



**Financial Service Centers of New York, Inc.**  
*A TRADE ASSOCIATION*

**Testimony of Jason Carballo, President  
Financial Service Centers of New York  
Before the  
Assembly Standing Committee on Banks  
Assembly Standing Committee on Insurance  
Assembly Standing Committee on Oversight, Analysis and  
Investigation**

**December 1, 2011**

Chairman Morelle, Chairwoman Robinson, Chairman Hevesi, Superintendent Lawsky, and other distinguished attendees, my name is Jason Carballo. I am the Operations Officer of Castle Financial Services, a company operating seven multi-line financial service centers (FSC), more commonly known as licensed check cashers, in Manhattan and The Bronx. I also serve as President of the Financial Service Centers of New York (FSCNY), the trade association representing the licensed check cashing industry. The licensed check cashing industry consists of 181 companies operating 671 locations throughout the State. Virtually all of these companies are small businesses. Our industry employs more than 4,000 people, almost all of whom are from the neighborhoods in which our stores are located. Our industry is 40% owned by minorities, and 85% of our employees also are minorities.

On behalf of the New York licensed check cashing industry, we applaud the consolidation of the Departments of Banking and Insurance into the Department of Financial Services and appear today to highlight our place in the modern world of financial services and, therefore, within the regulatory oversight of DFS. As we did with the NYS Banking Department, we are prepared to work with DFS cooperatively, and will also offer several suggestions to ensure that our relationship, and the regulation of our industry, is efficient and cost effective for New York and our industry. We also applaud the philosophy of the Administration of Governor Cuomo that "New York is Open for Business," and I will highlight how the check cashing industry is a source of employment and an integral part of the New York business community.

First, I would like to spend just a few minutes providing an industry overview.

The licensed check cashing industry was created in 1944, when the New York State Legislature passed Article 9-A of the New York Banking Law. From 1944 through 2011, the check cashing industry was regulated by the New York State Banking Department.

According to the most recent industry-wide data that we have, in 2008, the industry cashed approximately 30 million checks, having a face value of almost \$16 Billion dollars. We cash primarily payroll checks, government issued benefit checks such as Social Security and SSI, and insurance proceeds checks. Pursuant to the Banking Law, our check cashing fees have always been set by the Superintendent of Banks. Currently, the maximum we charge to cash a check is \$1.86 for every \$100 of the face value of a retail check, in other words, a check made payable to an individual. At 1.86%, New York's check cashing rate is the lowest in the country.

In addition to check cashing, we provide a wide array of other financial services. These include:

- Money remittances, also known as money transfers, through such widely-known companies such as Western Union and Money Gram.
- Electronic bill payment services. We currently accept bill payments from hundreds of billers, including Con Edison, Verizon and many auto loan providers, for bills such as utilities, phone service and car payments.
- We also collect rent payments for New York City Housing Authority developments. In fact, check cashers process 99% of all in-person payments made to NYCHA.
- We issue money orders and, after the US Post Office, are the largest providers of money orders, for which we charge an average of 69 cents.

- We also distribute debit cards, which function as a virtual wallet for our customers, allowing them to park their funds on a branded Visa or Mastercard, and to utilize these cards for debit and other transactions that cannot be conducted without plastic.

Consumers also see their local licensed financial service center as a source of innovation. The Netspend National Savings Program, developed with FSCNY, is a prime example. This first-of-its-kind program offers a no-fee savings account linked to Netspend's All-Access Prepaid Card. Savings accounts currently earn interest at 5.00 percent APY and are FDIC insured. This program allows customers to easily transfer money between the debit card and their savings accounts. The savings accounts require no minimum balance and carry no fees. The Netspend National Savings Program is available to consumers through FSCNY member stores. Since its inception, more than 104,000 customers have deposited approximately \$100 million into their savings accounts.

As with any retail business, our customers are our most important asset. We estimate that between 800,000 and 1 million New Yorkers utilize our services each year. Many of our customers fall within the classification of low and moderate income. What might surprise many here is that more than 69% of our customers also maintain bank accounts. Nevertheless, they continue to choose to use check cashers because of what we provide them: access, liquidity and convenience.

*(Not included in oral testimony)*

*A June 2008 study by the New York City Department of Consumer Affairs, Office of Financial Empowerment, confirmed the reasons behind this consumer behavior. Titled: "Neighborhood Financial Services Study: An Analysis of Supply and Demand in Two New York*

*City Neighborhoods,” the study stated that: “NFS Study findings suggest that the fundamental mismatch between current financial products offered and consumer transactional needs—getting cash, paying bills, and buying goods—appears to be the major determinate in whether and how individuals with low incomes use mainstream financial institutions.”<sup>1</sup>*

Our members’ stores keep convenient hours (up to 24 hours-per-day, seven days per week), have friendly employees who speak customers’ language and offer a wide array of services. Our industry also takes great pride in offering our customers complete transparency. Customers know up front how much each transaction will cost. There are no surprises at the end of the month. These are some of the reasons why thousands of New Yorkers find using a financial service center preferable to using a bank for certain services.

*(Not included in oral testimony)*

*A recent national customer satisfaction survey confirmed the popularity of FSCs. It found that 92% of respondents rated the overall value for the money of products and services from ‘excellent,’ to ‘good.’ In addition, 95% of respondents rated overall quality of services received from ‘excellent’ to ‘good.’ These are remarkable approval rates, and they help confirm that customers use our stores, not because they have to, but because they want to. And, in the process of focusing on our customers and satisfying their needs, we have forged real relationships in the communities we serve.*

We also partner with numerous credit unions to offer their customers expanded access to their accounts. Under the PayNet program customers can make deposits and withdrawals from their credit union accounts at local participating check cashing stores, giving them significantly

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<sup>1</sup> NYC Neighborhood Financial Services Study, NYC Department of Consumer Affairs, office of Financial Empowerment, June 2008, Page 8.

greater access to their money. There are currently 8 credit unions partnering with area financial service centers to offer this expanded network of “branch offices” to their members.

What may be of particular interest to people at this hearing is that licensed check cashers are strictly regulated at both the federal and state levels. We estimate that it costs approximately \$35,000 to successfully navigate the process to obtain a check cashing license for a new location. This includes the licensing application fees, related professional services and associated business costs. The process requires production of a great deal of financial information, entering into a lease for a specific location, establishing that a community need exists for our financial services, producing Bank Secrecy Act and Patriot Act compliance materials, establishing adequate financial resources, identifying business bank accounts and a \$100,000 line of credit, and adequately capitalizing the business.

The cost of obtaining a license is only the beginning. DFS and IRS audits are conducted regularly. We are required to submit audited financial statements each year.

Significantly, licensed check cashers are assessed by DFS which provides a significant source of revenue for its operating budget. Assessments are based on the volume of check cashing activity engaged in by a licensee. In 2011, the check cashing industry will pay \$5 million in assessments to DFS, or more than \$7,500 per store location.

So, having provided a bit of background about our industry, you may be asking yourselves, “Why is the check cashing industry here testifying at today’s hearing to discuss the merger of the Departments of Banking and Insurance?” The answer is really quite simple; we are here because we believe it is in our interest, and in the interest of the State of New York, that regulation and supervision of our industry be done in an efficient, and cost-effective way to ensure that our industry remains healthy and, yes, profitable. In this way we can continue to

provide necessary financial services to the hundreds of thousands of people who conduct their financial business at our locations. At the same time we can maintain and expand our employee base, in keeping with Superintendent Lawsky's stated goal of job creation.

In order to promote the efficiency and cost-effectiveness of regulation, we propose that DFS establish a formal working group consisting of representatives from the check cashing industry, a representative of the Superintendent and representatives from the Licensed Financial Services Division of DFS. Issues that could be discussed in the working group include:

1. Regulations that have become outdated or irrelevant in today's world of financial services.
2. Opportunities for DFS to make greater use of the existing distribution network represented by the state's check cashing industry.
3. The industry's need for up-to-date, industry-wide financial data, information which has not been provided by the Department since 2008.
4. Initiatives DFS can undertake to serve as a catalyst to bring together different segments of the financial services industry to foster innovation, job retention and creation while better serving the consumer.
5. Measures DFS can support to combat unlicensed check cashing. In this regard I draw your attention to a bill currently pending in both Houses of the Legislature. This bill, designated S.3361/A.6571, was sponsored by Senator Grisanti and Assemblywoman Peoples, respectively. If passed, this legislation would increase the penalties for unlicensed check cashing and thus help curb unlawful activities, helping ensure consumers don't get overcharged or abused.

These are but a few of the issues that could be explored in a working group setting; there are many others.

In addition to the specific issues to be explored, the regular exchange of information between DFS and the industry will create a better understanding of the day-to-day operations of check cashers as well as the impact, financial and otherwise, of regulations in effect or proposed. We also hope that regular exchanges will lead to DFS being not just the regulator of the check cashing industry, but also an advocate for it, as a responsible, regulated provider of critical, and affordable, financial services.

I greatly appreciate this opportunity to testify before you today and would be happy to answer any questions that you might have, either now or at a later time. Thank you.

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*Jason Carballo serves as the President of the Financial Service Centers of New York (FSCNY), the state trade association for more than 670 individual licensed financial service centers across New York. To learn more, please visit [www.fscny.org](http://www.fscny.org).*