



TOOLKIT

# ALTERNATIVE FINANCIAL SERVICES



**Community  
Economic  
Development  
Toolkit**

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***COMMUNITY ACTION PARTNERSHIP***

***ALTERNATIVE FINANCIAL SERVICES***

***TOOL KIT***

## **ALTERNATIVE FINANCIAL SERVICES**

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## **ALTERNATIVE FINANCIAL SERVICES**

The Alternative Financial Services Guide is intended for use by community development organizations for the following purposes:

1. Organizations wanting to learn about alternative financial services
2. Organizations considering development of alternative financial services for their community

### **BACKGROUND & INTRODUCTION**

Alternative financial services (AFS) refers to products and services that provide basic financial transactions utilized by low-income individuals and households. Retail businesses such as check cashers, pawn shops, and payday advance lenders are frequently found in low-income neighborhoods where few bank or credit union branches are located, and are jointly referred to as Alternative Financial Service Providers (AFSPs). These alternative financial services providers offer an array of services that are popular with low-income consumers who do not have bank accounts or who choose not to use banks for their daily financial transactions. Services include check cashing (for a fee that is typically a percentage of the check's face value), payday advance loans, money orders, wire transfers (including international remittances), utility bill payment, and sale of public transit passes.

Criticism over the fees charged by these businesses, especially for check cashing and payday advance loans, and concern over their 'predatory' nature and potential to lock low-income families in a cycle of debt, has led to experimentation with a variety of models to meet the same basic transactional needs of low-income households in lower cost, more responsible ways, with an eye toward helping them become more financially stable, as well as access more mainstream financial services, begin to save money/build assets, and ultimately become more self-sufficient.

A variety of efforts have been launched by community economic development organizations, particularly community development financial institutions (CDFIs) and community development credit unions (CDCUs), as well as by private sector banking institutions and big-box retail stores to better meet the transactional needs of the low-income population without relying on check cashers and similar alternative financial services providers.

This guide will examine the size of the check cashing/alternative financial services industry as well as estimates of the unbanked and underbanked populations in the U.S. by way of documenting the market size for alternative financial services. It will also explore the various models being used by CDFIs and other nonprofits to provide check cashing and other alternative financial services to low-income families in responsible and sustainable ways. It will then walk through the possibilities and considerations for a community development organization just beginning to explore engaging in providing alternative financial services as a new program or line of business.

## INDUSTRY/PROGRAM INFORMATION

### *A. Size of the Retail Alternative Financial Services Industry*

The FDIC estimated in 2009 that the AFS industry's transaction volume exceeds \$320 billion annually, with a caveat that this figure is likely understated, as estimates are not always available or updated for all industry segments. Moreover, precise data on the volume of AFS transactions are not available due to the absence of a single agreed-upon definition and scope of the industry, and because this sector is highly fractured among many different providers that are often small or privately held.<sup>1</sup>

Financial Service Centers of America (FISCA), the national trade association that represents nonbank financial service centers, estimates the size of the industry at 13,000 locations nationwide, conducting more than 350 million transactions worth \$106 billion to 30 million customers. Transactions include more than \$58.3 billion in check cashing transactions, \$17.6 billion in money orders sold, \$8.3 billion in wire remittances, \$13.2 billion in payday advances, and \$5.4 billion in sales of pre-paid stored-value cards.<sup>2</sup>

Check-cashing firms vary widely in size and scale from very small mom-and-pop outlets to publicly traded companies. Ace Cash Express, with about 1,700 stores, is the largest check-cashing company. Dollar Financial Corporation is the largest publicly traded check-cashing company, with about 470 stores in the United States.<sup>3</sup>

### *B. Products, Services, and Fees*

In addition to check cashing, AFS providers offer an array of other products and services, including money orders, automated teller machine (ATM) access, electronic bill payment, payday advance loans or pawnbroking services, and electronic tax preparation and filing. Check cashers also sometimes sell public transit passes, postage stamps, and phone cards; issue motor vehicle license plates and titles; process parking tickets; and provide photocopying and faxing services. In other words, AFS outlets seek to offer the full range of daily financial transactions that may be needed by lower-income households. This convenience is frequently touted as one of the attractions and advantages of AFS providers over traditional financial institutions.<sup>4</sup>

Check cashers typically charge 1 to 4 percent of the face value of the check, depending on the check issuer and subject to limitations of state law. The largest check cashing businesses in the country tend to charge around 3 percent of the check amount. About two-thirds of checks cashed at nonbank outlets are payroll checks; another 18 percent are state or federal benefits checks. FDIC analysis of Dollar Financial's operations shows that net write-offs, while increasing, remain less than 1 percent of the face

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<sup>1</sup> Alternative Financial Services: A Primer. (2009.) FDIC. [http://www.fdic.gov/bank/analytical/quarterly/2009\\_vol3\\_1/AltFinServicesprimer.html](http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html) (last accessed January 25, 2012). [http://www.fdic.gov/bank/analytical/quarterly/2009\\_vol3\\_1/AltFinServicesprimer.html](http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html) (last accessed January 25, 2012).

<sup>2</sup> Data from Financial Service Centers of America (FISCA) website, [www.fisca.org](http://www.fisca.org), accessed January 25, 2012.

<sup>3</sup> Alternative Financial Services: A Primer. (2009.) FDIC. [http://www.fdic.gov/bank/analytical/quarterly/2009\\_vol3\\_1/AltFinServicesprimer.html](http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html) (last accessed January 25, 2012).

<sup>4</sup> Ibid.

value of checks cashed, suggesting that, given the generally low-risk nature of most checks cashed, losses tend to be low.<sup>5</sup>

Payday advance loans are another of the major (and most controversial) services provided by AFS retailers. These are high-cost-, small-dollar, short-term loans, due in full on the borrower's next payday. In the thirty-two states where these are legal (APR not regulated or defined as being constrained by the state's usury cap) and interest rates unrestricted, effective APRs average 417 percent.<sup>6</sup> In addition (and even in states where the standard payday advance are strictly regulated or prohibited), AFS providers offer car title loans and six-month and one-year unsecured installment loans at often unlimited interest rates.<sup>7</sup>

### **C. Other Retail Providers of Alternative Financial Services**

Retailers are increasingly recognizing the revenue-generating potential of check cashing and other transaction-based financial services. In particular, Wal-Mart, the world's largest retailer, began operating MoneyCenters inside its stores in 2002 to provide check-cashing services. In fiscal 2008, MoneyCenters cashed 45 million paychecks with a face value of \$17 billion and processed more than 2 million money order, remittance, and check-cashing transactions per week; the volume of these services grew more than 40 percent in the retailer's 2008 fiscal year, making Wal-Mart the '800-pound gorilla in competition to mom-and-pop check cashing outlets.<sup>8</sup> As with its typical pricing, Wal-Mart undercuts the competition on check cashing fees; it charges a flat \$3 fee for checks with values up to \$1,000 and \$6 for checks up to \$5,000.<sup>9</sup> In addition, Wal-Mart has entered the pre-paid card market. It sells the most popular and recognizable "Green Dot" card in its stores, and represents 64% of the card's sales. Wal-Mart cut the cost of the card from \$9 to \$3, and also bought a stake in the company in 2010.<sup>10</sup>

Convenience store chain 7-Eleven Inc. also offers check cashing, money orders, bill pay, and money transfer services in select stores through approximately 2,000 self-service V-Com kiosks.<sup>11</sup> Big box retailer Best Buy began offering bill payment services through kiosks in its stores in 2011. The kiosks are

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<sup>5</sup> Ibid.

<sup>6</sup> Borné, R., Frank, J., Smith, P., and Schloemer, E. (2011). Big Bank Payday Loans: High-interest loans through checking accounts keep customers in long-term debt. Center for Responsible Lending. <http://www.responsiblelending.org/payday-lending/research-analysis/big-bank-payday-loans.html> (Last accessed January 25, 2012)

<sup>7</sup> Small Dollar Loan Products Scorecard – Updated. (2010). National Consumer Law Center.

<sup>8</sup> Ibid.

<sup>9</sup> Kawamoto, D. (2011.) Wal-Mart Expands Check Cashing Services. *Daily Finance* 9 August. <http://www.dailyfinance.com/2011/08/09/wal-mart-expands-check-cashing-service/> (last accessed January 25, 2012)

<sup>10</sup> Mui, Y. (2011). Retailers offer financial services to 'unbanked'. *Washington Post* 31 January. <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/31/AR2011013106177.html?hpid=topnews>. (Last accessed January 25, 2012)

<sup>11</sup> Alternative Financial Services: A Primer. (2009.) FDIC. [http://www.fdic.gov/bank/analytical/quarterly/2009\\_vol3\\_1/AltFinServicesprimer.html](http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html) (last accessed January 25, 2012).

operated by Tio Networks and are intended to cater to Latino customers who may be less trustful of banks.<sup>12</sup>

#### **D. Banks Offering Check Cashing and other Alternative Financial Services**

An increasing number of banks also offer fee-based check-cashing services for non-accountholders, frequently with the goal of migrating check-cashing customers to more traditional bank products. For example, KeyBank in Cleveland, Ohio, has been experimenting with offering 1% -fee check cashing, money orders, and other transactional services, along with financial education classes, under a program called *KeyBank Plus* since 2004.<sup>13</sup> KeyBank now operates KeyBank Plus Centers in some neighborhoods – small walk-in service centers offering check cashing and money orders without being full-service branches.<sup>14</sup>

Birmingham, AL-based Regions Financial Corp. began offering a suite of services known as “now banking” in 2011. Seeking to attract new customers as well as get more business from 30% of its existing accountholders it found to be using AFS, Regions expanded check cashing services (fee between 1.5 percent and 3 percent of the check amount, with a minimum fee of \$3), and began selling reloadable prepaid cards, money transfers, and walk-in bill payment services.<sup>15</sup>

First National Bank of Syracuse, Kansas, operates an innovative branch in the world's largest beef-processing plant and, among other things, cashes close to 400 payroll checks a week through an ATM.<sup>16</sup>

Some major banks have also begun offering pre-paid and reloadable debit cards as a means for unbanked and underbanked low-income consumers to manage their money without availing themselves of AFS providers. American and Express and U. S. Bancorp have offered these products on the market in the past year.<sup>17</sup>

The longest-running and perhaps most innovative effort of a private bank to meet low-income consumers’ transaction needs is the “Cash & Save” program offered by Union Bank of California (UBOC). Beginning in 1993, UBOC established “Cash & Save” program, offering low-cost check cashing to non-accountholders through dedicated teller windows in some of its branches. Taking the program to a new level in 2000, UBOC bought a 60% stake in Nix Check Cashing. In partnership with Operation HOPE, a nonprofit offering financial education and counseling, UBOC established dedicated service windows inside Nix Check Cashing outlets to provide access to UBOC account services as well as financial education resources.<sup>18</sup>

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<sup>12</sup> Ibid.

<sup>13</sup> Finkle, Victoria. (2011) Banks Begin Rolling Out Services for the Poor. *American Banker* 10 Nov.

<sup>14</sup> Information from KeyBank website: <https://www.key.com/personal/checking/key-bank-plus-check-cashing.jsp>, accessed January 25, 2012.

<sup>15</sup> Finkle, Victoria. (2011) Banks Begin Rolling Out Services for the Poor. *American Banker* 10 Nov

<sup>16</sup> Alternative Financial Services: A Primer. (2009.) FDIC. [http://www.fdic.gov/bank/analytical/quarterly/2009\\_vol3\\_1/AltFinServicesprimer.html](http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/AltFinServicesprimer.html) (last accessed January 25, 2012).

<sup>17</sup> Ibid.

<sup>18</sup> Cash & Save – Union Bank of California. (2003.) Part of a series: Innovations in Personal Finance for the Unbanked: Emerging Practices from the Field. Fannie Mae Foundation.



The Nix partnership ultimately ended, and today UBOC operates 16 Cash & Save locations in low-to-moderate income neighborhoods throughout California. Most are a dedicated teller window inside a traditional UBOC branch, while others are mini-branches in grocery stores. Through Cash & Save, UBOC through which it offers 1-1.5% check cashing services and transitional (electronic-access-only) accounts to low-income customers.<sup>19</sup> (Nix Check Cashing, meanwhile, now has an agreement with Kinecta Federal Credit Union to provide access to its account services through its check cashing outlets.<sup>20</sup>)

Several major banks also now offer small-dollar loan ‘checking account advances’ or ‘direct deposit advances’ to accountholders. These products function nearly identically to traditional payday advance loans. The bank provides advance funds to customers who are overdrawn or need cash to manage expenses until payday, and then uses the next direct deposit to cover the loan and fee. While banks tout this as a low-cost alternative to payday lending, advocates criticize the practice as carrying an effective APR of 365% and as evading and undermining state restrictions on payday lending as well as federal protections from payday lending for military families.<sup>21</sup>

### ***E. Size of the Market for Alternative Financial Services***

Customers who utilize alternative financial services are typically ‘unbanked’ – meaning they have no checking or savings account, or ‘underbanked’ – meaning they may have a bank account, but do not utilize it to conduct their basic household transactions, using instead alternative financial services. In 2009, the FDIC conducted the authoritative study of banking and financial services behavior in the nation. Key overall findings of this study include the following<sup>22</sup>:

- An estimated 7.7 percent of U.S. households, approximately 9 million, are unbanked. These households do not have a checking or a savings account.
- The proportion of U.S. households that are unbanked varies considerably among different racial and ethnic groups, with certain racial and ethnic minorities more likely to be unbanked than the population as a whole. Minorities more likely to be unbanked include blacks (an estimated 21.7 percent of black households are unbanked), Hispanics (19.3 percent), and American Indian/Alaskans (15.6 percent). Racial groups less likely to be unbanked are Asians (3.5 percent) and whites (3.3 percent).
- In addition to the unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked. These households have a checking or savings account but rely on alternative financial services. Specifically, underbanked households have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years.
- Certain racial and ethnic minorities are more likely to be underbanked than the population as a whole. Minorities more likely to be underbanked include blacks (an estimated 31.6 percent),

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<sup>19</sup> Cash & Save Plans Growth. (undated.) [https://www.unionbankcareers.com/.../P3\\_Article\\_Cash\\_and\\_Save.pdf](https://www.unionbankcareers.com/.../P3_Article_Cash_and_Save.pdf)

<sup>20</sup> Information from Nix Check Cashing website: <http://nixcheckcashing.com/kinecta.aspx>. Last accessed January 25, 2012.

<sup>21</sup> Borné, R., Frank, J., Smith, P., and Schloemer, E. (2011). Big Bank Payday Loans: High-interest loans through checking accounts keep customers in long-term debt. Center for Responsible Lending. <http://www.responsiblelending.org/payday-lending/research-analysis/big-bank-payday-loans.html> (Last accessed January 25, 2012)

<sup>22</sup> FDIC National Survey of Unbanked and Underbanked Households. (2009.) <http://www.fdic.gov/householdsurvey/> (last accessed January 25, 2012).

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American Indian/ Alaskans (28.9 percent), and Hispanics (24.0 percent). Asians and whites are less likely to be underbanked (7.2 percent and 14.9 percent, respectively).

- Taken together, at least 25.6 percent of U.S. households, close to 30 million, are either unbanked or underbanked. Approximately 60 million adults reside in these households.
- Overall, almost 54 percent of black households, 44.5 percent of American Indian/Alaskan households, and 43.3 percent of Hispanic households are either unbanked or underbanked.
- A substantial percentage of lower-income households are unbanked. Nearly 20 percent of lower income U.S. households—almost 7 million households earning below \$30,000 per year—do not currently have a bank account. Households with earnings below \$30,000 account for at least 71 percent of unbanked households.

Disaggregated data on the characteristics and behaviors of unbanked and underbanked are available from the FDIC in a supplemental report, including breakdowns of the use of AFSPs by demographics and use of particular AFSs by state.<sup>23</sup> In addition, the data can be examined at city and county levels, including demographic data and census tract-level maps, at <http://webtools.joinbankon.org/community/search>.

More recent and longitudinal research conducted by the Pew Health Group suggests that the ranks of unbanked are growing, rather than shrinking. Between 2009 and 2010, Pew found a net decrease in banked households among eight low-income neighborhoods in Los Angeles.<sup>24</sup>

In addition to examining the rates of un- and underbanked nationwide, the FDIC explored the use of alternative financial services by households, finding that approximately two-thirds of unbanked households utilize alternative financial services such as check cashing, pawn shops, and payday loans. This is on top of all underbanked households (18% of all households), who are defined as such by their reliance on alternative financial services.<sup>25</sup>

#### ***F. Reasons Low-Income Consumers Choose Alternative Financial Services***

The FDIC survey further inquired into the reasons for un- and underbanked households' choices to conduct their financial transactions through alternative financial services providers rather than banks. The majority of underbanked households cited convenience as their primary reason for utilizing alternative financial services providers for basic transactions such as check cashing and money orders; speed and cost of the transaction were also given as reasons for this choice.<sup>26</sup> Convenience being offered as the major cause for underbanked consumers choosing to do business with AFSPs rather than even their own bank would seem to support research suggesting that low-income consumers utilize AFSPs because of a lack of bank branches located in their neighborhoods – the so-called 'spatial void hypothesis'.<sup>27</sup> Moreover, other research has shown that AFSPs cluster in low-income neighborhoods;

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<sup>23</sup> Addendum to the 2009 FDIC National Survey of Unbanked and Underbanked Households: Use of Alternative Financial Services. (2010). <http://www.fdic.gov/householdsurvey/> (last accessed January 25, 2012)

<sup>24</sup> Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream. (2011). Pew Health Group. [www.pewtrusts.org/safebanking](http://www.pewtrusts.org/safebanking). (last accessed January 25, 2012)

<sup>25</sup> FDIC National Survey of Unbanked and Underbanked Households. (2009). <http://www.fdic.gov/householdsurvey/> (last accessed January 25, 2012)

<sup>26</sup> Ibid.

<sup>27</sup> Smith, M., Wackes, J., and Smith. T. (2009). Alternative Financial Service Providers and the Spatial Void Hypothesis: The Case of New Jersey and Delaware. Federal Reserve Bank of Philadelphia: Discussion Papers,

and even in neighborhoods where bank branches are located, AFSPs are still more prevalent and easily accessible, especially in census tracts that are disproportionately minority or poor.<sup>28</sup>

This would seem to suggest that ‘convenience’ means more than just location for un- and underbanked consumers, but also refers to the longer hours that AFSPs typically remain open, as well as the array of services they offer, allowing customers the opportunity to take care of most or all of their day-to-day household financial business in one location. This is supported by findings of a Pew Health Group study of low-income Los Angeles households, in which more than a third of underbanked consumers surveyed report using AFSPs because these providers enable them to conduct multiple transactions at once.<sup>29</sup>

Moreover, the same Pew study finds liquidity to be a major factor in underbanked customers’ continued use of alternative financial services; nearly half of underbanked survey respondents use AFS bill payment services because they are concerned about timing of transaction posting and cash liquidity. Thirty percent say they use AFSPs because they need access to their cash quickly.

## **COMMUNITY DEVELOPMENT MODELS TO PROVIDE ALTERNATIVE FINANCIAL SERVICES**

### ***A. Community Development Engagement in Financial Education and Asset Building***

At its root, concern over use of alternative financial services among low-income communities is concern over those families’ resulting lack of access to the financial mainstream and inability to build assets and become financially stable and self-sufficient. Community development organizations recognize that families who utilize AFSPs are paying too much for their day-to-day financial transactions and thus stuck in a cycle of inability to save for their future, or even for unexpected expenses. This recognition has led to a plethora of efforts over the past 15 years or so that are all characterized as falling under the ‘asset building’ umbrella. These efforts include financial literacy/capability education, credit counseling, individual development accounts (IDAs), and free tax preparation (VITA), geared primarily toward Earned Income Tax Credit (EITC) outreach.

Community development organizations have also partnered with financial institutions in an effort to connect low-income clients with basic banking accounts – through the First Accounts program intended to help federal benefits recipients join the banking system, as well as efforts to encourage tax preparation clients to direct deposit and save a portion of their EITC tax refund. In recent years, many community development agencies have become partners in local “Bank On” efforts – city- and region-wide collaboratives among local governments, financial institutions, and nonprofits to provide financial education and connect low-income unbanked with low-cost basic bank accounts the financial institutions partners have agreed to offer.

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Community Affairs Dept. <http://www.philadelphiafed.org/community-development/publications/discussion-papers/> (last accessed January 25, 2012)

<sup>28</sup> Sawyer, N. and Temkin, K. (2004). Analysis of Alternative Financial Service Providers. Prepared for the Fannie Mae Foundation by the Urban Institute Metropolitan Housing and Communities Policy Center. [www.urban.org/uploadedpdf/410935\\_altfinservproviders.pdf](http://www.urban.org/uploadedpdf/410935_altfinservproviders.pdf). (last accessed January 25, 2012)

<sup>29</sup> Slipping Behind: Low-Income Los Angeles Households Drift Further from the Financial Mainstream. (2011). Pew Health Group. [www.pewtrusts.org/safebanking](http://www.pewtrusts.org/safebanking) (last accessed January 25, 2012)

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Community development credit unions have sought to respond directly to the retail banking needs of low-income customers in a variety of ways – in some cases competing with AFSPs to offer check cashing and small-dollar loans), and in other cases partnering with check cashers to provide improved access to credit union deposit accounts and financial education. These efforts are detailed below.

### **B. Community Development Check Cashing Models**

Community Development Finance (CDF) launched Community Check Cashing, the first non-profit, full-service check-cashing store in the nation, in the Fruitvale section of Oakland, California, in 2009. The store offers financial services at lower cost than traditional check cashing outlets, including check cashing (with 1% fee), bill payment, money orders, money transfers, and debit cards. In 2010, CDF rolled out an alternative payday loan product that costs \$5-\$7.50 per \$100 borrowed (assuming 14-day loan period), compared to market rate of \$15/\$100 borrowed. The store also offers a small-dollar credit repair loan that costs \$3.75/\$100 borrowed. CDF tries to mitigate default risk by using more careful screening and application processes than payday lenders. In addition, CDF offers low-cost financial coaching and training for households as well as support for small businesses, social services referrals, and creation of checking and savings accounts through bank and credit union partners.<sup>30</sup>

A similar model is Self-Help's Micro Branch, a partnership between the Center for Community Self-Help (one of the oldest and most reputable community development financial institutions in the country) and Citi Community Development, which provided \$200,000 in capital to start the Micro Branch. The first Micro Branch opened in East San Jose, California, in 2010. The Micro Branch, like Community Check Cashing, is a sort of check casher-credit union hybrid, which provides the services and operating hours of a check cashing outlet, but also offers 'in-line financial education' by tellers specially trained to provide bite-sized pieces of financial management concepts intended to encourage customers to consider opening checking or savings accounts, or accessing responsible loan products.<sup>31</sup>

### **C. Community Development Credit Union – Check Casher Partnerships**

Rather than compete with check cashers, Bethex Federal Credit Union in the Bronx established a partnership to leverage their multiple locations in low-income neighborhoods to create an unprecedented and otherwise unaffordable network of branches for a community development credit union. Beginning in 2001, Bethex and RiteCheck, a check cashing company operating 11 stores in New York, launched a cooperative arrangement that allowed Bethex members to conduct deposits and withdrawals at the check casher's outlets through point-of-banking (POB) terminals for no fee. Bethex members were also able to cash Bethex-issued checks for free (Bethex absorbed this cost) under the original agreement. Today, the network of participating check cashers has expanded to 130 outlets throughout New York City, and Bethex members now pay a discounted 1.1% check cashing fee at participating stores.<sup>32</sup> Bethex also conducted marketing outreach to open new accounts by setting up a

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<sup>30</sup> Leibsohn, D. (2011). Community Perspectives: Community Check Cashing. *Community Investments* (Federal Reserve Bank of San Francisco) 23: 1 (Spring): 9-11.  
<http://www.frbsf.org/publications/community/investments/1104/index.html> (last accessed January 26, 2012)

<sup>31</sup> Citi and Self-Help Expand Micro Branch Model to Move People Away from Alternative and Often Costly Financial Services. (2011). *Business Wire* 15 August. <http://www.businesswire.com/news/home/20110815005979/en/Citi-Self-Help-Expand-Micro-Branch-Model-Move> (last accessed January 25, 2012)

<sup>32</sup> Information from Bethex Federal Credit Union website: [www.bethexfcu.org](http://www.bethexfcu.org). (last accessed January 25, 2012)

table in the lobby of the check cashing outlets for a few weeks at a time, and by training check cashing tellers to provide information about Bethex accounts to customers.<sup>33, 34</sup>

Influenced by the Bethex-RiteCheck model, Bon Secours Maryland Foundation and Operation ReachOut SouthWest (OROSW), both community development organizations working in Baltimore, created Our Money Place Financial Services Center in 2003. The financial services center is a nonprofit collaboration of Bon Secours and OROSW with the Social Security Administration (SSA) Baltimore Federal Credit Union (now Security Plus FCU) and A&B Check Cashing. (The check-cashing partner is now QuickCash.<sup>35</sup>) Our Money Place was a new retail operation, housed in a former bank branch in a busy shopping center in southwest Baltimore. The facility offers a mix of check casher and credit union services; one credit union teller is on site 30 hours/week to open accounts, take deposits, and process loan applications. The credit union also operates an ATM on site and shares the revenues with the Our Money Place nonprofit. Two other teller windows are occupied by check cashing employees who provide the traditional array of financial services. Credit union members receive a 50% discount on cashing official checks and checks drawn on the SSA credit union for the first month of their membership; regular fees apply after that. In addition to credit union and check casher services, the Our Money Place nonprofit partners employ a full-time financial services 'recruiter', whose 'office' is in the lobby of the center and talks with customers to make them aware of financial education and counseling, free tax preparation, and career development services available at the Bon Secours Family Support Center close by.<sup>36</sup>

## **PROCESS: EXPLORING ALTERNATIVE FINANCIAL SERVICES ENGAGEMENT**

### **A. Due Diligence/Market Research**

#### **1. Existing Alternative Financial Services**

To understand the local market for alternative financial services, community development organizations must be thoroughly aware of the existing retail financial services within their target communities, both as possible competition and as potential partners in an effort to serve low-income families in a more affordable and responsible way. CDOs should do an exhaustive inventory of check cashing and other AFSPs, as well as existing bank and credit union branches within their footprint. This will include understanding the services and fees offered by each of these kinds of businesses. For check cashers, CDOs will want to fully understand services offered, fees, hours, and operating methods. It is important to be fully aware of the checking and savings account options offered by local banks and credit unions, and their accessibility and feasibility to serve a low-income client base. Furthermore, this inventory will need to include the availability and rate structure of small-dollar loans as well as check cashing and

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<sup>33</sup> Bethex Federal Credit Union and RiteCheck Partnership. (2003.) Part of a series: Innovations in Personal Finance for the Unbanked: Emerging Practices from the Field. Fannie Mae Foundation.

[www.knowledgeplex.org/download-doc.html?id=5622](http://www.knowledgeplex.org/download-doc.html?id=5622) (last accessed January 25, 2012)

<sup>34</sup> Stegman, M., and Lobenhofer, J. (2002). Bringing More Affordable Financial Services to the Inner City: The Bethex Federal Credit Union/RiteCheck Cashing. Inc. Partnership. *Building Blocks*. Fannie Mae Foundation 3: 3 (Winter). <http://www.ccc.unc.edu/publications.php#financial>. (last accessed January 25, 2012)

<sup>35</sup> Information from Bon Secours of Maryland Foundation website: [http://www.bonsecoursmaryland.org/our\\_money\\_place.html](http://www.bonsecoursmaryland.org/our_money_place.html) (last accessed January 26, 2012)

<sup>36</sup> Using Fringe Products as a Doorway to the Mainstream: Building Check-Cashing Partnerships. (2005). Center for Financial Services Innovation. <http://cfsinnovation.com/node/440390> (last accessed January 26, 2012)

other fee-based services offered by the financial institutions. For credit unions in particular (especially geographically-defined community development credit unions), it is advisable to do an assessment of capacity to adequately serve the CDO's existing client community.

## **2. Market Demand for Alternative Financial Services**

It will also be essential to have a thorough knowledge of the unbanked and underbanked population within the target community – their number, household characteristics, and financial services behaviors, preferences, and needs. As mentioned earlier in this toolkit, the FDIC findings on the rate of un-underbanked consumers are available at the city level through the Bank On network website (link available in the 'Resources' section at the end of this document). The FDIC also provides specific data on the overall use of alternative financial services products by demographic characteristics at state level, as well as use of particular AFS products (not demographically disaggregated) at the state level in an addendum to the 2009 report available on the agency's website.

CDOs may also wish to obtain a more nuanced understanding of the financial services needs and preferences of their particular client communities by conducting surveys or focus groups, and/or by communication with other agencies working in the same area regarding the observed needs for financial services within the community. This examination should attempt to estimate the current costs to the target client population for conducting their basic household financial business.

## **3. Gap/Opportunity Analysis:**

Due diligence ultimately means that the organization must consider where, within the market assessed above, it might be positioned and able to offer a service that will provide lower-cost financial services or serve as an intermediary to connect clients with available lower-cost financial services that will help to keep more income, enter financial mainstream, and build assets.

## ***B. Organizational Considerations – Questions to Ask***

### **1. Does program work in alternative financial services fit with the organization's existing mission and organizational culture?**

- Is engaging in providing alternative financial services (or connecting clients to them in some way) consistent with the organization's mission and core values?
- Is an alternative financial services focus appropriate for the organization's target client base? Will it expand the organization's client base, or might it shift focus to a different client base?
- Would an alternative financial service focus support and enhance, or detract from the organization's overall community economic development approach and strategy?

2. **What is the “value added” for this organization to engage in offering alternative financial services?**

- How can organization build on its existing and unique assets (knowledge of or access to specific neighborhood or client base, etc.) to capitalize on unmet demand for financial services as identified in opportunity analysis?
- Does/has the organization engaged in other asset-building efforts such as financial education/counseling, tax preparation, IDAs, etc.? How might expanding this work or integrating it with other asset building or financial services efforts create more value for the clients served?

3. **What is the organization’s capacity to engage in an alternative financial services program or project?**

- Does the organization have any background in or understanding of providing financial services?
- Does it/has it ever operated as a retail or walk-in demand service? Is that in keeping with its business approach?
- Does it have facilities or technology (or access to these elements) to offer retail financial services?
- Does the organization have CDFI or other financial services certification? Is it interested in pursuing certification?
- Does the organization have any partnerships with financial institutions it can leverage to offer financial services?
- Does organization have capacity to provide education?
- Could organization effectively serve as conduit connecting existing clients to improved financial education and services?
- How does organization work collaboratively with partners and stakeholder organizations?

**C. *Selecting an Approach***

As detailed in section III of this guide, there are a variety of existing efforts to improve the quality and affordability of financial services available to low-income communities, and a core of CDFIs already active in and knowledgeable of the market, available technology, and promising trends. Given this, community development organizations are strongly encouraged to explore partnerships with existing CDFIs within their service area, and/or to tap into regional or broader efforts to serve the unbanked/underbanked market. Possible approaches are outlined below. Note that the options presented fall along a continuum from a relatively simple and logical extension of services offered to more significant and challenging. Organizations moving into the area of targeting the needs of the un- and underbanked are urged to consider pursuing a progressive path through these options.

1. **Provide financial education and link low-income clients to appropriate, non-predatory financial services.**

Engage with existing community/regional “Bank On” or other collaborative effort to bank the unbanked/underbanked by providing education regarding financial choices, and linkage to affordable and viable financial services products. If one does not exist, organizations may seek to

convene organizations with similar interests in order to initiate such an effort. If the organization has not previously been engaged in asset building services, their effort is likely to begin with financial education and/or free tax preparation sites/EITC outreach in order to establish a baseline connection to clients and their needs.

**2. Collaborate with financial institution partner to target products/services to low-income client community.**

Utilize financial education as a gateway to mainstream/affordable financial services; and use access to financial services as an incentive to complete financial education/counseling/coaching. Connect client base directly with innovative, affordable financial products offered by CDCU or bank partner; possibly work with financial institution partner(s) to offer new products, services, or approach to better serve low-income families in target community.

This approach would also include improving the accessibility of affordable financial services for the target neighborhood or community. Encouraging a bank or credit union to establish a new presence within the community and co-marketing its location and products might achieve this. Alternatively, CDO offices or service facilities might serve as a full- or part-time 'micro-branch' where clients can conduct some basic banking transactions.

**3. Create a hybrid check casher-credit union partnership.**

The models provided by Bethex and Our Money Center demonstrate that using existing alternative financial service provider infrastructure and technology may provide an effective way to draw consumers who typically utilize check cashing services into financial education and more traditional banking relationships by meeting them where they are. Here, a nonprofit CDO might serve as broker to identify appropriate financial institution and private sector check cashing partners, establish the terms of a shared facility and services agreement, and provide connections to appropriate financial education and products for customers.

**4. Independently offer alternative financial services.**

Organizations working in isolated or very underserved areas may choose to establish a retail financial services presence such as a nonprofit check cashing outlet, based on the lessons and best practices of existing network of organizations engaging in financial services innovation. However, the startup burden for this approach is extremely high, and agencies should consider it only if no other feasible options for partnership or leveraging other resources exist. Moreover, in order to provide effective asset building opportunities, organizations will still need to establish financial institution partnerships in order to have both deposit and longer-term lending options to which to connect clients. Alternatively, organizations may seek to acquire CDFI status themselves in order to offer a comprehensive array of banking products, but this option is also extremely cumbersome and recommended only as a last resort.



## **Resources**

**Center for Financial Services Innovation** - [www.cfsinnovation.com](http://www.cfsinnovation.com)

Provides research, best practices on full range of efforts to draw low-income and underbanked into the financial mainstream and build assets. Serves as the major network/intermediary for CDFIs (primarily) engaged in alternative financial services.

**FDIC** – [www.fdic.gov](http://www.fdic.gov)

Has conducted the most detailed research and analysis unbanked/underbanked consumers nationwide and their use of alternative financial services, as well as documented banks' efforts to serve underbanked.

**Bank On** – [www.joinbankon.org](http://www.joinbankon.org)

National network of local and regional efforts to connect low-income communities to financial mainstream; also offers searchable community-level database of FDIC unbanked survey data.