FINANCIAL SERVICE CENTERS OF AMERICA, INC.
A NATIONAL TRADE ASSOCIATION

Statement of

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Before the

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Subcommittee on Financial Institutions and Consumer Credit

Regarding

Regulation of Money Service Businesses

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Chairman Gutierrez, Ranking Member Hensarling, and esteemed Members of the Subcommittee, my name is Scott McClain. I serve as Deputy General Counsel to the Financial Service Centers of America, also known as FiSCA. On behalf of the FiSCA membership, we are grateful for this opportunity to discuss issues concerning regulation of the Money Services Business (MSB) industry.

FiSCA is a national trade association representing nearly 7,000 neighborhood financial service providers operating in the United States. Our membership serves millions of customers from all walks of life, including those with bank accounts as well as the "unbanked."

Our members, which we call "Financial Service Centers" or "FSCs" provide a broad range of financial services and products, including check cashing, remittances, money order sales, and utility bill payments, to name just a few. FSCs make up an economically significant industry that conducts more than 350 million transactions each year, providing over $100 billion in various products and services to over 30 million customers.

FSCs specialize in delivering retail financial services – offering convenient locations, extended hours of operation, and transparent and affordable transaction fees. Our customers pay only for services they use, with no account maintenance fees, no minimum balance requirements, and no NSF fees. We are proud of recent industry surveys showing that more than 90% of our customers find the value and level of our services as "good to excellent."

Check cashers and other MSBs are dependent on access to depository and banking services for their very survival. Banks that service our industry, however, are faced with onerous regulatory burdens, and are required to expend ever greater resources in maintaining customer compliance and monitoring systems. As a result, many banks have terminated their MSB customers, are refusing new accounts, or are placing burdensome requirements on the accounts they maintain.

There is a dangerously small pool of banks willing or able to provide services to MSBs. As a result of these trends, check cashers and other MSBs are experiencing problems in locating and maintaining accounts, banking costs are increasing, and would-be entrepreneurs in this area are experiencing barriers in opening new businesses.

Part of the current bank discontinuance problem stems from a misperception in the eyes of some regulators and bankers that check cashers are inadequately regulated. Let me demonstrate how that is not accurate. At the state level, check cashers are regulated in most U.S. jurisdictions, typically by state banking departments or other regulators. State regulation typically includes licensing or registration requirements, mandatory recordkeeping, examinations, financial reporting, regulation of fees and consumer protections. Virtually every state with any sizable check casher industry has enacted legislation to regulate these businesses. Moreover, all check transactions are subject to the Uniform Commercial Code, adopted in all U.S. jurisdictions.

In addition, at the federal level, as of 2001, MSBs have been required to register every two years with the U.S. Treasury Department. They must also implement anti-money laundering programs, including policies and procedures, compliance officers, employee training programs, and independent compliance examinations. Like banks and other financial institutions, check cashers and other MSBs are subject to Bank Secrecy Act (BSA) reporting requirements, including currency transaction reporting (CTRs) and suspicious activity reporting (SARs) for certain types of transactions. They are also required to maintain detailed records of monetary instrument sales and remittance activity at certain levels as mandated by the BSA.

MSB compliance is overseen by the Financial Crimes Enforcement Network (FinCEN), with the examination function administered by the Internal Revenue Service. In a typical “Title 31” audit, IRS examiners will go on-site to assess the level of a check casher’s compliance, including a review of all reporting and recordkeeping functions. The IRS examination process is rigorous.

In short, the perception that the check cashing industry is under-regulated is simply not accurate.

With the limited number of banks serving the industry, a tenuous relationship exists in which another termination by any one of the few remaining larger banks could create serious problems for the industry and its customers. I would also stress that the loss of bank accounts threatens to drive customer transactions underground to unregulated channels. It is important to the interests of national security and consumer protection that transparency of transactions be maintained by ensuring that check cashers and other MSBs remain a viable part of the regulated financial community and continue to have access to depository services.

FiSCA will continue to work with members of Congress and this Subcommittee to help ensure the availability of banking services to the industry. One solution currently being considered is H.R. 2893, “The Money Service Business Act of 2009”, introduced last year by Representative Maloney and co-sponsored by Chairman Gutierrez, Ranking Member Hensarling, and Representative Biggert. This proposed solution continues to have bi-partisan and industry support. We are grateful to the bill’s sponsors for their continued efforts in this regard. We also appreciate the concern of Congress for this problem as demonstrated in H.R. 4331, the “Money Services Business Compliance Facilitation Act of 2009” as introduced by Chairman Gutierrez and Ranking Member Bachus.

As a final point, although the MSB industry continues to experience significant problems in access to banking services, a number of depositories have seized on this as an opportunity. Many banks have found check cashers to be excellent, profitable customers, whose accounts can be efficiently and safely managed, and who can significantly add to the bank's bottom line. FiSCA has developed written materials on banking MSBs, and we will gladly work with any depositories who may want to take a second look at our industry.

In conclusion, FiSCA and it members are committed to working with the Subcommittee and our industry partners to help ensure that MSBs continue to have access to banking services.

Again, we thank you for the opportunity to present these views.