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The Honorable William Proxmire
Chairman, Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Fernand J. St Germain
Chairman, Committee on Banking, Finance
and Urban Affairs
House of Representatives

This report presents the results of our study of issues related to the cashing of government checks. This study responds to the requirement in Title X, Section 1001 of the Competitive Equality Banking Act of 1987.

Copies of this report are being sent to the Chairman, Board of Governors of the Federal Reserve System; the Comptroller of the Currency; the Chairman, Federal Deposit Insurance Corporation; the Chairman of the Board, National Credit Union Administration; the Chairman, Federal Home Loan Bank Board; the Secretary of the Treasury; the Secretary of Health and Human Services; the Secretary of Agriculture; and other interested parties.

Richard L. Fogel
Assistant Comptroller General

Executive Summary

Purpose

Consumer groups and others believe that many low-and moderate-income consumers without banking accounts pay too much to have their government checks cashed. Banks and savings and loan institutions, they believe, should cash such checks for nondepositors. Banking representatives say banking institutions should not have to bear the costs of cashing nondepositors' checks.

The Competitive Equality Banking Act of 1987 required GAO to study and report on the extent to which individuals who receive Treasury checks have difficulty cashing them. GAO objectives were to obtain information on

- the check-cashing policies of banking institutions and why they resist mandatory check-cashing for nondepositors;
- the characteristics of those who do not have banking accounts—those individuals most likely to be having difficulty cashing government checks at banks; and
- governmental responses to check-cashing issues.

Background

Consumer groups have supported legislation requiring banking institutions to cash nondepositor checks for free or for a low fee. GAO could not locate any current reliable nationwide surveys that would enable policy makers to determine just how significant check cashing problems are for low- to moderate-income consumers. (See pp. 8-10.)

In agreement with the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs, GAO analyzed available information on individuals' check cashing experiences and options and interviewed officials of federal bank regulatory agencies, federal program agencies, consumer and banking associations, and state and local governments. Finally, GAO analyzed a Bureau of the Census data base to determine the characteristics of recipients of government checks who do not have banking accounts. (See pp. 10-12.)

Results in Brief

GAO found that:

- Banking institutions in urban areas appear to be less likely than those in rural areas to cash nondepositor government checks. Check-cashing centers will cash them for a fee, which consumer groups often view as excessive; grocery and other stores will also cash checks, although they may charge a fee or require a minimum purchase.

- According to the latest Bureau of the Census data, a majority of nondepositor families had estimated annual incomes of under $10,000, and most family heads had 12 years of education or less. Bureau of the Census data also showed that of nondepositor families receiving government checks, the three most common types of checks were for Social Security, Aid to Families With Dependent Children, and Supplemental Security Income benefits.
- Some federal, state, and local governmental units have taken steps to improve recipients' access to cash or other benefits and/or to lower their costs, including use of electronic funds transfer technology.

GAO Findings

Access to Check Cashing

Nondepositors currently cash government checks at banking institutions, at check-cashing centers, at grocery and other stores, and through friends and relatives. They may or may not be charged a fee.

Available data suggest that banking institutions in urban areas are less likely to cash checks for nondepositors. Representatives of banking associations cite costs associated with cashing nondepositor government checks, including crowded lobbies that discourage paying customers, potential fraud, and unreimbursed expenses. While GAO was unable to obtain a definitive estimate of how much it costs a banking institution to cash a check, it does not dispute that such costs exist. (See pp. 13-18.)

Characteristics of Nondepositors

Because government check recipients who do not have an account at a banking institution are more likely to experience check-cashing problems, GAO sought to profile their characteristics. GAO's analysis of the 1985 Bureau of the Census national Survey of Income and Program Participation, the most recent data containing the needed information, showed the following:

- About 17 percent of the 92.9 million families in the United States did not have banking accounts. Fifty-six percent of these families had estimated annual incomes below $10,000, and 81 percent of the family heads had 12 years of education or less. Many nondepositor families received federal, state, and/or local government checks. The most common checks received were for Social Security benefit (3.4 million families), Aid to Families with Dependent Children (2.0 million families), and Supplemental Security Income (1.1 million families) programs. (See pp. 19-22.)

- Although Social Security beneficiaries represent the largest group of nondepositor families receiving government checks, 86 percent of all families receiving Social Security benefits had banking accounts. In contrast, only 25 percent of all families receiving Aid to Families with Dependent Children benefits and 50 percent of all families receiving Supplemental Security Income benefits had accounts. (See p. 22.)

According to consumer groups and others, the reasons why individuals do not have banking accounts include high service charges, minimum balance requirements, welfare regulations limiting beneficiaries' assets, mistrust of financial institutions, and inconvenient hours and locations of banking institutions. (See pp. 25-27.)

Governmental Responses

Some governmental entities have initiated programs and experimental projects using electronic technology to transfer benefits to recipients. At the federal level, the Social Security Administration has a new approach to encouraging direct deposit of payments to recipients' banking accounts. It is also working with the Department of the Treasury on an experiment to deliver Supplemental Security Income benefits through automatic teller machines and point-of-sale outlets. These and other efforts should help reduce check-cashing problems that some recipients of certain program benefits have experienced. (See pp. 28-39.)

Matters for the Consideration of Congress

GAO recognizes that there are costs associated with the cashing of government checks. If Congress determines that recipients of certain government checks should not bear these costs or should be assured of a low-cost option, it should consider encouraging methods that utilize plastic cards and electronic funds transfer technology.

Congress may also wish to consider requiring the Departments of Agriculture, Health and Human Services, and the Treasury, in consultation with state and local governments and banking and consumer groups, to assess the present delivery methods for all government benefits and to seek to develop coordinated delivery systems that would better meet the needs of recipients as well as reduce governmental delivery costs.

Agency Comments

Because of the nature of this report and time constraints, organizations were not asked to provide official comments.

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Abbreviations

CEBA	Competitive Equality Banking Act of 1987
GAO	General Accounting Office
SIPP	Survey of Income and Program Participation

Introduction

In August 1987, Congress passed the Competitive Equality Banking Act of 1987 (Public Law 100-86, 101 Stat 552, August 10, 1987), which requires us to do a study and report to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs on "the extent to which individuals who receive Treasury checks have difficulty cashing such checks."[1]

Access to check-cashing services at banking institutions[2] is a difficult, complex, and emotional issue. While consumer advocacy groups and others believe that many low- and moderate-income consumers have difficulty cashing government checks, little statistically valid data exist on the extent or cause of such difficulties. Furthermore, there is disagreement as to what constitutes "difficulty."

Consumer groups have supported legislation requiring banking institutions to cash nondepositor checks for free or for a low fee. They have said that low-income individuals are often forced into costly options when cashing their checks.[3] For example, an official from the Ohio State Consumers Education Association testified in May 1988[4] that before cashing a check, many banks require welfare recipients to open accounts for fees that they cannot afford, provide drivers' licenses that many do not have for identification, and stand in separate lines. A representative of the Consumer Federation of America[5] testified at the same hearing that people may pay staggering prices when relying on check-cashing centers or other unlicensed community locations, such as liquor stores, where price gouging is the norm and personal safety is in question. She

[1]The preliminary results of our study were presented in testimony by Richard L. Fogel, Assistant Comptroller General, General Government Programs (GAO/T-GGD-88-35), at hearings held by the Senate Banking Subcommittee on Consumer Affairs on May 18, 1988.

[2]In this report, the terms "banking institution" or "bank" refer to federally insured commercial banks, savings banks, and savings and loan institutions. Similarly, "banking account" refers to checking, savings, or similar accounts maintained at any of these institutions or credit unions.

[3]In March 1987, a proposed amendment to a bill, the Competitive Equality Banking Act of 1987 (CEBA), would have required depository institutions to cash nondepositor government checks free of charge. This amendment was passed by the Senate but was not included in CEBA as enacted.

[4]See testimony of Margaret Willis, Chairperson, Ohio State Consumer Education Association, before the Senate Banking Subcommittee on Consumer Affairs, May 18, 1988.

[5]A representative of the Consumer Federation of America said his organization consisted of over 230 local, state, and national consumer, senior citizen, rural, cooperative, and labor organizations that together have over 50 million members. Since 1968, it has represented these organizations before Congress and federal regulatory agencies on matters of concern to consumers. In the May hearings, it represented the American Association of Retired Persons, the Center for Community Change, the Consumers Union, the Association of Community Organizations for Reform Now, Public Citizen, and the U.S. Public Interest Research Group.

said this affects low- income people because high check-cashing costs are taken directly from their food or rent money.

We asked federal banking regulatory agency officials if their complaint handling systems had received complaints from individuals experiencing check-cashing problems. In all cases, they said complaints had been low. For example, in 1987 the Office of the Comptroller of the Currency received 14,596 written complaints from the public of which 71, or less than 0.5 percent, dealt with check-cashing problems. Officials of the Social Security Administration, which serves about 42 million individuals, and the Veterans Administration, which serves about 4 million individuals, also said that they have not received significant numbers of check-cashing complaints.

Although these federal officials said complaints were few, we do not believe this proves that a problem does not exist. Those affected may not be sufficiently sophisticated or motivated to contact the federal regulator of the involved banking institution. This possibility is suggested by experiences in New Jersey, where one study found that 49 percent of the individuals surveyed cashing government checks at state-regulated check-cashing centers were overcharged the legal limit, but only one complaint was submitted to the appropriate state agency in 2 years.[6] Officials at the American Association of Retired Persons said that they also believe check-cashing problems exist even though they have received very few complaints about check cashing from its approximately 27 million members.[7]

On the basis of the concerns expressed primarily by consumer groups, we believe that those without banking accounts, referred to as "nondepositors" in this report, are the most likely to experience problems. However, there is little definitive data on the scope of the problems these individuals experienced. In the 1980s, several organizations did

[6] A study done by the New Jersey Department of the Public Advocate reported that 322 of 662 individuals (49 percent) were charged more than the limits set by law while cashing government checks at state regulated check-cashing centers. ("Who's Checking?" An Investigation and Analysis of the Check Cashing Industry in New Jersey, the Cashing of Government-Issued Checks and the Regulatory Role of the State Department of Banking, Jan. 1988.) In her response to the study, the Commissioner of the New Jersey Department of Banking said that only one check-cashing complaint had been submitted to her department in 2 years.

[7] The American Association of Retired Persons is an organization that provides benefits, services, and privileges for its members.

studies that focus partially on the services banking institutions and check-cashing centers[8] offer. (See ch. 2.)

The Use of Checks by Federal, State, and Local Governments

Federal, state, and local governments routinely issue checks for a multitude of purposes, including payments to vendors, contractors, employees, retirees, welfare recipients, and others. The Consumer Bankers Association[9] estimated that approximately 8 billion government checks are written annually, constituting 20 percent of total check volume.

The federal government issued 559 million Treasury checks, valued at $624 billion, in fiscal year 1987. These checks constituted 63 percent of the 890 million Treasury payments valued at about $1.2 trillion. Other Treasury payments were made using electronic funds transfer. See appendix III for additional details on Treasury payments, including checks issued.

Objective, Scope, and Methodology

The Competitive Equality Banking Act of 1987 requires GAO to study the extent to which individuals who receive Treasury checks have difficulty cashing them. Designing and carrying out a national, statistically valid survey of Treasury check recipients, however, would have been costly and would have required more time than was available. Also, because we found that banking institutions and those representing check recipients made little distinction among checks from all levels of government, the term "government checks" as used in this report refers to federal, state, and local government checks, unless otherwise noted.

As agreed with the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance and Urban Affairs, the objective of our review was to examine and report on

- the check-cashing policies of banking institutions and nondepositor options for cashing government checks;

[8]As used in this report, check-cashing centers are businesses that deal primarily in cashing checks. According to the National Check Cashers Association, Inc., these businesses operate convenient neighborhood facilities to cash checks and offer a wide variety of ancillary services to the public, including issuing money orders, providing notary public service, arranging electronic money transfers, accepting utility payments, and providing credit card cash advances.

[9]A Consumer Bankers Association official said the association represents approximately 700 federally insured banks, savings and loan institutions, and credit unions that hold more than 80 percent of all consumer deposits and more than 70 percent of all consumer credit held by federally insured depository institutions.

- the characteristics of those who do not have banking accounts—those individuals most likely to be having difficulty cashing government checks at banks; and
- government responses to check-cashing issues.

We did an extensive literature search to identify available information and analyzed relevant studies and data. We also interviewed officials of concerned or involved organizations to understand the nature of check-cashing complaints. These included national and local consumer groups, social service groups, and welfare rights groups;[10] all the federal banking institution regulatory agencies;[11] federal program agencies (Social Security and Veterans Administrations); the Department of the Treasury; and banking institution and check-cashing trade association officials.[12] We also visited state and county officials in Ohio, Illinois, and Minnesota to observe first-hand the special arrangements they have made for making benefits available. In Ohio and Illinois, we met with local consumer and banking groups as well to obtain their views. We also attended a limited number of meetings and service center events where senior citizens and welfare recipients were present. At the meetings, we asked them about their check-cashing experiences.

Because we could not locate national data on the number of individuals who believed they were having problems cashing checks, we concentrated on profiling the characteristics of government check recipients whom we were told would most likely be having problems cashing checks at banks. Using the Bureau of the Census' Survey of Income and Program Participation (1985 data that became available in 1988), we determined the number of individuals receiving checks who did not have banking accounts. This analysis enabled us to determine both the characteristics of families without banking accounts and the types of government checks they received. Additional information on our methodology is given in appendix I. We did not verify the accuracy of

[10]Associations contacted included the Association of Community Organizations for Reform Now, the American Association of Retired Persons, and the Consumer Federation of America.

[11]The Federal Deposit Insurance Corporation, the Federal Reserve Board, the Federal Home Loan Bank Board, the Office of the Comptroller of the Currency, and the National Credit Union Administration.

[12]Associations contacted included the American Bankers Association, the Consumer Bankers Association, the National Check Cashers Association, the U.S. League of Savings Institutions, and the Independent Bankers Association of America.

Census' data; the Bureau of the Census has its own verification procedures. In addition, we also reviewed data from Federal Reserve-sponsored surveys regarding the characteristics of families without banking accounts.

There is no single definitive source for the volume and dollar values of Treasury payments by program. To develop such estimates, we worked closely with officials of the Treasury's Financial Management Service. This office maintains volume data and aggregate dollar value data. We also contacted appropriate federal program agencies to obtain data on the dollar values by program. Congressional offices have asked us to include this data in our report. The specific Treasury reports used are cited in appendix III, table III.1. We also obtained information on reclamation and declination[13] of Treasury checks from the Financial Management Service in order to determine fraud levels. Our work was done in accordance with generally accepted government auditing standards.

Because of the nature of this report and time constraints, organizations were not asked to provide official comments. Instead, their officials were given an opportunity to provide comments either on our May 1988 testimony on this subject or on the matters dealing specifically with their organizations. Any comments received have been incorporated and attributed as appropriate. Such input was sought from the federal banking regulators, the Social Security Administration, the Veterans Administration, the Department of Treasury, banking trade associations, and the Consumer Federation of America.

[13]Reclamation is when Treasury reclaims money from financial institutions that cash Treasury checks with forged or unauthorized endorsements. Declination is when Treasury refuses payment on Treasury checks that have been materially changed, such as on altered or counterfeit checks.

Check-Cashing Options of Families Without Banking Accounts

There is no single definitive nationwide or regional study of current check-cashing practices of banking or other institutions. Our analysis of the available data suggests, however, that banking institutions in rural areas are more likely than those in urban areas to cash nondepositors' government checks. Other check-cashing options for nondepositors include check-cashing centers, which are located in most states and whose check-cashing fees are regulated in several states; relatives or friends; and grocery and other stores. All of these options may involve fees or, in the case of stores, a minimum purchase.

Check-Cashing Practices of Banking Institutions

We made a nationwide statistically valid survey of fees charged by banks and thrifts for banking accounts and other services.[1] We found that as of mid-1985, about 86 percent of banks and 55 percent of thrifts cashed U.S. Treasury checks for nondepositors. Of that total, nearly 56 percent of banks and 84 percent of thrifts cashed Treasury checks free of charge. For those that charged for the service, the median fee was about $2.00.

In surveying one-quarter of its membership (1,767 banks) in 1984, the Independent Bankers Association of America found that 68 percent of the responding banks cashed nondepositors' government checks free of charge. According to an association official, this percentage was high because most member banks are locally owned and operated in small towns or rural areas. While only approximately one-third of the surveyed banks responded to the questionnaire, the official told us he believes most of the banks affiliated with his association cash checks free of charge for nondepositors.

Surveys made by consumer groups reveal different, though not necessarily contradictory, results from those obtained by us and the Independent Bankers Association of America. According to a study by the Association of Community Organizations for Reform Now, 12 percent of 344 financial institutions surveyed cashed government checks for nondepositors in 1986.[2] A 1988 Consumer Federation of America survey found that of 191 financial institutions, located primarily in urban areas, some 29 percent cashed government checks for nondepositors.[3]

[1] Banking Services: Changes in Fees and Deposit Account Interest Rates Since Deregulation (GAO/GGD-87-70, July 1987).

[2] Bankers Lock-Out Poor People (Apr. 17, 1986).

[3] Bank Fees on Consumer Accounts, The Fifth Annual National Survey (June 8, 1988).

This study also showed that 86 percent of the financial institutions offering check-cashing services for nondepositors charged a fee, which averaged $3.88 for a $300 government check. Consumer Federation of America surveys done in 1986 and 1987 reported similar results.

Our study was the only one that was based on random sampling that could be projected nationwide. The surveys done by the Independent Bankers Association of America, the Association of Community Organizations for Reform Now, and the Consumer Federation of America, on the other hand, were not based on such sampling of all banking institutions and cannot be projected to the overall banking industry.

There are other differences in the surveys. Information in our survey was obtained from responsible officials at bank headquarters and probably reflects overall institution policies. However, branch practices may vary because of local circumstances. The studies done by the Association of Community Organizations for Reform Now and the Consumer Federation of America, on the other hand, were made at the branch level, and the results may not represent the institutions' overall policies.

On the basis of these studies, it seems reasonable to conclude that banking institutions in urban areas are less likely to cash checks for nondepositors than are banks in rural areas. The limited number of officials we spoke to about this agreed, including representatives of a consumer group and the banking industry and officials of federal banking institution regulatory agencies.

Practices of Check-Cashing Centers

Check-cashing centers are one alternative for those who do not want to or cannot cash checks at banking institutions. According to the National Check Cashers Association, which was formed in 1987, about 3,000 outlets operate in 46 states and the District of Columbia, mostly in urban areas. Other information corroborates this urban concentration. For example, a 1986 annual report of the Illinois Department of Financial Institutions reported that 519 (97 percent) of the 537 check-cashing centers that were open to the general public in Illinois were located in the greater Chicago area.

Check-cashing center check-cashing practices, although regulated in several states, are largely unregulated in the United States. The regulated maximum fees for Illinois, New York, and New Jersey are respectively:

- Illinois: 1.2 percent of the face value of the check, plus 90 cents;

- New York: 0.75 percent of the face value of the check, plus 10 cents; and
- New Jersey: 1 percent of the face value of the check for in-state checks, and 1.5 percent for out-of-state checks, up to a maximum of $8.00.

In these states, the regulated maximum fee for cashing a $411.45 check (the average amount of a Social Security benefit check in November 1987) varied from $3.19 in New York to $6.17 in New Jersey.[4] The fee in New Jersey is 1.5 percent because a Social Security check is considered an out-of-state check.

In 1987, the Consumer Federation of America did a telephone survey of fees charged by 60 check-cashing centers in 20 major cities located in 16 states and the District of Columbia.[5] The study found that check cashers usually charged a percentage of the amount of the check and that this percentage depended in part upon the type of check being cashed. For example, a distinction was made between a payroll and a personal check. The study did not find any differences between the fees charged to cash federal, state, or local government checks. Charges to cash a $500 government check ranged from 0.75 percent plus 10 cents ($3.85) in New York City, New York, to 5 percent ($25) in Los Angeles, California. (As noted earlier, New York is one of the states that regulate check-cashing fees.) The median charge was 1.5 percent ($7.50), and the average was 1.69 percent ($8.47). Since the states, cities, and check-cashing centers in this survey were not selected randomly, the survey results cannot be viewed as a statistically valid representation of nationwide practices.

Third Parties

Grocery and other stores also cash checks for individuals. In some instances, a fee is charged or a minimum purchase is required in lieu of a fee. Individuals may also endorse their checks over to friends or family members who can cash them. We have identified no national data on check-cashing activities of such third parties.

[4]Regulations governing check-cashing fees may not always be enforced, however. A 1987 study by the New Jersey Department of the Public Advocate reported that 26 of 29 check-cashing centers surveyed were overcharging public aid recipients. Collectively, these 26 check-cashing centers overcharged approximately one-half (322) of the 662 recipients who responded to the department's questions. The reported average overcharge was $.75 per check and the range of overcharges was between $.01 and $21.25. The department also telephoned 77 New Jersey licensed check-cashing centers to obtain fee information directly. Of the 62 that gave out such information, 14 quoted a fee exceeding the regulated rate. Of the 48 that quoted a permissible fee, 18 were identified in the on-site interviews described above or in complaint letters as overcharging customers. (See "Who's Checking?")

[5]National Survey of Check Cashing Outlets (Sept. 1987).

Why Banking Institutions Resist Cashing Checks for Nondepositors

Representatives of banking associations have said they oppose legislatively mandated free check cashing for nondepositors because banking institutions would (1) not be reimbursed for costs, (2) experience congestion in their lobbies and facilities from nondepositors, and (3) incur an increased risk of fraud for which they would not be compensated.[6]

Unreimbursed Cost

Representatives of banking associations told us and have testified before Congress that banks should not be required to cash checks without compensation because of what it costs them to provide this service. They were, however, unable to give us definitive estimates of how much it costs to cash a nondepositor's government check. Check cashing involves many indirect costs, the amount of which may depend on the location and size of a bank and other factors. We were told some of the most common costs include providing additional tellers on certain days, transporting and securing extra cash, and lost interest income.[7] Several banking industry officials believe that if free check-cashing for nondepositors were legislatively mandated, the costs to the banks, if excessive, could result in some marginally profitable bank branches in low-income areas being closed. We obtained a range of check-cashing cost estimates. The Federal Reserve Board's 1987 Functional Cost Analysis survey found that the cost of processing a check ranged from 33.4 cents for a bank with deposits under $50 million to 37.7 cents for a bank with deposits over $200 million. (A Federal Reserve Board staff official emphasized to us that these figures do not capture all the costs involved in cashing checks.) A bank official estimated the cost of cashing a check at 66 cents per check for his little bank in Florida.[8] A bank in Ohio charged $2.00 to cash nondepositors' government checks, a fee that it believed basically covered its costs.

Crowded Lobbies

Representatives of banking associations said that the presence of large numbers of individuals in banking institution lobbies the few days a month when government checks are received strains both labor and

[6]See the May 18, 1988, statements of Alan Heuer on behalf of the Consumer Bankers Association and August Zinsser, III on behalf of the American Bankers Association before the Senate Banking Subcommittee on Consumer Affairs.

[7]Lost interest income is the earnings lost when funds are kept readily available to cash checks rather than invested.

[8]According to the bank official, this figure does not include all costs, such as costs for supervision or approving the checks, losses from bad checks or returned items, office supplies, maintenance on equipment, and janitorial services.

resources, resulting in poor service to both the recipients of government checks and the institution's regular paying customers. For example, the small bank in Florida said that on one day at the start of a month it served approximately 1,700 people, 1,500 of whom were nondepositors cashing government checks. A spokesman for a consumer advocacy group countered that if more banks cashed nondepositors' checks, congestion problems at individual banks would be less severe.

Potential Fraud

Representatives of banking institutions said that federal legislation requiring banks to cash government checks for nondepositors may increase the already present risk of fraud. They fear that banks would have to cash checks even if they suspected the checks were fraudulent, that the development of a reliable identification system is not feasible, and that the probability of fraud will be increased simply because the number of checks banking institutions cash will increase.[9]

We have been unable to determine the amount of money banks lose because government checks are fraudulently cashed. However, as shown in table 2.1, the actual amount Treasury reclaimed from banking institutions or refused payment on in fiscal year 1987 amounted to 10 cents for every $1,000 of checks issued, or 3 checks out of every 10,000 issued. (The aggregate data do not reflect regional and local differences.) These checks were cashed or deposited by account holders as well as nonaccount holders.

Table 2.1: Treasury Checks Reclaimed or Denied in FY 1987

	Issued	Reclaimed or denied payment[a]	Percent
Volume	558.9 million	142,632	0.03%
Value	$623.9 billion	$63.7 million	0.01%

[a]These statistics represent collections on checks due to reclamations and denials.

Source: U.S. Department of the Treasury.

These figures do not accurately reflect ultimate banking institution losses from Treasury reclamations or denials (declinations) because banks are able to collect some of the amounts reclaimed or denied from the individuals or businesses who cashed the checks. Banks and their

[9]Several bankers said that a unique problem with Treasury checks has been that the Treasury could reclaim checks up to 7 years after they were cashed, making it very difficult for the bank to locate the responsible party and recover the funds. This problem should be eased somewhat by Title X of the Competitive Equality Banking Act of 1987 (31 U.S.C.§ 3328), which reduces the allowed recovery time to 1 year and is scheduled to take effect on October 1, 1989, or at such time as designated by the Secretary of the Treasury.

representative organizations were unable to provide data on the extent to which they are able to collect in these instances and at what cost. Their officials told us that banks have the least difficulty recovering funds from those with banking accounts. For example, in the case of deceased payees, funds may have been building up in the payee's account after his or her death. Of the 142,632 checks collected on in fiscal year 1987, about 92,000, or 65 percent (valued at $38.9 million), were issued to deceased payees. According to Financial Management Service and U.S. Secret Service officials in Treasury, a spouse or relative usually cashes the check or deposits it in an account, in many cases believing he or she is entitled to it.[10]

According to the U.S. Postal Service, in fiscal year 1987, 80,024 checks were stolen from the mail and later negotiated. About equal numbers of federal and state checks were involved, which together accounted for about 95 percent of the stolen checks. Post Office officials said the checks stolen with the greatest frequency were those delivered on a regularly scheduled day, such as Social Security and Supplemental Security Income checks.

[10]The Secret Service investigates the illegal cashing of Treasury checks. In fiscal year 1987, Treasury reported forwarding 64,844 checks for investigation to determine whether the payee benefited from the cashed check and whether fraud or forgery had taken place.

Characteristics of Government Benefit Recipients Who Are Nondepositors

According to the latest available Census data, a majority of nondepositor families[1] have estimated annual incomes below $10,000, and most family heads have 12 years of education or less. The latest available data from the Bureau of the Census also shows that the three most common government checks that nondepositor families receive were for Social Security, Aid to Families with Dependent Children, and Supplemental Security Income benefits. While only 25 percent of all families receiving Aid to Families with Dependent Children and 50 percent receiving Supplemental Security Income have banking accounts, 86 percent of all families receiving Social Security benefits had banking accounts.

Consumer groups and others cite many reasons as to why individuals do not have banking accounts, including high service charges, minimum balance requirements, welfare regulations limiting beneficiaries' assets, mistrust of financial institutions, and inconvenient hours and locations of banking institutions.

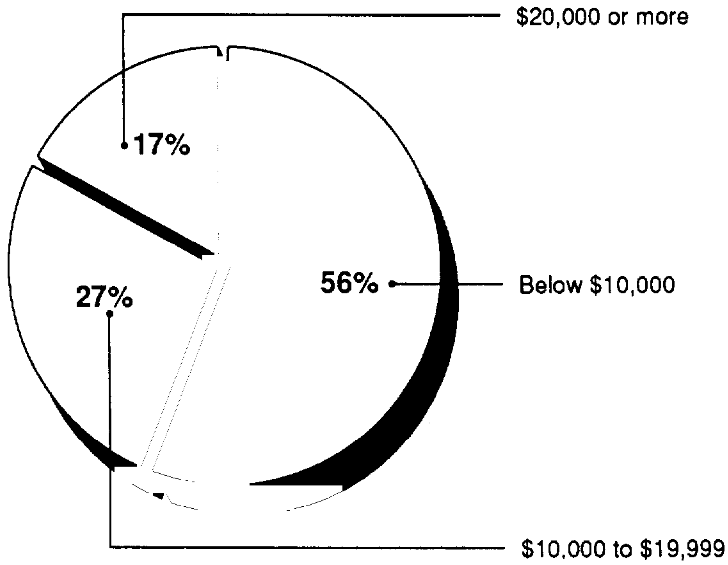
Who Is Susceptible to Check-Cashing Problems

Banking, government, and consumer group officials whom we spoke with generally agreed that low-income individuals without banking accounts are likely to have check-cashing problems at banks. We analyzed the Bureau of the Census' Survey of Income and Program Participation data to determine the characteristics of those without banking accounts. Appendix I describes this nationally projectable survey, which includes information on banking account ownership; family characteristics; and receipt of federal, state, and local government monetary and other benefits. It also describes our analysis methodology.

Our analysis of 1985 Bureau of the Census data, which is the most recent census data available with the needed information, shows that about 17 percent of 92.9 million families in the United States did not have banking accounts. As shown in figures 3.1 and 3.2, over half of these families had incomes below $10,000 and the family heads had 12 years of education or less.

[1] As used in this report, the word "family" refers to a group of individuals who share a household and are related by blood, marriage, or adoption.

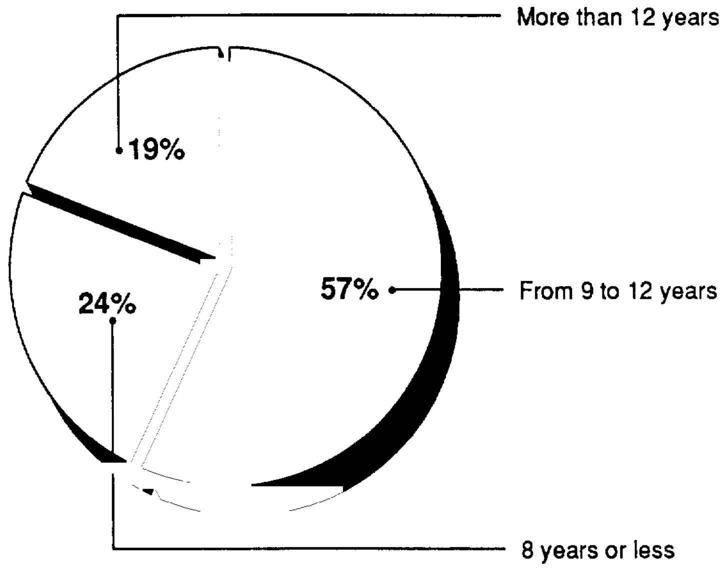
Figure 3.1: Estimated Yearly Income Levels of Nondepositor Families



Note: We obtained the estimated annual income by multiplying family income during the month of August 1985 by 12. The standard error for all figures is less than plus or minus 1 percent.

Source: Bureau of the Census, Survey of Income and Program Participation, 1985 data, as analyzed by GAO.

Figure 3.2: Education Levels of Nondepositor Families



Note: The standard error for all figures is less than plus or minus 1 percent. Figures have been rounded to ensure that the total is 100 percent.

Source: Bureau of the Census, Survey of Income and Program Participation, 1985 data, as analyzed by GAO.

The Federal Reserve-sponsored surveys examining banking account usage in 1977, 1983, 1984, and 1986[2] also sought to determine the number of families that did not have banking accounts. According to this survey data, the proportion of nondepositor families remained fairly constant, fluctuating between 8 and 12 percent for these years.[3] In some Federal Reserve publications and one draft memorandum based on these data, staff describe nondepositor families as predominantly low-income (incomes under $10,000), nonwhite, and headed by individuals

[2]These surveys were used in the following Federal Reserve Bulletin articles: (1) "Survey of Consumer Finances, 1983," (Sept. 1984); (2) "Basic Banking," (Apr. 1987); (3) "The Use of Cash and Transaction Accounts by American Families," (Feb. 1986); and (4) "Changes in the Use of Transaction Account and Cash from 1984 to 1986," (Mar. 1987). They were also used in other Federal Reserve publications, including (1) "Bank Service Charges and Fees: Their Impact on Consumers, 1984;" and (2) "Additional Evidence on Deposit Account Ownership: Changes and Usage Factors," a 1986 draft memorandum from the Federal Reserve Board's Division of Research and Statistics.

[3]According to a Federal Reserve official, the percentage of families that did not have banking accounts was 9 percent in 1977; 12 percent in 1983; 8 percent in 1984; and 10 percent in 1986. The corresponding sampling errors were 1.6 percent in 1977; 1.5 percent estimated in 1983; 1.7 percent in 1984; and 2.6 percent in 1986.

with 12 years of education or less.[4] The Federal Reserve staff attribute any decline in checking account ownership over these years to an increase in the number of low-income, nonwhite, less educated families headed by single females. They believe this group is less likely to have checking accounts.[5]

Types of Government Checks Nondepositors Receive

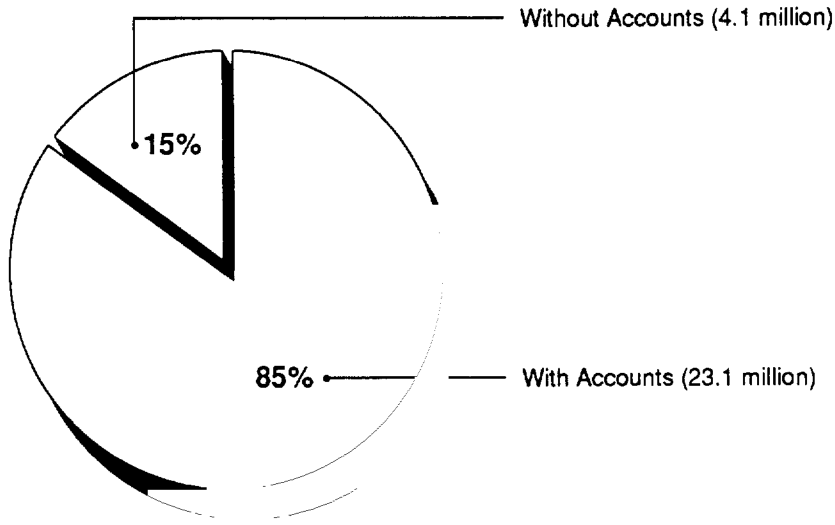
The Bureau of Census data show that many nondepositor families receive Treasury, state, and/or local government benefit checks. A larger proportion of nondepositor families received state and local government benefit checks than Treasury checks. (See figs. 3.3 and 3.4.)

In 1985, the most common government check nondepositor families received was Social Security; 3.4 million out of 15.7 million nondepositor families received them. Aid to Families with Dependent Children checks were received by 2 million families and Supplemental Security Income by 1.1 million families. Although Social Security recipients represent the largest group of nondepositor families that receive government checks, 86 percent of all families receiving Social Security benefits had banking accounts. In contrast, only 25 percent of all families receiving Aid to Families with Dependent Children benefits and 50 percent of all families receiving Supplemental Security Income benefits had accounts.

[4]The 1983 survey further segmented nondepositor families between those with 12 years of education and those without 12 years of education. This survey showed that the percentage of families with 12 years of education who had banking accounts was about the same as those with more than 12 years of education.

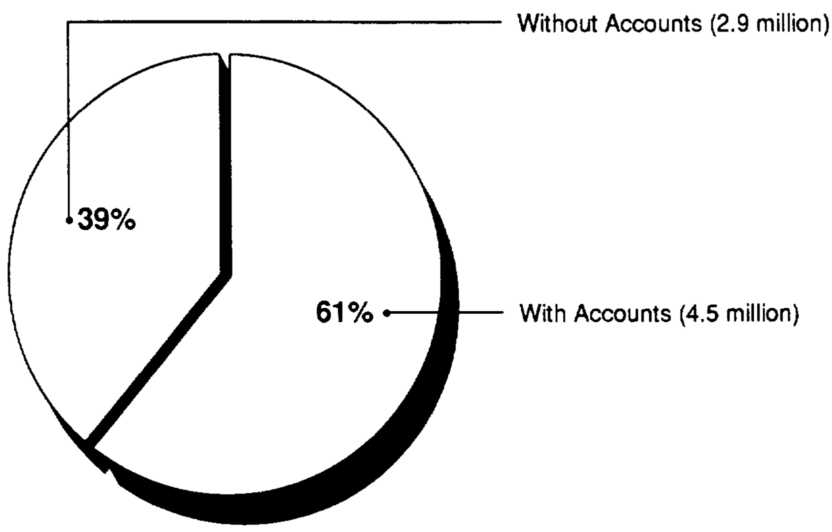
[5]Our analysis of the Bureau of the Census data, which has a standard error of less than plus or minus 1 percent, shows that 17 percent of all U.S. families did not have banking accounts in 1985. (See p. 19.) According to a Federal Reserve official, the survey estimates were 8 percent in 1984 and 10 percent in 1986, with sampling errors of 1.7 and 2.6 respectively. The disparities cannot be fully reconciled, but a Federal Reserve official told us they can be explained, at least in part, by the different types of surveys, sample sizes, and the definition of family. The Federal Reserve-sponsored surveys were telephone surveys of 1,946 randomly selected "families" (defined as households) in 1984 and 658 in 1986. The Bureau of the Census sample, on the other hand, involved random selection and personal interviews of adults in 14,902 households. Because the Federal Reserve-sponsored surveys were made by telephone and some low-income families may not have telephones, they may have sampled low-income families less frequently than their proportion to the total population. Because the majority of families without banking accounts have low incomes, the estimate of nondepositor families may thus be too low. Another reason for the differences is that the surveys define "family" differently. The Federal Reserve-sponsored surveys define family as all individuals living in a household; but, the Bureau of the Census definition is all individuals in a household related by blood, marriage, or adoption. As a result, the Bureau of the Census classified some households as two or more families, while the Federal Reserve sponsored surveys considered them as one.

Figure 3.3: Number of Depositor and Nondepositor Families Receiving Specified Treasury Payments



Note: The standard error this data is less than plus or minus 1 percent.
Source: Bureau of the Census, Survey of Income and Program Participation, 1985 data, as analyzed by GAO.

Figure 3.4: Number of Depositor and Nondepositor Families Receiving Specified State and Local Government Payments



Note: The standard error for this data is less than plus or minus 1 percent.
Source: Bureau of the Census, Survey of Income and Program Participation, 1985 data, as analyzed by GAO.

minimum balance requirements that could be prohibitive for low-income individuals.

Individuals who work with welfare recipients told us that some of these beneficiaries may choose to remain outside the banking system because of the asset limits contained in welfare statutes. For example, federal regulations do not permit Aid to Families with Dependent Children benefits for families with more than $1,000 in certain types of real and personal property, including cash, savings, and checking accounts. State regulations can lower this ceiling even more.

Other reasons mentioned for not having banking accounts include mistrust of banking institutions, lack of mathematical and reading skills, lack of enough money or transactions to justify an account, inconvenient bank hours and locations, delayed access to funds, requirements to open an account that include identification with a major credit card, and a lack of bilingual materials and personnel.

No nationwide data has been compiled that quantifies where nondepositors cash their checks. Several individuals and organizations we spoke with, however, said that many do not use banks. For example, National Check Cashers Association officials said many of that industry's customers are low-income individuals who do not want or cannot afford a banking account.

On three different dates, the New Jersey Department of the Public Advocate asked a total of 750 individuals outside 29 check-cashing centers why they did not cash their checks at banks. Approximately 50 percent of the 1,072 responses indicated that banks were inconvenient. Inconveniences cited included long lines at those few banks that did cash checks for nondepositors, receipt of checks on days when banks were closed, and inability to both cash checks and obtain food stamps at the same location. Other responses given for not going to banks included not having an account (20 percent), bank refusals to cash nondepositors' checks (19.5 percent), and a lack of nearby banks (8.6 percent).

The New Jersey Department of the Public Advocate also examined 4,842 cancelled Aid to Families with Dependent Children checks from December 1986 and February 1987 caseloads in three counties. They found that 53 percent of these checks were not cashed at conventional banking institutions. Some 32 percent were cashed at state licensed check cashers and 12 percent were cashed at 179 unlicensed community locations, such as neighborhood grocery stores, supermarkets, drug stores, department stores, liquor stores, bars, furniture stores, beauty shops, bowling alleys, and funeral parlors. Nine percent were cashed by friends, relatives, or landlords.

About 47 percent of the checks were cashed at banking institutions. Over three-quarters of these checks were cashed at banks serving as depositories for county Aid to Families with Dependent Children or administrative funds. Because of contractual agreements with the county, these banks were obligated to cash checks for recipients of Aid to Families with Dependent Children, regardless of whether or not they were depositors.[10]

[10] "Who's Checking?"

Government Responses to Problems Associated With the Delivery and Cashing of Checks

Federal, state, and local governments have acted to improve the delivery of payments, including lowering their administrative costs and/or assisting recipients to obtain benefits. These actions include encouraging institutions to provide basic banking services and increasing their use of electronic technology to provide benefits more economically and conveniently. While these initiatives have helped reduce check-cashing problems for some, they have been implemented on a limited basis.

Federal Actions

In the mid-1980s, federal bank regulators developed and issued policy statements urging banking institutions to voluntarily provide low-cost basic banking services to consumers, including low- and moderate-income, young, and retired persons.

Federal agencies have also been using electronic funds transfer technology for over a decade to more effectively and efficiently distribute salaries and benefits directly to the banking accounts of recipients who select this option. The Vice Chairman of the Federal Reserve Board has recently testified that the Board believes electronic alternatives represent a much better long-term solution to check-cashing problems than does a requirement that banks cash nondepositors' checks.[1] The Office of Technology Assessment has reported that federally funded assistance programs will inevitably move to some form of electronic delivery system within the next 5 to 15 years.[2]

Demonstration projects using electronic funds transfer but not requiring recipients to have banking accounts are currently being developed or are under way for a limited number of participants in certain benefit programs administered by the Department of Agriculture and the Social Security Administration.

[1]Statement by Manual H. Johnson before the Senate Committee on Banking, Housing, and Urban Affairs (Sept. 8, 1988).

[2]The report also says that key policy issues that need to be addressed are: selecting the best technology option to follow, resolving privacy and security implications, and assessing the programmatic effects of changing to electronic systems. Electronic Delivery of Public Assistance Benefits: Technology Options and Policy Issues: Background Paper (OTA-BP-CIT-47, Apr. 1988).

Policies Were Established by Federal Bank Regulators, but Compliance Is Unknown

In 1985, the Office of the Comptroller of the Currency issued a banking circular entitled Basic Banking Services.[3] It encouraged national banks to voluntarily provide basic banking services to customers, including the young, the retired, and those with low- and moderate-incomes. Officials said the statement was the result of repeated complaints about check-cashing problems heard at meetings sponsored by the Office in 1985 and 1986. The policy statement was not mandatory, they said, because no hard evidence was provided that people were having major problems.

In 1986, the Federal Financial Institutions Examination Council[4] adopted a "Joint Policy Statement on Basic Financial Services" that was similar to the circular developed by the Office of the Comptroller of the Currency. It too was voluntary, differing primarily in that it called on bank trade associations to encourage and monitor compliance by their member banks. A council official said that compliance was anticipated through "moral persuasion" and that the council did not want the policy to become a regulated aspect of banking activities. The policy did not, however, provide clear criteria defining basic or low cost banking.

In April 1987, the Office of the Comptroller of the Currency directed its examiners to monitor national bank compliance with the policy statement during compliance examinations of these banks. (Such exams assess bank compliance with various laws and regulations.) Officials said the examiners were to look for the availability of basic banking services, including the free cashing of government checks. Considering the examination schedules for national banks, the results will not be known until 1989 for all of the large banks and at an unknown later time for smaller banks. An official at the Federal Deposit Insurance Corporation said that in 1988, questions dealing with implementation of the policy statement were approved and provided to its bank examiners for their use during compliance examinations of banks the corporation supervises—federally insured state-chartered banks that are not members of the Federal Reserve System. Officials at both regulatory agencies, recognizing that compliance is voluntary, said that they want to be aware of the level of bank acceptance and implementation of the policy statement. (The results, we believe, may be of limited value because neither agency provided clear criteria defining basic or low-cost banking.)

[3]Banking Circular No. 206 (Aug. 23, 1985).

[4]Members of the council include the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Federal Reserve System, the Office of the Comptroller of the Currency, and the National Credit Union Administration.

Federal Use of Direct Delivery Is Being Expanded

Since the 1970s, the Department of the Treasury has worked with various federal agencies to promote electronic distribution of wages and other monetary benefits.[5] Payments are sent electronically to banking institutions, which credit the recipients' accounts. Appendix III shows the number of payments made using electronic funds transfer technology during fiscal year 1987. In the 1980s, experiments with automated electronic systems have also been developed to distribute noncash benefits, such as food stamps. This technology may eventually permit the use of a single distribution system to dispense cash and noncash benefits.

Electronic funds transfer offers significant cost savings to the federal government. Treasury officials estimate that as of July 1988, the cost of preparing and mailing an individual check was 30 cents. In contrast, the cost of making an electronic funds transfer payment was 4 cents.[6]

Automated Delivery of Benefits by the Social Security Administration

Public Law 92-366 (31 U.S.C. 3332), enacted August 7, 1972, authorized the federal government to make federal benefit payments directly to banking institutions at the request of the beneficiary. Shortly thereafter, the Department of the Treasury and the Social Security Administration began studying how to implement a comprehensive direct deposit program; in 1974 they agreed to provide for direct deposit of recurring Social Security payments. By March 1979, about 25 percent of these beneficiaries had elected this option. Periodic information flyers were placed in the check envelopes to inform new beneficiaries of the direct delivery option, and for about the past 10 years the rate of growth has been about 2 percent annually. As of May 31, 1988, about 47.5 percent of Social Security beneficiaries had chosen this method of payment.

The Social Security Administration believes direct deposit is a safe and convenient way for beneficiaries to receive their payments. Because electronic delivery to beneficiaries' banking accounts is more reliable than mailing checks to the beneficiaries, direct deposit also helps reduce field office workloads. According to Treasury officials, there is one allegation of nonreceipt for every 1,087 checks issued but only one allegation of nonreceipt for every 8,794 direct delivery payments made. When

[5]A very small number of banking institutions do not have the capability to receive electronic fund transfer wire transfers. Recipients with accounts at such institutions can still receive the benefits of direct deposit by having the federal government mail their checks directly to the institution.

[6]The full use of electronic funds transfer would not translate into a potential savings for all the payments currently made by check because some checks are mailed in bulk at lower cost, and also because not all payments can be made using electronic funds transfer.

problems do occur, they are usually resolved in a few days, but problems with checks can take months to resolve.

In May 1988, the Social Security Administration and the Department of the Treasury introduced a program that is expected to significantly increase the use of electronic funds transfer by Social Security beneficiaries. Under this program, direct deposit actions can be taken based on a phone call by beneficiaries already receiving benefits, and Social Security offices will presume that new beneficiaries with banking accounts will receive their benefits through direct deposit. This replaces the former policy of presuming new beneficiaries will receive checks and might convert to direct deposit in the future. Social Security Administration officials estimate that by 1990 at least 60 percent of all Social Security benefit recipients will receive payments electronically. This program is applicable only to beneficiaries with banking accounts or those who are willing to open banking accounts.

Department of Agriculture's Automated Food Stamp Delivery Project

Since the early 1980s, the Department of Agriculture's Food and Nutrition Service has been experimenting with various ways to improve the efficiency and integrity of benefit issuance in the Food Stamp Program. A major effort has been a project, initiated in July 1983, to develop and demonstrate an automated system for the issuance and redemption of food stamp benefits. This federally supported project, which took place in Reading, Pennsylvania, between October 1984 and December 1985, served an average food stamp caseload of about 3,400 households. Those households made over 25,000 electronic food purchases in about 125 retail food stores each month. When the initial demonstration project ended, the Pennsylvania Department of Public Welfare assumed responsibility for extended demonstration project operations.

When certified eligible for benefits, food stamp recipients received a magnetic striped plastic card, training on how to use it, and a secret identification number. Benefits were electronically deposited in each household account, and the recipient then used the card to buy food at any store participating in the program. The check-out counters of stores were equipped with electronic point-of-sale terminals that accessed the recipient's account once the card and secret identification number were entered. After the cashier entered the amount of the purchase, the computer checked the recipient's account, debited it, credited the retailer's account, and printed out a receipt for the recipient that showed the purchase amount and the remaining balance.

The October 1984 to December 1985 program was assessed under a contract issued by the Department of Agriculture. The resulting report said that the system was operationally feasible and, except for cost, was well received by the various parties involved in its use. While electronic-benefit-transfer costs exceeded costs for a food stamp coupon system by a ratio of about 9 to 1, this was attributed primarily to a combination of high operating costs resulting from the use of dedicated staff and equipment and a small average demonstration caseload of about 3,400 households. The report noted that the operating costs could be substantially reduced. It also said that about 77 percent of the surveyed recipients preferred the new system. In contrast, only 17 percent preferred coupons. Groups that were expected to have difficulty with the new system also strongly favored it, including the elderly, handicapped, non-English speakers, and those with little education. In no demographic group did fewer than 70 percent prefer the system. The reasons recipients said they preferred the new system included ease of use and less time and costs required to obtain and use their benefits.

The department advised the state on how the administration of the program could be integrated with other state welfare programs, such as Aid to Families with Dependent Children and General Assistance. This integration involved a transfer of the system to existing state equipment, with technical enhancements being designed to improve service to recipients and retailers. A Department of Agriculture official said that costs have been reduced, but integration has been difficult. A report on the program's progress was scheduled to be available in the fall of 1988.

In September 1987, the Department of Agriculture announced plans for additional demonstration projects emphasizing cost effectiveness. The number of sites chosen will depend on the quality of the proposals and their costs. Thirteen concept papers were received, and nine sites were invited to submit applications. About $1.8 million is available for the projects. The department wants the project sites to be ready to begin operations no later than September 30, 1989. To reduce costs, participating state and local agencies will be permitted to integrate other government programs, such as General Assistance and Aid to Families with Dependent Children.

Distribution of Supplemental Security Income Benefits

The Department of the Treasury and the Social Security Administration are planning to test the electronic disbursement of Supplemental Security Income payments using automatic teller machines and point-of-sale outlets. The test initiative will target Supplemental Security Income recipients because only about 14 percent of them were using direct deposit in fiscal year 1987 and the agencies concluded that there is little prospect of increasing their use of direct deposit. Nationwide, there are about 4.5 million recipients of Supplemental Security Income benefits. We were told that about 40 percent of them were aged, 2 percent were blind, and 58 percent were disabled.

The project will involve up to 1,000 participants, each of whom will be given a plastic card that can be used to withdraw benefits without charge. Major objectives of the test include (1) improving the level of service to clients without banking accounts and (2) streamlining the process of delivering payments to reduce the associated high costs of administering benefit payments using a paper-based system.

State and Local Actions

Several state and local governments have attempted to resolve the check-cashing difficulties that senior citizens and public assistance recipients may experience. These actions, summarized in the following sections, include negotiating with commercial banks to cash nondepositors' government checks, mandating that banks provide low-cost accounts, and delivering checks to check-cashing centers. Some states regulate check-cashing at check-cashing centers, as is discussed in chapter 2. In some instances, the recipients bear the cost, while in others banks or government agencies bear the cost.

Initiatives are also under way involving the electronic disbursement of benefits through the use of plastic cards. In some instances, recipients do not need to have banking accounts. These programs involve the use of automated teller machines and point-of-sale terminals in retail stores and other locations. Government interest in such technology has increased rapidly and, where implemented, the programs have met with considerable acceptance by both recipients and administrators. The government has borne the delivery costs in these programs.

Ramsey County, Minnesota, Delivers Welfare Benefits Electronically

Ramsey County, Minnesota, began a pilot electronic benefit transfer system project in July 1987 to distribute public assistance cash benefits to about 1,000 participants. The project was initiated because the county was unable to make satisfactory arrangements with local commercial banks to cash welfare recipients' checks free of charge. It did not require recipients to visit or be affiliated with a banking institution. Recipients were able to access their benefits using plastic cards at automatic teller machines and point-of-sale machines, which were operator assisted. These were conveniently located in commercial establishments in the area where the recipients lived, according to a county evaluation of the program. On the basis of the success of the pilot project, the county began expanding the program to almost all Aid to Families with Dependent Children and General Assistance beneficiaries in June 1988.

Ramsey County officials said that the training of each recipient took about an hour. Nearly all of the participants in the pilot project, some of whom could not read or speak English, indicated they had been adequately trained to use the equipment. Non-English speaking participants reportedly did not have a higher rate of problems than English-speaking participants.

The county evaluation of the pilot program reported that 88 percent of all pilot project participants preferred the electronic benefit system to receipt of their checks in the mail. It also said the advantages to recipients included no waiting for the mail or for the bank or check-cashing facility to open, no check cashing fee, convenient locations and longer hours, and greater flexibility because benefits could be withdrawn all at one time or in smaller amounts in several visits to the money machine. The report said the automated system was potentially more secure than a paper-based system, and a county official told us he believes it will reduce fraud and be able to support several different benefit programs. For example, we were told the county planned to implement a pilot program to distribute Food Stamp Program benefits using the automated system. The report concluded that the electronic benefit transfer system worked exceptionally well and was a cost-effective and highly functional alternative that should be implemented countywide to disperse public assistance benefits.

An Ohio County Reduces Banking Institutions' Concerns Over Fraud

In Summit County, Ohio, certain banks agreed with the county government in 1983 to cash welfare checks[7] for nondepositors free of charge. The programs involved include Aid to Families with Dependent Children and General Assistance. The agreement was an outcome of picketing by welfare recipients of several banks that had refused to cash welfare checks for nondepositors. County and banking officials attribute its success to their cooperative efforts in overcoming bank concerns about fraud and educating welfare recipients about the procedures.

[7] The state and Summit County issue their own payments, called "warrants," which are drawn on the state or county. Under the provision of the Ohio Uniform Commercial Code, a check is a negotiable instrument drawn on a bank. For purposes of simplicity, however, this report includes Ohio warrants under the generic term "check."

As a result of the 1983 agreement, banks agreed to cash welfare checks for nondepositors if the recipients were registered with the bank and provided their photo welfare cards as identification. The county agreed to give the bank branch designated by each benefit recipient a copy of his or her identification card plus a signature card. The county also agreed to indemnify the bank from forgery if it followed proper identification procedures. While banks were not prohibited from charging a fee for cashing the checks, bank officials said they did not. There were few problems, according to the responsible county and banking officials. The agreement was revised in 1987, and the county no longer provides copies of the recipients' welfare and signature cards to the banks, and does not provide indemnification from forgery. Recipients may now cash their checks in any branch of a participating bank. Banking officials told us in early 1988 that since the agreement began in 1983, only one participating bank has reported a loss from cashing Aid to Families with Dependent Children checks; none had reported losses due to cashing General Assistance checks. The county Treasurer said that as of early 1988, the county had not indemnified the banks on any claims.

The Universal Commercial Code and Contractual Agreements to Cash Government Checks

The Uniform Commercial Code requires any bank to honor or dishonor any check drawn on it when presented over the counter for payment, regardless of whether or not the presenter has an account.[8] This is relevant to the government check-cashing issues because state and local governments maintain accounts at banks that are used, among other purposes, to make public assistance payments.

During our work, we also learned that some governmental units have taken steps to alleviate check-cashing problems by contracting with banks that serve as depositories for their funds (both public assistance and otherwise) to cash checks issued by specified local government units free of charge. In New Jersey, certain county and municipal governments contract with depository banks to cash local welfare checks, whether the check is drawn on the depository bank or not. According to a New Jersey official, most of the large New Jersey counties require depository banks to cash at least the Aid to Families with Dependent Children checks. The District of Columbia requires banks holding district funds to cash all district checks. Seven banks in the District of Columbia are depositories of local government funds, and the payees

[8] The bank may take appropriate steps to ensure that the check is authentic and the presenter is the payee. The bank has time to make a reasonable examination of the check to determine if it should be honored and paid, usually by checking the balance in the drawer's account.

can cash their checks at any of these banks' main offices or branches with proper identification.

Rhode Island Banks Have Voluntarily Agreed to Cash Nondepositors' Government Checks

In 1984, members of the Rhode Island Bankers Association, which consists of all of the major commercial banks in Rhode Island, voluntarily agreed to cash nonaccount holders' Aid to Families with Dependent Children checks free of charge. Although the agreement was informal, unwritten, and only applies to these checks, officials from the State Department of Human Services and the Bankers Association told us they believe that most of the commercial banks in the state also cash other welfare and Social Security checks for nondepositors free of charge. The state official believes that Rhode Island's few savings and loan institutions and some credit unions are also willing to cash these checks. He said banks usually require nonaccount holders who are welfare recipients to show their welfare identification cards and at least one other form of identification. (The most commonly accepted forms are from the Department of Transportation and the Department of Elderly Affairs.) An official from the Department of Human Services told us most recipients cash their checks at the same bank where they pick up their food stamp coupons. Thus, the banks have the security of knowing these individuals.[9]

Massachusetts Requires Banks to Cash Resident Pensioner or Retiree Checks Free of Charge

In 1983, Massachusetts enacted legislation requiring every bank doing business in the state to cash federal, state, and local pension, Social Security, and Supplemental Security Income checks free of charge. A limit of $2,500 per check was added in 1985. The legislation does not contain indemnification provisions. In order to get their checks cashed, pensioners and retirees must first register with a banking institution. All branches and main offices provide registration forms. Applicants may have to pay a maximum of $5.00 in order to register. According to a banking official, pensioners and retirees rarely take advantage of this legislative provision because they prefer to take advantage of other state legislation that requires banking institutions to provide free checking and savings accounts to individuals under the age of 18 or over the age of 65.

[9]Banking institutions play a role in distributing food stamps in some but not all states. According to a 1986 Department of Agriculture report, some banking institutions in 20 states and the District of Columbia provide food stamp services.

Connecticut Requires Banks to Cash State Public Assistance Checks

In 1987, Connecticut passed legislation requiring banks to cash state public assistance checks. The legislation applies to all state-chartered and national banks; savings and loans; and, in certain instances, credit unions. A state official said that regulations implementing this legislation are expected in late 1988. The checks covered include those for Aid to Families with Dependent Children, General Assistance, and Refugee Assistance. To cash a check, the payee must present the banking institution with two acceptable forms of identification, one of which may be supplied by and paid for by the Department of Income Maintenance. Together, these must contain the payee's signature, photograph, and identification number. The department will indemnify a cashing institution's losses if it follows proper procedures. The legislation does not preclude banking institutions from asking the state to reimburse them for cashing nondepositors' public assistance checks.

According to a Department of Income Maintenance official, the legislation was limited to public assistance recipients because they are the poorest of the poor and experience the most check-cashing difficulties. She believes Social Security recipients have fewer problems because they usually have banking accounts and are not as poor as public assistance recipients.

Illinois Delivers Checks Directly to Check Cashers

Illinois' Direct Delivery System is an alternative to sending most Aid to Families with Dependent Children checks, General Assistance checks, food stamps, and medical eligibility cards through the mail. According to a state public official, the Direct Delivery System was adopted in 1975 in Cook County (which includes the City of Chicago) to combat a serious mail theft problem. Since then, the program has been expanded to 25 of the 101 counties in downstate Illinois. (In the 76 counties without the program, check fraud and mail theft are not serious problems.) Private couriers deliver the checks to agents, where the recipients claim them in person. Over 98 percent of the agents participating in this system are check-cashing centers;[10] a few banks and savings and loan institutions participate. The state pays for the courier to deliver the checks but does not compensate the check-cashing centers for handling the checks. However, the centers may charge recipients for cashing their checks at the state-regulated rate, which is 1.2 percent of the face value of the check plus 90 cents. A state public aid official said that the recipients are not required to cash their checks at the place where they receive them, but suspects that a large percentage do.

[10]In Illinois, check-cashing centers are referred to as currency exchanges and are regulated.

The state government will indemnify direct delivery agents if they follow proper procedures. A public aid official said that his department has provided indemnification for a single check delivered under the Direct Delivery System and that the system is effective against fraud. He said that the number of replacement checks the state writes each month declined from an estimated 12,000 before the direct delivery system was instituted to some 4,000. (The checks being replaced are, for the most part, coming from outlying areas where direct delivery was not implemented.)

Illinois legislation that became effective in 1986 requires financial institutions to provide basic checking accounts for senior citizens. These accounts can be opened with an initial $100 minimum deposit or an agreement to have regularly recurring payments directly deposited into the account. The accounts include 10 free checks per month and do not require a minimum balance. A state regulatory official told us there was not agreement as to whether banks can assess a monthly service fee or other type of maintenance charge for services rendered under the law. No one we spoke with could estimate the number of accounts senior citizens have opened because of the legislation.

New York City Distributes Public Aid Electronically

A spokesman for the New York City Human Resources Administration, Department of Income Maintenance, said that New York City distributes up to 10 different kinds of public aid benefits electronically through a program known as the Electronic Payment File System. There are about 400 agents where recipients can access their benefits. Eighty to 90 percent of these agents are check-cashing centers and the remainder are banks. Benefit recipients are given magnetic cards with their photographs, which they insert in special electronic devices at the participating check-cashing centers or banks. The cards access computer records to tell the agents the amount of benefits due.

New York City began the program as a pilot project in 1981 and expanded it between 1984 and 1986 to include all single-party public assistance programs with benefits distributed directly to recipients, such as Aid to Families with Dependent Children, Home Relief, and food stamps. The city lumps cash benefits together when paying a recipient. Approximately 350,000 recipients receive public assistance payments, and 150,000 receive food stamps. The city and the federal government pay the program's administrative costs. The federal government's share varies depending on the amount of federal money in a particular program.

Before implementing the full program in 1984, New York City's Department of Income Maintenance surveyed participants of the 1981 to 1983 pilot project and found that 94 percent of them preferred the new system to the paper check system. (The Department of Income Maintenance has not gathered any such data since the system was fully implemented.) According to a Department of Income Maintenance official, recipients find the program convenient because their checks cannot be stolen, they obtain their public assistance and food stamps at one location on the same day, and they do not have to pay to cash their checks. He said the city saves $2 million per year. Mail theft and fraud problems have been virtually eliminated.

Conclusions and Matters for Congressional Consideration

Nondepositor access to check-cashing services at banking institutions is a difficult, complex, and emotional issue. While consumer advocacy groups and others believe that many low- and moderate-income consumers have difficulty cashing government checks, nationwide statistically valid data on the extent or cause of difficulties are unavailable. In addition, there is no common agreement as to what constitutes "difficulty." Nevertheless, on the basis of the limited available data, we believe those without banking accounts—nondepositors—are most likely to experience problems.

A nonquantifiable number of these nondepositors cash their government checks at check-cashing centers or through third parties, which may charge a fee or require a minimum purchase. We were told that nondepositors cash their checks at check-cashing centers partly because they have more convenient hours and locations than banking institutions.

There are not sufficient data to accurately measure the scope or severity of problems individuals without banking accounts are experiencing cashing government checks. However, it is our impression that banking institutions in rural areas are more likely than those in urban areas to cash nondepositors' checks. Check-cashing center fees vary. The limited data suggest that while some low-cost checking accounts are less expensive than check-cashing centers, such accounts may not be widely available. Only 18 percent of the banking institutions we surveyed offered or planned to offer "no frills" checking accounts to the general public in 1985 and some had features, such as high minimum balances, that made them inappropriate for low-income individuals.

A higher percentage of families who receive General Assistance, Supplemental Security Income, and Aid to Families with Dependent Children benefit checks lack banking accounts than do families that receive other types of government checks. Social Security retirement recipients and other senior citizens who receive government checks may have more convenient and inexpensive check-cashing options than other government benefit recipients. A large majority of banking institutions offer special accounts for senior citizens, and the Social Security Administration is trying to make direct deposit a more simple and convenient way of receiving benefits.

Requiring banking institutions to cash nondepositor checks is not the only way to improve individuals' access to government benefits. Use of electronic funds transfer technology, for example, has been cited as a way to solve check-cashing problems by bringing more government check recipients into the banking system. Its use could also lower government costs and reduce banking institution concerns about check forgeries and long lines in their lobbies. Current technology can also make benefits available through use of plastic cards at automatic teller machines and point-of-sale outlets. This approach could reduce the concerns of those who do not want to have banking accounts. Recipients could also obtain additional benefits, such as the option not to take the full amount in cash at one time. The Office of Technology Assessment has reported that it is inevitable that federally funded assistance programs will ultimately move to some form of electronic delivery system.

Matters for Congress to Consider

We recognize that there are costs associated with the cashing of government checks. If Congress determines that recipients of certain government checks should not bear these costs or should be assured of a low-cost option, it should consider encouraging methods that utilize plastic cards and electronic funds transfer technology.

Congress may also wish to consider requiring the Departments of Agriculture, Health and Human Services, and the Treasury, in consultation with state and local governments and banking and consumer groups, to assess the present delivery methods for all government benefits and to seek to develop coordinated delivery systems that would better meet the needs of recipients as well as reduce governmental delivery costs.

Survey of Income and Program Participation Methodology

The Bureau of Census' Survey of Income and Program Participation (SIPP) provides information on the demographic and economic situation of persons, families, and households in the United States. Specifically, the data base covers such topics as assets and liabilities, income, employment, education, and participation in government programs. The objective of our SIPP analysis was to obtain economic and demographic information on families which did not have banking accounts. We selected this group because representatives from consumer groups and financial institutions told us that nondepositors were the most likely to experience check-cashing difficulties at banking institutions.

SIPP is based on a multistage stratified sample of the civilian, noninstitutional, resident population of the United States. The first survey, called the 1984 panel, consisted of initially interviewing adults in 19,878 households. Attempts were made to reinterview adults in these households, generally at 4-month intervals, over a total of 3 years. Each successive 4-month period is called a wave.

The data used in this report is from wave seven of the 1984 panel. We selected wave seven because it was the most recently available wave containing information on the number of respondents with noninterest bearing checking accounts as well as other banking accounts. During wave seven, the Bureau of the Census interviewed 14,902 households remaining out of the original sample.

A wave consists of the Bureau of the Census interviewing one fourth of the households in the sample each month for a total of 4 months. This 4-month period is called a reference period. For example, when interviewing one group of households in September 1985, the Bureau of the Census collected information on the months May through August. Likewise, when interviewing another group of households in December, the Bureau of the Census collected information on the months August through November. Some of the survey questions pertain to the entire reference period and are asked only once during an interview. Other survey questions pertain to each of the 4 months in the reference period and are asked four times. In cases where the wave seven data pertained to each month rather than to the entire reference period, we analyzed responses for August 1985 because this is the only month that occurs in all of the reference periods in wave seven.

We chose to analyze the number of families without banking accounts, as opposed to individuals or households, for several reasons. First, it is more likely that at least one person in a nondepositor family will have to cash a check than a single nondepositor individual. Second, members of families in which at least one family member has an account may have better access to banking services than do nondepositor families. Third, family data provided the most accurate estimate of the number of nondepositors receiving government checks. This is because some of the SIPP data elements list two or more family members as receiving one government benefit; for example, a husband and wife receiving joint Social Security benefits.

Prior to analyzing nondepositor families, the structure of the SIPP data base necessitated that we delete all individuals who were not asked if they had banking accounts. The number of families we used for our analysis was 15,522, which, through weighting, enabled us to project to 92.9 million families.

Part of our analysis involved examining the types of government benefits families with and without bank accounts receive. (See app. II for a list of these benefits.) We also analyzed the number of families who receive Treasury checks and the number receiving state and/or local checks. (See figs. 3 and 4 in ch. 3.)

Treasury checks included

- Social Security benefits;
- Supplemental Security Income;
- Veteran's Administration compensation, pensions, and educational assistance; and
- federal civil service, military, and railroad pensions.

State and local checks included

- Aid to Families with Dependent Children,
- foster child care payments,
- General Assistance,
- state unemployment compensation,
- state and local government pensions, and
- Job Training Partnership Allowance.

Some of the government benefits contained in SIPP were excluded from our analysis of Treasury, state, and local checks because (1) they do not normally involve a recipient receiving a check or (2) they are part of a SIPP data field that contains both Treasury and state benefits.

Number and Percent of Nondepositor Families in the United States That Receive Government Payments (1985)

Number columns in thousands

Government Programs	Families participating in government programs		Families in government programs without banking accounts	
	Percent	Number	Percent	Number
Aid to Families with Dependent Children	3%	2,791	75%	2,084
General Assistance	1	798	74	587
Food stamps	6	5,916	73	4,294
School breakfast	2	1,715	65	1,111
Medicaid	8	7,342	60	4,432
Women and Infant Care (WIC)	1	1,384	56	782
School lunch	6	5,915	54	3,216
Public housing	2	2,137	52	1,107
Rental assistance supplemental	2	1,477	51	750
Supplemental Security Income (SSI)	2	2,205	50	1,106
Energy assistance	1	744	47[b]	347[b]
Education programs[c]	2	1,867	19[b]	364[b]
Misc. programs[d]	2	2,205	19	416
Medicare	24	22,125	15	3,219
Social Security	26	23,887	14	3,395
Pensions[e]	8	7,770	8	597

Note:All of the figures in this table have a standard error of less than plus or minus 1 percent.

[a]Based on a projected population of 92.9 million families.

[b]May not be statistically significant.

[c]Education assistance consists of National Direct Student Loans, Supplemental Education Opportunity Grant, Basic Educational Opportunity Grant, Job Training Partnership Act-training Allowance, and GI Bill and other VA educational assistance.

[d]Misc. programs consist of State Unemployment Compensation; Foster Care Child payments; National Guard Reserve pay; State SSI; Black Lung payments; State Temporary Sickness or Disability; Cuban, Indian, or Refugee Assistance; National Guard or Reserve Retirement pay; and all welfare programs not listed in the table.

[e]Pensions consist of federal, state, or local government pensions; military retirement pensions; railroad retirement pensions; and Veterans Administration pensions or compensation.

Source:Bureau of Census' Survey of Income and Program Participation 1985 data as analyzed by GAO.

Treasury Payments (FY 1987)

Table III.1: Treasury Checks Issued
(FY 1987)

	Volume of checks (millions)	Percent of total volume	Dollar value (billions)
Total	**558.9[a]**	**100%[a]**	**$623.9**
Selected categories			
Social Security	248.9	45	$109.2
Supplemental Security Income	45.5	8	11.0
Civil Service benefits	10.4	2	7.8
Veterans Administration benefits	37.4	7	8.2
Railroad Retirement Board benefits	7.2	1	3.7
Federal salaries	14.8	3	[b]
Tax refunds	81.2	15	99.0
Other	113.4	20	385.0

Note: "Treasury checks" as used in this table include those disbursed by the Department of the Treasury itself and those disbursed under authorization from Treasury by other agencies. The latter are included in the "other" category in this table and include Department of Defense and Postal Service checks, among others. Treasury checks do not include those issued by entities acting as fiscal agents for the United States, such as those issued by the Federal Reserve Banks for interest payment on the public debt.

[a]Total does not add due to rounding.

[b]Information included in "other" category.

Source: The basic categories and the volume data were obtained from Treasury officials and reports, primarily the Cumulative Analysis of Work Processed (TFS-37A) and the Rough Volume Indicators reports. The dollar value data were obtained primarily from the program agencies and supplemented when necessary with Treasury estimates.

Table III.2: Treasury Payments by Electronic Funds Transfer (FY 1987)

Category	Volume of total Treasury payments (millions)	Volume EFT (millions)	Percent sent EFT
Social Security benefits	448.7	199.7	45%
Supplemental Security Income benefits	52.8	7.2	14
Civil Service benefits	24.5	14.1	58
Veterans Administration benefits	54.9	17.5	32
Railroad Retirement Board benefits	12.7	5.5	43
Federal salaries	44.5	29.8	67
Tax refunds	81.2	[a]	[a]
Other	170.1	56.7	33
Total	**889.5[b]**	**330.7[b]**	**37%**

Note: "Treasury payments" by electronic funds transfer as used in this report include those disbursed by the Department of the Treasury itself and those disbursed under authorization from Treasury by other agencies. The latter are included in the "other" category in this table and include Department of Defense and Postal Service electronic payments, among others. Treasury payments do not include those issued by entities acting as fiscal agents for the United States, such as those issued by the Federal Reserve Banks for interest payment on the public debt.

[a]EFT volume was 25,000 representing less than 1 percent.

[b]Totals do not add due to rounding.

Source: We compiled and computed these statistics from data provided by Treasury officials, in particular the officials in Treasury's Financial Management Services, and Treasury reports, primarily the Cumulative Analysis of Work Processed (TFS-37A) and the Rough Volume Indicators reports.

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