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BANKING: Government Check Cashing Issues

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Before the  
Subcommittee on Consumer Affairs  
Committee on Banking, Housing and  
Urban Affairs  
United States Senate



Issues Related to Cashing  
Government Checks

SUMMARY OF STATEMENT BY  
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The Competitive Equality Banking Act of 1987 required that GAO study the extent to which individuals who receive Treasury checks have difficulty cashing such checks. GAO is testifying today on its preliminary results.

The issue of access to check cashing services at depository institutions is a difficult, complex, and emotional one. Consumer advocacy groups and others believe low and moderate income consumers have difficulty cashing government checks. However, there is little statistically valid data to assess the extent or cause of difficulties, and there is no common agreement as to what is meant by difficulty. Nevertheless, some individuals do not have depository accounts and are not able to cash their checks at local banks or thrifts. Instead, they cash them at local facilities, such as check cashers or grocery stores, that may charge fees or require minimum purchases considered by some to be too high.

Given the nature of check cashing complaints, it is clear that those without depository accounts experience the most problems. GAO analyzed the Census Bureau's Survey of Income and Program Participation and reviewed other studies to determine their characteristics. GAO found that the "unbanked" population of the United States is at the lower end of the income scale, relies heavily on government benefit programs, and includes a significant percentage of the unemployed. Reasons why individuals do not have accounts seem to center on cost and convenience. While special low-cost accounts for senior citizens are widespread, this is not so for the general population. Some individuals, however, may prefer to cash checks at places other than banks.

GAO believes any solutions being considered to check cashing problems should be targeted to those truly experiencing difficulty cashing government checks. GAO suggests that concerned federal agencies study benefit delivery patterns and needs and recommend improvements, including lower-cost options.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to participate in your hearings on check cashing difficulties experienced by those without banking accounts. Section 1001 of the Competitive Equality Banking Act of 1987 required GAO to study the extent to which individuals who receive Treasury checks have difficulty cashing them. The results of this work to date form the basis for our testimony today.

The issue of access to check cashing services is a difficult one. Consumer advocacy groups and others have expressed concerns about the inability of many low and moderate income consumers to cash government checks at banking institutions. But there is little statistically valid data that can be used to evaluate the extent or cause of check cashing difficulties that individuals may be experiencing.

Indeed, there is no common agreement on what is meant by "difficulty." Without a clear delineation of the problem, it will be hard to decide what actions are most appropriate. In addition, should steps be taken to improve the ability of those with low and moderate incomes to cash checks at banking or other facilities, a decision is needed on who will bear the costs of such improved access--the government, the recipients of checks, or the institutions cashing the checks.

My testimony today is divided into two parts. First I want to summarize some of the information that we have gathered in the course of doing our review. Then I shall present our preliminary observations on the dilemma that is posed in searching for a federal response to check cashing problems.

#### RESULTS OF GAO'S SURVEY

Our survey of check cashing problems began in September 1987. In doing the work we (1) analyzed Census Bureau data to determine the characteristics of families receiving government benefit checks who might be experiencing problems; (2) reviewed certain state and local government arrangements designed to facilitate check cashing by those without bank accounts; (3) reviewed and evaluated available studies related to the issue of check cashing difficulty; and (4) had numerous discussions with bank regulatory agencies, other federal agencies, state and local officials, and consumer and industry groups.

While our mandate was to study difficulties cashing U.S. Treasury checks, we decided to include state and local government checks, as well. We determined that those advocating change make little distinction between problems in cashing federal, state, or local government checks. In our opinion, recipients of state and local government benefit checks are more likely to be

experiencing problems than those receiving U.S. Treasury benefit checks. Our survey of the issue covered three basic areas:

- The extent to which banks and thrifts cash government checks for nondepositors and reasons why they may not.
- The characteristics of those experiencing problems and why they do not have accounts at banking institutions.
- Governmental responses to facilitate the delivery and cashing of government checks.

CHECK CASHING EXPERIENCE AT  
DEPOSITORY INSTITUTIONS

In 1986, we made a nationwide statistically valid survey of fees charged by banks and thrifts for checking account and other services. Among other things, 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 the Treasury checks free of charge. For those that charged for the service, the median fee was \$2.00.

Studies conducted by consumer groups reveal different, though not necessarily contradictory results. According to the Association of Community Organizations for Reform Now, only 12

percent of the institutions they surveyed cashed checks for non-account holders in 1986. A Consumer Federation of America estimate was 29 percent in 1987. The institutions surveyed by these two organizations were not randomly selected and were predominately located in urban areas. Survey results by another organization and interviews reveal that access to check cashing services at depository institutions by non-account holders is much more limited in urban than in rural areas. Unfortunately, there is no current, nationally representative survey of the check cashing experience of non-account holders at depository institutions. Nonetheless, it is our impression that access is considerably more of a problem in urban locations than in rural ones.

Banks which do not cash government checks for nondepositors cite three principal reasons for their opposition to being required to do so. These include (1) unreimbursed cost if there were a requirement that such checks be cashed free of charge, (2) congestion of their facilities, and (3) potential fraud.

Banks believe that any efforts to expand access of nondepositors to check cashing services must involve compensation for the costs they would incur. But, we could find no definitive estimate of how much it costs to cash a government check. The Federal Reserve's 1986 Functional Cost Analysis survey found that the cost of processing a check is from \$.28 to \$.33, but the costs included are not specified. A small bank in Florida provided us

with an estimate of \$.66 per check, which also was not all inclusive. Other estimates range up to \$5.00.

None of these estimates appear to quantify the cost of lost business due to congestion of lobbies--a reason frequently cited by institutions for refusing to cash checks for nondepositors. Bankers indicated that large numbers of individuals in lobbies 2 or 3 days a month strained labor and capital resources, resulting in poor service to regular bank customers who pay for those services. Consumer advocacy groups can counter that if more banks cashed checks for nondepositors, the few banks that now do would not experience the congestion problems they currently have.

As for fraud, we found the actual dollar amount Treasury reclaims from banks and thrifts or refuses payment on to be smaller than the claims of banking groups imply. (The aggregate data do not, of course, reflect local or regional differences.) Past levels of fraud, however, may not be a guide if free government check cashing for nondepositors is mandated.

In FY 1987, some 559 million federal checks were issued, totaling \$621.6 billion. In FY 1987, Treasury reclaimed or refused payment on 142,632 checks valued at \$63.7 million. Of these checks, about 92,000 valued at \$38.9 million were issued to deceased payees. These data do not accurately depict bank losses

from Treasury reclamations or declamations because banks are able to collect some of the amounts reclaimed.

We have not been able to obtain estimates of the percentage of funds banks are able to recapture (or at what cost) from accounts, or from businesses or persons who cashed the checks. We do not have comparable data for fraud levels for state and local government checks.

#### WHO IS HAVING PROBLEMS?

Given the nature of the complaints about check cashing problems, it is clear that those without banking relationships are the most likely to be experiencing the most difficulty. To determine the characteristics of this group we relied primarily on data obtained in the Census Bureau's Survey of Income and Program Participation. This survey is nationally projectable, is collected from about 20,000 households nationwide, and includes data on participants in federal, state, and local programs that disburse benefits. It also contains information on whether or not these participants maintain bank accounts.

Census data indicate that there were about 92 million family units appropriate for our study in the United States in 1984. These data were the latest that were available for our analysis.



About 18 percent of these families did not have bank accounts.  
Of these 16.6 million families:

- 4.3 million or 26 percent received Treasury checks, and 3 million or 18 percent received state or local government checks;
- the number of unbanked families receiving at least one government check was 7 million, or 42 percent of all unbanked families; and
- 82 percent of families without bank accounts had an income under \$20,000, and 80 percent were headed by individuals with 12 years of education or less.

If individual government programs are examined, Aid to Families With Dependent Children (AFDC) and general assistance have the highest percentage of unbanked families--78 and 77 percent, respectively. These checks are issued by state or local governments. About 15 percent of families receiving Social Security checks and 50 percent of those receiving Supplemental Security Income checks were unbanked.

Thus, the unbanked population of the United States is at the lower end of the income scale, relies relatively heavily on

government benefit programs, includes a significant percentage of the unemployed, and most have 12 years or less of education.

In light of the data on bank policies on cashing checks for nondepositors and claims about the problems they pose, we sought to understand why individuals do not have bank accounts. We had discussions with individuals and consumer group representatives and reviewed studies on the check cashing experience of individuals. Principal reasons given as to why individuals do not have bank accounts were (1) banks do not meet all the needs of certain individuals for several reasons, and (2) some individuals prefer to use non-bank check cashing facilities.

Check cashing facilities were perceived by some to be more convenient in their hours and locations. For example, they were open when banks were not. Others thought bank accounts did not seem necessary, given the limited number of transactions they made. Reasons for not dealing with banks also included high opening and minimum balance requirements, a credit card requirement to open an account, delayed access to funds, and lack of bilingual materials and personnel. We also heard that fear of losing welfare benefits also kept some individuals from opening accounts.

I would like to elaborate on two of the principal reasons for not maintaining bank accounts: inconvenience and cost.

### Inconvenience

A survey by the New Jersey Department of the Public Advocate sheds some light on this consideration. The New Jersey study team reviewed 4,842 cancelled AFDC checks and found that 47 percent were cashed at banks; 32 percent at check cashing facilities; 9 percent through friends, relatives, and landlords; and 12 percent at grocery stores, taverns, liquor stores, and other locations. The department also interviewed 750 individuals outside 29 licensed check cashing stores and found that about 50 percent of the responses of those cashing government checks indicated that banks were inconvenient. These inconveniences included long lines at those few banks that did cash checks for nondepositors, receipt of checks on days when banks were closed, and the observation that few banks issue food stamps while many check cashers do.

### Cost

Let me now address the cost issue by providing some comparative data on check cashing facilities and banks. Check cashing facilities operate in a number of states. An official of the National Check Cashing Association estimates that between 2,000 and 3,000 operate nationwide. As far as we have been able to determine, these facilities are regulated with regard to the fees they charge in only three states. Regulated maximum fees are:

New York: .75 percent of face value plus 10 cents.

New Jersey: 1.0 percent of face value for in-state checks and 1.5 percent for out-of-state checks up to a maximum of \$8.00.

Illinois: 1.2 percent of face value plus 90 cents.

Thus, in these states the cost to an individual wanting to cash a \$411.45 check, the average Social Security check in November 1987, would range from \$3.19 to \$6.17. In other states we have been told that fees can be as high as 10 percent of the face amount of a check. A survey of check cashers found a high of 5 percent of the face value of a government check, or \$20.57 in one state.

GAO's 1986 national survey of bank fees revealed that, as of mid-1985, special low-cost accounts were being offered by banks and thrifts to senior citizens (74 percent), students (41 percent) and minors (23 percent). But only 15 percent offered "no-frills" accounts to the general public and they were not all appropriate for the poor. For example, some required high opening balances. Our calculations indicated that the cost to maintain such a "no frills" account for a consumer with an income of under \$10,000 who wrote eight checks per month and maintained a balance of about \$260 in the account would vary considerably. For 37 percent of these customers there would have been no cost, 29

percent would have paid between \$3.00 and \$4.00, a month and 9 percent would have paid over \$5.00 to \$10.00 a month.

The cost of maintaining a checking account at some banks may be less than that of using a check cashing facility. But the convenience of check cashing facilities also appears to be a very important consideration. Certain studies that have been done indicate that cultural attitudes such as a basic distrust of banks, illiteracy, and an inability to maintain sufficient identification to meet bank requirements also seem to play a role.

#### GOVERNMENTAL RESPONSES

Over the past several years, there have been federal as well as certain state and local government responses that address both the affordability of basic banking services and the cashing of government checks.

In 1986, the Federal Financial Institutions Examination Council issued a joint policy statement that encouraged the offering of inexpensive basic banking accounts, including check cashing privileges. And a number of states have taken actions to require low-cost banking services. For example, Massachusetts requires free checking or savings accounts for those 65 and older and 18 and younger, and it also requires banks and thrifts to

cash certain checks presented by resident pensioners or retirees if they provide adequate identification; are registered with the institution; and the check is a federal, state, or local government retirement, social security or supplemental security income check.

Connecticut will soon require banking institutions to cash state checks issued to recipients of public assistance without charge to the recipient. However, the institution may request a fee from the state for cashing such checks. We understand the state limited the free check cashing requirement to state public assistance recipients because it did not believe federal check recipients were having problems.

Some efforts have been made to facilitate the delivery of payments as well as share the costs of check cashing services. In New York City, under an arrangement with a bank, funds for welfare payments are sent to agents, primarily check cashing facilities. Recipients of the payments use magnetic cards issued by the city to establish their identity and the amount due them. They are then given the full amount of their welfare payment. New York City bears the cost. In Ohio, the state has contracted with banks that clear its state warrants (checks) or hold state funds to cash the warrants, including AFDC warrants. In one Ohio county, banks agreed with the welfare department to cash warrants (checks) for nondepositors.

State and local governments maintain accounts at banks used, among other reasons, to make public assistance payments. The Uniform Commercial Code requires a bank to cash checks drawn on that bank when presented over the counter for payment, regardless of whether or not the presenter has an account. The bank may take appropriate steps to ensure that the check is authentic and the presenter is the payee.

OBSERVATIONS ON  
PROPOSED APPROACHES TO CHECK  
CASHING PROBLEMS

You asked us to comment on S. 2110, which proposes that banks cash government checks free of charge for nondepositors. There are not sufficient data to accurately measure the scope or severity of problems individuals without bank accounts are experiencing cashing government checks. And, without that data it is hard to decide whether S. 2110 or an alternative approach is most appropriate.

The requirement contained in S. 2110 would give those not currently using banks to cash their checks the option to do so. Unknown, however, is the extent to which that option would be exercised. While free check cashing would certainly lower the direct costs to those who currently use check cashing facilities or other nonbank means of cashing checks, it appears from our work that the current preferences and needs of portions of the

unbanked population are based on other considerations besides comparative cost.

S. 2110 would also place sole responsibility on banking institutions for bearing the costs of relieving the problem that is perceived to exist. If it is believed that beneficiaries of public assistance should not bear the cost of cashing government checks, consideration should also be given to governmental acceptance of part or all of the costs of cashing public assistance checks, as has occurred in certain instances at the local level.

Mandated free checking is not the only way being proposed to improve individuals' access to government benefits. Electronic Funds Transfer (EFT), for example, has been cited as a way to solve check cashing problems by bringing more government check recipients into the banking system. Desirable features cited include eliminating problems of check forgeries and long lines at banks and recipients' difficulties when checks are stolen. Individuals would also obtain additional benefits. Use of EFT would also lower government costs.

While in general we encourage the use of EFT, it should not be required for recipients of government benefit checks until genuine low-cost basic banking accounts with low opening balances are widely available to the public. Even if such



services do become widely available, there still could be questions about whether requiring EFT would represent an unwarranted interference with the preferences of those who do not want to have bank accounts. Other suggestions include use of EFT with debit cards.

We believe that the solution being sought should be targeted on those who are truly experiencing check cashing difficulties and that efforts to minimize the cost should be intensified. It might be worthwhile for the Congress to direct the Departments of Health and Human Services, Agriculture (for the food stamp program), and Treasury, in consultation with the banking regulators, state and local governments, and banking and consumer groups, to assess current benefit delivery patterns and the difficulties and needs of those receiving such benefits. Even if changes to improve delivery and to lower costs recommended by the study are implemented, there will still be costs associated with making cash payments available. Study results could help the Congress decide how to most equitably distribute those costs. Nevertheless, a public policy decision as to who should bear the costs remains.

That concludes my prepared statement. We would be pleased to answer questions.