



Consumer Federation of America

August 20, 1997

Larry D. Lander
Commissioner
Department of Financial Institutions
477 Versailles Road
Frankfort, KY 40601

Dear Commissioner Lander:

Consumer Federation of America is issuing a new study of check cashers, titled "The High Cost of 'Banking' at the Corner Check Casher: Check Cashing Outlet Fees and Payday Loans." (Copy enclosed.) We found that bankless and underbanked consumers pay a very high price for the convenience and necessity of services from their corner check casher.

Since CFA first surveyed check cashers in 1987, fees have risen 37% for cashing Social Security checks, 44% for payroll checks and more than 100% for personal checks. Only twelve states cap maximum check cashing fees, while another six require licensing. CFA also reports on check cashers' growing business of making short term loans on postdated checks, called payday loans. Thirteen states authorize payday loans with a range of fee limits (but excluded from usury caps). Other states, such as Virginia and Michigan, consider payday loans as unlicensed small loan lending in violation of state usury laws while New Jersey, New York, and Delaware explicitly ban these loans.

CFA hopes that you share our concern for fair treatment of poor and poor-risk consumers who use check cashers for basic financial services. These consumers tend to have lower income, are less well educated, and are disproportionately minorities. They often live in areas underserved by banks. Check cashers, while providing necessary services to consumers, should be restrained by fee caps and consumer protections to prevent fee-gouging and to promote informed choices. State law should require that check cashers prominently post fees and a toll-free number to file complaints with the licensing agency and provide itemized receipts.

Payday loans should be prohibited as unconscionable. Cash-strapped consumers are being charged effective annual interest rates of up to 2000% for loans on postdated checks held till payday. If payday loans are permitted, lenders should be licensed, comply with usury limits

and small loan interest rate ceilings and comply with the federal Truth in Lending Act. States should limit the size and term of payday loans and prevent lenders from refinancing one loan with another. Lenders should not be able to threaten bad check charges against consumers who fail to make good on postdated checks and payday loans should be treated as unsecured debt for bankruptcy purposes.

We request that you review the operations of check cashers and payday lenders in your state to ensure that consumers who use their services receive effective consumer protection. I look forward to hearing from you and would welcome updates on legislative, enforcement, and regulatory accomplishments in your state. If you have any questions, please call me at 757-867-7523.

Sincerely,

A handwritten signature in black ink that reads "Jean Ann Fox". The signature is written in a cursive, slightly slanted style.

Jean Ann Fox
Director of Consumer Protection

Enclosure