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

Testimony of Jason Carballo, President
Financial Service Centers of New York
Before The New York State Banking Department
Hearings on the Banking Development District Program

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Superintendent Neiman and members of the New York State Banking Department, my name is Jason Carballo. I am the Operations Officer of Castle Financial Services, a company that operates seven multi-line financial service centers located in Manhattan and The Bronx. I also serve as President of the Financial Service Centers of New York (FSCNY), the trade association whose members have more than 660 licensed check cashing locations throughout the State of New York. Our industry, which is more commonly known as the licensed check cashing industry, is regulated by the New York State Banking Department.

I would first like to thank the Banking Department for holding this series of hearings across the state, because I think they come at a pivotal moment in the evolution of the financial services industry.

Due to a confluence of economic, technological and customer behavior issues, I think it is important that we change how we think about financial services. Traditionally, financial services meant banks. It meant checking accounts, savings accounts, Certificates of Deposit. However, in reality, financial services are evolving ... and at an accelerated rate. And we need to change how we think about financial services and how we view the providers of these services.

Today, people want more. They want stored value cards that act as virtual bank accounts. They want savings accounts that don't require the use of a bank. They want to conduct financial transactions online, even via their cell phone. They want to pay their bills electronically. They want flexibility, accessibility and transparency.

And where can low- to moderate-income consumers find all these qualities when conducting their personal financial business? Well, with rare exception, it's NOT at the banks. Too many people find interacting with banks expensive, confusing, and intimidating.

For example, despite their claims to the contrary, it can be quite expensive to open and maintain a checking account, which typically has minimum balance requirements and also exposes the customer to a variety of monthly and service fees, such as overdraft "protection" fees. Many of these are hidden so customers don't even know they are incurring them until after the fact.

In addition, too often banks simply are not addressing low- to moderate-income customers' needs. In June of last year, the New York City Department of Consumer Affairs, Office of Financial Empowerment issued a study, titled: "Neighborhood Financial Services Study: An Analysis of Supply and Demand in Two New York City Neighborhoods." Its findings very much support my contention that banks are not offering the services that consumers need. In fact, I would like to read one brief passage from the study. Page 8 of the report states that the "NFS Study findings suggest that the fundamental mismatch between current financial products offered and consumer transactional needs—getting cash, paying bills, and buying goods—appears to be the major determinate in whether and how individuals with low incomes use mainstream financial institutions."[1]

Likewise, two other, recently-published reports – one by the Aite Group ("Debunking the Myths about the Unbanked and Underbanked") and one by the FDIC ("Banks' Efforts to Serve the Unbanked and Underbanked") – highlight common misconceptions about low- to moderate-income consumers and the shortcomings of banks to adequately service them.

The Aite Group's press release stated that "[the study] reveals that people are unbanked for very practical reasons, including credit, pricing, cash flow and service issues."

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[1] NYC Neighborhood Financial Services Study, NYC Department of Consumer Affairs, office of Financial Empowerment, June 2008, Page 8.

At the same time, the FDIC study found that more than 70% of banks responding "have not identified" expanding services to the underbanked segment of the populations as a priority, illustrating the lack of attention banks pay to this population.

While banks have remained largely static in their offerings, the financial services center industry has evolved to meet changing customer demands and expectations. As a result, while we may have been simply "check cashers" in years' past, today, we truly are multi-line financial service centers.

Perception often lags behind reality, and one of the reasons why I am here today is to help change some perceptions regarding the delivery of financial services, and the role that our industry plays therein.

We are able to offer a wide array of products and services, many of which are not available at banks. These include check cashing, money remittances, and bill payments.

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

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

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

So, having provided a bit of background about our industry, you may be asking yourselves, "Why is the operator of a financial service center company, a check casher, testifying at today's hearing being held to discuss the effectiveness of the Banking Development District (BDD) program?" The answer is really quite simple; I am here because we can help.

As the Banking Department explores ways to achieve its stated goals of finding "ways to better meet the needs of the unbanked and underbanked" we think financial service centers can play an important role.

In fact, I would like to offer this suggestion to the Banking Department: Rather than recreate the wheel, why not leverage and expand upon existing partnerships that are already delivering proven benefits to low- to moderate income consumers.

Right now, numerous credit unions are partnering with area check cashers to offer credit union customers expanded access to their accounts. Under the PayNet program customers can make deposits and withdrawals from their credit union accounts at local participating check cashing stores. As these stores have extended hours, some open 24-7, customers have significantly greater access to their money. There are currently 8 credit unions partnering with area financial service centers to offer this expanded network of "branch offices" to their members.

According to the Banking Department's own notice of this hearing, the Bank Development District program was established to "encourage the establishment of bank branches in areas with a demonstrated need for banking services." Why not encourage greater use of the existing distribution network represented by the state's financial service center industry?

As one example, until a few years ago, financial service centers across New York City served as in-person payment centers for the New York City Housing Authority. We would urge the Department to support an expansion of this payment network as a means to better serve these consumers.

Instead of spending the time, energy and money to devise new ways for traditional institutions to better service this population, a market segment for which they have shown little interest in or ability to service in the past, the Banking Department should work to create a collaborative, inclusive environment, one where traditional institutions and FSCs can work together to more easily provide the services customers want and expect. Let the banks and credit unions focus on doing what they do well and let FSCs serve as the primary distribution channel for select services – check cashing, money withdrawals, deposits, money remittances, etc. – in areas underserved by banks.

We are confident that, working together, financial service centers can be an integral component in the overall solution to provide better services for tens of thousands of New Yorkers as they move up, or down, the economic ladder.

And finally, I would like to leave you with this last proposal. In recognition of the evolution of financial services, and the different institutions that can offer those services, I would respectfully urge the department to consider a name change – from the New York State Banking Department to the New York State Department of Banking and Financial Services. Names and titles are important. And such a change would send a clear message – to the markets, public officials, regulators, the media and anyone else interested in the industry – that banks are a part of the solution, they are not the entirety of it.

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

Jason Carballo serves as the President of the Financial Service Centers of New York (FSCNY), the state trade association for more than 660 individual licensed financial service centers across New York. To learn more, please visit www.fscny.org.