

**REPORT OF THE
STATE CORPORATION COMMISSION AND
THE DEPARTMENT OF SOCIAL SERVICES ON**

**The Feasibility of
Requiring All Virginia
Financial Institutions with
Commonwealth Funds on
Deposit to Cash Public
Assistance Benefits Checks,
without Charge**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 15

**COMMONWEALTH OF VIRGINIA
RICHMOND
1991**

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION

January 2, 1991

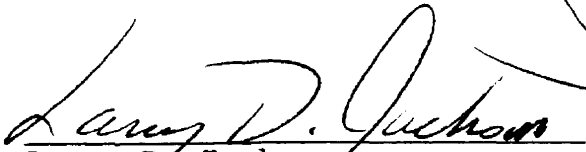
TO: The Honorable L. Douglas Wilder
Governor of Virginia
and
The General Assembly of Virginia

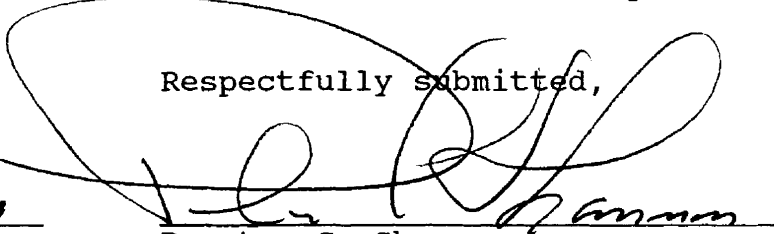
The report contained herein is pursuant to Senate Joint Resolution No. 62 of the 1990 Session of the General Assembly of Virginia.


This report comprises the response of the State Corporation Commission and the Department of Social Services to the directive to study jointly the feasibility of requiring all Virginia financial institutions with Commonwealth funds on deposit to cash public assistance benefits checks, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses resulting therefrom.

We are pleased to submit to you the Report prepared summarizing the activities, conclusions and recommendations of the study.

Respectfully submitted,


Larry D. Jackson
Commissioner
Department of Social Services


Preston C. Shannon
Chairman


Theodore V. Morrison, Jr.
Commissioner

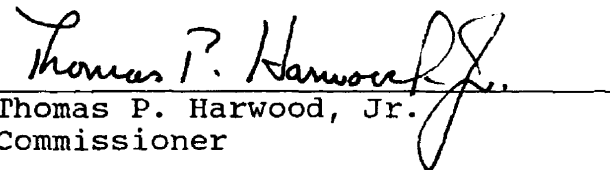

Thomas P. Harwood, Jr.
Commissioner

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REPORT OF THE STATE CORPORATION COMMISSION AND THE

DEPARTMENT OF SOCIAL SERVICES

STUDY OF THE FEASIBILITY OF REQUIRING ALL VIRGINIA FINANCIAL INSTITUTIONS WITH COMMONWEALTH FUNDS ON DEPOSIT TO CASH PUBLIC ASSISTANCE BENEFITS CHECKS, WITHOUT CHARGE, SUBJECT TO THE OBLIGATION OF THE COMMONWEALTH TO INDEMNIFY SUCH INSTITUTIONS FROM FRAUD-RELATED LOSSES RESULTING THEREFROM.

TO THE GOVERNOR
AND THE GENERAL ASSEMBLY OF VIRGINIA
RICHMOND, VIRGINIA

JANUARY, 1991

TO: The Honorable L. Douglas Wilder, Governor of Virginia,
and
The General Assembly of Virginia

I. INTRODUCTION

Senate Joint Resolution No. 62, (Appendix 1) passed by the General Assembly of the Commonwealth of Virginia in the 1990 session, encouraged the Bureau of Financial Institutions of the State Corporation Commission and the Department of Social Services to conduct a joint study examining the feasibility of requiring all Virginia financial institutions with Commonwealth funds on deposit to cash public assistance benefits checks, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses resulting therefrom.

In the same resolution, the Department of Social Services was strongly encouraged to provide periodic notice to the public assistance recipients it serves of "... (ii) locations of financial institutions where public assistance checks can be cashed, and (iii) the availability of Department of Social Services photo identification cards to assist them in cashing their public assistance checks...through envelope inserts accompanying public assistance checks..."

The Department of Social Services and the Bureau of Financial Institutions of the State Corporation Commission jointly studied the feasibility of requiring all Virginia financial institutions with Commonwealth funds on deposit to cash public assistance benefits, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses resulting therefrom. The staff working

group representing the State Corporation Commission was comprised of: Sidney A. Bailey, Commissioner of Financial Institutions; Paul S. West, Regulatory Consumer Compliance Administrator for the Bureau of Financial Institutions; Ken Schrad, Director of Information Resources for the State Corporation Commission; Hunter Van Beggarly, Deputy Commissioner, Department of Social Studies, and John Vaughn, Executive Assistant, of the Department of Social Services.

The Bureau of Financial Institutions of the State Corporation Commission and the Department of Social Services have completed their study and hereby submit their findings and recommendations to the Governor and the General Assembly.

II. EXECUTIVE SUMMARY

In undertaking and completing this study, staff of the State Corporation Commission and Department of Social Services reviewed work presently being conducted by the Department of Social Services relating to notice being given recipients of public assistance checks in response to Senate Joint Resolution No. 62, and to a project being conducted by the Department of the Treasury of the Commonwealth of Virginia and the Department of Social Services to determine the feasibility of electronic benefit payments, and to commitments made by Sovran Bank, NA, and Dominion Bank to cash the benefit checks for recipients at no charge. The State Banking Commission of the State of Connecticut was contacted and copies of the Connecticut statute and implementing regulations relating to the cashing of public assistance benefit checks without charge to the recipients were obtained for use as a model in the event the General Assembly felt legislation was warranted. (Copies of the statutes and regulations as well as testimony of Banking Commissioner, Howard B. Brown, in support of such legislation are attached hereto as Appendix 2.) A review of consumer complaints received by the Bureau of Financial Institutions for the last three years was made to see whether the inability to get public assistance benefit checks cashed or the charging of fees by financial institutions was a recurring problem. A list of commercial banks having Commonwealth funds on deposit was obtained from the Department of the Treasury, Commonwealth of Virginia, and Robert S. Young, CCM, Bank Services Manager of the Department of the Treasury, sent a letter in opposition to such legislation with his reasons therefore. (A copy of the list of commercial banks having Commonwealth funds on deposit is attached as Appendix 3, and a copy of Mr. Young's correspondence is attached as Appendix 4.) Questionnaires were sent to all Virginia commercial banks having Commonwealth funds on deposit. (A copy of the

questionnaire is attached as Appendix 5.) Ongoing activity at the federal level was monitored by the staff relating to cashing of checks for public assistance recipients.

III. CONCLUSIONS AND RECOMMENDATIONS

The study resulted in the following conclusions and recommendations:

CONCLUSIONS

(1) Consumer complaints - In the past three years, the Bureau of Financial Institutions has received in excess of 7,500 consumer complaints against Virginia financial institutions comprised of commercial banks, saving and loan associations, credit unions, consumer finance companies, industrial loan associations, mortgage lenders and mortgage brokers. Three of these complaints dealt with an inability to get a government check cashed - two of the complaints had to do with federal income tax refund checks with questions about endorsements by joint-payees. Only one had to do with a public assistance benefits check, which check was ultimately cashed at a branch of the bank on which it was drawn. If there is a problem in getting such checks cashed at Virginia financial institutions, the problem has not been communicated to the Bureau of Financial Institutions, the regulator of state chartered financial institutions.

(2) Seventy-five commercial banks in the Commonwealth of Virginia have Commonwealth funds on deposit. Thirty of these commercial banks are national banks, and the remaining forty-five are state chartered banks. Questionnaires were sent to all seventy-five banks, and fifty-nine responded. The questionnaires asked if the bank cashed the public assistance benefit checks for consumers without regard to account balance, and if a fee was charged, and if so, what was the fee. Another question asked what sort of ID was acceptable. Answers to these questionnaires are shown in tabular format in Appendix 6 attached hereto.

A brochure was prepared by the Virginia Citizens Consumer Council in October, 1990 entitled A Guide to Cheap Checking in Virginia containing data gathered by the organization by questionnaires sent to commercial banks and savings and loan associations. The questionnaire contained information similar to that sent to commercial banks and savings and loan associations by the Bureau of Financial Institutions. Thirteen of the commercial banks in which state funds are kept indicated that they would not accept as ID the picture ID furnished or available

to all recipients of Aid to Families with Dependent Children benefit payments.

(3) The Department of Social Services - In compliance with Senate Bill 338, the Department of Social Services (DSS), in conjunction with the Departments of Accounts, Information Technology and Treasury, completed a feasibility study of an Electronic Benefit Delivery (EBD) System for DSS clients. The Study's Recommendation was to implement a pilot program to test the viability of using an EBD. With the implementation of an EBD System, the need for public assistance clients to cash checks would be eliminated.

(4) The Bureau of Financial Institutions of the State Corporation Commission in response to another provision in Senate Joint Resolution No. 62 has surveyed all commercial banks and savings and loan associations located in Virginia, both state and national, to obtain information to be used in a consumer guide to be published annually listing checking accounts provided primarily for the use of low-to moderate-income depositors including information on which banks and savings and loans will cash public assistance benefit checks for recipients at no cost or stating the fee charged. Such guide will be made available to all local Department of Social Services offices, Virginia Citizens Consumer Council, Virginia Cooperative Extension Service, and upon request to the Bureau of Financial Institutions of the State Corporation Commission to any consumer without charge. The toll-free number for the State Corporation Commission will be included in such guide.

RECOMMENDATIONS

The following recommendations are offered as a result of this study:

(1) Education: Recipients of public assistance benefit checks shall have been informed of banks who will cash these checks at no charge along with each bank's location. They will further benefit from the consumer guide being compiled by the Bureau of Financial Institutions upon its completion. They are further being advised of the importance of obtaining acceptable ID. Such educational processes will help eliminate the concern, if any, that now exists. Further, recipients of the checks can be informed of the toll-free number of the Bureau of Financial Institutions for assistance if a problem arises.

(2) Ongoing projects - The Department of Social Services. The Department of Social Services recommends that an Electronic Benefits Delivery System be piloted to possibly eliminate the need for public assistance clients to cash benefit checks.

(3) If a problem exists concerning difficulties encountered in cashing the public assistance benefit checks, the concerns have not been communicated to the Bureau of Financial Institutions.

(4) The Department of the Treasury objects to legislation in this area for the reasons stated in Appendix C.

(5) There are some 200 branches of Sovran Bank, NA and Dominion Bank located statewide. In addition, there are other commercial banks that will cash such checks at no charge to consumers. Also, commercial banks can meet part of their responsibilities under the Community Reinvestment Act, 12 U.S.C. 291 et seq., by implementing and advertising services of benefit to low and moderate-income persons, such as cashing government checks or offering low-cost checking accounts. With the increased emphasis being placed on compliance with the Community Reinvestment Act by banking regulators, the banks are likely to provide such services without legislation.

No recommendation concerning this proposed legislation is included in this study because of the fact that very few complaints have been received by the Bureau of Financial Institutions involving or claiming an inability to cash public assistance benefit checks. Further, ongoing activities of the Department of Social Services and the Bureau of Financial Institutions are educating consumers on how and where to get such checks cashed, and the Department of Social Services is studying the feasibility of implementing an Electronic Benefits Delivery System. If the number of complaints in this area increases in the future, the General Assembly may want to consider the need for legislation similar to the Connecticut statute that is set out in Appendix 2 of this report. No such legislation is recommended at this time.

SENATE JOINT RESOLUTION NO. 62

Encouraging actions to increase the availability and accessibility of banking services to low- and moderate-income groups.

Agreed to by the Senate, February 13, 1990

Agreed to by the House of Delegates, February 28, 1990

WHEREAS, the availability of basic, essential financial services to the citizens of the Commonwealth is a matter of utmost importance; and

WHEREAS, many individuals with low incomes, particularly those receiving public assistance benefits, do not have banking accounts and, instead, pay fees to cash checks and purchase money orders that greatly exceed the cost of many lower-cost checking accounts available throughout the Commonwealth; and

WHEREAS, it is in the interest of the Commonwealth to ensure that resources set aside for public benefits recipients are expended for their intended purposes to the maximum extent possible; and

WHEREAS, lower-cost checking accounts are widely available throughout the Commonwealth and, therefore, publicizing the availability of such accounts would be potentially beneficial to public benefits recipients, individuals and families in lower income groups, and other consumers; and

WHEREAS, members of low- and moderate-income groups needing sufficient identification to open checking accounts and cash checks frequently rely on nondriver photo identification cards issued by the Virginia Department of Motor Vehicles as primary, and frequently sole, sources of identification; and

WHEREAS, Virginia financial institutions are often unwilling to rely on the Department of Motor Vehicles nondriver photo identification card because it is deemed unreliable due to reported association with fraudulent check-cashing schemes, thus creating difficulties for individuals who depend on this identification card; and

WHEREAS, many individuals from low- and moderate-income groups reportedly do not own banking accounts because they lack essential mathematics or language skills required to manage such accounts, and such deficiencies are manifested in difficulties handling credit and managing personal finances; and

WHEREAS, educational programs emphasizing basic business math, economic principles, banking skills, and personal financial management are needed in the public schools and in adult education settings; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That Virginia's financial institutions are encouraged to publicize the availability of lower-cost checking accounts through means likely to communicate this information to members of low- and moderate-income groups; and, be it

RESOLVED FURTHER, That the State Corporation Commission is strongly encouraged to authorize its Bureau of Financial Institutions to prepare and publish an annual consumer's guide to checking accounts offered by financial institutions in the Commonwealth. The Bureau of Financial Institutions is strongly encouraged to include in such guide, information about (i) the terms of each checking account offered, (ii) costs, fees, and expenses associated with each account, (iii) additional privileges, such as check-cashing, that accompany each account, and (iv) any additional information the Bureau believes would assist a consumer in comparing such accounts; and, be it

RESOLVED FURTHER, That the Department of Social Services is strongly encouraged to provide periodic notice to the public assistance recipients it serves of (i) the general availability of low-cost checking accounts from Virginia financial institutions, together with information about the benefits of using such accounts, (ii) locations of financial institutions where public assistance checks can be cashed, and (iii) the availability of Department of Social Services photo identification cards to assist them in cashing their public assistance checks. The Department is encouraged to provide this notice through envelope inserts accompanying public assistance checks; and, be it

RESOLVED FURTHER, That the Bureau of Financial Institutions of the State Corporation Commission and the Department of Social Services are encouraged to conduct a joint study examining the feasibility of requiring all Virginia financial institutions with Commonwealth funds on deposit to cash public assistance benefits checks, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses resulting therefrom; and, be it

RESOLVED FURTHER, That the Department of Motor Vehicles is strongly encouraged to immediately develop a plan of action to improve the general reliability of identification cards it issues, with particular emphasis on the nondriver photo identification card; and, be it

it

RESOLVED FURTHER, That the Virginia Polytechnic Institute and State University Cooperative Extension Service is strongly encouraged to continue its financial counseling program for low- and moderate-income families and to expand its availability to additional Cooperative Extension offices across the Commonwealth; and, be it

RESOLVED FINALLY, That the Department of Education is strongly encouraged to continue to include basic business math as well as courses that teach, economic principles, banking skills, and financial management in required and elective school curricular offerings at all levels.

ment of trust funds, including the method by which all fees charged in connection with the implementation of such policy will be computed and collected. Current trust customers and beneficiaries shall be advised at least annually, in writing, of such policy and the amount of such fees shall be set forth as a separate item in the report normally provided to the customer of such banking institution.

(P.A. 86-234, S. 5, 6.)

History: P.A. 86-234, S. 5 effective October 1, 1987.

Sec. 36-9bb. Definitions. Cashing of state checks. Fee prohibited. (a) For the purposes of this section: (1) "Banking institution" means a state bank and trust company, national banking association, industrial bank, state or federally chartered savings bank, state or federally chartered savings and loan association, state or federally chartered credit union or other state or federally chartered banking institution having an office within this state; (2) "recipient of public assistance" means any person receiving public assistance under chapter 302 or the Refugee Program.

(b) Each banking institution shall cash, at its main office or any of its branch offices within the state, any check drawn by the state of Connecticut and payable within the state to a recipient of public assistance, if the check is negotiated to the banking institution by the original payee of the check, and if the payee produces reasonable identification as provided for in regulations adopted pursuant to section 36-9cc. No banking institution shall charge a recipient of public assistance a fee for cashing a check pursuant to this section. Nothing in this section shall preclude a banking institution from requesting a fee from the state of Connecticut for cashing such checks. The provisions of this subsection shall apply to a state or federally chartered credit union only if the original payee negotiating the check is a member of such credit union.

(c) Nothing in this section shall be interpreted as limiting any rights which the banking institution may have against the payee by contract or at law, with regard to items which are negotiated to it as provided for in this section, which are not paid upon presentment or where such payee breaches a warranty made under section 42a-4-207. This section shall not apply to any check negotiated to a banking institution if such institution has reason to believe that the check will not be paid on presentment or that the tendering party may be in breach of one or more of the warranties contained in said section 42a-4-207.

(d) No banking institution shall be liable to reimburse the state of Connecticut for a loss incurred as the result of the wrongful payment of any check cashed pursuant to this section, provided at the time such check was cashed such banking institution employed the identification procedures prescribed in regulations adopted pursuant to section 36-9cc.

(P.A. 87-24, S. 1, 3.)

History: P.A. 87-24, Sec. 1 effective October 1, 1987, or the effective date of regulations adopted pursuant to Sec. 36-9cc, whichever is later.

Sec. 36-9cc. Regulations re cashing state checks. The commissioner of income maintenance, in cooperation with the commissioner of banking, shall adopt regulations in accordance with chapter 54 specifying: (a) The forms of reasonable identification which a banking institution shall accept when cashing a check pursuant to section 36-9bb; and (b) the identification procedures such institution shall employ to avoid liability for the wrongful payment of any such check.

(P.A. 87-9, S. 2, 3; 87-24, S. 2, 3.)

History: Pursuant to P.A. 87-9 "banking commissioner" was changed editorially to "commissioner of banking".

DEPARTMENT OF INCOME MAINTENANCE

Public Assistance Checks Cashed by Banking Institutions

The Regulations of Connecticut State Agencies are amended by adding new sections 17-2-214 and 17-2-215 as follows:

Sec. 17-2-214. Definition

As used in section 17-2-215, "banking institution" means a state bank and trust company, national banking association, state or federally chartered savings bank, state or federally chartered savings and loan association, state or federally chartered credit union or other state or federally chartered banking institution having an office within this state.

Ser. 17-2-215. Public assistance checks cashed by banking institutions

No banking institution shall be liable to reimburse the State of Connecticut for a loss incurred as a result of wrongful payment of any Public Assistance check provided that acceptable forms of identification as described in subsection (a) of this section are used and providing the procedures listed in subsection (b) of this section are followed.

(a) Documents issued by public or private organizations as a means of identifying an individual are considered acceptable forms of identification. The identification document must include the signature of the payee or a unique number by which the organization can identify the payee. Acceptable forms of identification may be issued by the following organizations:

- (1) the Department of Income Maintenance
- (2) the Department of Motor Vehicles
- (3) other State agencies
- (4) federal agencies
- (5) municipalities
- (6) employers
- (7) credit card companies
- (8) banking institutions
- (9) unions

(b) The following procedures will be adhered to when cashing checks:

- (1) The check must be signed by the payee at the time of cashing, or signed again if previously signed.
- (2) Two acceptable identification documents must be required.
- (3) In combination the two acceptable identification documents must present the following:
 - (A) signature
 - (B) photograph
 - (C) a unique number by which the payee can be identified by the organization issuing the identification document
- (4) The signature on any identification document must appear to match the signature on the check.
- (5) The types of identification documents used must be clearly recorded on the check, or, if recorded on computer or other medium, must include the date of the transaction and be presented to the Department upon notification to the bank of a stop payment action.
- (6) An identification number from the identification documents must be clearly recorded on the check, or, if recorded on computer or other medium,

must include the date of the transaction and be presented to the Department upon notification to the bank of a stop payment action.

(7) A clear bank photograph may be substituted for a photo ID.

Statement of purpose: To adopt a regulation for the Connecticut State Department of Income Maintenance, to comply with the provisions of Public Act No. 87-24.

Be it known that the foregoing regulations are adopted by the aforesaid agency pursuant to Public Act No. 87-24 of the Public Acts, after publication in the Connecticut Law Journal on March 29, 1988, of the notice of the proposal to adopt such regulations, and the holding of an advertised public hearing on the 21st day of April, 1988.

Wherefore, the foregoing regulations are hereby adopted, effective when filed with the Secretary of the State.

In Witness Whereof: July 25, 1988, Stephen B. Heintz, Commissioner.

Approved by the Attorney General as to legal sufficiency in accordance with Sec. 4-169, as amended, General Statutes: August 22, 1988.

Approved by the Legislative Regulation Review Committee in accordance with Sec. 4-170, as amended, of the General Statutes: October 18, 1988.

Two certified copies received and filed, and one such copy forwarded to the Commission on Official Legal Publications in accordance with Sec. 4-172, as amended, of the General Statutes, Secretary of the State: October 28, 1988.

DEPARTMENT OF AGRICULTURE

Apple Marketing Order

The Regulations of Connecticut State Agencies are amended by adding Sections 22-54b-1 through 22-54b-7 as follows:

Sec. 22-54b-1. Definitions

(a) "Advisory board" means the board established according to Section 22-54e of the Connecticut General Statutes.

(b) "Bushel" means a unit of 40 pounds of apples.

(c) "Grade" means any or all of the grades set forth by the United States Department of Agriculture and Connecticut Orchard-run grade and Connecticut Quality Seal Grade.

(d) "Preceding marketing season" means the year preceding the current marketing season.

(e) "Processing" means the operation of receiving, grading, packing, canning, freezing, dehydrating, preserving, grinding, crushing, or in any other way preserving or changing the form of an apple.

Sec. 22-54b-2. Determination of producers

A list of apple producers known to the commissioner shall be derived from the following sources: the Pomological Society, the Connecticut Department of Agriculture, the Extension Services, or individual contact. The commissioner shall utilize crop estimates as established pursuant to Section 22-54h of the Connecticut General Statutes to aid in the determination of who is an apple producer.

Sec. 22-54b-3. Determination of harvested crop and volume of first sale units

The harvested crop shall be comprised of the number of bushels picked off the trees, either by workers or pick your own during the current mar-



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
44 CAPITOL AVENUE • HARTFORD, CT 06106



TESTIMONY OF
HOWARD B. BROWN
BANKING COMMISSIONER, STATE OF CONNECTICUT
BEFORE THE
SUBCOMMITTEE ON CONSUMER AFFAIRS AND COINAGE
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
CONCERNING H.R. 3180 AND H.R. 3181

OCTOBER 17, 1989

Mr. Chairman, and distinguished members of the Subcommittee on Consumer Affairs and Coinage, my name is Howard Brown. I am Banking Commissioner of the State of Connecticut.

I am pleased to have been invited to testify here today to relate the experiences my state has had in adopting legislation regarding government check cashing and to explain how the program is working. I have tailored my remarks in a manner that hopefully will address your concerns pertaining to the issues of government check cashing and low-cost checking services for low-to-moderate income consumers found in H.R. 3180 and H.R. 3181.

As Banking Commissioner, my responsibility is to protect the citizens of Connecticut by insuring the safety and soundness of our financial institutions. To uphold this charge means not only protecting the funds which consumers place in the hands of our banking institutions, but, of equal importance, protection for consumers against any banking practices which infringe on the inherent rights of any consumer.

Fortunately, in Connecticut we are well equipped with laws that govern the manner by which banking institutions provide services to all state residents. One of those laws, Public Act 87-24, enacted in 1987, requires all Connecticut banking institutions, both state and federally-chartered, to cash state public assistance checks for any recipient who endorses the check and offers reasonable identification. Public assistance recipients affected are people receiving assistance under Aid to Families with Dependent Children, the State Supplement, Medicaid, or the Refugee Program.

Recipients are largely single mothers with small children, the blind, the disabled and the elderly, who often have difficulty getting to a bank at all, let alone a bank that will honor their checks, without first having established a banking account.

Public Act 87-24 prohibits banks from charging public assistance recipients for cashing these checks and requires them to cash the checks regardless of whether the person negotiating the check has an account with the banking institution. I should also point out that our law applies to state and federally-chartered credit unions as well, but only if the person to whom the check is issued is a credit union member.

Let me recount how our current law came to be adopted. In 1985, as Deputy Banking Commissioner, I served as a member of an Ad Hoc committee that studied the issue of lifeline banking within Connecticut. I consider welfare check-cashing to be one of the components of lifeline banking. The practice, at the time, had been to allow banks to set their own policies regarding the cashing of public assistance checks. Some of the banks, concerned about fraud, adopted restrictive policies toward cashing public assistance checks. Those policies, in turn, placed an undue burden on banks that were willing to cash the checks and on public assistance recipients who, in some instances, had to travel considerable distances to cash a check when there was a bank around the corner from their home.

Pressure to alleviate this situation mounted when a number of check-cashing companies began to crop up to take over where the banks were not meeting the needs of public assistance recipients. The question often asked was: "Why should the working poor or welfare recipients have to pay \$5 or \$10 to get a check cashed?" Banks, after all, are chartered by the state and they ought to serve all residents.

Having determined that there were people relying on government benefit checks who were having an extremely difficult time cashing those checks at some banks, I recommended that all banks honor state public assistance checks.

In 1986, a mandatory check-cashing measure was proposed by the Connecticut state legislature but was not enacted when questions arose about the cost of fraudulent checks. Lawmakers were unable to agree on whether the state or the banks would have to cover those costs.

A year later, the Banks Committee of the Connecticut General Assembly introduced similar legislation which this time met with little resistance from bankers. SHB 5558, An Act Concerning Cashing State Checks, passed the House of Representatives by a margin of 145 to 1 and was unanimously passed in the Senate.

The issue dealing with the cost of fraudulent checks had been resolved. Under our law, banks are not liable to reimburse the State of Connecticut for any loss incurred as a result of wrongful payment for a public-assistance check as long as they have followed the rules outlined in regulations promulgated by the Connecticut Department of Income Maintenance in cooperation with the Department of Banking.

Those regulations, which went into effect in October of 1988, standardized a number of procedures the banking community had already put into practice since passage of the law in 1987. The regulations clearly outline the procedures that must be followed when cashing the checks. The procedures I believe provide adequate control while not being overly burdensome to the banks.

To recap the regulations briefly, public-assistance checks must be cashed in person and two forms of identification which together show a signature, photograph and unique identifying number are required. Acceptable forms of identification include a Connecticut's driver's license, a Department of Income Maintenance public assistance card; a credit card, bank card, union card or any other valid ID. The bank that cashes the check is required to record the information on the back of the check as evidence that it followed the established procedure.

I am pleased to report here today that no significant problems either for the banks, or for the individuals cashing the checks, have been noted by my agency. In February of this year, on my instruction, an on-site visit by bank examiners to various bank offices located in our large metropolitan areas found that bank employees are acting responsibly and in compliance with the law and regulations. Based on information reported to me, there was no case noted in which a bank refused to cash a check when adequate identification was presented. In instances where customers did not always have current IDs and were not aware of the new requirements, Connecticut banking institutions appear to have generally exercised good judgment and cooperation in such situations by trying to properly inform individuals of the recently enacted law.

Officials representing trade associations for Connecticut's commercial and savings banks have provided precise information on the check-cashing law and regulations to its members outlining what a bank's responsibility is.

The Department of Banking has also attempted to explain the new standards to Connecticut residents affected by the law and regulations. News releases and public service announcements have been generated to media representatives in all areas of the state.

In June, I again asked my agency staff to conduct a follow-up survey of our large metropolitan-area banking institutions to ascertain if they have encountered any problems since our initial survey. It appears that the results have been successful. The check cashing needs of public assistance recipients continue to be met in a dignified and orderly fashion without any serious financial or operational impact on the banks. Based on conversations my staff has had with banking trade organizations and with the Department of Income Maintenance, the state agency responsible for issuing and processing state public assistance checks, losses from fraudulent checks have been minimal. When any losses have been submitted for payment to the Department of Income Maintenance, banks have reported that reimbursement was made in a timely fashion. There has been no swell of fraudulent activity involving these instruments.

Furthermore, I'm told that public assistance recipients continue to become more aware of the check cashing system which banks have instituted. Since all banks now adhere to the same check cashing policies required by law, the volume of public assistance checks cashed in any one bank has been decreased, thus eliminating the unduly long lines some banks had to contend with prior to the law. However, I would like to point out that while banks are now called upon to freely meet the government check cashing needs of consumers, there is no evidence that these consumers are shying away from using the private check cashing centers located in their communities.

Connecticut is heralded as being the first in the country to pass legislation that requires all banks to cash public assistance checks. It is vital for us to recognize the need to extend to public assistance recipients the benefits of affordable banking services the rest of us enjoy.

Access to affordable financial services is important to the social and economic life of all persons. I believe this goal may be realized by encouraging our regulated financial institutions to design and offer low cost basic services which are consistent with their customer needs, market area, retail delivery system and operating costs.

Offering of accounts with small minimum opening and ongoing balance requirements, a limited number of monthly transactions at little or no cost, or with similar characteristics promoting affordable access is consistent with the intent of the Community Reinvestment Act and good banking practice.

I might add, that one of the statutory requirements in Connecticut's new bank chartering process requires me, and two other members of the New Bank Hearing Panel, to decide if the "interest of the public will be served to advantage by the establishment of the proposed bank."

In Connecticut, we expect our financial institutions to be good corporate neighbors by providing uniform, non-biased services which meet the needs of the entire community.

I thank you for this opportunity to be here today in order to personally share the experiences the state of Connecticut has encountered in the area of mandatory state government check-cashing and the advances we are continually making to better equalize the kinds of banking services all sectors of the populations are entitled to receive.



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TESTIMONY OF
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BEFORE THE
SUBCOMMITTEE ON CONSUMER AND REGULATORY AFFAIRS
OF THE
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

JUNE 6, 1989

MR. CHAIRMAN, AND DISTINGUISHED MEMBERS OF THE SUBCOMMITTEE ON CONSUMER AND REGULATORY AFFAIRS, MY NAME IS HOWARD B. BROWN. I AM BANKING COMMISSIONER OF THE STATE OF CONNECTICUT.

IT IS WITH GREAT PLEASURE THAT I ADDRESS YOU TODAY AND I AM PARTICULARLY PLEASSED TO HAVE BEEN INVITED TO TESTIFY ABOUT THE EXPERIENCES MY STATE HAS HAD IN ADOPTING LEGISLATION REGARDING GOVERNMENT CHECK CASHING AND CHECK CASHING CENTERS.

AS BANKING COMMISSIONER, MY RESPONSIBILITY IS TO PROTECT THE CITIZENS OF CONNECTICUT BY INSURING THE SAFETY AND SOUNDNESS OF OUR FINANCIAL INSTITUTIONS. TO UPHOLD THIS CHARGE MEANS NOT ONLY PROTECTING THE FUNDS WHICH CONSUMERS PLACE IN THE HANDS OF OUR BANKING INSTITUTIONS, BUT, OF EQUAL IMPORTANCE, PROTECTION FOR CONSUMERS AGAINST ANY BANKING PRACTICES WHICH INFRINGE ON THE INHERENT RIGHTS OF ANY CONSUMER.

FORTUNATELY, IN CONNECTICUT WE ARE WELL EQUIPPED WITH LAWS THAT GOVERN THE MANNER BY WHICH BANKING INSTITUTIONS PROVIDE SERVICES TO ALL STATE RESIDENTS. ONE OF THOSE LAWS, PUBLIC ACT 87-24, ENACTED IN 1987, REQUIRES ALL CONNECTICUT BANKING INSTITUTIONS, BOTH STATE AND FEDERALLY-CHARTERED, TO CASH STATE PUBLIC ASSISTANCE CHECKS FOR ANY RECIPIENT WHO ENDORSES THE CHECK AND OFFERS REASONABLE IDENTIFICATION. PUBLIC ASSISTANCE RECIPIENTS AFFECTED ARE PEOPLE RECEIVING ASSISTANCE UNDER AID TO FAMILIES WITH DEPENDENT CHILDREN, THE STATE SUPPLEMENT, MEDICAID, OR THE REFUGEE PROGRAM.

RECIPIENTS ARE LARGELY SINGLE MOTHERS WITH SMALL CHILDREN, THE BLIND, THE DISABLED AND THE ELDERLY, WHO OFTEN HAVE DIFFICULTY GETTING TO A BANK AT ALL, LET ALONE A BANK THAT WILL HONOR THEIR CHECKS.

PUBLIC ACT 87-24 PROHIBITS BANKS FROM CHARGING PUBLIC ASSISTANCE RECIPIENTS FOR CASHING THESE CHECKS AND REQUIRES THEM TO CASH THE CHECKS REGARDLESS OF WHETHER THE PERSON NEGOTIATING THE CHECK HAS AN ACCOUNT WITH THE BANKING INSTITUTION. I SHOULD ALSO POINT OUT THAT OUR LAW APPLIES TO STATE AND FEDERALLY-CHARTERED CREDIT UNIONS AS WELL, BUT ONLY IF THE PERSON TO WHOM THE CHECK IS ISSUED IS A CREDIT UNION MEMBER.

LET ME RECOUNT HOW OUR CURRENT LAW CAME TO BE ADOPTED. IN 1985, AS DEPUTY BANKING COMMISSIONER, I SERVED AS A MEMBER OF AN AD HOC COMMITTEE THAT STUDIED THE ISSUE OF LIFELINE BANKING WITHIN CONNECTICUT. I CONSIDER WELFARE CHECK-CASHING TO BE ONE OF THE COMPONENTS OF LIFELINE BANKING. THE PRACTICE, AT THE TIME, HAD BEEN TO ALLOW BANKS TO SET THEIR OWN POLICIES REGARDING THE CASHING OF PUBLIC ASSISTANCE CHECKS. SOME OF THE BANKS, CONCERNED ABOUT FRAUD, ADOPTED RESTRICTIVE POLICIES TOWARD CASHING PUBLIC ASSISTANCE CHECKS. THOSE POLICIES, IN TURN, PLACED AN UNDUE BURDEN ON BANKS THAT WERE WILLING TO CASH THE CHECKS AND ON PUBLIC ASSISTANCE RECIPIENTS WHO, IN SOME INSTANCES, HAD TO TRAVEL CONSIDERABLE DISTANCES TO CASH A CHECK WHEN THERE WAS A BANK AROUND THE CORNER FROM THEIR HOME.

PRESSURE TO ALLEVIATE THIS SITUATION MOUNTED WHEN A NUMBER OF CHECK-CASHING COMPANIES BEGAN TO CROP UP TO TAKE OVER WHERE THE BANKS WERE NOT MEETING THE NEEDS OF PUBLIC ASSISTANCE RECIPIENTS. THE QUESTION OFTEN ASKED WAS: "WHY SHOULD THE WORKING POOR OR WELFARE RECIPIENTS HAVE TO PAY \$5 OR \$10 TO GET A CHECK CASHED?" BANKS, AFTER ALL, ARE CHARTERED BY THE STATE AND THEY OUGHT TO SERVE ALL RESIDENTS.

HAVING DETERMINED THAT THERE WERE PEOPLE RELYING ON GOVERNMENT BENEFIT CHECKS WHO WERE HAVING AN EXTREMELY DIFFICULT TIME CASHING THOSE CHECKS AT SOME BANKS, I RECOMMENDED THAT ALL BANKS HONOR STATE PUBLIC ASSISTANCE CHECKS.

IN 1986, A MANDATORY CHECK-CASHING MEASURE WAS PROPOSED BY THE CONNECTICUT STATE LEGISLATURE BUT WAS NOT ENACTED WHEN QUESTIONS AROSE ABOUT THE COST OF FRAUDULENT CHECKS. LAWMAKERS WERE UNABLE TO AGREE ON WHETHER THE STATE OR THE BANKS WOULD HAVE TO COVER THOSE COSTS.

A YEAR LATER, THE BANKS COMMITTEE OF THE CONNECTICUT GENERAL ASSEMBLY INTRODUCED SIMILAR LEGISLATION WHICH THIS TIME MET WITH LITTLE RESISTANCE FROM BANKERS. SHB 5558, AN ACT CONCERNING CASHING STATE CHECKS, PASSED THE HOUSE OF REPRESENTATIVES BY A MARGIN OF 145 TO 1 AND WAS UNANIMOUSLY PASSED IN THE SENATE.

THE ISSUE DEALING WITH THE COST OF FRAUDULENT CHECKS HAD BEEN RESOLVED. UNDER OUR LAW, BANKS ARE NOT LIABLE TO REIMBURSE THE STATE OF CONNECTICUT FOR ANY LOSS INCURRED AS A RESULT OF WRONGFUL PAYMENT FOR A PUBLIC-ASSISTANCE CHECK AS LONG AS THEY HAVE FOLLOWED THE RULES OUTLINED IN REGULATIONS PROMULGATED BY THE CONNECTICUT DEPARTMENT OF INCOME MAINTENANCE IN COOPERATION WITH THE DEPARTMENT OF BANKING.

THOSE REGULATIONS, WHICH WENT INTO EFFECT IN OCTOBER OF 1988, STANDARDIZED A NUMBER OF PROCEDURES THE BANKING COMMUNITY HAD ALREADY PUT INTO PRACTICE SINCE PASSAGE OF THE LAW IN 1987. THE REGULATIONS CLEARLY OUTLINE THE PROCEDURES THAT MUST BE FOLLOWED WHEN CASHING THE CHECKS. THE PROCEDURES I BELIEVE PROVIDE ADEQUATE CONTROL WHILE NOT BEING OVERLY BURDENSOME TO THE BANKS.

TO RECAP THE REGULATIONS BRIEFLY, PUBLIC-ASSISTANCE CHECKS MUST BE CASHED IN PERSON AND TWO FORMS OF IDENTIFICATION WHICH TOGETHER SHOW A SIGNATURE, PHOTOGRAPH AND UNIQUE IDENTIFYING NUMBER ARE REQUIRED. ACCEPTABLE FORMS OF IDENTIFICATION INCLUDE A CONNECTICUT'S DRIVER'S LICENSE, A DEPARTMENT OF INCOME MAINTENANCE PUBLIC ASSISTANCE CARD; A CREDIT CARD, BANK CARD, UNION CARD OR ANY OTHER VALID ID. THE BANK THAT CASHES THE CHECK IS REQUIRED TO RECORD THE INFORMATION ON THE BACK OF THE CHECK AS EVIDENCE THAT IT FOLLOWED THE ESTABLISHED PROCEDURE.

I AM PLEASED TO REPORT HERE TODAY THAT NO SIGNIFICANT PROBLEMS EITHER FOR THE BANKS, OR FOR THE INDIVIDUALS CASHING THE CHECKS, HAVE BEEN NOTED BY MY AGENCY. IN FEBRUARY, ON MY INSTRUCTION, AN ON-SITE VISIT BY BANK EXAMINERS TO VARIOUS BANK OFFICES LOCATED IN OUR LARGE METROPOLITAN AREAS FOUND THAT BANK EMPLOYEES ARE ACTING RESPONSIBLY AND IN COMPLIANCE WITH THE LAW AND REGULATIONS. BASED ON INFORMATION REPORTED TO ME, THERE WAS NO CASE NOTED IN WHICH A BANK REFUSED TO CASH A CHECK WHEN ADEQUATE IDENTIFICATION WAS PRESENTED. IN INSTANCES WHERE CUSTOMERS DID NOT ALWAYS HAVE CURRENT IDS AND WERE NOT AWARE OF THE NEW REQUIREMENTS, CONNECTICUT BANKING INSTITUTIONS APPEAR TO HAVE GENERALLY EXERCISED GOOD JUDGMENT AND COOPERATION IN SUCH SITUATIONS BY TRYING TO PROPERLY INFORM INDIVIDUALS OF THE RECENTLY ENACTED LAW.

THE DEPARTMENT OF BANKING HAS ALSO ATTEMPTED TO EXPLAIN THE NEW STANDARDS TO CONNECTICUT RESIDENTS AFFECTED BY THE LAW AND REGULATIONS. NEWS RELEASES AND PUBLIC SERVICE ANNOUNCEMENTS HAVE BEEN GENERATED TO MEDIA REPRESENTATIVES IN ALL AREAS OF THE STATE.

LAST WEEK, I ASKED MY AGENCY STAFF TO CONDUCT A FOLLOW-UP SURVEY OF OUR LARGE METROPOLITAN-AREA BANKING INSTITUTIONS TO ASCERTAIN IF THEY HAVE ENCOUNTERED ANY PROBLEMS SINCE OUR INITIAL SURVEY. IT APPEARS THAT THE RESULTS HAVE BEEN SUCCESSFUL. THE CHECK CASHING NEEDS OF PUBLIC ASSISTANCE RECIPIENTS CONTINUE TO BE MET IN A DIGNIFIED AND ORDERLY FASHION WITHOUT ANY SERIOUS FINANCIAL OR OPERATIONAL IMPACT ON THE BANKS. LOSSES FROM FRAUDULENT CHECKS HAVE BEEN MINIMAL, AND WHEN SUCH LOSSES HAVE BEEN SUBMITTED FOR PAYMENT TO THE DEPARTMENT OF INCOME MAINTENANCE, REIMBURSEMENT HAS BEEN MADE IN A TIMELY FASHION.

FURTHERMORE, I'M TOLD THAT PUBLIC ASSISTANCE RECIPIENTS CONTINUE TO BECOME MORE AWARE OF THE CHECK CASHING SYSTEM WHICH BANKS HAVE INSTITUTED. SINCE ALL BANKS NOW ADHERE TO THE SAME CHECK CASHING POLICIES REQUIRED BY LAW, THE VOLUME OF PUBLIC ASSISTANCE CHECKS CASHED IN ANY ONE BANK HAS BEEN DECREASED.

CONNECTICUT IS HERALDED AS BEING THE FIRST IN THE COUNTRY TO PASS LEGISLATION THAT REQUIRES ALL BANKS TO CASH PUBLIC ASSISTANCE CHECKS. IT IS VITAL FOR US TO RECOGNIZE THE NEED TO EXTEND TO PUBLIC ASSISTANCE RECIPIENTS THE BENEFITS OF AFFORDABLE BANKING SERVICES THE REST OF US ENJOY. AS CONNECTICUT'S BANKING COMMISSIONER, I AM PLEASED TO BE PART OF A GOVERNMENT NETWORK THAT IS CONTINUALLY LOOKING OUT FOR THE INTERESTS OF ALL OUR RESIDENTS.

AN ISSUE WHICH GOES HAND IN HAND WITH GOVERNMENTAL CHECK CASHING IS THE RECENT PROLIFERATION IN OUR METROPOLITAN AREAS OF PRIVATELY-OWNED CHECK CASHING CENTERS. BEFORE THE NEEDS OF WELFARE ASSISTED RESIDENTS WERE FULLY MET BY BANKING INSTITUTIONS IN RESPONSE TO THE GOVERNMENTAL CHECK CASHING LAW I OUTLINED EARLIER, MANY OF THEM, ALONG WITH THE WORKING POOR, WERE INCLINED TO

PATRONIZE THESE UNREGULATED CHECK CASHING COMPANIES.

THE CHAIRMAN OF OUR LEGISLATIVE BANKS COMMITTEE AND I PERSONALLY VISITED A NUMBER OF THESE OUTLETS DURING THE SUMMER OF '88 TO DETERMINE HOW MUCH THEY WERE CHARGING CUSTOMERS FOR THE CHECK CASHING SERVICES. WE FOUND THAT THE CENTERS CASHED CHECKS FOR FEES OF ANYWHERE FROM 1 1/2 PER CENT TO 6 PER CENT OF THEIR FACE VALUE. THAT SAME SUMMER A 3.7 PER CENT INCREASE IN PUBLIC ASSISTANCE BENEFITS WENT INTO EFFECT. WE ASKED OURSELVES, WHAT'S THE POINT OF THE INCREASE IF IT WINDS UP IN THE HANDS OF A CHECK CASHING CENTER?

IT WAS THAT KIND OF THINKING WHICH PROMPTED THE LEGISLATURE EARLIER THAT YEAR TO SEEK A REMEDY FOR THE SITUATION. PUBLIC ACT 88-200, AN ACT CONCERNING CHECK CASHING SERVICES, WENT INTO EFFECT OCTOBER 1, 1988 AUTHORIZING THE COMMISSIONER OF CONSUMER PROTECTION TO REGULATE THESE CHECK CASHING SERVICES. THE LAW NOT ONLY REQUIRED THE CENTERS TO BE LICENSED BUT SET A RATE A CHECK CENTER CAN CHARGE FOR CASHING A CHECK AT THREE-FOURTHS OF 1 PER CENT, PLUS A HANDLING CHARGE OF 10 CENTS A CHECK OR 30 CENTS A TRANSACTION.

THE ADOPTION OF THAT LEGISLATION TRIGGERED A CLASS ACTION SUIT FILED BY SEVERAL CHECK CASHING COMPANIES OPERATING IN CONNECTICUT. LITIGATION IS STILL PENDING AND A U.S. DISTRICT COURT JUDGE HAD STAYED ENFORCEMENT OF THE RATE CAP PENDING THE OUTCOME OF THE TRIAL.

THIS MONTH, THE CONNECTICUT GENERAL ASSEMBLY PASSED A NEW BILL WHICH TRANSFERS JURISDICTION OVER CHECK CASHING FIRMS FROM THE STATE DEPARTMENT OF CONSUMER PROTECTION TO THE DEPARTMENT OF BANKING, AND REQUIRES THOSE COMPANIES TO CASH STATE PUBLIC ASSISTANCE CHECKS AT A FEE OF NOT MORE THAN 1 PER CENT OF THEIR FACE VALUE. THE BILL ALSO ELIMINATES THE THREE-FOURTHS OF 1 PER CENT CAP IMPOSED EARLIER ON THE FIRMS' GENERAL CHECK CASHING SERVICES.

THIS NEW LEGISLATION, SHB 5202 (PA 89-178), DOES NOT ESTABLISH A GENERAL CHECK-CASHING FEE, RATHER IT REQUIRES ME TO ADOPT REGULATIONS BEFORE OCTOBER 1, 1989, ESTABLISHING THE MAXIMUM FEES A LICENSED CHECK CASHING BUSINESS MAY CHARGE FOR CASHING A CHECK, DRAFT, OR MONEY ORDER DRAWN ON A DEPOSITORY INSTITUTION. IN ESTABLISHING MAXIMUM FEES, I HAVE BEEN ASKED TO CONSIDER THE EFFECT ANY RATE CHANGES WILL HAVE ON CONSUMERS, START-UP COSTS, OPERATIONAL EXPENSES, VOLUME OF BUSINESS, AND ANY OTHER INFORMATION DEEMED RELEVANT.

I HAVE ASKED THE GENERAL ASSEMBLY TO ENACT AN AMENDMENT TO THIS BILL WHICH WILL REQUIRE EVERY CHECK CASHING COMPANY TO PROVIDE ME WITH A CERTIFIED FINANCIAL STATEMENT.

TO DATE, THERE ARE SEVEN CHECK CASHING COMPANIES OPERATING ONE OR MORE OFFICES IN CONNECTICUT.

I THANK YOU FOR GIVING ME THE OPPORTUNITY TO BE HERE TODAY IN ORDER TO PERSONALLY SHARE THE EXPERIENCES THE STATE OF CONNECTICUT HAS ENCOUNTERED IN THE AREA OF MANDATORY STATE GOVERNMENT CHECK-CASHING AND THE ADVANCES WE ARE CONTINUALLY MAKING TO RESOLVE THE PROBLEMS ASSOCIATED WITH CHECK CASHING COMPANIES.

BANK	CITY	BANK	CITY
AMERICAN NATIONAL BANK	DANVILLE	FIRST NATIONAL BANK	CLIFTON FORGE
ATLANTIC NATIONAL BANK	NORFOLK	FIRST NATIONAL BANK	SALTVILLE
BANK OF BUCHANAN	BUCHANAN	FIRST NATIONAL BANK	ALTAVISTA
BANK OF CARROLL	HILLSVILLE	FIRST NATIONAL BANK	CHRISTIANSBURG
BANK OF CHARLOTTE CO.	PHENIX	FIRST NATIONAL BANK	EMPORIA
BANK OF CLARKE CO.	BERRYVILLE	FIRST NATIONAL BANK	STRASBURG
BANK OF ESSEX	TAPPAHANNOCK	FIRST NATIONAL BANK	ROCKY MOUNT
BANK OF FINCASTLE	FINCASTLE	FIRST STATE BANK	DANVILLE
BANK OF FLOYD	FLOYD	FIRST VIRGINIA BANK	SOUTH HILL
BANK OF LANCASTER	KILMARNOCK	FIRST & CITIZENS BANK	MONTEREY
BANK OF MARION	MARION	GRAYSON NATIONAL BANK	INDEPENDENCE
BANK OF NORTHUMBERLAND	HEATHVILLE	GRUNDY NATIONAL BANK	GRUNDY
BANK OF SOUTHSIDE VA.	STONY CREEK	JEFFERSON NATIONAL BANK	RICHMOND
BANK OF SPEEDWELL	WYTHEVILLE	LEE BANK AND TRUST	PENNINGTON GAP
BANK OF SUFFOLK	SUFFOLK	MARSHALL NATIONAL BANK	MARSHALL
BANK OF SUSSEX AND SURREY	WAKEFIELD	MIDDLEBURG NATIONAL BANK	MIDDLEBURG
BANK OF TAZEWELL CO.	TAZEWELL	MOUNTAIN NATIONAL BANK	CLIFTON FORGE
BANK OF WAVERLY	WAVERLY	NATIONAL BANK OF FREDRICKSBURG	FREDERICKSBURG
BENCHMARK COMMUNITY BANK	KENBRIDGE	NORTHERN NECK STATE BANK	WARSAW
BURKE & HERBERT B & T	ALEXANDRIA	OLD POINT NATIONAL BANK	HAMPTON
CENTRAL FIDELITY BANK	RICHMOND	PAGE VALLEY NATIONAL BANK	LURAY
CHESAPEAKE NATIONAL BANK	KILMARNOCK	PEOPLES BANK OF CENTRAL VA.	LOVINGSTON
CITIZENS AND FARMERS BANK	WEST POINT	PEOPLES BANK OF MONTROSS	MONTROSS
CITIZENS BANK AND TRUST CO.	BLACKSTONE	PEOPLES BANK OF VIRGINIA	CHESTERFIELD
COMMERCE BANK	PORTSMOUTH	PIEDMONT TRUST BANK	MARTINSVILLE
COMMUNITY BANK	PETERSBURG	PLANTERS BANK & TRUST	STAUNTON
CONSOLIDATED BANK & TRUST	RICHMOND	POWELL VALLEY NATIONAL BANK	JONESVILLE
CRESTAR BANK	RICHMOND	RAPPAHANNOCK NATIONAL BANK	WASHINGTON
DOMINION BANK	ROANOKE	RICHLANDS NATIONAL BANK	RICHLANDS
EASTVILLE BANK	EASTVILLE	RIGGS NATIONAL BANK	MERRIFIELD
FARMERS AND MERCHANTS	WINCHESTER	SECOND NATIONAL BANK	CULPEPER
FARMERS BANK	WINDSOR	SIGNET BANK	RICHMOND
FARMERS NATIONAL BANK	APPOMATTOX	SOUTHSIDE BANK	TAPPAHANNOCK
FARMERS & MERCHANTS/CRAIG CO.	NEW CASTLE	SOVRAN BANK	RICHMOND
FARMERS & MERCHANTS/E.S.	ONLEY	TAZEWELL NATIONAL BANK	TAZEWELL
FAUQUIER NATIONAL BANK	WARRENTON	UNION BANK AND TRUST	BOWLING GREEN
FIRST AMERICAN BANK	MCLEAN	VIRGINIA COMMUNITY BANK	LOUISA
FIRST BANK AND TRUST	LEBANON		



COMMONWEALTH of VIRGINIA

EDDIE N. MOORE, JR.
TREASURER OF VIRGINIA

Department of the Treasury

P. O. BOX 6-H
RICHMOND, VIRGINIA 23215
(804) 225-2142

November 1, 1990

Mr. Paul S. West
State Corporation Commission
Bureau of Financial Institutions
Post Office Box 2 AE
Richmond, Virginia 23205-0639

Dear Paul:

This letter is in response to your request for my thoughts in regard to the project you are working on involving Senate Joint Resolution No. 62. While I believe that the Resolution will foster many worthwhile efforts to aid low and moderate-income groups, one part of the Resolution causes me some concern. The paragraph I am referring to reads:

"RESOLVED FURTHER, That the Bureau of Financial Institutions of the State Corporation Commission and the Department of Social Services are encouraged to conduct a joint study examining the feasibility of requiring all Virginia financial institutions with Commonwealth funds on deposit to cash public assistance benefits checks, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses resulting therefrom ..."

This is an area that, as the Bank Services Manager for the Department of the Treasury, I am very sensitive to, both on the part of the Department of Social Services and the banking community. Over the past five years I have devoted a significant effort to working with the Department of Social Services and the banking community to develop a payments system that will serve recipients. The payments system now in place emphasizes providing a high-quality, reasonably priced service which will provide banking access to recipients while providing the maximum protection for recipients against fraud and abuse. In addition, members of my Department are now working on projects to expand services to recipients through the electronic transfer of funds.

To fully understand the efforts that have taken place in the past and my reasons for concern, I would like to give you a lot of background information and follow that up with my reasons for concern. I know this is a rather lengthy letter, but I believe it

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is important for you to understand the background in order to understand why I have these concerns.

BACKGROUND -- Prior to 1985, the State used three of the largest banks to clear Social Service checks in order to give the recipients the largest number of locations possible where they could cash these checks. In 1985, one bank notified us that they no longer wanted to be included in the program because of problems created in their branches which were trying to cash checks for such a large number of people all on the first day of the month.

The first of the month for any bank is a heavy period because of the first-of-the-month payrolls, social security payments and retirement payments. The bank stated that cashing checks for Social Services recipients took considerably more time and tied up teller lines because recipients generally did not have bank accounts with them and did not have proper identification which made it very difficult to try to verify that the person cashing the check was the person to whom the check was written. In addition, the bank stated that recipients were generally frustrated at having to wait in the lines and having to have proper identification. This frustration caused some recipients to be quite vocal and sometimes abusive. It also caused frustration to the bank's own customers, some of whom closed their accounts because of the heavy traffic in the bank.

In the bank's defense, tellers are given very specific guidelines for verifying the identity of people who do not have accounts with the bank. The reason for this is that if the bank can be shown not to have practiced due diligence in this process, the bank is liable for the amount cashed.

Treasury immediately met with other banks to determine if any bank would consider processing Social Services checks for a temporary period until a contract could be negotiated. Sovran Bank agreed to provide the service until an RFP could be issued and a contract negotiated.

Treasury then met with the Department of Social Services to try to develop a plan that would meet the needs of the Department and the financial community. The first consideration was to try to offer the financial community a large amount of business as an incentive to process these payments. It was decided that Treasury would offer to a bank, as an incentive, the majority of the State's other disbursement business. Treasury then tried to work with the Department of Social Services to provide recipients with proper identification and to stagger these payments throughout the month. The latter plan met with resistance from the Department because the

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Department felt that recipients needed the funds for first-of-the-month rent payments and would be penalized by landlords for late rent payments. The Department was able, in cooperation with the Department of Motor Vehicles, and through its own facilities to create a photo identification for recipients.

Treasury then issued an RFP for the disbursement services for Social Services recipients and general warrant checks. Sovran Bank as well as all other large banks responded to the RFP and Sovran Bank was chosen primarily because of its larger branch network and the quality of services that it exhibited it could offer the State.

CURRENT OPERATIONAL STRUCTURE -- In the past five years, Sovran has done an outstanding job in taking on this process and trying to meet the needs of the State. At present, Sovran clears all Social Services payments. To my knowledge, there have been few, if any, complaints from Social Services recipients about cashing their checks at Sovran, even though the volumes have almost doubled over the five-year period. I have outlined below the volume increases over the five-year period for statistical purposes:

	<u>1985</u>	<u>1990</u>
Annual Number of Checks Written	862,000	1,575,000
Annual Number of Stop Payments	580	3,200

CONCERNS -- As noted earlier, my major concern with the Resolution lies in its focus to determine the feasibility of requiring all Virginia financial institutions with Commonwealth funds on deposit to cash public assistance benefits checks, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses resulting therefrom. I have outlined the reasons for my concerns below:

- o To require financial institutions which hold public funds to cash checks implies by logic that those institutions who do not accept this edict will not be allowed to hold public funds. This action would severely restrict the Commonwealth and its agencies and institutions in the selection of financial institutions which, otherwise, provide excellent services to the State. In addition, financial decisions based on sound financial and economic thought would tend to become governed by non-financial policy. This would act to the detriment of the Commonwealth and the vast majority of its citizens who expect the State to perform in its best fiduciary capacity for the common good of all citizens.

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- o We must examine why financial institutions may be unwilling to cash these checks. The reason is that the liability that the financial institution can incur for not using due diligence can be significant. The first problem that financial institutions should and will point to is that only the bank who we contract with to clear checks (the bank the checks are written on) has knowledge of stop payment instructions from us. If the check is cashed at another bank, that bank will not know of the stop payment order and the check will be returned to them in the clearing process. At that point, the bank which cashed the check suffers the loss unless they can collect the funds from the person who received the funds. Last year a total of 3,200 stop payment orders were issued on Social Services checks for approximately \$830,000. This is the amount of loss that banks might suffer from cashing checks over stop payment orders of which they had no knowledge. In addition to this potential loss, they could incur losses from fraudulent transactions simply because they tried too hard to please the Commonwealth in their desire to provide services to recipients.
- o The resolution also states that the joint study group would examine the possibility of requiring financial institutions to cash public assistance benefit checks, without charge, subject to the obligation of the Commonwealth to indemnify such institutions from fraud-related losses. While indemnification will be an incentive for banks to cash these checks, it brings up a number of concerns. First, is the Commonwealth willing to suffer a possible loss that could be in excess of \$1 million annually? This could be the effect, considering the stop payment problem and then any fraud cases. Next, banks other than the bank contracted with to provide the clearing service may not be willing to do this free of charge. It has been my experience that banks will either want to be compensated or will increase fees to the State for other services that they provide. In addition, since banks would be indemnified against loss, they may lessen their control procedures which would work to the detriment of the Commonwealth by increasing the number of losses that the State would incur from fraudulent activities. Finally, the work load for the State would increase dramatically in our attempt to either prove that a bank did not use due diligence in cashing checks or to collect funds from recipients.
- o Another question to answer is where recipients cash their

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checks. I would estimate that over 50% of all recipients cash their checks at places other than at banks. How do we enforce not allowing these places to charge recipients a fee? Do we also indemnify these places? Wouldn't they want the same protection that we offer financial institutions?

- o Finally, what is the size of the problem? About one-third of the annual payments are child support payments to non-public assistance recipients, the large majority of whom I would imagine have banking relationships of their own. For the remainder, the only major banking problem appears to lie in the major metropolitan areas. In rural areas, most banks including Sovran know the recipients and, therefore, are willing to cash their checks. In large metropolitan areas there are a number of Sovran branches that recipients can use as well as a number of retail firms such as grocery stores, drug stores, and other vendors who sell goods to recipients and are therefore willing to cash their checks in order to continue getting their business. While I do not have any figures to support the extent of the problem cases, we may find that the number is very small. If so, my question would be is it appropriate to incur the risk that may be involved for a relatively small population of recipients for whom finding an appropriate source to cash these checks is a hardship. I think that this aspect of the project deserves some analysis.

In summary, I feel that our present system is working well and ensures very good controls which, as a result, offer the vast majority of recipients a lot of protection which they might lose if the system is changed. The bank contracted with is performing well and has been very flexible in working with the State. The cost to the State has been kept at a minimum while providing what I feel is a high-quality service.

In addition, Treasury is working with Social Services on a project to determine the feasibility of electronic benefit payment systems. If an electronic means can be found to make benefit payments, this will further reduce problem situations while maintaining controls over the system.

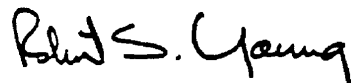
I believe that communication of available low cost banking programs and education of recipients and low and moderate-income groups will be a big aid to this segment of the Virginia population, while protecting the financial industry. Ensuring that recipients have a proper, high-quality photo identification with

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case number and other needed data, will also enhance protection of the recipient and the financial institutions. At present, I feel that Virginia has a program that is working well and we need to be very careful how we go about making changes to it. There are improvements that can and should be made in the process, but I believe forcing banks to cash checks or lose State business and offering to indemnify banks against loss is risky, will work to the detriment of the Commonwealth, and provide little additional benefit to recipients.

I hope my comments are helpful to you in your study. If I can be of any further assistance, please do not hesitate to call me.

Kindest regards,



Robert S. Young, CCM
Bank Services Manager

Attachment

cc: Eddie N. Moore, Jr.
Ronald L. Tillett, Deputy Treasurer
Gregory A. Schnitzler, Director, Cash Management and
Investments

RSY:rsy

COMMONWEALTH OF VIRGINIA



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STATE CORPORATION COMMISSION
BUREAU OF FINANCIAL INSTITUTIONS

November 7, 1990

TO THE CHIEF EXECUTIVE OFFICER OF
THE FINANCIAL INSTITUTION ADDRESSED

Pursuant to Senate Joint Resolution No. 62 (SJR-62), the Bureau of Financial Institutions is conducting a survey of lower-cost checking accounts offered by banks and savings institutions in the Commonwealth. The results of the survey will be published in a consumer guide which will be made available to the public.

According to SJR-62, publicizing the availability of lower-cost checking accounts would be potentially beneficial to public benefits recipients, individuals and families in lower income groups and other consumers. The consumer guide will list all state-chartered and federal-chartered banks and savings institutions participating in the survey, and the costs and benefits of each account offered.

It will be appreciated if you will arrange to have the enclosed questionnaire completed, providing the requested information as of November 15, 1990, and returned to this Bureau by the end of November 1990. We thank you for your cooperation. Questions concerning the questionnaire, may be directed to Ms. Karen Sullivan at (804)786-4791.

Very truly yours,

Nicholas C. Kyrus
Deputy Commissioner

NCK/ccb
Enclosures

BUREAU OF FINANCIAL INSTITUTIONS
SURVEY OF PERSONAL CHECKING ACCOUNT SERVICES
NOVEMBER 1990

INFORMATION AND INSTRUCTIONS:

This survey is conducted by the Bureau of Financial Institutions, State Corporation Commission pursuant to Senate Joint Resolution 62 of the Virginia General Assembly. It is being sent to all banks and savings institutions operating in Virginia either under a state or a national charter. The Bureau will tabulate the information obtained in the survey and publish the results in a consumer guide for the purpose of assisting consumers, especially low income groups and public benefits recipients, in choosing an affordable checking account.

Please complete the following survey with information as of November 15, 1990. If a question does not apply to your institution, please indicate with "NA". Please note that this survey applies to personal accounts only. If there are any questions, please call Karen Sullivan at (804)786-4791. The survey should be returned with all supporting brochures and pamphlets included, by the end of November 1990 to the following address:

Bureau of Financial Institutions
c/o Ms. Karen L. Sullivan
P. O. Box 2AE
Richmond, Virginia 23205

I. FINANCIAL INSTITUTION INFORMATION

Name of financial institution _____

Address _____

Number of branches _____ Total assets as of September 30, 1990 \$ _____

Name of bank holding company, if any _____

Name of individual completing survey _____

Telephone number _____ Title _____

II. GENERAL CHECKING ACCOUNT INFORMATION

1. What is the minimum deposit required to open a checking account? \$ _____
2. What is the cost of 200 plain checks? \$ _____
3. Is a free order of checks offered with any account? Yes _____ No _____
If yes, specify which accounts. _____

4. How many IDs are required to open a checking account? _____
- (a) How many IDs must be picture IDs? _____
- (b) Which of the following IDs are acceptable to open an account?
Virginia Driver's License _____ Social Security Card _____
Virginia DMV non-driver ID _____ Picture Student ID _____
Department of Social Services ID _____ Credit Card _____
Employee ID _____ Department Store Credit Card _____
- (c) Which IDs are mandatory? _____
- (d) List other acceptable IDs _____

5. Does your institution offer ATM use? Yes _____ No _____
If yes, what is the fee per transaction to use:
(a) Own ATMS? \$ _____ (b) Network ATMS? \$ _____
6. Is senior citizen checking, with no service charge and no balance requirement, offered? Yes _____ No _____
- (a) If yes, what is the qualifying age for this account? _____
- (b) Can this account earn interest? Yes _____ No _____
If yes, specify the rate _____
7. Is budget checking, with a fixed service charge and no minimum balance, offered? Yes _____ No _____
If yes, what is: (a) the service charge? \$ _____, (b) the number of free checks allowed? _____ and (c) the charge per check over the allowed number? _____

III. SPECIFIC CHECKING ACCOUNT INFORMATION

Please complete the following charts to show the basic fees and requirements of different checking accounts offered. Columns two through five list specific characteristics of the account of each service charge amount possible in column one. Begin by listing the lowest service charge, or zero, in column (1), row (a). Then continue to columns (2) through (5) in row (a), filling in the corresponding characteristics of the account at the service charge level listed in row (a). Repeat the above procedure through row (e), listing the next highest service charge in the subsequent row until all possible service charge amounts are addressed. Write "NA" if the item is not applicable.

1. REGULAR CHECKING ACCOUNT

Monthly Service Charge Amount (1)	Average Monthly Balance Required (2)	Minimum Daily Balance Required (3)	Number Of Free Checks Per Month (4)	Charge Per Check Over Allowed Number (5)
(a) \$ _____	\$ _____	\$ _____	_____	\$ _____
(b) \$ _____	\$ _____	\$ _____	_____	\$ _____
(c) \$ _____	\$ _____	\$ _____	_____	\$ _____
(d) \$ _____	\$ _____	\$ _____	_____	\$ _____
(e) \$ _____	\$ _____	\$ _____	_____	\$ _____

2. INTEREST CHECKING ACCOUNT

Monthly Service Charge Amount (1)	Average Monthly Balance Required (2)	Minimum Daily Balance Required (3)	Number Of Free Checks Per Month (4)	Charge Per Check Over Allowed Number (5)
(a) \$ _____	\$ _____	\$ _____	_____	\$ _____
(b) \$ _____	\$ _____	\$ _____	_____	\$ _____
(c) \$ _____	\$ _____	\$ _____	_____	\$ _____
(d) \$ _____	\$ _____	\$ _____	_____	\$ _____

At what balance will the above interest checking account begin to earn interest? \$ _____ State the present interest rate. _____%

4. Are there any accounts, other than those mentioned above, that offer a low (less than or equal to \$3.00) maintenance monthly fee and a total cash requirement of less than \$1,000? If so, please fill out the following chart for that account. If that account is connected in some way to the balance in any other account to qualify for the low maintenance fee, please specify.

ACCOUNT NAME: _____

Monthly Service Charge Amount (1)	Average Monthly Balance Required (2)	Minimum Daily Balance Required (3)	Number Of Free Checks Per Month (4)	Charge Per Check Over Allowed Number (5)
(a) \$ _____	\$ _____	\$ _____	_____	\$ _____
(b) \$ _____	\$ _____	\$ _____	_____	\$ _____
(c) \$ _____	\$ _____	\$ _____	_____	\$ _____
(d) \$ _____	\$ _____	\$ _____	_____	\$ _____

At what balance will the above account begin to earn interest? \$ _____
State the present interest rate. _____ %

PLEASE COPY AND COMPLETE THE ABOVE CHART FOR ANY FURTHER ACCOUNTS OFFERED UNDER THIS CATEGORY AND ATTACH TO QUESTIONNAIRE.

IV. CHECK CASHING POLICIES

1. Which, if any, of the following foreign checks will your institution cash for customers without regard to account balance?

Local Government _____ State Government _____ Federal Government _____
Handwritten payroll _____ Computer-written payroll _____ Local Personal _____
Out-of-Town Personal _____ Other (Specify): _____

2. Which, if any, of the following foreign bank checks will you cash for non-customers?

Local Government _____ State Government _____ Federal Government _____
Handwritten payroll _____ Computer-written payroll _____ Local Personal _____
Out-of-Town Personal _____ Other (Specify): _____

Does any fee apply to these checks? Yes(specify)\$ _____ No _____

3. Will you cash checks based on a savings account balance only?

Yes _____ No _____ Sometimes (explain) _____

THANK YOU!

Information from banks having
Commonwealth funds on deposit.

Number that will cash such checks at no charge	17
Number that will not cash such checks for non-customers	10
Number charging a \$1.00 fee	5
Number charging a \$2.00 fee	2
Number charging a \$3.00 fee	12
Number charging a \$4.00 fee	3
Number charging a \$5.00 fee	4
Number charging a percentage - based fee *	7
Number of responding banks	59

* Ranging from 1% to 2%