

Check-cashing businesses help 'unbanked' to lead cash-only lives

BY DEB CRAUER
The Wichita Eagle

After getting off work Friday, Wichita resident Mike Bode drove to Daddy's Money Pawn Shop to cash his pay-check.

Bode doesn't keep a bank account, so he lives a cash-only life, getting his money from places such as Daddy's Money and paying bills by money order.

This works best for him, he says. "I can't overspend," the 30-year-old

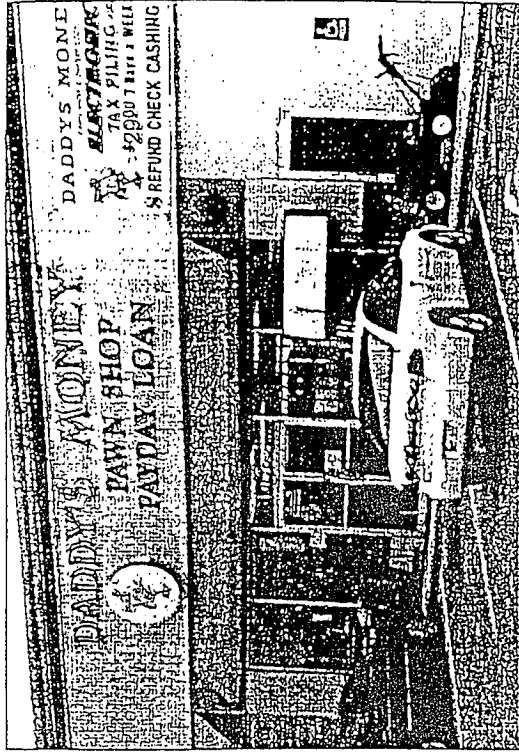
explained. "I live within my means." When he had a bank account, it was too easy to buy things he couldn't afford. Now he's fearful of having an account, admitting he's just not good at managing money.

Bode, who said he makes about \$20 an hour, is among the estimated 10 percent to 12 percent of the population called "the unbanked."

So is Jason Buchkoski, who says he doesn't have a bank account because it's "too much of a hassle."

For many in this group, however,

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Jaime Oppenheimer/The Wichita Eagle
Daddy's Money Pawn Shop cashes checks, as do many of Wichita's 60 other places that handle payday loans.

WHY SOME PEOPLE SKIP BANKS

Source: 2001 survey by the Federal Reserve	
28.6	percent do not write enough checks to make it worth opening a bank account
22.6	percent do not like dealing with banks
14	percent don't have an ATM in their neighborhood
10.2	percent find service charges too high
6.6	percent don't like managing or balancing a checkbook
6.5	percent find minimum balance too high
11.5	percent gave other reasons

Tim Thomas, owner of Daddy's Money Pawn Shop, says that about 25 percent of the business is cashing checks.

Fernando Salazar/
The Wichita Eagle



BANKS

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it's not a matter of not wanting a bank account — it's a matter of not being able to get one.

Extending a lifeline

Rep. Nile Dillmore, D-Wichita, said he's concerned about people who can't get access to basic banking services.

Some people can't get accounts because they misused them in the past. Others can't come up with the money required for a minimum deposit. Others can't get them because they're here illegally.

"Our economy is relying more and more on service jobs and retail sales jobs, jobs that don't pay very much money," he said. "As a result, people in those jobs are not attractive customers to large and established banking systems. They don't have big accounts. Their borrowing needs are small.

"And so check cashers, payday lenders, title lenders — they become the primary source of financial services for that group of wage earners."

Some states, such as Illinois, Massachusetts, Minnesota, New Jersey, New York, Rhode Island and Vermont, require banks and other financial institutions to offer "lifeline" checking accounts to consumers, according to Bankrate.com, a banking industry Web site. Such accounts generally require low minimum deposits and give the consumer a certain number of checks per month.

Lifeline checking accounts are not required in Kansas.

A proposal is circulating in

Topeka that would allow out-of-state banks to accept deposits from public funds such as city and county governments and school boards. Currently, public money must be deposited with a bank based in Kansas.

As part of that proposal, Dillmore wants to see if those financial institutions would help people who don't have bank accounts.

"If the state wants to extend that privilege to them, maybe they would look at the issue of the unbanked," Dillmore said.

Risky business

Tim Thomas, owner of Daddy's Money, has been in the business for 15 years and has had his own shop for six years.

About 25 percent of the business is check cashing, he said. On a typical day, Daddy's Money cashes 40 to 50 checks. That number increases during tax season, he said.

Daddy's Money typically charges a 2 percent fee to cash a payroll check. The business also cashes other types of checks, including government and personal two-party checks. The greater the risk, the greater the fee.

"We do take a great deal of risk by being in this business, quite honestly," Thomas said.

Clerks require two forms of identification to cash a check.

Wichita has 61 places to get a payday loan. Most of those businesses also offer check-cashing services, as do some grocery stores.

Consumers who use check-cashing services typically pay a 2 percent to 10 percent fee to do so, depending on the type of check. Dillons charges \$1.50 per \$100, said spokeswoman Su-Ella McKinzie.

Most banks will cash payroll checks for non-customers for no fee if the check is drawn on that bank.

Tom Linafelt, communications director for Quik Cash, which has six stores in Wichita, said about 90 percent of the checks Quik Cash cashes are payroll checks.

The fee there to cash a payroll check also is 2 percent.

Linafelt said the check-cashing side of Quik Cash — the company also makes payday loans — has been decreasing.

"We think that's the result of a couple of factors, including increasing e-commerce and direct deposit. We're becoming a paperless financial society," he

said.

Industry safeguards

At Fidelity Bank, customers can open a checking account with as little as \$25, said spokesman Al Sanchez.

"If you can establish who you are, and you clear an industry clearinghouse system, and you've got \$25, you can open up an account at Fidelity Bank," Sanchez said.

The U.S. Patriot Act requires banks to verify a potential customer's name, current address, date of birth and Social Security number, Sanchez said.

The system Fidelity and other banks use to investigate consumers flags those who have used their accounts fraudulently or outside account guidelines.

"It shows whether you have had a checking account before, and if you used it the way it was intended to be used," Sanchez said.

If the consumer has cost a bank a loss — either through unpaid insufficient funds checks, fraud or something similar — that will show up and likely make it difficult to get an account.

Payroll option

One alternative to bank accounts is payroll cards.

Intrust Bank offers the cards to some of its business customers.

Instead of issuing a paper check to employees, businesses that use payroll cards give staffers a card on payday that acts like a debit card.

Each payday, the employer reloads the card, putting the proceeds of the employee's paycheck onto the card. The employee then can make with-

drawals at an ATM or use the card for purchases.

Intrust wouldn't say how many business customers it has using payroll cards. The advantage to employers is that it cuts down on payroll costs.

"Payroll cards are great for people who are unbanked," Iseman said. "Some people just don't want to have an account."

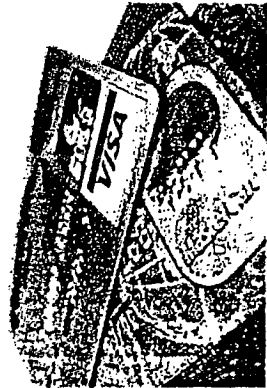
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SUNDAY
DECEMBER 3, 2006

Payroll cards can save employers, workers money

BY JERRY SIEBENMARK
The Wichita Eagle



There is a little-known option that companies can use to pay employees who don't have checking accounts. An employee's pay can be credited to a payroll card, which can be used at an ATM, the grocery store or any business that accepts a debit card. Payroll cards aren't that new,

but there's little awareness of them.

Keith Moyer, senior vice president and treasury services manager at Commerce Bank, said that probably fewer than 1 percent of the companies his bank serves use the payroll card program.

"Now, if you ask me what percentage know this program exists, it's probably less than 1 percent," he said.

Businesses that have adopted a paperless payroll system said that, even with the extra costs of adding the payroll card option, they have saved lots of money by eliminating checks.

But other companies are waiting to see what happens with state legislation that would clarify for them the ability to go to a payroll system of direct deposit and payroll card.

Check alternative

There are people who, because of a poor financial history, can't open a bank account for direct deposit.

So they have two options: a paper check or a payroll card. United Methodist Youthville Inc. began offering payroll cards as an alternative to checks

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PAYROLL

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years ago.

Toyia Bulla, Youthville's chief financial officer, said she learned of the card option from Commerce Bank.

With the conversion to the card, Youthville's 550 employees can either have their pay directly deposited to a bank account or to the card.

Bulla said about 5 percent of Youthville's employees use the card, which Commerce Bank calls a stored-value card.

Other area businesses are starting to take note of the payroll card because there are cost savings to be gained from eliminating paper checks.

Bulla said Youthville has saved several thousand dollars annually by going to the payroll card.

"That means that we have several thousand dollars that we can use to take care of children," she said.

dating a checkless payroll system without a change in the law.

Arnold Group's Hayes said the lack of clarity in the law isn't limited to the YMCA.

"I think there's a majority... that isn't quite sure," Hayes said. "That's why we as a company kind of put the brakes on (switching to a direct deposit and payroll card system)."

A Senate bill that died in a House committee in the Kansas Legislature's last session would have clarified that stature, said Hayes, who testified in support of the bill as the past president of the Wichita chapter of the Society for Human Resource Management.

Hayes said he believes the bill didn't get a lot of support because there are a lot of people, legislators included, who "all they've known their whole life is (getting) a hard-copy paper check."

He said it's legislation that his group will try to revive in the Legislature's next session.

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comfortable with the YMCA man-

Schmitz said he doesn't feel

won't go to the payroll card unless the law changes.

Legislative road bump

There would be a cost to offering the cards, he said, but not enough to wipe out all the savings from eliminating checks.

Schmitz estimated it costs the YMCA \$6,500 a year to print and mail paychecks to that group of employees.

Bill Schmitz, business manager for the Greater Wichita YMCA, likes the payroll card option for the 30 percent of his organization's employees who are paid by check.

HR services and operations for the Arnold Group.

workers who have to pay a fee to get their checks cashed, said Phillip Hayes, vice president for HR services and operations for the Arnold Group.