

Legal Assistance Resource Center

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S.B. 361 -- Check cashing fees

Banks Committee Public Hearing -- March 15, 2012

Testimony of Raphael L. Podolsky

Recommended Committee action: **OPPOSE**

This bill is titled as an act concerning "regulatory relief for the Connecticut check cashing industry," but much of the bill is in fact not about regulatory relief but about increased fees. Section 3 of the bill supersedes the Banking Commissioner's existing authority to set maximum fees (which the Commissioner has set at 2% of the amount of the cashed check) so as to raise that limit by statute to 3%. A \$2,000 tax refund check could cost \$60 to cash. A \$1,200 payroll check could cost \$36. The maximum \$6,000 private check could cost \$180. This 50% increase in the cost of cashing a check is not regulatory relief but rather an override of the existing protection for consumers.

The proposed increase to 3% also affects the category of checks to which the \$6,000 maximum does not apply under existing law. These include tax refund checks, payroll checks drawn on a business account, insurance payment checks, bank-certified checks, and many other checks viewed by the statute as unlikely to bounce. As to those checks, the existing 2% fee maximum is already generous. Under S.B. 361, it would rise to 3%, even though the risk of a bounced check is very low. In addition, Section 2 of the bill repeals the \$6,000 cap on private checks entirely. Thus, a check cashing service under S.B. 361 could, for example, collect a \$300 fee for cashing a single \$10,000 check.

There is a reason that Connecticut establishes fee maximums in the check cashing industry. Persons who use check cashing services are often "unbanked," i.e., without bank accounts, and often have few alternative ways to cash paychecks or tax refund checks. Banks are not receptive to cashing checks for persons who do not have an account with the bank. This makes for a less than fully competitive market for the users of check cashing services. Indeed, one of the reasons that led the Labor Committee to approve a bill allowing employers to use a payroll card to pay unbanked employees (S.B. 155) is to provide a way for such employees to cash out their wages without paying the fees charged by check cashing services.

The fees allowed by Banking Commissioner regulation are adequate, and the check cashing statute should not be changed. The bill is both unnecessary and undesirable. We therefore urge the Banks Committee to take no further action on this bill.