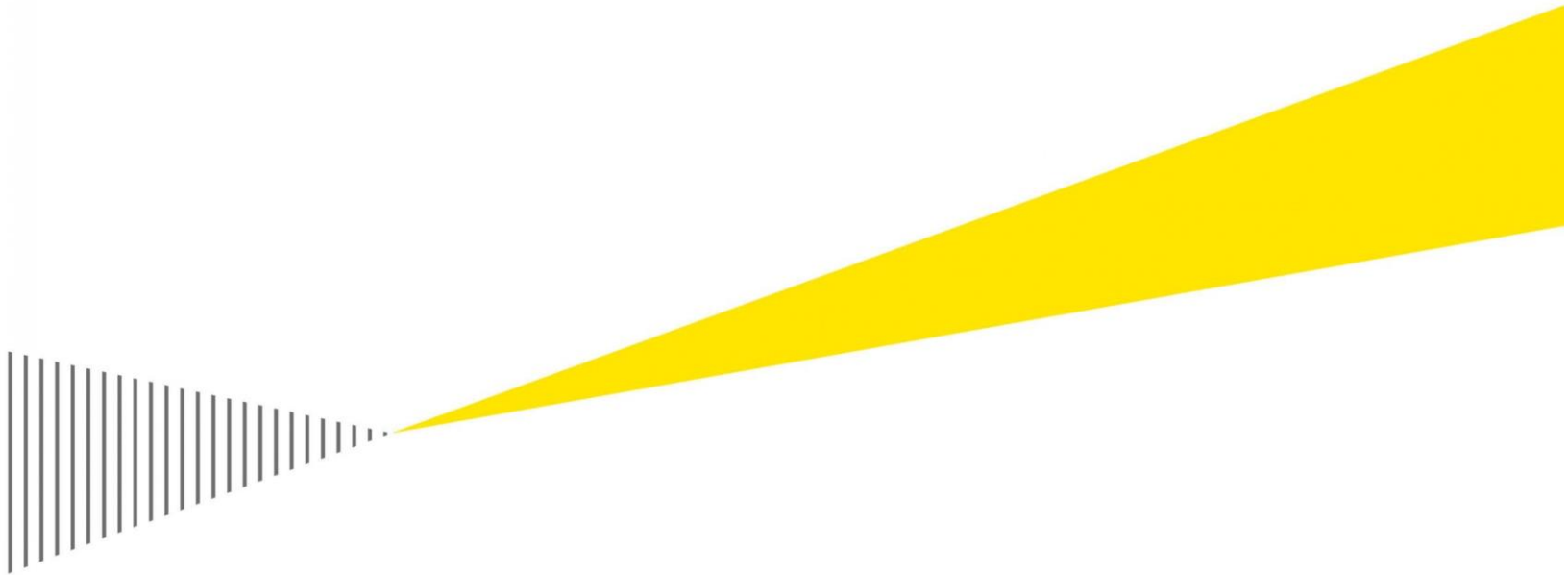


# **Exhibit A**

# **An assessment of the NYDFS proposal to reduce the maximum fee used by check cashing companies in New York**

Prepared for Financial Service Centers of New York (FSCNY)

September 2022



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## Abbreviations and Definitions

Abbreviations	Full description
ACS	American Community Survey
BLS	US Bureau of Labor Statistics
CPI	Consumer price index
ECI	Employment cost index
EEO-1	Equal Employment Opportunity Commission form 1
EEOC	US Equal Employment Opportunity Commission
EIP	Economic Impact Payments
FSC	Financial Services Centers
FSCNY	Financial Service Centers of New York
NYCRR	New York Codes, Rules and Regulations
NYDFS	New York State Department of Finance
OER	Operating Expense Ratio
PPP	Paycheck Protection Program
ROE	Return on Equity

### Definitions

- **Total revenue:** Revenue from all sources (commercial check revenue, retail check revenue, and other revenue)
- **Total check cashing revenue:** Revenue from commercial and retail check fees, i.e., commercial check revenue + retail check revenue
- **Commercial check revenue:** Revenue from fees charged on commercial checks
- **Retail check revenue:** Revenue from fees charged on retail checks
- **Rate of return measures:**
  - **Return on equity (ROE):** Ratio of pre-tax net income (total revenue – total expenses) to shareholder equity. ROE is a measure of a company’s profitability. A higher ROE indicates that the company is better at returning profit per every dollar of shareholder’s investment.
  - **Operating expense ratio:** Ratio of total expenses to total revenue
  - **Profit margin:** Ratio of pre-tax net income to total revenue
- **Maximum retail check fee:** Check cashing fee (%) allowed by the NYDFS to charge on dollar value of retail check. For example, it is equal to 2.27% of check value or \$1, whichever is greater, in 2022.
- **Retail check cashing:** Check cashing services for individuals.
- **Commercial check cashing:** Checks made payable to “non-natural persons”
- **Healthy rate of return:** For the purposes of this analysis, a healthy rate of return is considered to be an ROE between the historical ROE and the industry benchmark.

## Executive summary

Ernst & Young LLP (hereafter, EY) was retained by Gibson, Dunn & Crutcher LLP, on behalf of Financial Service Centers of New York (FSCNY) to analyze the economic health of the New York check cashing industry and assess the potential impact of the Proposed Amendment to Regulation 3 NYCRR 400.11 (hereafter, "Proposed Regulation") related to the maximum retail check cashing fee published by the New York State Department of Financial Services (NYDFS) on June 15, 2022.

The majority of check cashing industry revenue is derived from check cashing services for individuals (hereafter, "retail check cashing") and commercial check cashing, i.e., checks made payable to "non-natural persons." Among these two categories, the maximum fee that check cashing centers can charge on retail checks has been regulated since 1994, established by NYCRR Section 400.11.<sup>1</sup> From 2005 until 2021, the maximum retail check cashing fee was annually adjusted based upon increases in the Consumer Price Index (CPI) for urban consumers in the New York area per reporting by the U.S. Bureau of Labor Statistics. Based on the CPI, the 2021 amendment increased the maximum check cashing fee for retail checks from its 2020 fee of 2.23% to 2.27% in 2021.

In contrast to the 17-year period prior to 2022, this fee was not further increased for the change in the CPI in 2022 and remains capped at 2.27%. The Proposed Regulation would reduce the current 2.27% maximum check cashing fee to 1.5% for government-issued checks and to 2.2% for all other checks.<sup>2</sup> This fee reduction would represent a 0.77 percentage point decrease in the maximum check cashing fee for government-issued checks and a 0.07 percentage point decrease in the maximum check cashing fee for all other checks. This represents approximately a one third reduction in the maximum fee allowed for government-issued checks.

Using data from the NYDFS, data collected by EY from the check cashing industry, and other public data, this report analyzes the economic health of the check cashing industry from 2010 through 2022. Trends in check volume, revenue, and total expenses, as well as the industry's return on equity (ROE)<sup>3</sup> are calculated. In addition, the revenue impacts of COVID-related stimulus – Paycheck Protection Program (hereafter, PPP) loans and stimulus checks – are isolated and reported separately to reflect the one-time nature of the COVID-related relief, given the associated revenue is not indicative of future industry revenue. Using data collected for the first half of 2022, this report projects the annual revenue and expenses to estimate the return on equity for the industry under the current maximum check cashing fee (2.27%) and the Proposed Regulation. Finally, this analysis documents the extent by which check cashing centers are located in neighborhoods with a larger share of minorities and neighborhoods with poverty rates higher than the state average.

## Key findings

- **The New York check cashing industry has seen a continuous decline in licenses, total check volume, and total check cashing revenue.** In 2019, there were 540 financial services centers, a decrease of 21% from the 686 locations in 2010. During the same period, the total dollar volume of checks, including retail and commercial, declined by 30%, and total revenue from fees declined by 16%. Although commercial check volume

increased by 68% and commercial check revenue nearly doubled between 2010 and 2019, the significant decline in retail check volume and revenue resulted in the significant overall decline in the check cashing industry's check volume and revenue.<sup>4</sup>

**Table E1. New York check cashing industry trends, 2010-2019**

	2010	2019	% change 2010 – 2019
Total check cashing centers (locations)	686	540	-21%
Total dollar volume of checks (\$m)	\$14,333	\$9,983	-30%
Total revenue from fees (\$m)	\$249	\$208	-16%
Retail dollar volume of checks (\$m)	\$12,408	\$6,749	-46%
Retail revenue from fees (\$m)	\$214	\$138	-35%
Commercial dollar volume of checks (\$m)	\$1,925	\$3,235	68%
Commercial revenue from fees (\$m)	\$35	\$70	100%

Source: New York Department of Financial Services (NYDFS).

- During the COVID-19 pandemic, retail check cashing volume and revenue from fees declined significantly. The volume and revenue generated from stimulus checks were not sufficient to offset the large decrease in check cashing activity during the pandemic.** Check cashing revenue from retail checks declined by 21% in 2020 and another 4% in 2021. These declines occurred despite the additional one-time retail check cashing volume and fees from COVID-related stimulus checks. The stimulus checks accounted for 6% of total retail check cashing volume (and fees) in 2020 and 12% in 2021, but only 0.04% during the first six months of 2022 after the COVID-related stimulus had been largely phased out. The industry's ROE was -2.0% in 2020, 1.8 in 2021, and -1.15 in 2022, compared to an average ROE from 2017 through 2019. These recent returns on equity, which do not reflect the potential adverse effects of the Proposed Regulation, indicate that the industry has not yet recovered from the effects of the COVID pandemic.

**Table E2. Revenue from check fees and impact of stimulus checks, 2019-2022**

	2019	2020	2021	2022
Total revenue from fees*	\$208	\$162	\$167	\$156
Year-over-year growth	--	-22.3%	3.2%	-1.2%
Revenue from retail check fees (A)	\$138	\$109	\$105	\$96
Year-over-year growth	--	-21.0%	-4.0%	-6.7%
Revenue from stimulus check (B)	--	\$7.0	\$12.6	\$0.04
Stimulus as % of total retail check revenue (=B/A)	--	6.4%	12.0%	0.04%

Note: \*Includes retail and commercial check fees

Source: New York Department of Financial Services (NYDFS); EY analysis.

- Despite the growth in average retail check size, retail check volume and fee revenue has declined significantly since 2010. The industry's revenue declined despite the regular CPI-based increases to the maximum check cashing fee.** Between 2010 and 2019, there was an average 1.4% annual increase in average retail check value, but the

total volume of retail checks declined by an average of 6.5% annually, whereas the fee revenue declined by an average of -4.7% annually. During this period, the region's<sup>5</sup> Employment Cost Index (ECI) and the Consumer Price Index (CPI) increased 2.4% and 1.6%, respectively. In the three years prior to the pandemic, BLS occupation level data shows the wages for full-time employment in a related occupation<sup>6</sup> in New York increased 6.6% annually, more than double the increase in the ECI during the same period (3.5%). In addition, based on check cashing company data, the average annual growth rate in wages during this period was over 11%, more than three times the increase in the ECI. The reduced check cashing fees under the Proposed Regulation would further exacerbate the impact of declining check volume and rising wage costs in an industry that was already struggling prior to the pandemic.

**Table E3. Inflation, employment cost, and average check value (2010-2019), 10-year average**

<b>Key indicators</b>	<b>Annual growth rate</b>
Employment cost index (ECI)	2.4%
Consumer price index (CPI)	1.6%
Average <u>retail</u> check value (\$)	1.4%
Total <u>retail</u> check cashing revenue (\$)	-4.7%
Number of <u>retail</u> checks	-7.9%
Total <u>retail</u> check volume (\$)	-6.5%

Source: EY analysis of data from BLS and NYDFS.

- New York check cashers underperform on every metric against industry benchmarks.** The average annual ROE for New York check cashers between 2017 and 2019 was 2.89%, 0.8 percentage points below the industry benchmark for the northeast region (3.7%). Similarly, this analysis estimates the profit margin for NY check cashers to be 7.1 percentage points below the industry benchmark – 3.5% for NY check cashers versus 10.6% for the industry benchmark. In addition, the operating expense ratio for check cashers is estimated to be 7.1 percentage points higher for NY check cashers than for the industry benchmark – 96.5% for NY check cashers versus 89.4% for the industry benchmark. Under the Proposed Regulation, NY check cashers' ROE is estimated to be negative.

**Estimated ROE under the current regulation, with maximum fees capped at 2.27%, is below the related industry benchmark and the historical average for the check cashing industry.** Under the current regulation, EY estimates the 2022 check cashing industry's average rate of return to be -1.15% as compared to the 2.89% historical average for the industry and the 3.7% return of the industry benchmark. As discussed in this report, check cashing revenue has been declining over time. Annual CPI-based adjustments have not been sufficient to maintain historical ROE. In this particular scenario, not only does eliminating the CPI-based adjustments further restrict revenue, but the 2.27% rate results in a negative ROE.

- **Estimated rate of return under the prior CPI-based regulation is also below the related industry benchmark and the historical average for the check cashing industry.** Under the CPI-based fee structure, the average rate of return for 2022 would be 0.20% – 2.68 percentage points lower than the historical average (2.89%) and 3.50 percentage points lower than the industry benchmark (3.7%).<sup>7</sup>
- **Estimated rate of return under the Proposed Regulation is even further below the related industry benchmark and the historical average for the check cashing industry.** Under the Proposed Regulation, the average rate of return for 2022 would decline to -3.28% as compared to the 2.89% historical average for the industry and the 3.7% return of the industry benchmark. Moreover, under the Proposed Regulation, the return to equity would be negative to a greater degree than under the current 2.27% fee or under the CPI-based fee structure.
- **This analysis estimates that a fee of 2.53% is required for the industry to preserve its historical rate of return (2.89%).** To allow the check cashing industry to maintain the related industry benchmark for the Northeast region (3.7%), a fee of 2.49% is required for all retail checks, including government-issued checks and all other checks.

**Table E4. Retail check cashing fee needed to match industry benchmark or historical performance**

	<b>Retail check cashing fee</b>
Maintain NAICS 522390 performance (A)	2.53%
Maintain historical performance (B)	<u>2.49%</u>
<b>Average (A and B)</b>	<b>2.51%</b>

Source: EY analysis.

- **Check cashing centers are found to be predominantly located in more diverse neighborhoods and neighborhoods with higher rates of poverty than the average New York neighborhood.** Approximately 61% of check-cashing centers in New York are in a neighborhood that is at least 60% non-white. Similarly, 62% of check-cashing centers are in neighborhoods with poverty rates higher than the New York average (12.7%). Given the types of neighborhoods in which centers operate and the negative ROE under the Proposed Regulation, the Proposed Regulation can be expected to adversely impact such neighborhoods.
- **Check cashing centers employees are predominantly minorities and women.** A sample of New York check cashers' workforce data indicates that check cashers employ primarily (96%) minority workers, significantly more minority workers than for related credit intermediation industry level data. According to the same sample, the check cashers workforce is 76% women, a significantly higher share than for the related credit intermediation industry.



## **Summary**

Based on the foregoing analysis, EY finds that, with the new Proposed Regulation, New York check cashing companies would not only be unable to maintain their historical rate of return nor match industry benchmarks, but would be unprofitable. Historical trends indicate a continued decline in total check cashing fee revenues unlikely to be offset by increased fees from cashing commercial checks. To the extent that check cashing locations serve low-income communities and employ minorities and women, these populations would be adversely affected by the impacts of the lower maximum retail check cashing fee under the Proposed Regulation.

## I. Introduction

Ernst & Young LLP (hereafter, EY) was retained by Gibson, Dunn & Crutcher LLP, on behalf of the Financial Service Centers of New York (FSCNY), to analyze the economic health of the New York check cashing industry and assess the potential impact of the Proposed Amendment to Regulation 3 NYCRR 400.11 (hereafter, "Proposed Regulation") related to the maximum retail check cashing fee published by the New York Department of Financial Services (NYDFS) on June 15, 2022.

In 2020, the licensed check cashing industry consisted of 96 companies operating in 496 different locations (hereafter, financial services centers (FSCs) or the centers) throughout New York State. The services offered by the centers include check cashing for individuals (hereafter, "retail check cashing") and commercial check cashing, i.e., checks made payable to "non-natural persons." The financial services centers provide services to millions of customers each year.

The majority of industry revenue is derived from check cashing services – retail and commercial checks. Among these two categories, the maximum fee that the centers may charge to cash retail checks is set by the NYDFS. Fees are calculated as a percentage of the face value of the check, and the maximum fee that the centers may charge for retail check cashing services is currently set at 2.27%.<sup>8</sup> The maximum retail check cashing fee has, since 1994, been established by NYCRR Section 400.11. From 2005 until 2021, the maximum retail check cashing fee was annually adjusted based upon increases in the Consumer Price Index (CPI) for urban consumers in the New York area as reported by the US Bureau of Labor Statistics. Based on the CPI, the 2021 amendment increased the maximum check cashing fee for retail checks from 2.23% in 2020 to 2.27% for 2021. In contrast to the 28-year period prior to 2022, this fee was not further increased for the change in the CPI in 2022 and remains capped at 2.27%.

On June 15, 2022, the NYDFS proposed an amendment to Regulation 3 NYCRR 400.11 related to the maximum retail check cashing fee. The Proposed Regulation would reduce the current 2.27% maximum check cashing fee to 1.5% for government-issued checks and to 2.2% for all other checks.<sup>9</sup> This fee reduction would represent a 0.77 percentage point decrease in the check cashing fee for government-issued checks and a 0.07 percentage point decrease in the check cashing fee for all other checks. For government-issued checks, this represents approximately a one-third reduction in the fee. Under the Proposed Regulation, any increase in maximum fees could only be requested by licensees every five years starting in 2027. Such requests would require data on each licensee's costs and expenditures, profitability, and any other requested information.

Unlike retail check cashing, there is no regulated maximum check cashing fee in New York for commercial checks. Besides check cashing services, the industry also provides services such as wire/money transfers, prepaid access cards, public transit metro cards, prepaid cellular and card top ups, money orders, electronic bill payment services, and ATM access/bank withdrawals and balance inquiries.

On the expenses side, the largest share of the total expenses is attributable to labor costs (e.g., employee compensation). Other significant expenses include rent and occupancy costs, insurance and protection expenses, and bank service charges.

This report broadly assesses the economic health of the check cashing industry considering trends in retail check volume, retail check size, and their impact on total retail check revenue. The analysis also considers trends in other sources of income including commercial check cashing revenue, total expenses, and the one-time impact of COVID-related relief in the form of stimulus checks. Data from 2010 are presented with a focus on 2017 through the first half of 2022. The first half of 2022 is particularly instructive as it largely excludes the impacts of COVID and associated COVID-related relief.

Further, this analysis assesses the impact of the Proposed Regulation and the impact of the what-if scenario if the CPI-adjusted regulation were instead retained, and then compares the check cashing fee to its historical return on equity prior to the COVID pandemic and an industry benchmark. Finally, this analysis documents the extent by which check cashing centers are located in more diverse neighborhoods and neighborhoods in poverty.

## **II. Description of data and methodology**

The data used for this report are primarily from the NYDFS via FSCNY (2010 – 2020), supplemented with additional data obtained by EY from 18 check cashing companies operating in New York State. The supplemental data, which represents 55% total check cashing revenue, include data on annual income (by category), expenses (by category), and balance sheet data for years 2017 through 2021 as reported by companies in their annual NYDFS report. EY also collected data from these 18 companies for the first two quarters of 2022, which were used to project finances for the full year of 2022.

In addition to the financial data, EY also collected detailed information on check volume (by type), including commercial checks, COVID stimulus-related retail checks, other government-issued retail checks, and all other non-government-issued retail checks. EY also relied on various other public data sources including data from the U.S. Bureau of Labor Statistics (BLS) and U.S. Census Bureau.

Using these data, this report examines trends in check volume, total income (check cashing and other sources), and total expenses (by category) from 2010 through 2022. EY also calculates the industry's rate of return. The revenue impacts of COVID-related stimulus – PPP loans and stimulus checks – are isolated and reported separately to reflect the one-time nature of this relief, given that the associated revenue is not indicative of future industry revenue or trends.<sup>10</sup> Data were also collected on overhead costs attributable and allocated to parent companies for the relevant check cashing companies.<sup>11</sup> While most companies were able to provide complete data, some company data was imputed.<sup>12</sup>

### III. Industry trends

The New York check cashing industry experienced a decline in licenses, total check volume, and total check cashing revenue during most of the past decade. Total check cashing volume fell from \$14.3 billion in 2010 to \$9.9 billion in 2019 – a 30% decline.<sup>13</sup> Although the volume of commercial checks increased by \$1.3 billion during this period, this was more than offset by the \$5.7 billion decline in retail check volume. During this period, retail check volume fell from 87% to 68% of total check volume. Overall check cashing revenue fell by 16% over this period due to the significant declines in retail check cashing volume, despite increases in average check size and the NYDFS’s CPI-based increases in the maximum check cashing fee.

#### A. Number of check cashing stores and closures

As displayed in Table 1, based on NYDFS reporting, the New York check cashing industry consisted of 540 check cashing centers in 2019, representing a decrease of approximately 21% in such locations from 686 in 2010.

**Table 1. Total number of check cashing companies and locations, 2010-2019**

*Includes retail and commercial check cashers*

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2019
Check cashers	184	177	166	144	127	113	110	110	102	100	-46%
Locations	686	668	646	712	559	532	530	599	581	540	-21%

Source: New York State Department of Financial Services (NYDFS).

COVID-19 may have accelerated the decline in check cashing centers, as the NYDFS reported only 496 locations operating in 2020. Based on the NYDFS weekly bulletins (as of July 2022<sup>14</sup>), 127 financial services centers have closed since 2017, with approximately only 472 check cashing centers remaining in operation in 2022.

#### B. Trend in check cashing revenue

Between 2010 and 2019, total check volume, including both retail and commercial checks, declined by 30% (-3.9% annual growth) and total revenue from fees declined by 16% (-2% annual growth). Although commercial check volume increased by 68% in between 2010 and 2019 and commercial check revenue doubled over the same 10 years, the rise in commercial check revenue was not large enough to offset the decline in retail check revenue.

As displayed in Table 2, despite the annual increases to the maximum retail check cashing fee from 2010 through 2019, the total retail check revenue declined by 35% (an annual decline of 4.7%). The decline was driven primarily by the decrease in retail check volume, both in total number and dollar amount of retail checks cashed, representing a drop of 52% and 46%, respectively. About 24.5 million retail checks were processed in 2010, accounting for \$12.4 billion in dollar volume. By 2019, the number of checks processed had dropped to 11.7 million with a dollar volume of \$6.7 billion.

**Table 2. New York check cashing industry trends, 2010-2019**

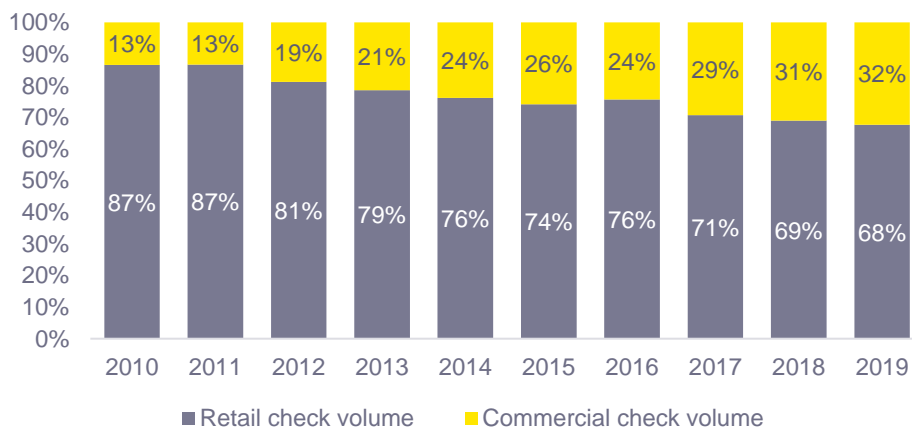
	2010	2019	Total Change	% Change	*CAGR
<b>Retail</b>					
Number of checks (million)	24.5	11.7	-12.8	-52%	-7.9%
Average check amount	\$506	\$575	\$69	14%	1.4%
Dollar volume of checks (\$m)	\$12,408	\$6,749	-\$5,659	-46%	-6.5%
Revenue from check cashing fees (\$m)	\$214	\$138	-\$75	-35%	-4.7%
<b>Commercial</b>					
Number of checks (million)	0.6	0.8	0.1	24%	2.4%
Average check amount	\$3,137	\$4,252	\$1,115	36%	3.4%
Dollar volume of checks (\$m)	\$1,925	\$3,235	\$1,309	68%	5.9%
Revenue from check cashing fees (\$m)	\$35	\$70	\$35	100%	8.0%
<b>Retail + Commercial</b>					
Number of checks (million)	25.2	12.5	-12.7	-50%	-7.5%
Average check amount	\$570	\$799	\$229	40%	3.8%
Dollar volume of checks (\$m)	\$14,333	\$9,983	-\$4,350	-30%	-3.9%
Revenue from check cashing fees (\$m)	\$249	\$208	-\$40	-16%	-2.0%

\*Compounded Annual Growth Rate.

Source: New York Department of Financial Services (NYDFS); EY analysis.

Over this period, commercial check activity grew with the number of checks, average check size, and the dollar volume of checks all increasing. Commercial check revenue rose by \$35 million (from \$35 million in 2010 to \$70 million in 2019). Nevertheless, the significant decline in retail check cashing activity weighed heavily on the industry. The number of retail checks fell by 52% and, even though average check size rose by 14%, retail check volume fell by 46% and retail check revenue fell by \$76 million. Overall, total check cashing revenue fell by 16% or \$41 million over the period.

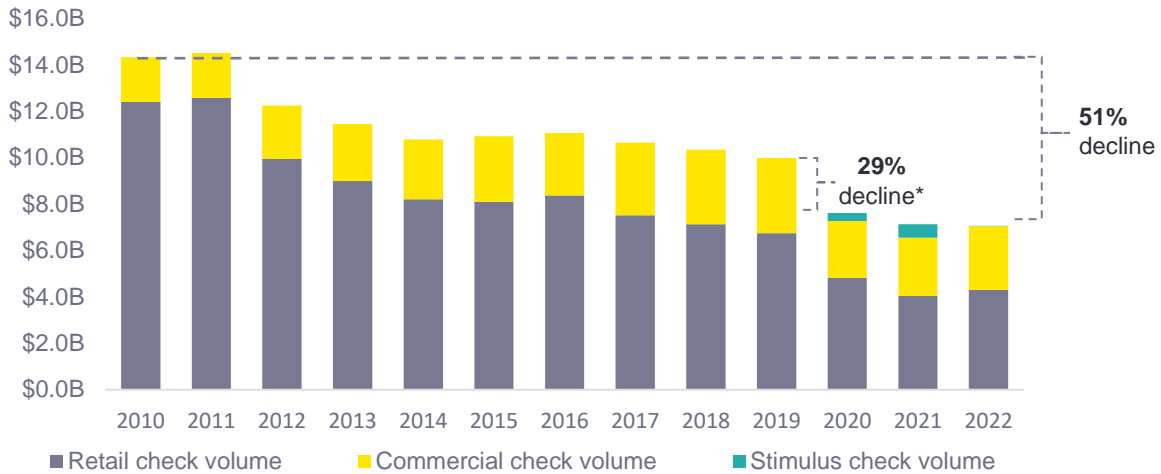
**Figure 1. Distribution of total check volume (in dollar amount) by check type**



Source: New York Department of Financial Services (NYDFS); EY analysis.

As displayed in Figure 2, the COVID pandemic had a significant impact on the check cashing industry, resulting in lower total dollar volume of checks cashed and lower total check cashing revenue. Even with the one-time impact of COVID-related stimulus checks, retail check cashing volume in both 2020 and 2021 was well below pre-pandemic levels. Based on total check cashing volume during the first half of 2022, total check volume for the entire year is expected to remain well below its pre-pandemic levels. This analysis projects total check cashing volume in 2022 to be 51% lower than in 2010 and 29% lower than in 2019.

**Figure 2. Total dollar amount of checks cashed, 2010 – 2022**

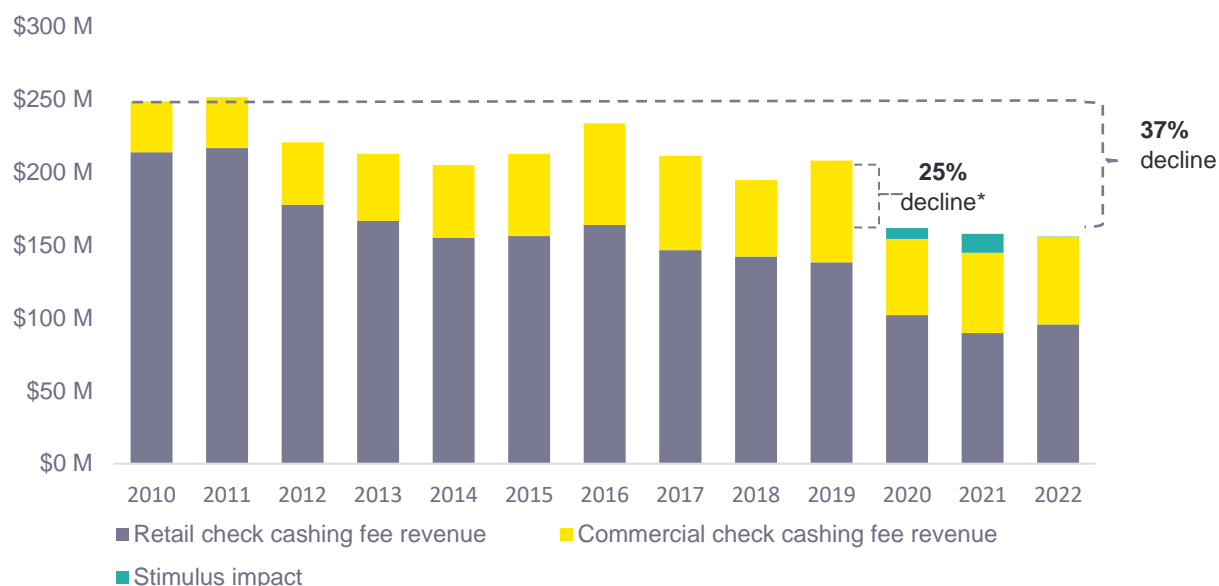


\*Decline represents the change in 2022 relative to 2019.

Source: New York Department of Financial Services (NYDFS); EY analysis.

As displayed in Figure 3, similar to the decline in total check cashing volume, total check cashing revenue has significantly decreased since 2010. The COVID pandemic, even with the one-time impact of stimulus-related checks, has further decreased retail check revenue and, subsequently, total check cashing revenue. Total check cashing revenues in 2022 were 37% below their level in 2010 and 25% below their level in 2019.

**Figure 3. Industry total check cashing revenue by check type, 2010-2022**



\*Decline represents the change in 2022 relative to 2019.

Source: New York Department of Financial Services (NYDFS); EY analysis.

### C. Structure and evolution of current check cashing fee

The maximum retail check cashing fee was increased by the NYDFS from 1.83% in 2010 to 2.27% in February 2021, an increase of 24% (Table 3). In most years, the increase was indexed to the regional CPI, unless there was a specific adjustment made to fees by the NYDFS. The maximum check cashing fee for 2022 remains unchanged from its 2021 level, 2.27%.

The average retail check cashing fee increased from 1.72% to 2.20% during the same period, an increase of 28%.<sup>15</sup> The average fee is slightly less than the maximum due, in part, to 0% fees on cashing payroll checks for employees, though the size of this effect is decreasing. The average fee charged is increasing faster than the maximum retail check fee set by the NYDFS, 24% and 28%, respectively.

**Table 3. Retail check cashing maximum fee, 2004-2022**

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1.83%	1.86%	1.91%	1.95%	1.98%	2.01%	2.01%	2.03%	2.07%	2.11%, (2.19%)	2.23%	2.27%	2.27%

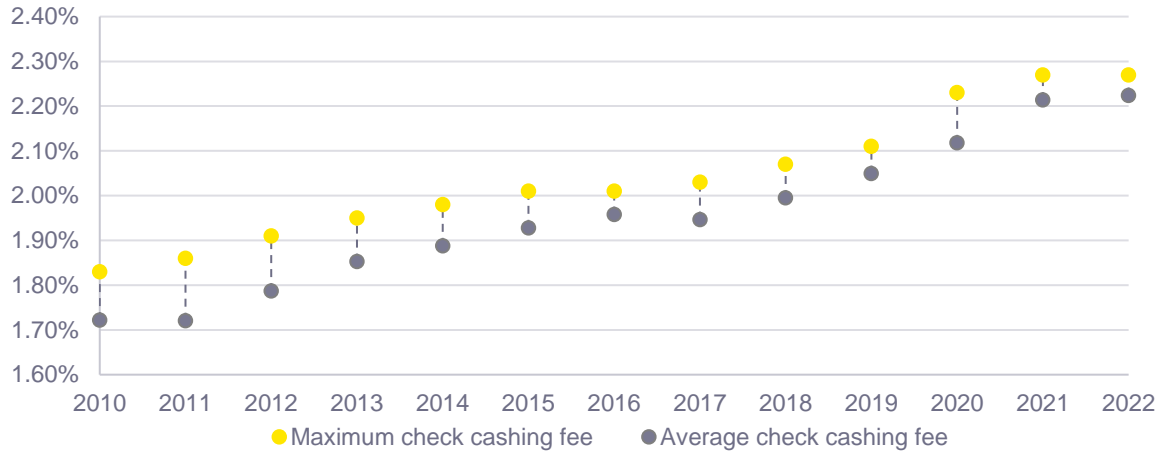
Note: 2019 fee was increased from 2.11% to 2.19% in December 2019.

Source: New York Department of Financial Services (NYDFS).

Consequently, the gap between the maximum retail check cashing fee and the average retail check cashing fee has narrowed during this period. The difference between the maximum fee and average fee charged was 0.11 percentage points in 2010 and 0.05 percentage points in 2021.<sup>16</sup>



**Figure 4. Maximum check cashing fee versus average check cashing fee, 2010-2022**



Note: The 2019 fee of 2.11% was increased to 2.19% in December 2019. The 2.11% is illustrated above since it was the maximum fee for most of the year.

Source: Maximum check cashing fees are from the New York Department of Financial Services (NYDFS).

Average check cashing fees are from individual check cashing companies.

This analysis applies the 0.05 percentage point gap between the maximum fee and the check fee charged in 2021 to 2022 estimates.

## IV. Financial analysis of the check cashing industry

### A. Revenue analysis

For those companies that provided EY with detailed data, retail check fees have consistently represented the largest portion of check cashing companies' revenues. As displayed in Table 4, revenues from retail checks ranged from 56% of total revenue in 2017 to 48% in 2022. Retail check revenue declined 34% between 2017 and 2022. Commercial check revenue represented a relatively small share of total revenue ranging from 5% in 2017 to 7% in 2022.

The one-time nature of COVID-related stimulus is also apparent comprising 7% of total revenue in 2020 and 13% of total revenue in 2021, but only 0.4% of total revenue in 2022. Revenue from other sources, such as fees collected from Western Union, debit cards, bill payments, money orders, and ATMs, rose as a share of total revenue from 39% in 2017 to 45% in 2022, but is projected to be lower in 2022 than in 2017.

Moreover, EY estimates that the total revenue of the check cashing industry will be \$112 million in 2022, significantly lower than the \$146 million in revenue in 2017, a 23% decline in total revenue. The decline in total revenue is attributable to the very significant drop-off in retail check cashing revenue and other revenue that is only minimally offset by the slight rise in commercial check revenue.

**Table 4. Total check cashing industry revenue, 18 companies, 2017-2022**

	2017	2018	2019	2020	2021	2022*	% change 2017-2022
<b>Retail checks</b>							
Revenue (\$m)	81.6	80.7	77.8	60.0	57.7	53.8	-34%
Share (%)	56%	54%	53%	48%	48%	48%	
Stimulus checks (\$m)	0	0	0	4.0	7.3	0.0	
Share (%)	0%	0%	0%	7%	13%	0.4%	
<b>Commercial checks</b>							
Revenue (\$m)	7.8	8.4	9.0	6.3	7.2	7.8	0.3%
Share (%)	5%	6%	6%	5%	6%	7%	
<b>Other</b>							
Revenue (\$m)	56.5	61.0	60.5	58.3	54.2	50.2	-11%
Share (%)	39%	41%	41%	47%	46%	45%	
<b>Total</b>							
Revenue (\$m)	<b>146</b>	<b>150</b>	<b>147</b>	<b>125</b>	<b>119</b>	<b>112</b>	-23%
Share (%)	100%	100%	100%	100%	100%	100%	

\*2022 values are an estimate developed from the first and second quarter data provided by the check cashing companies. An adjustment was made for the seasonality of tax-related checks, as well as the phasing of stimulus checks.

Source: Individual check cashing company data; EY analysis.

### B. Operational costs analysis

Table 5 details that check cashing companies' expenses decreased 18% from 2017 through 2022, a smaller decline than revenues over the same period, indicating decreased profitability. Salaries represent the largest single category of company expenses, comprising roughly 39% to 43% of

expenses from 2017 through 2022. The 16% decline in salary expenses from 2017 to 2022 coincides with the legislated increase in the minimum wage and the decline in check cashing centers, especially during the COVID pandemic.

**Table 5. Check cashing expenses by source, 18 companies, 2017-2022**

	2017	2018	2019	2020	2021	2022*	% change 2017-2022
<b>Salary</b>							
Expense (\$m)	57.6	60.6	63.4	51.2	45.9	48.4	-16%
Share (%)	41.5%	42.9%	42.9%	40.2%	39.4%	42.7%	
<b>Management fees</b>							
Expense (\$m)	5.3	2.6	2.3	2.0	2.0	2.0	-62%
Share (%)	3.8%	1.8%	1.6%	1.6%	1.7%	1.8%	
<b>Money order and bank charges</b>							
Expense (\$m)	4.0	4.1	4.2	3.5	3.8	2.8	-30%
Share (%)	2.9%	2.9%	2.9%	2.7%	3.2%	2.5%	
<b>Rent</b>							
Expense (\$m)	22.0	22.2	22.7	21.3	21.5	25.5	16%
Share (%)	15.9%	15.8%	15.4%	16.7%	18.5%	22.5%	
<b>Other</b>							
Expense (\$m)	49.9	51.6	54.9	49.5	43.4	34.7	-30%
Share (%)	35.9%	36.6%	37.2%	38.8%	37.2%	30.6%	
<b>Total</b>							
Expense (\$m)	<b>138.7</b>	<b>141.2</b>	<b>147.6</b>	<b>127.5</b>	<b>116.6</b>	<b>113.3</b>	-18%
Share (%)	100%	100%	100%	100%	100%	100%	

\*2022 values are an estimate developed from the first and second quarter data provided by the check cashing companies.

Source: Individual check cashing company data; EY analysis.

Additional details on overhead costs were provided by six companies. For these companies, overhead costs accounted for over 5% of their total expenses in 2017. Overhead costs reflect expenses incurred by the parent company to administer the check cashing stores and include payroll, financial management, and other functions more appropriately conducted at the parent level to administer the check cashing business.<sup>17</sup> Other operational costs reported include equipment rental, store supplies, postage and shipping, alarms, security and protection, professional services, depreciation, and other operational costs.

### C. Industry benchmark – financial performance indicators

The New York check cashing industry was found to underperform when compared to industry benchmarks for the Northeast region.<sup>18</sup> EY evaluated the financial performance of the New York check cashing industry using three metrics: 1) the return on equity (ROE), 2) operating expense ratio (OER),<sup>19</sup> and 3) profit margin<sup>20</sup> from 2017 to 2019. To understand industry performance, the results observed for the check cashing industry were also compared with benchmark data from a benchmarking study by Risk Management Association (RMA).<sup>21</sup> As a benchmark industry, EY

used data for the Other Activities Related to Credit Intermediation (NAICS 522390) industry, which comprises a range of retail financial services including check cashers. The industry benchmark data from RMA for the Northeast region is displayed in Table 6.

**Table 6. RMA industry benchmark for Other Activities Related to Credit Intermediation, 2017-2019**

		2017	2018	2019	2017-2019 Average
	Northeast region*				
ROE	Upper Quartile	55.5%	41.0%	3.6%	33.4%
	Median	7.2%	5.8%	-1.9%	3.7%
	Lower Quartile	0.5%	0.6%	-9.2%	-2.7%
	All companies (subset)	4.0%	4.9%	-0.2%	3.0%
OER	Northeast median	89.3%	85.6%	93.3%	89.4%
Profit margin	Northeast median	10.7%	14.4%	6.7%	10.6%

Note: The RMA data was pulled for NAICS 522390. OER indicates Operating expense ratio.  
Source: Risk Management Association (RMA)

The financial performance for each of the three metrics analyzed for the New York check cashing industry is displayed in Table 7. EY estimated the ROE for the New York check cashing industry to average 3.0% from 2017 through 2019, 0.7 percentage points below the median for the Northeast region. Similarly, the profit margin from the industry benchmark for the Northeast region (10.6%) is over five times the profit margin for the New York check cashing industry (2.1%), and the operating expense ratio for the benchmark industry is about seven percentage points lower than that of the check cashing industry.

The comparison between the industry benchmark for the Northeast region and the New York check cashing industry indicates that the New York check cashing industry's financial performance is below the level of the *Other Activities Related to Credit Intermediation* industry benchmark. The analysis also indicates that the New York check cashing industry's performance was adversely impacted by the COVID pandemic.

**Table 7. Financial performance of New York check cashing industry, 2017-2021**

	2017	2018	2019	2020	2021	2017-2019	2017-2021
ROE	4.0%	4.9%	-0.2%	-2.0%	1.8%	2.9%	1.7%
OER	95.2%	94.1%	100.2%	102.3%	98.0%	96.4%	97.9%
Profit margin	4.9%	5.9%	-0.2%	-2.3%	2.0%	3.5%	2.1%

Source: EY analysis of data from 18 check cashing companies.

## V. Assessment of the economic climate and COVID pandemic

### A. Impacts of the COVID pandemic

During the COVID pandemic, retail check cashing volume and revenue from check cashing fees declined significantly. The volume and revenue generated from stimulus checks did little to offset the significant adverse effects of pandemic on check cashing activity.

As displayed in Table 8, the check cashing industry experienced a slight one-time impact from the COVID-related stimulus via government-issued stimulus checks (i.e., Economic Impact Payments) and PPP loans. Nevertheless, as with many industries throughout the US economy, COVID had a significant negative impact on the check cashing industry.

Even when including stimulus check revenue, retail check cashing revenue declined by 21% in 2020 and by another 4% in 2021. In 2020, only 6.4% of the total volume (and fees) of retail check cashing was attributed to COVID-related stimulus checks. In 2021, 12% of retail check cashing volume was attributed to the COVID-related stimulus checks. By the first half of 2022, the stimulus had been mostly phased out, resulting in an estimated impact of only 0.04% of the total retail check volume. However, EY projects the check cashing industry's revenue to be only \$156 million, below the level in 2020 and 2021 during the height of the pandemic, and well below the \$208 million in revenue in 2019.

**Table 8. Revenue from check fees and impact of stimulus checks, 2019-2022**

	2019	2020	2021	2022
Total revenue from fees* (\$m)	\$208	\$162	\$167	\$156
Year-over-year growth	--	-22.3%	3.2%	-1.2%
Revenue from retail check fees (\$m) (A)	\$138	\$109	\$105	\$96
Year-over-year growth	--	-21.0%	-4.0%	-6.7%
Revenue from stimulus check (\$m) (B)	--	\$7.0	\$12.6	\$0.04
Stimulus as % of total retail check revenue (=B/A)	--	6.4%	12.0%	0.04%

Note: \*Includes retail and commercial check fees. Dollars in millions.

Source: New York Department of Financial Services (NYDFS); EY analysis.

**Table 9. Stimulus share of retail check volume and fees, 2020-2022**

	2020	2021	2022	
Retail check dollar volume	Retail check volume (\$m)	\$5,162	\$4,630	\$4,301
	Stimulus impact (\$m)	\$344	\$583	\$1.8
	Stimulus as a share of check volume	6.7%	12.6%	0.04%
Retail check fees collected	Retail check fees collected (\$m)	\$109	\$102	\$96
	Stimulus impact (\$m)	\$7.3	\$12.9	\$41.7
	Stimulus as a share of fees	6.7%	12.6%	0.04%

Source: New York Department of Financial Services (NYDFS); Individual company data; EY analysis.

Based on company financials, the PPP loans also impacted 2020 balance sheets since PPP loans were reported as liabilities and later reported as revenue in 2021 once the loans were forgiven.<sup>22</sup>

The impacts of COVID are also reflected in the industry's return on equity. Based on EY calculations, the return on equity was estimated to be -2.0 in 2020 and 1.8% in 2021, well below the industry's return on equity of 4.0% in 2017 and 4.9% in 2018.<sup>23</sup>

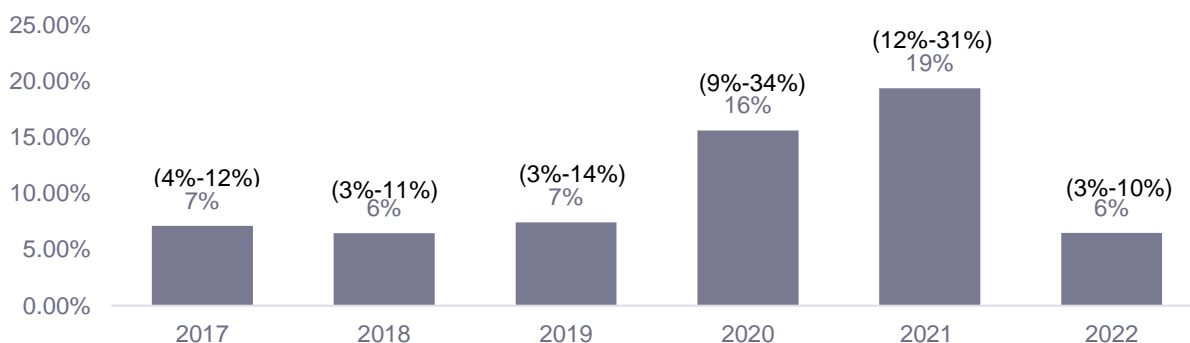
## **B. Government vs. non-government retail checks**

The Proposed Regulation provides for a different maximum check cashing fee for government (1.5%) and non-government (2.2%) checks. However, there is a lack of clarity regarding which

types of checks would qualify as government checks. Specifically, the Proposed Regulation states that a maximum fee of 1.5% of the check amount for cashing a check “issued by a federal or State government agency for the payment of federal or State monetary assistance, Social Security, unemployment compensation, retirement, veteran’s benefits, emergency reflect or housing assistance, or a tax refund.”<sup>24</sup> It is unclear whether other types of government-issued checks, such as a government payroll check or a local/City government assistance check, would be subject to the 1.5% maximum check cashing fee for government checks. For the purpose of this analysis, EY assumed that government-assistance checks (Federal, State, or local) would be taxed at 1.5% and other types of government checks (e.g., payroll) would be taxed at 2.2%. EY was able to collect data from four check cashing companies on government versus non-government retail checks.

Ultimately, as displayed in Figure 5, this analysis found that government checks averaged 6% to 7% of retail check volume from 2017 through 2019 for the four check cashing companies from which EY collected these data. This share rose to 16% in 2020 and 19% in 2021, corresponding to the timing of the COVID stimulus checks. The share falls back to its pre-pandemic level in 2022.

**Figure 5. Government versus non-government retail checks, 2017-2022**



Note: Each bar displays the average and the range for the four check cashing companies from which these data were collected. The range shown in the parenthesis provides the minimum and maximum shares for the four companies.

Source: Individual company data; EY analysis.

### **C. Current economic environment: inflation, interest rates, and shifts in other costs**

The check cashing industry has faced increasing financial pressure at least since 2010 due to declining check cash volume and rising wage costs. Between 2010 and 2019, the total commercial and retail check cashing fees have declined. This decline has occurred despite the CPI-based increases in the maximum check cashing fee, a gradual increase in the average size of retail checks, and the increase in commercial check volume. At the same time, labor costs have also increased. Thus, the industry’s ROE has been under pressure from both lower revenues and higher expenses.

As displayed in Table 8, the Employment Cost Index in the New York region<sup>25</sup> increased, on average, 2.4% annually from 2010 through 2019—above the 1.6% average annual increase in the CPI over the same period. This implies that labor costs were increasing over this period faster than the measure on which the NYDFS has generally based its increases in the maximum check cashing fee.

During this same period, average retail check size grew, on average, at an annual rate of 2.2%. Despite the increase in average retail check size, total retail check revenue declined over this period, on average, 4.7% annually, primarily due to the 7.9% annual average decline in the number of retail checks and the consequent 6.5% average annual decline in retail check volume (which reflects the lower averaged sized check).

**Table 8. Inflation, employment cost, and average check value, 10-year average, 2010-2019**

Key indicators	Average annual growth rate
Consumer price index (CPI)	1.6%
Employment cost index (ECI)	2.4%
Average <u>retail</u> check value (\$)	1.4%
Total <u>retail</u> check cashing revenue (\$)	-4.7%
Number of <u>retail</u> checks	-7.9%
Total <u>retail</u> check volume (\$)	-6.5%

Source: New York Department of Financial Services (NYDFS); Bureau of Labor Statistics (BLS); EY analysis.

Employment costs are the largest expense incurred by check cashing companies. As displayed in Table 8, the industry’s wages costs are rising at a faster rate than wages generally in the New York economy. The employment cost index for New York increased, on average, by 3.5% annually from 2017 to 2019, while, based on BLS data, average wages for full-time employment in a related occupation<sup>26</sup> increased 6.6% annually, roughly double the increase of wages costs in New York generally.

Moreover, based on the wage cost data provided by check cashing companies, the industry has experienced 11.2% average annual growth in wage costs between 2017 and 2019, twice the rise in wages for a similar occupation and more than 3.5 times the average annual increase in wages for New York’s economy generally. In EY’s interviews of check cashing companies, the companies indicated difficulty finding employees and the presence of labor force shortages, both of which have translated into offering higher wages to attract and retain workers.<sup>27</sup>

**Table 9. Average annual growth in employment cost, economy vs. check cashing industry, 2017 and 2019**

	2017	2019	Annual growth
Employment cost index, NY economy	115*	123*	3.5%
Average wages- full-time tellers (related occupation)	\$14.91	\$16.95	6.6%
Average wages- part-time tellers (related occupation)	\$13.86	\$15.82	6.8%
Average wages- check cashing industry	\$13.58	\$16.79	11.2%

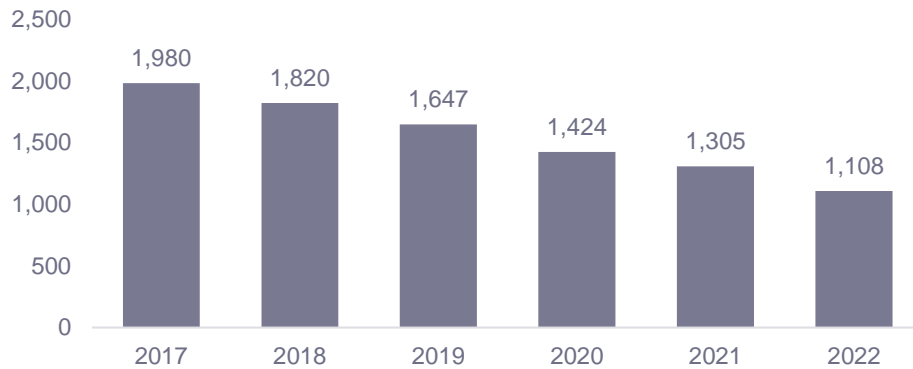
\*Indexed to 100 in 2010.

Note: Related occupation is defined as “Tellers” (SOC: 43-3071). Tabulations based on data from 10 check cashing companies.

Source: Bureau of Labor Statistics (BLS); EY analysis.

As displayed in Figure 7, the data also show the decline in employment described by the check cashing companies. For the 10 check cashing companies that provided hourly wage data, there was a collective decrease in employment from 1,980 employees in 2017 to 1,108 employees in 2022 – an average annual decline of 9.9%. The steepest decline occurred during the COVID pandemic -- 13.5% in 2020 with an additional 8.4% in 2021. Overall, employment fell by 41% between 2017 and 2022.

**Figure 7. Check cashing industry employment, 2017-2022**



Note: Based on data from 10 check cashing companies.

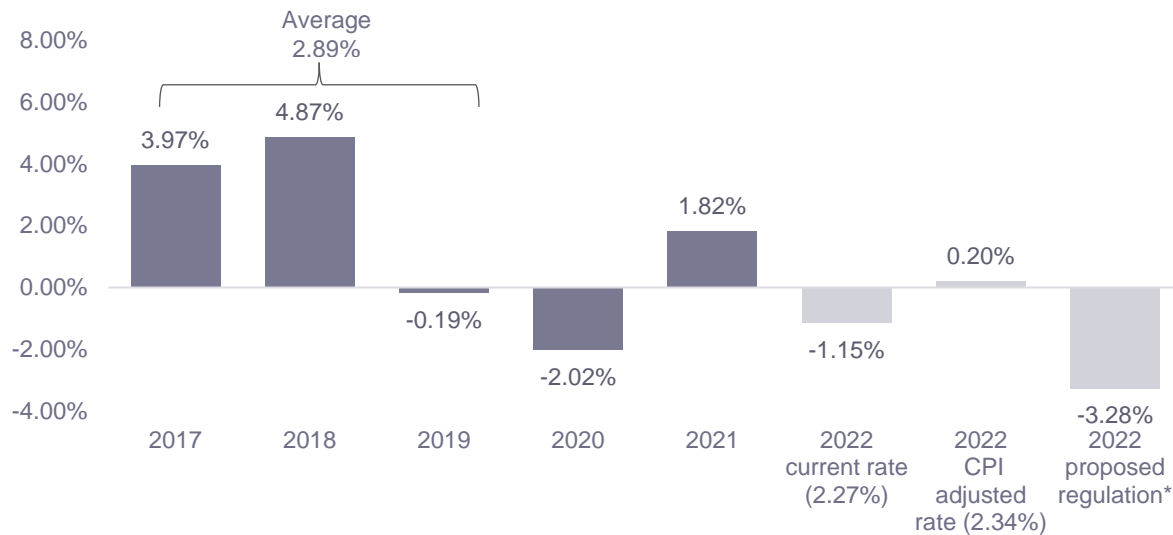
Source: EY analysis.



## VI. Evaluation of industry performance under current, CPI-based and Proposed Regulation

Figure 8 displays the estimated return on equity for the New York check cashing industry from 2017 through 2022 under: 1) the current maximum check cashing fee (2.27%), 2) the maximum fee adjusted based on the standard CPI formulation that had previously been in effect since 2005 (2.34%),<sup>28</sup> and 3) the Proposed Regulation (1.5% for government checks and 2.2% for non-government checks).<sup>29, 30</sup>

**Figure 8. Estimated rate on equity under various check cashing fees<sup>31</sup>**



Note: \*The last scenario includes a blended check cashing fee for government and non-government checks as proposed by NYDFS regulation, which is estimated to be 2.15%.

Source: EY analysis.

### A. Estimated return under current regulation

Under the current 2.27% maximum check cashing fee, EY estimates the check cashing industry's ROE to be -1.15%, in contrast to the historical average of 2.89% return on equity during the three years prior to the COVID pandemic (i.e., 2017 through 2019) and the industry benchmark of 3.7% as indicated by the RMA data.

As discussed in this report, check cashing revenue has been declining over time. Annual CPI-based adjustments have not been sufficient to maintain historical ROE. In this particular scenario, not only does eliminating CPI-based adjustments further restrict revenue, but the 2.27% rate results in a negative ROE.

## **B. Estimated return under a CPI-based fee**

If the maximum check cashing fee had been adjusted to 2.34% according to the standard CPI-based approach for adjusting the fee in place since 2005, EY estimates that the industry's return on equity would have been 0.20%, 2.69 percentage points below the average 2.89% return on equity from 2017 through 2019 and 3.50 percentage points below the RMA industry benchmark (3.7%).

This analysis indicates that even with a check cashing fee indexed to the CPI, the industry's ROE, while no longer negative, is close to zero and significantly below the historical and industry benchmarks by 2.69 and 3.50 percentage points, respectively. This finding is consistent with the findings from the 2017 EY Report,<sup>32</sup> which indicated that a CPI-based increase in the maximum check cashing fee was not adequate to enable check cashers to maintain a return on equity at the level of the industry benchmark.

## **C. Estimated return under the Proposed Regulation**

In this section, EY assesses the impact of the Proposed Regulation – which would set the fee at 1.5% for government-issued checks and 2.2% for nongovernment checks – on check cashing industry's ROE. Assuming the Proposed Regulation were in place for 2022, EY estimates that the average ROE would be -3.28%, compared to the 2.89% historical average from 2017 through 2019 and the RMA industry benchmark of 3.7%. If retail check cashing volume continues its decline, the impact of the Proposed Regulation in 2023 will translate into a lower ROE than estimated for 2022.

Under any of the three scenarios presented above, the New York check cashing industry is estimated to have an ROE that is significantly below the ROE during the three years prior to the COVID pandemic and below the ROE under the RMA industry benchmark. In particular, under the Proposed Regulation, the ROE would be negative to a greater magnitude than under the current regulation or under the prior CPI-based fee structure.

## VII. Required check cashing fee to match the industry benchmark or historical performance

The analysis presented above indicates that the check cashing industry is not able to maintain its historical return nor a return that corresponds to the industry benchmark under any of the three scenarios analyzed. Moreover, the ROE is estimated to be negative under the current regulation, as well as under the Proposed Regulation.

Table 12 displays EY's estimates of the maximum check cashing fee that would be required to match the industry benchmark and the three-year historical average ROE from 2017 through 2019. For these estimates, rather than focusing on one financial metric or benchmark, several performance metrics are considered including a historical average of the check cashing industry and the RMA benchmark of Other Activities Related to Credit Intermediation (NAICS 522390) industry.

**Table 12. Check cashing fee that would match the industry benchmark or historical performance**

	<b>Return on equity</b>	<b>Operating expense ratio</b>	<b>Profit margin</b>
<b>Average 2017-2019</b>			
Match NAICS 522390 ROE	2.53%	2.88%	2.88%
Match historical ROE	2.49%	2.50%	2.50%
<b>Average</b>	<b>2.51%</b>	<b>2.69%</b>	<b>2.69%</b>

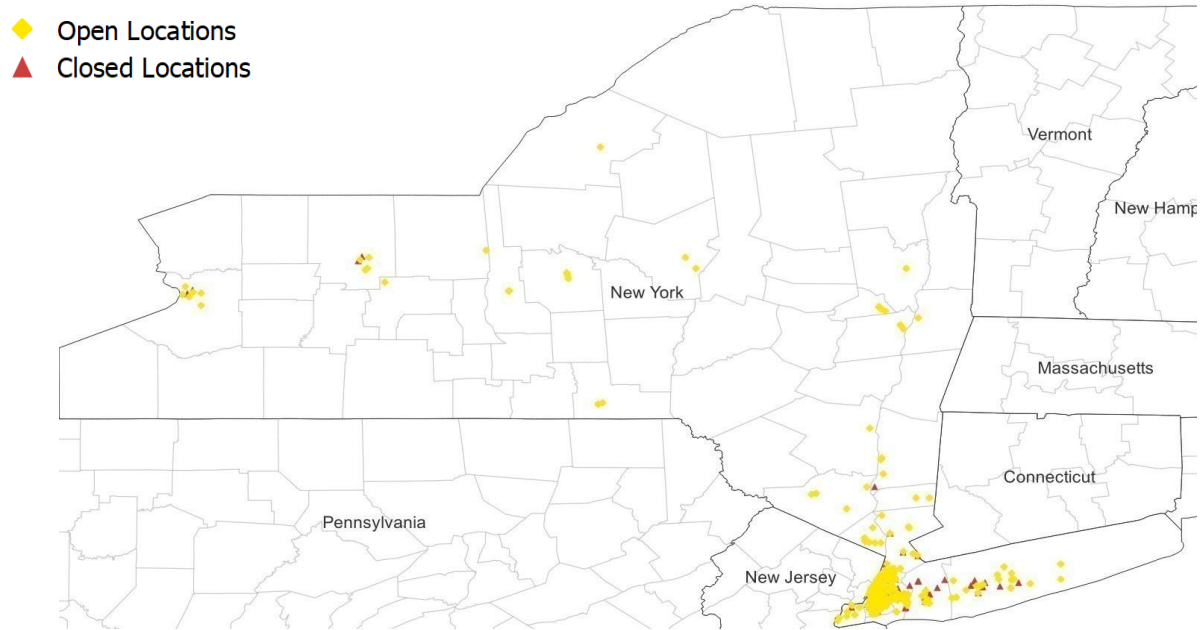
Source: EY analysis.

This analysis finds that a maximum check cashing fee of 2.53% would be needed for the industry to match the ROE for the industry benchmark for the northeast region (NAICS 522390), and of 2.49% for the industry to preserve its historical ROE over the 2017 through 2019 period.

## VIII. Impact of check cashing services in low-income communities

The financial services centers (FSCs) in the check cashing industry are predominantly located in New York City. Figure 9 displays check cashing locations that are currently open (yellow) and locations that have closed since 2017 (red). Kings (Brooklyn), Bronx, Queens, and New York (Manhattan) counties have the largest share of check cashing centers, comprising 79% of all centers in New York State.

**Figure 9. Check cashing centers in New York State, 2021**



Note: Open centers include all FSCs in New York identifiable in Google maps, excluding Walmart, Western Union, MoneyGram, CoinStar, all banks, credit unions, and ATMs. Closed locations are from the NYDFS bulletin since 2017.

Source: New York State Department of Financial Services (NYDFS); EY analysis.

**Table 13. Check cashing centers in New York City and Long Island, 2021**

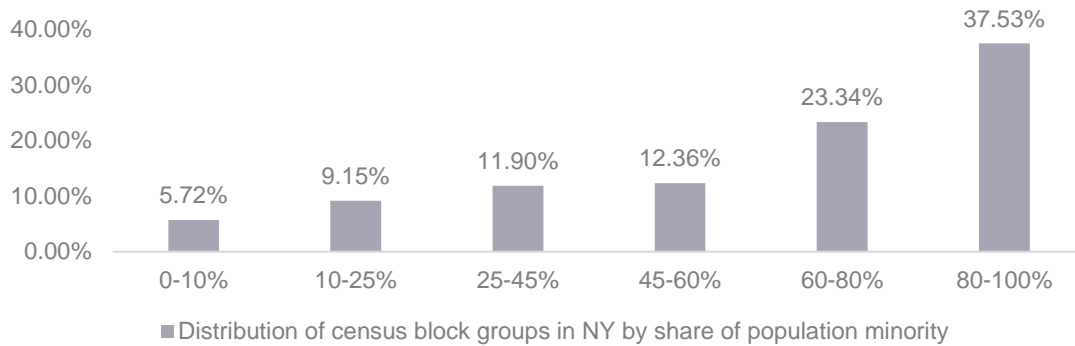
County	Share of statewide total
New York	15%
Bronx	21%
Kings	27%
Queens	16%
Richmond	2%
Nassau	2%
Suffolk	4%
Westchester	2%
<b>8 county total</b>	<b>89%</b>
<b>Statewide total</b>	<b>100%</b>

Source: EY analysis.

## A. Location of centers by neighborhood diversity and poverty rate

EY conducted a spatial analysis of check cashing centers across New York State to identify the neighborhoods where they are located. EY defined neighborhoods as census blocks based on the 2020 Census. This analysis indicates that check cashing centers are predominantly located in census blocks that are more racially diverse than the statewide average. As displayed in Figure 10, 61% of New York check cashing centers are located in a neighborhood that is at least 60% non-white.

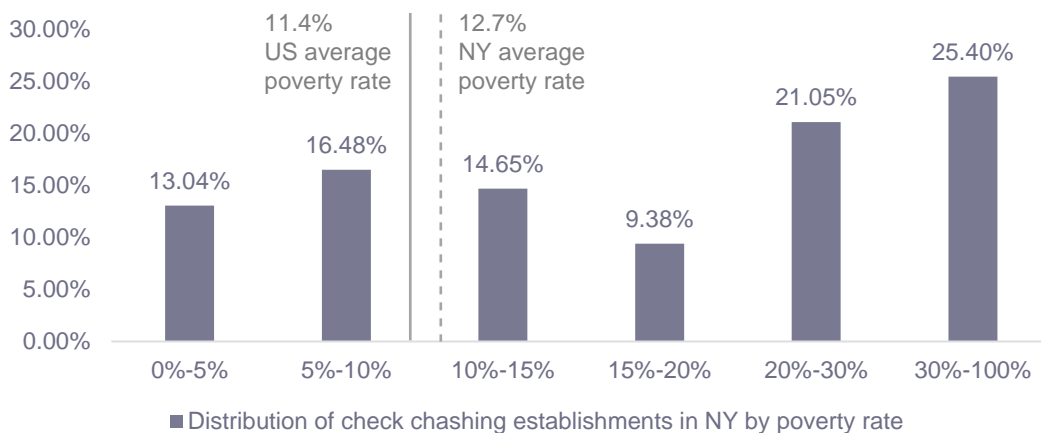
**Figure 10. Distribution of check cashing centers by U.S. Census block diversity**



Source: Census American Community Survey; EY analysis.

This analysis also indicates that check cashing centers are located in Census blocks with higher poverty rates. As displayed in Figure 11, most check cashing centers (67%) are located in neighborhoods with poverty rates above the national average, and 62% are in neighborhoods with poverty rates above the New York average.

**Figure 11. Distribution of FSCs by neighborhood poverty rate**

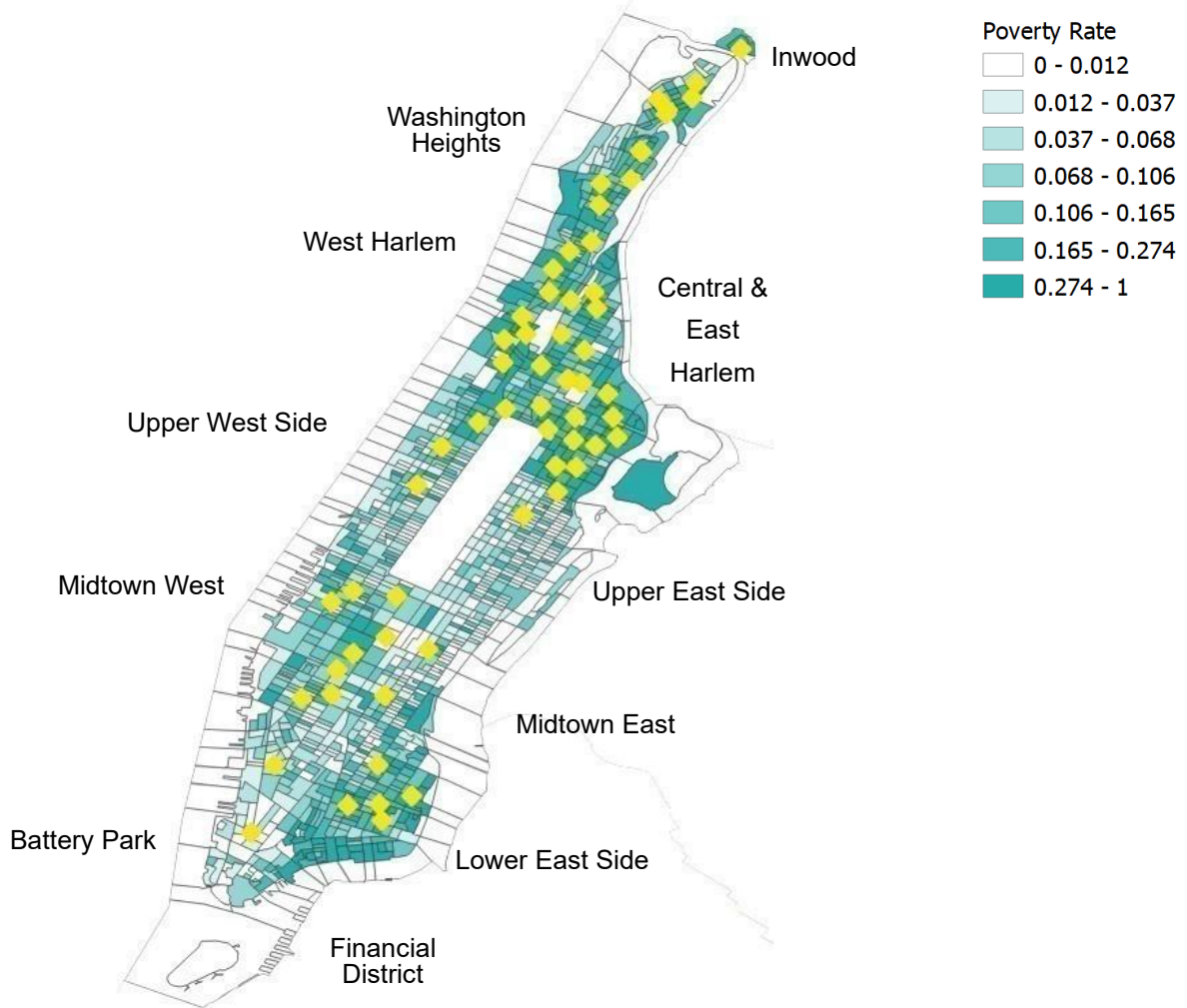


Source: Census American Community Survey; EY analysis.

Figure 12 displays the location of open check cashing centers and the poverty rates for Census blocks in New York County (Manhattan). The centers are generally more concentrated in

neighborhoods with higher poverty rates such as Harlem, Washington Heights, and Inwood, and less concentrated in neighborhoods such as the Upper West Side and Upper East Side that have lower poverty rates, consistent with the state-wide findings presented above.

**Figure 12. Open establishments in New York County (Manhattan) (Open=64)**



Note: The poverty rate heat map is generated using block group level “ratio of income to poverty level in the past 12 months” from the American Community Survey 2020. The open locations are identified by EY research. The closed locations are from the NYDFS bulletin notices of closed establishments.  
Source: EY analysis.

Based on NYDFS weekly bulletins, 127 financial services centers have closed since 2017. The majority of these centers were located in Kings and Queens Counties, with 30 centers closing in each county over the past five years. Check cashing centers primarily serve the unbanked and underbanked populations, thus such communities could be adversely affected by closures. The unbanked population is generally composed of minority and women populations.<sup>33, 34</sup>

**Table 14. Closed check cashing centers in New York, 2017-2022**

<b>County</b>	<b>Closed establishments</b>	<b>Share of statewide total</b>
New York (Manhattan)	19	15%
Bronx	12	9%
Queens	32	25%
Kings (Brooklyn)	32	25%
Richmond (Staten Island)	1	1%
Nassau (Long Island)	13	10%
Suffolk (Long Island)	8	6%
Westchester	4	3%
Rest of New York	6	5%
<b>Statewide total</b>	<b>127</b>	<b>100%</b>

Source: New York State Department of Financial Services (NYDFS); EY analysis.

To the extent that check cashing locations serve low-income communities and employ minorities and women, these populations would be adversely affected by the impacts of the lower maximum retail check cashing fee under the Proposed Regulation.

## **B. Employment impact of check cashing industry**

Four New York check cashing companies provided their recent EEO-1 reports, which are submitted to the Equal Employment Opportunity Commission (EEOC). These data indicate that these check cashing companies employ a significantly high share of minority workers and women as compared to the general population in New York. As displayed in Figure 15, 96% of the New York check cashers employees are minorities and 76% are women. Because minority workers and women comprise such a significant share of the check cashing industry’s work force, the Proposed Regulation is likely to have significant adverse impacts on these groups.

**Table 15. Workforce diversity in the NY check cashing industry**

	<b>NY Population</b>	<b>Check Cashing*</b>
White	63%	4%
White alone	55%	NA
White, Hispanic	8%	NA
<b>Minority</b>	<b>37%</b>	<b>96%</b>
Black	14%	20%
Hispanic	11%	63%
Asian	8%	10%
Other races	3%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Men	49%	24%
Women	51%	76%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: Tabulations based on data provided by four check cashing companies.

Source: Equal Employment Opportunity Commission (EEOC) EEO-1 2018 public use files; American Community Survey 2018 New York State data on “age and sex” (S010), “race” (B02001), and “Hispanic or Latino origin by race” (B03002); EY analysis.

The New York check cashing industry has contracted over the past decade, likely in response to declining retail check cashing volume and check fees and rising costs. The COVID pandemic has accelerated and amplified these trends. Additional contraction in the industry would likely not only have an adverse impact on minority neighborhoods and areas of poverty, but also adversely impact their disproportionately minority and female workforce.



## **IX. Summary**

EY finds that, under the Proposed Regulation, New York check cashing companies would not only be unable to maintain their historical rate of return or match industry benchmarks but would be unprofitable. Historical trends indicate a continued decline in total check cashing fee revenues unlikely to be offset by increased fees from cashing commercial checks. To the extent that check cashing locations serve low-income communities and employ minorities and women, these populations would be adversely affected by the impacts of the lower maximum retail check cashing fee under the Proposed Regulation.

## **X. Caveats and limitations**

The analyses contained in this report were conducted using standard statistical and economic approaches using available data. Nevertheless, the reader should also be aware of the following model limitations and assumptions when interpreting the results:

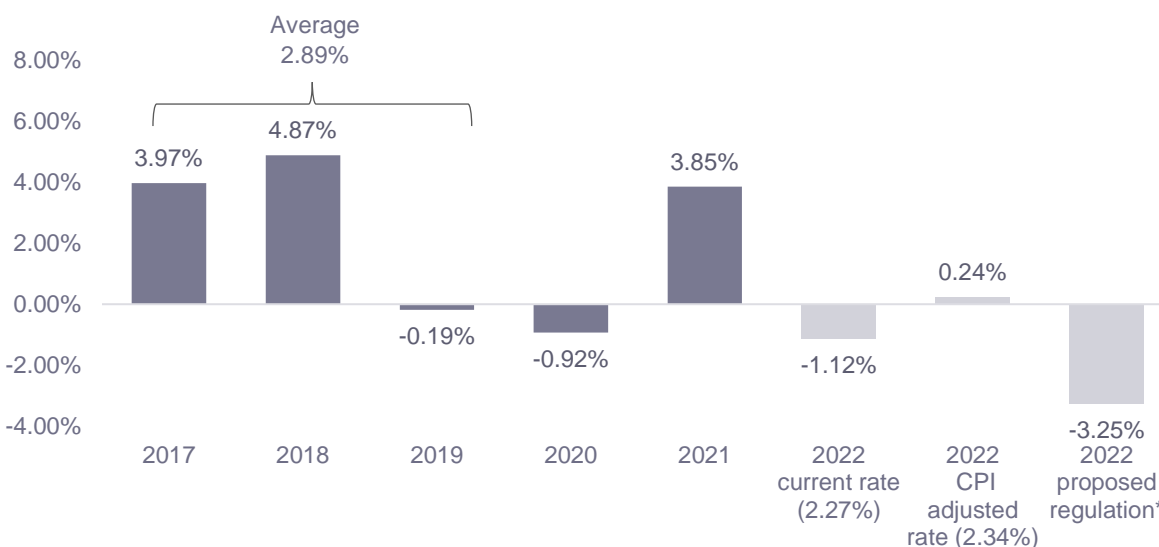
- Estimates of historical and future check cashing revenues are limited by available company data and by available public information. The analyses rely on information prepared by the NYDFS, companies, and other publicly available sources and were not independently verified.
- Industry-wide data provided by the NYDFS for check cashing volume and fees, including retail and commercial checks, was only available through 2020. Industry-wide trends for 2021 and 2022 were estimated using data from 18 companies.
- Individual company data was collected by EY from 18 companies, 17 of which remain active in 2022. EY assumes, based on the representation of historical retail check cashing revenues, that these companies can reasonably be used represent the overall check cashing industry.
- While data for 2017 through 2022 was collected from 18 companies, including information on revenues, expenses, check cashing volume, and labor data, some of the companies did not provide 2022 revenue and expense data, labor data, and/or check volume data. Where data not provided, EY imputed values using other companies' average trends.
- Data for 2022 was provided through the first half of the calendar year and scaled to the full year. Any unforeseen changes in second half of the year data, including check cashing center closures, could impact on the findings in the report.
- Information on New York check cashing centers closures was obtained through the NYDFS weekly bulletins (retrieved in July 2022). EY did not verify information related to these closures.
- Information on the location of open check cashing centers was developed by recording financial services centers located in New York according to Google Maps. Some centers may have been excluded as the 437 locations identified by EY is less than (93%) the NYDFS reported total of 472.

## Appendix A

### Estimated ROE with PPP grant reported as revenue

Information on check cashing companies' PPP loans was obtained through publicly available sources. EY communicated with these companies to verify the amount received through PPP loans and whether their loans were forgiven. In the analysis presented in the main body of the report, EY removed the PPP loan amounts since these loans have a significant impact on the 2020 and 2021 ROE for the companies who received them. The ROE with the PPP loans included in company revenue as reported to the NYDFS is displayed in Figure A-1.

**Figure A-1. Estimated ROE with PPP loan reported as revenue**



Note: \*The last scenario includes a blended check cashing fee for government and non-government checks as proposed by NYDFS regulation, which is estimated to be 2.15%.

Source: EY analysis.

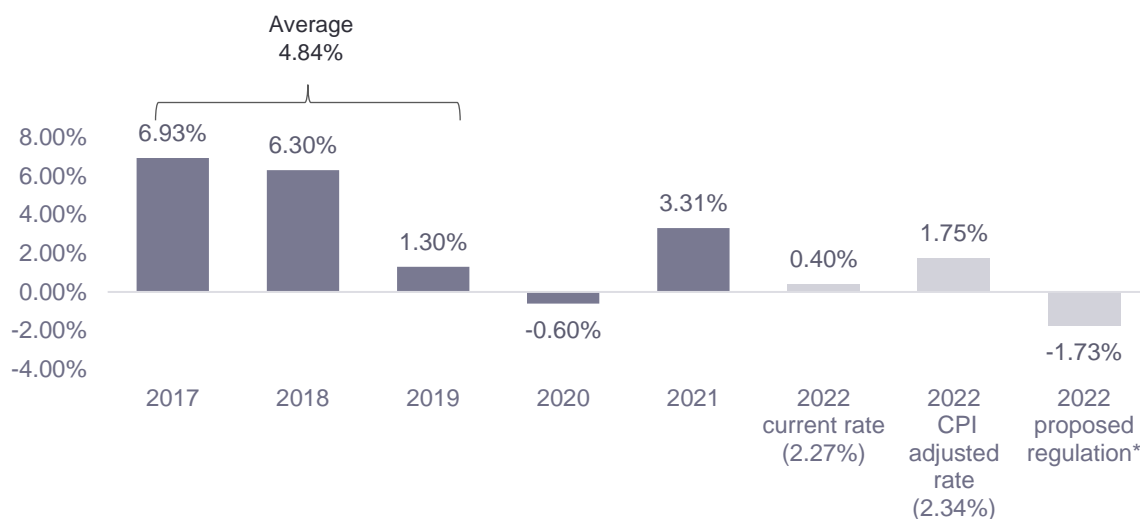
### Estimated ROE with reduced overhead costs

Six of the companies who provided details on their operations were identified as having overhead costs of note in 2019 (over 5% of their total expenses), which were allocated to their parent companies for expenses that are shared across centers. For large companies who were able to provide a disaggregation of these overhead costs, additional data were collected from the check cashing companies to identify the costs attributable to check cashing activities. The portion which EY was not able to attribute to check cashing center operations is reported as overhead costs in the expense analysis section (Section IV). EY also conducted a sensitivity analysis to consider the financial performance of the companies without including such un-allocable overhead costs as expenses, which is summarized in Figure A-2 below.

While the ROE is higher without overhead costs than the analysis presented in the main body of the report, a declining trend in ROE, as displayed in Figure A-2, indicates that the companies are

not able to maintain their historical return under the scenarios analyzed, even when the overhead costs are reduced in the model.

**Figure A-2. Estimated ROE under various check cashing fees, with adjusted overhead costs**



Note: \*The last scenario includes a blended check cashing fee for government and non-government checks as proposed by NYDFS regulation, which is estimated to be 2.15%.

Source: EY analysis.

**Table A-1. Check cashing fee to maintain various measures of a healthy rate of return, with reduced overhead costs**

Average 2017-2019	Return on equity	Operating expense ratio	Profit margin
Maintain NAICS 522390 performance	2.45%	2.79%	2.79%
Maintain historical performance	2.51%	2.53%	2.53%
<b>Average</b>	<b>2.48%</b>	<b>2.66%</b>	<b>2.66%</b>

Source: EY analysis.

### Estimated ROE under various check cashing rates with weighting of data to reflect nonresponse in data collection

EY collected additional and more detailed data from 2017 through 2022 from 18 check cashing companies. As displayed in Table A-2, in 2019, these data represented 56% of the total check cashing revenue. For commercial checks, the 18 companies represented 13% of total check cashing revenue. Overall, retail and commercial check cashing revenue for these companies represented 42% of total check cashing revenue.

EY conducted a sensitivity analysis to consider the potential for nonresponse bias to the reports estimates of the financial performance of the check cashing industry by scaling the data from the 18 companies to an industry total using weights displayed in Table A-2. This sensitivity analysis yields broadly similar results as presented in the main body of the report.

**Table A-2. Estimated weights used to scale the data collected from 18 companies to the industry total**

Check type	18 companies total (A)		Industry total (B)		18 companies share of industry total (=A/B)	Weight (=B/A)
	2019	Share	2019	Share		
Retail	\$77.8	90%	\$138.3	66%	56%	1.78
Commercial	\$9.0	10%	\$69.8	34%	13%	7.73
<b>Total</b>	<b>\$86.8</b>	<b>100%</b>	<b>\$208.1</b>	<b>100%</b>	<b>42%</b>	<b>2.40</b>

Source: EY Analysis.

The weights are developed using the share of retail and commercial checks in 2019 based on the data collected from the 18 companies to the industry totals for 2019 based on the industry data from the NYDFS. The calculated weights are 1.78 for retail checks, 7.73 for commercial checks, and 2.53 for other revenue. In the absence of detailed data on other revenue and expenses, this analysis applies the overall weight of 2.4 for these items.

The resulting weighted data on revenues, expenses, and equity, are displayed in Tables A-3, A-4, and A-5, respectively.

**Table A-3. Weighted check cashing industry revenue**

	2017	2018	2019	2020	2021	2022	% change 2017-2022
<b>Retail checks</b>							
Revenue (\$m)	146.4	142.2	138.3	109.3	102.5	95.6	-35%
Share (%)	43%	40%	39%	37%	35%	34%	
<b>Commercial checks</b>							
Revenue (\$m)	60.0	64.8	69.8	48.8	55.3	60.2	0.3%
Share (%)	18%	18%	20%	16%	19%	21%	
<b>Other</b>							
Revenue (\$m)	135.4	146.1	144.9	139.7	131.9	127.1	-6%
Share (%)	40%	41%	41%	47%	46%	45%	
<b>Total</b>							
Revenue (\$m)	<b>342</b>	<b>353</b>	<b>353</b>	<b>298</b>	<b>290</b>	<b>283</b>	-17%
Share (%)	100%	100%	100%	100%	100%	100%	

Source: EY Analysis.

**Table A-4. Weighted check cashing industry expenses**

	2017	2018	2019	2020	2021	2022*	% change 2017-2022
<b>Salary</b>							
Expense (\$m)	138.0	145.2	151.8	122.8	111.8	122.4	-11%
Share (%)	41.5%	42.9%	42.9%	40.2%	39.4%	42.7%	
<b>Management fees</b>							
Expense (\$m)	12.6	6.2	5.6	4.8	4.7	5.1	-59%
Share (%)	3.8%	1.8%	1.6%	1.6%	1.7%	1.8%	
<b>Money order and bank charges</b>							
Expense (\$m)	9.5	9.9	10.1	8.3	9.2	7.1	-26%
Share (%)	2.9%	2.9%	2.9%	2.7%	3.2%	2.5%	
<b>Rent</b>							
Expense (\$m)	52.8	53.3	54.5	51.0	52.4	64.4	22%
Share (%)	15.9%	15.8%	15.4%	16.7%	18.5%	22.5%	
<b>Other</b>							
Expense (\$m)	119.5	123.7	131.6	118.6	105.7	87.7	-27%
Share (%)	35.9%	36.6%	37.2%	38.8%	37.2%	30.6%	
<b>Total</b>							
Expense (\$m)	<b>333</b>	<b>338</b>	<b>354</b>	<b>306</b>	<b>284</b>	<b>287</b>	-14%
Share (%)	100%	100%	100%	100%	100%	100%	

Source: EY Analysis.

**Table A-5. Weighted check cashing industry equity**

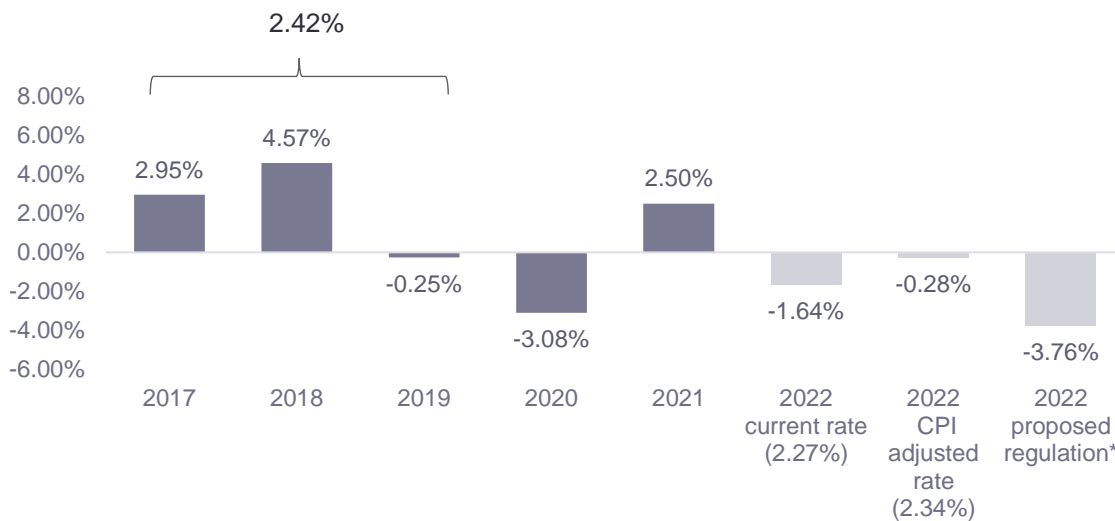
	2017	2018	2019	2020	2021	2022
18 companies total (\$m)	178.1	181.6	158.1	140.0	131.2	131.2
Estimated industry total, weighted	316.6	322.8	281.0	248.8	233.2	233.2

Note: Equity of the 18 companies for which data is collected is weighted by 1.74, the retail check cashing weight, to derive the industry level total.

Source: EY Analysis.

The ROE based on the weighted data is displayed in Figure A-3.

**Figure A-3 Estimated return on equity under various check cashing fees, weighted for the entire check cashing industry**



Note: \*The last scenario includes a blended check cashing fee for government and non-government checks as proposed by NYDFS regulation, which is estimated to be 2.15%.  
Source: EY analysis.

This analysis finds that a maximum check cashing fee of 2.56% is required for the industry to preserve its historical ROE (2.42%). To allow the check cashing industry to match the related industry benchmark ROE for the Northeast region (3.7%), a maximum check cashing fee of 2.49% is required. These results are broadly similar to the results presented in the body of the report.

**Table A-7. Retail check cashing fee needed to match industry benchmark or historical performance**

Average 2017-2019	Return on equity	Operating expense ratio	Profit margin
Maintain NAICS 522390 performance	2.56%	3.15%	3.15%
Maintain historical performance	2.49%	2.51%	2.51%
<b>Average</b>	<b>2.52%</b>	<b>2.83%</b>	<b>2.83%</b>

Source: EY analysis.

## Endnotes

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<sup>1</sup> Statement of the Reasons for the Emergency Measure Amendment to Section 400.11 of the Superintendent's Regulations of 3 NYCRR

[https://www.dfs.ny.gov/system/files/documents/2022/08/re\\_bank\\_amend\\_3nycrr400\\_11\\_text\\_20220810.pdf](https://www.dfs.ny.gov/system/files/documents/2022/08/re_bank_amend_3nycrr400_11_text_20220810.pdf)

<sup>2</sup> NYDFS Proposed Amendment to Banking Regulation 3 (NYCRR 400.11).

[https://www.dfs.ny.gov/system/files/documents/2022/05/rp\\_3nycrr400-11\\_text\\_20220615\\_0.pdf](https://www.dfs.ny.gov/system/files/documents/2022/05/rp_3nycrr400-11_text_20220615_0.pdf)

<sup>3</sup> The ROE is calculated as the ratio of pre-tax net income (total revenue less total expenses) to shareholder equity. ROE is a measure of a company's profitability or rate of return. A higher ROE indicates a higher profit or return per dollar of shareholder investment.

<sup>4</sup> Data were made available by NYDFS through 2020, however pre-pandemic trends only include industry data through 2019.

<sup>5</sup> Region for ECI defined as New York-Newark, NY-NJ-CT-PA CSA. Region for CPI defined as New York-Newark-Jersey City, NY-NJ-PA. <https://beta.bls.gov/dataViewer/view/timeseries/CIU20200000000LIA>; [Consumer Price Index, New York-Newark-Jersey City — July 2022 : New York–New Jersey Information Office : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/news.release/archives/cpiu0122a.pdf)

<sup>6</sup> Related occupation is defined as "Tellers" (SOC: 43-3071).

<sup>7</sup> Inflation-adjusted check cashing rate, increased by a change in CPI (3.32%/year) based on the year-to-date data from BLS for CPI for All Urban Consumers (CPI-U) New York-Newark-Jersey City, NY-NJ-PA.

<https://www.bls.gov/regions/new-york-new-jersey/data/xg-tables/ro2xg01.htm>

<sup>8</sup> The check cashing fee is equal to 2.27% of check value or \$1, whichever is greater.

[https://www.dfs.ny.gov/system/files/documents/2022/08/re\\_bank\\_amend\\_3nycrr400\\_11\\_text\\_20220810.pdf](https://www.dfs.ny.gov/system/files/documents/2022/08/re_bank_amend_3nycrr400_11_text_20220810.pdf)

<sup>9</sup> NYDFS Proposed Amendment to Banking Regulation 3 (NYCRR 400.11).

[https://www.dfs.ny.gov/system/files/documents/2022/05/rp\\_3nycrr400-11\\_text\\_20220615\\_0.pdf](https://www.dfs.ny.gov/system/files/documents/2022/05/rp_3nycrr400-11_text_20220615_0.pdf)

<sup>10</sup> To isolate the impacts of the COVID pandemic and COVID-related relief (e.g., stimulus checks and PPP loans), information on stimulus related checks and whether companies received (and forgiven) a PPP loan and the loan amount was collected by EY. These data were used to separately account for their one-time impact on check cashing company operations.

<sup>11</sup> For example, in 2017, six companies were identified as having overhead costs of note that were allocated to parent companies for expenses that are shared across stores.

<sup>12</sup> Three check cashing companies were unable to provide complete 2022 data for revenue and expenses. For these three companies, industry average or 2021 data (where applicable) was instead used in lieu of the missing current year data as to not imply any unknown trends for 2022 for an individual company.

<sup>13</sup> Data were made available by NYDFS through 2020, however, to demonstrate pre-pandemic trends, the data in this section focuses on data through 2019.

<sup>14</sup> Data provided in July on NYDFS Bulletin closures of check cashing locations covered closures through May 2022.

[https://www.dfs.ny.gov/reports\\_and\\_publications/weekly\\_bulletins\\_2022](https://www.dfs.ny.gov/reports_and_publications/weekly_bulletins_2022)

<sup>15</sup> The 2016-2021 average difference assumes a maximum fee of 2.19% for all of 2019. This fee was increased from 2.11% to 2.19% in December 2019. If the 2.11% were assumed for the entire year, the average difference would be further lowered to 0.07% across these years.

<sup>16</sup> Based on EY interviews of check cashing companies, the gap between the average and maximum fee is due to the many employees who cash their paychecks at the centers free of charge. Additionally, employees can cash all non-payroll checks at a reduced fee associated with friends and family discounts. Thus, the average fee is skewed downward due to these employee benefits.

<sup>17</sup> A sensitivity analysis was performed to test the financial performance of the companies without the un-allocable overhead costs included as expenses. Details on this analysis are provided in the appendix and show a declining rate of return even with the removal of these overhead costs.

<sup>18</sup> A similar benchmark was not available for New York City or New York State.

<sup>19</sup> Ratio of total expenses to total revenue

<sup>20</sup> Ratio of pre-tax net income to total revenue

<sup>21</sup> Risk Management Association (RMA) was previously called Robert Morris benchmarking survey. <https://www.rmahq.org/?gmssopc=1>.

<sup>22</sup> Information on individual companies' PPP loans was obtained through communication with companies who received PPP loans and who later verified the amount received and forgiven.

<sup>23</sup> The PPP amounts were removed from the companies' financials before estimating these ratios, but the stimulus checks are left in. This was done to make the ratios comparable across years by letting them vary based on the growth and decline of retail check volume. However, a sensitivity analysis was conducted, leaving the PPP in the financials as reported to the NYDFS. The ROE results from the sensitivity analysis are presented in the appendix.

<sup>24</sup> NYDFS Amendment to NYCRR 400.11.



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[https://www.dfs.ny.gov/system/files/documents/2022/05/rp\\_3nycrr400-11\\_text\\_20220615\\_0.pdf](https://www.dfs.ny.gov/system/files/documents/2022/05/rp_3nycrr400-11_text_20220615_0.pdf)

<sup>25</sup> CPI data is for the New York-Northern New Jersey-Long Island, NY-NJ-CT-PA region and ECI data is for the New York-Northern New Jersey-Long Island, NY-NJ-CT-PA region both from the Bureau of Labor Statistics (BLS). ECI represents the cost level of wages and benefits in the region.

<sup>26</sup> Related occupation is defined as "Tellers" (SOC: 43-3071).

<sup>27</sup> The interviews of check cashing companies indicated that they perceive their main competition for workers to be with leisure and hospitality-related business.

<sup>28</sup> Inflation-adjusted check cashing fee, increased by a change in CPI (3.32%/yr) based on the year-to-date data from BLS for CPI for All Urban Consumers (CPI-U) New York-Newark-Jersey City, NY-NJ-PA.

<https://www.bls.gov/regions/new-york-new-jersey/data/xg-tables/ro2xg01.htm>

<sup>29</sup> The last scenario includes a blended check cashing fee for government and non-government as proposed by NYDFS regulation. The blended fee of 2.15% is calculated by using the 2.20% government rate and the 1.50% nongovernment rate by their respective share of total check volume (i.e., 6.5% for government checks and 93.5% for nongovernment checks).

<sup>30</sup> In the last two scenarios, EY retroactively estimated the check cashing fees for the first half of 2022 using the corresponding check cashing fees, i.e., 2.34% and a blended check cashing fee of 2.15%. The weighted 2.15% is calculated by using the 2.20% government rate and the 1.50% nongovernment rate by their respective share of total check volume (i.e., 6.5% for government checks and 93.5% for nongovernment checks).

<sup>31</sup> Rate of return does vary between companies that have management fees of note. Please refer to appendix for a sensitivity analysis.

<sup>32</sup> EY, "Analysis of the Licensed New York Check Cashing Industry's Revenue and Expenditures," Prepared for the Financial Services Centers of New York, September 29, 2017.

<sup>33</sup> Federal Deposit Insurance Corporation, 2017 FDIC National Survey of Unbanked and Underbanked Households. <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>

<sup>34</sup> Morning Consult, <https://morningconsult.com/2021/08/17/unbanked-underbanked-demographic-profile/>