depository accounts, a service that otherwise would fall outside their legal range of activities. Further, in an industry that depends on
fee-based services geared mainly to low-income people with relatively small transactions, transaction volume is critically important. RiteCheck Chief Executive Officer (CEO) Joe Coleman and other check cashers hope that providing access to credit union accounts will draw more people into CCOS, where they may elect to take care of other necessary financial transactions and thereby boost overall business.

Also, frequently credit unions are already present in communities that are targeted by check cashers and thus offer a ready market for check cashers’ convenient locations and hours. In addition, partnership arrangements like this, in which Bethex willingly absorbed fees incurred by its members’ use of banking services, allow check cashers to offer services through their POSs without worrying about the transaction costs for doing so.

Check cashers also have a public relations interest in aligning themselves with credit unions, as the industry is interested in transforming its widely held predatory image. An alliance with a credit union whose express mission is the economic empowerment of the disadvantaged helps bolster this image transformation.

**Credit Union Perspective**

While the sentiment might not be widely shared within the credit union industry, for Bethex the alliance represents an excellent opportunity to expand its membership base and thus increase the scale of its mission, namely serving the poor in the Bronx. Cousminer says simply, “If I’m not doing everything I can to reach all low-income people, I’m failing at my mission.” A larger membership base also helps make their credit union more viable and sustainable. Philosophically opposed to charging fees to recover operating and transaction costs, Cousminer believes organizations like Bethex will make their money through the interest spread on loans. Expanding membership helps achieve this goal.

Prior to the partnership with RiteCheck, Bethex was interested in establishing branches to expand membership, but it had little money to do so. As Cousminer points out, “Building a branch, no matter how small, costs a lot of money, but there are check cashers on every corner.” She estimates that establishing a branch costs a minimum of $200,000, in addition to all of the ongoing operating costs—salaries for three full-time employees would run more than $60,000 annually, plus an additional $2,000 in bonding insurance beyond Bethex’s current outlays. Then there are operational costs, such as telephones, computers, and the like. Paying a fee for each customer transaction is comparatively negligible, Cousminer argues, thus making an alliance with check cashers a more efficient way of acquiring new deposits.

**What’s in It for the Community?**

The partnership offers expanded delivery of credit union services to unbanked people, drawing more low-income people into the financial mainstream and counseling them on saving money, establishing a credit record, and applying for loans. Providing low-income people access to basic financial services and therefore entry into the economic mainstream has broad societal benefits as well. As these people acquire savings and credit history, they become consumers of additional goods and services, including more advanced financial services, such as mortgage loans.

The prevalence of check cashers in low-income neighborhoods makes them more
convenient for many credit-union members than a full-service bank branch. These new credit union/check cashier alliances allow low-income people to negotiate better both time and financial barriers to accessing traditional financial services.

Moreover, a credit union/check cashier alliance also offers a uniquely effective way to reach unbanked immigrants, who often use check cashers because they have an established relationship with them. Many come from countries where financial services were often corrupt or unstable, resulting in a wariness about banks.

Mainstream banks are rarely present in poor neighborhoods anyway, but even when they are—and even when they offer check-cashing services—this pervasive discomfort might make it difficult for them to attract low-income unbanked customers.

Beyond the Bronx: Can the Model Be Expanded?

Expansion of the model is now possible because of the work done by Bethex and RiteCheck in the four years it took to obtain regulatory approval and get their pilot partnership off the ground. RiteCheck asked the New York State (NYS) Banking Department for approval to function as credit union branches. The Banking Department deferred to the National Credit Union Administration (NCUA) for approval, because they felt the partnership presented more potential liability issues for the credit union by allowing check cashers to handle transactions for its members. NCUA asked Bethex for a legal opinion to present its argument for the alliance. The opinion emphasized that all deposit transactions would take place over the NYCE network (which has specific established rules for the reconciliation of and responsibility for transactions), and that the alliance would not pose “significantly greater risks than those currently faced by the Credit Union in its receipt of member deposits.” NCUA concluded that the POB technology and network rules made it unnecessary for it to regulate credit union involvement with networks. This process took close to a year to complete.

As discussed earlier, a similar credit union/check cashier alliance began in April 2002 between the Actors Federal Credit Union and Manhattan MoneyBranch in New York. Principals from both existing pilots created a joint industry committee to examine the issues involved in achieving a larger scale for the program. The committee, which first met in June 2002, includes representatives of credit unions, check cashers, and the companies involved in the POB technology—Chase, NYCE, and Lynk. The primary purpose of the committee is to develop a standard product offering and fee structure,

<table>
<thead>
<tr>
<th>TRANSACTION</th>
<th>COST TO CREDIT UNION</th>
<th>COST TO CONSUMER</th>
<th>NET TO CHECK CASHER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawal</td>
<td>$1.88</td>
<td>Free</td>
<td>$1.88</td>
</tr>
<tr>
<td>Cash deposit or loan payment</td>
<td>$0.70</td>
<td>Free</td>
<td>$0.70</td>
</tr>
<tr>
<td>Check deposit</td>
<td></td>
<td>Free</td>
<td></td>
</tr>
<tr>
<td>Check cashing (issued by Bethex) $0- $600</td>
<td>$0.70 + 1.1% of check value</td>
<td>Free</td>
<td>$0.70 + 1.1% of check value</td>
</tr>
<tr>
<td>Check cashing (issued by Bethex) $601- $1,000</td>
<td>$4.50</td>
<td>Free</td>
<td>$4.50</td>
</tr>
<tr>
<td>Check cashing (issued by Bethex) over $1,000</td>
<td>$5.50</td>
<td>Free</td>
<td>$5.50</td>
</tr>
<tr>
<td>Check cashing (non-Bethex)</td>
<td>1%</td>
<td>Free</td>
<td>1%</td>
</tr>
</tbody>
</table>

*a Bethex pays $0.38 interchange at time of transaction and is billed monthly by the check casher for a $1.50 surcharge incurred under NYCE network rules.

*b In six years of operation, the average PayNet check-cashing fee works out to be less than the regulated rate of 1.4 percent because most of the checks cashed via PayNet are greater than $500. Because most Bethex checks are loan checks, using PayNet rates on these checks should offer Bethex members a discount from the 1.4-percent regulated fee.
Point of Banking Terminals: A Critical Technological Link

Check cashers' ability to accept deposits from Bethex Federal Credit Union members is a critical feature in making its alliance with RiteCheck unique and innovative. That capability comes from a Point of Banking (POB) terminal, found in RiteCheck and several other check-cashing outlets in New York.

What Is a POB?
In simplest terms, a POB is an ATM without a cash dispenser. POBs provide consumers with remote access to banking services and were developed cooperatively by Chase Manhattan Bank, the NYCE network, and the check-cashing industry in 1994. The first POBs allowed customers to perform teller-assisted cash withdrawals, transfers between accounts, and balance inquiries. Now they can even accept deposits.

The Nuts and Bolts: How Do POBs Function?
Steps in a deposit transaction:
Customer enters CCO with a $200 payroll check and a debit ATM card from Bethex, wishing to deposit the money from her payroll check into her checking account.

Customer approaches one of the cashier windows, tells the cashier what she would like to do, then swipes her card and enters her personal identification number (PIN) into the POB.

Cashier enters the appropriate information into the POB, recording it as a check-cashing transaction, with the 1.1 percent value fee charged to Bethex's "house account," and a subsequent deposit of $200 cash into the customer's Bethex account. The POB routes this information via the phone line through the NYCE network to Bethex's computer. Bethex sends back a confirmation that $200 has been deposited into the customer's checking account, and the POB prints a receipt, which the cashier hands to the customer.

If the customer does not wish to deposit the full amount of her check, but wishes to purchase a money order, pay a bill, or receive cash back, she will first cash the check and the 1.1 percent fee will be deducted directly from the cash she receives. Any other transactions will be conducted according to the check casher's fee schedule.

Combining steps allows customers to conduct multiple transactions at one place. Instead of taking a payroll check to a CCO, buying a money order, getting the remainder in cash and then taking the cash to an ATM for deposit, the customer is able to perform all steps at one cashier's window.

because the Bethex/RiteCheck and Actors/MoneyBranch partnerships differ. The service viewed by both Coleman and Actors FCU president Jeff Rodman as most critical in taking the model to large scale is permitting check cashers to accept the deposit of checks from credit union members, rather than requiring them as two separate transactions (cashing a check and then depositing the cash).

As mentioned earlier, both of the credit unions currently involved in these alliances absorb the check-cashing fee to offer their members the convenience of check deposits, but all parties agree that this arrangement is not sustainable. The NYS Banking Department would need to approve check cashers' acceptance of checks as deposits, and NYCE operating rules would have to be altered to allow check cashers to put a hold on funds represented by a check deposited into a credit union account.

Finally, the committee must agree on a fee structure for this type of transaction. The principals hope testing of check deposits at CCOs can begin sometime during the fall of 2002.

Conclusion
The pilot project between Bethex Federal Credit Union and RiteCheck Cashing, Inc., represents a promising model for collaboration between financial services industries that offers expanded business opportunities for both partners as well as increased access to basic banking services for people in low-income neighborhoods. The uniqueness of the partnership raised a number of issues, which resulted in significant regulatory scrutiny and hesitation in approving the arrangement. Bethex and RiteCheck worked diligently over four years to shape the partnership in such a way as to overcome and assure regulators' concerns, and have thus done much of the "heavy lifting" for similar organizations who wish to replicate their model. The long-term effects of this partnership are, of course, a matter of speculation. But, it is possible, as RiteCheck CEO Joe Coleman hopes, that it will "lead to the evolution of a new kind of creature that, without relying on charitable or government contributions, without requiring tax-exempt status, can thrive while providing the financial services that the poor genuinely need."

Michael A. Stegman is MacRae Professor of Public Policy and Business and Director of the Center for Community Capitalism, University of North Carolina at Chapel Hill.

Jennifer S. Lobenhofer is Associate Director of the Center for Community Capitalism, University of North Carolina at Chapel Hill.
Notes

Bethex is a community development credit union with a geographically defined field of membership in the South Bronx.

In summer 2002, representatives of credit unions, check cashers, and other companies involved in Point of Banking technology formed a committee to work out issues involved in expanding the program further.


Jose Riera, “Banco Popular and Popular Cash Express: Providing Financial Services to the Unbanked,” Community Developments, Fall 2000, p. 11.


Typically, check cashers tend to be open longer hours to serve low-wage workers. Several check-cashing outlets in New York are open 24 hours a day.


For a discussion of this fee structure and advocates’ responses to it, see Michael A. Stegman, Savings for the Poor: The Hidden Benefits of Electronic Banking (Washington, DC: Brookings, 1999), especially pp. 64-67.

Recently, the national trade association for check cashers, the National Check Cashers Association, changed its name to the Financial Services Centers of America.


Attorney Steven R. Biskor, representing Bethex Federal Credit Union, letter to Layne Bumgardner, Regional Director, Region I (Albany), National Credit Union Administration, December 12, 2000.

Resources

Contact information for selected organizations mentioned in the article:

Actors Federal Credit Union
165 West 40th Street, 14th Floor
New York, NY 10036
Contact: Jeff Rodman, President
Phone: (212) 869-8926
Email: mservices@actorsfcu.net
Web site: http://www.actorsfcu.org

Bethex Federal Credit Union
20 East 179th Street, Lower Level
Bronx, NY 10453
Contact: Joy Cousminer, Treasurer/Manager
Phone: (718) 299-9100
Fax: (718) 294-4930
Email: info@bethex.com
Web site: http://www.bethexfcu.org

Check Cashers Association of New York
10 East 40th Street, Suite 1308
New York, NY 10016
Phone: (212) 268-1911
Fax: (201) 487-3954
Email: mailbox@scanyinc.org
Web site: http://www.scanyinc.org

RiteCheck Cashing, Inc.
715 East 138th Street (at Jackson)
Bronx, NY 10454
Contact: Joseph Coleman, President
Phone: (718) 665-0778
Fax: (718) 665-0430
Email: CustomerService@ritecheck.com
Web site: http://www.ritecheck.com

There are also several think tanks and policy organizations working on developing greater understanding and sharing information about credit union/CCO partnerships. A few are listed below:

Brookings Institution
Center on Urban and Metropolitan Policy
1775 Massachusetts Avenue, N.W.
Washington, DC 20036
Contact: Bruce Katz, Director
Phone (202) 797-6139
Fax (202) 797-2965
Email: brookinfo@brook.edu
Web site: http://www.brookings.edu/dybedectro/ces/urban/urban.htm
For the Center’s Capital and Finance Information portal, visit: http://www.brookings.edu/dybedectro/ces/urban/issues/finance/capitalandfinance.htm
For information on Michael Stegman’s book, Savings for the Poor (Brookings Institution Press, 1999), visit: http://www.brookings.edu/dybedectro/c/urban/stegmanbook.htm

Center for Community Capitalism
The Frank Hawkins Kenan Institute of Private Enterprise
CB 3440, The Kenan Center
Chapel Hill, NC 27599-3440
Contact: Jennifer Lobenhoffer, Associate Director
Phone: (919) 962-8201
Fax: (919) 962-8202
Email: jennifer.lobenhoffer@unc.edu
Web site: http://www.ccc.unc.edu
For a detailed case study of Bethex-RiteCheck Partnership completed in August 2001, visit: http://www.kenaninstitute.unc.edu/Centers/CCC/CCC_Publications/Bethex-RiteCheck.pdf

Filene Research Institute
5910 Mineral Point Road
P.O. Box 2998
Madison, WI 53701-2998
Contact: Robert Hoel, Executive Director
Phone: (608) 231-8550
Fax: (608) 238-4709
Email: mg@filene.org
Web site: http://www.filene.org

National Community Investment Fund
7054 South Jeffery Boulevard
Chicago, IL 60619
Contact: Lisa Richter, Fund Advisor
Phone: (773) 420-4910
Fax: (773) 753-5880
Email: info@ncif.org
Web site: http://www.ncif.org
For detailed information on the Fund’s Retail Financial Services Initiative, visit: http://www.ncif.org/aws/141.htm

Woodstock Institute
407 S. Dearborn, Suite 530
Chicago, IL 60605
Contact: Marva E. Williams, Senior Vice President
Phone: (312) 427-8070
Fax: (312) 427-4007
Email: woodstock@woodstockinst.org
Web site: http://www.woodstockinst.org