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NEW JERSEY

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April 6, 1999

Donald V. Hammond
Fiscal Assistant Secretary
Office of the Fiscal Assistant Secretary
Us Department of Treasury, Room 2112
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Hammond:

I am writing on behalf of New Jersey Citizen Action (NJCA), the state's largest citizen watchdog organization. In addition to our 60,000 individual family members, NJCA has 80 affiliate organizations, including senior citizen, religious, community, women's, and tenants' organizations and labor unions. NJCA is effective in addressing vital issues that affect all citizens, including fair lending and housing. In that capacity, NJCA has mobilized community groups and local activists to negotiate Community Reinvestment Act (CRA) agreements with 27 banks in New Jersey, with almost all of the largest and some of the smallest banks in the state. Our CRA Agreements total more than $8.6 billion in commitments for below market rate mortgages, discounted home improvement loans, construction and permanent financing for non-profit affordable housing developers and small business loans for women and minority owned businesses.

Since January of this year we have been conducting Financial Education Workshops around the state, currently targeting senior citizens, informing them of their choices under EFT'99 and educating them about how to choose a bank and a bank account. We believe that EFT has the potential to benefit low and moderate income "unbanked" individuals if they can be encouraged to establish accounts with banks or thrifts which could afford them the opportunity to build equity and eventually gain them access to capital. Banks can offer people these opportunities; check-cashers, pawn-shops, and other non-federally insured institutions can not.

Regarding your specific issues for comment:

- Treasury <u>should prohibit</u> *arrangements between financial institutions and payment service providers in which electronic federal payments are deposited into a recipient's non-ETA account at a financial institution but made available to the recipient through a payment service provider*. Such arrangements could only push senior citizens as well as inner city low- and moderate-income people further away from mainstream financial institutions. At a time when emphasis is being placed on asset-building strategies, such as IDAs and other matching funds programs, allowing funds

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Main Office
400 Main Street
Hackensack, New Jersey 07601
(201) 488-2804
Fax: (201) 488-1253

Central Jersey
86 Raritan Avenue, Suite 100
Highland Park, New Jersey 08904
(732) 246-4772
Fax: (732) 214-8385

South Jersey
556 Haddon Avenue
Collingswood, New Jersey 08108
(609) 869-0007
Fax: (609) 869-0111

Shore Office
707 Arnold Avenue, Suite E
Point Pleasant Beach, New Jersey 08742
(732) 714-5330
Fax: (732) 714-6385

to be siphoned off to non-depository businesses would be counterproductive.

- At *best*, such arrangements would deny recipients access to accounts at a reasonable cost. If Treasury permits fringe banker participation in EFT, even more low- and moderate-income members of the unbanked population will be subject to usurious rates and fees of check cashers and pay day lenders that range from 50 to 500% annually. The Treasury Department, in its request for comments, documents that existing arrangements between banks and third party payment providers include a $4 enrollment fee, a $5.50 monthly maintenance fee, and a $1 fee for each withdrawal or balance inquiry. This is more than three times the monthly fee of $3.00 proposed by Treasury for the basic ETA account to be offered by banks and thrifts, and more than the required NJ Consumer Checking Account. Organizations like New Jersey Citizen Action are committed to Financial Literacy programs that encourage people to save, teach people to evaluate their choices and scrutinize the costs of various banking options. These are programs that are strongly supported by the Department of the Treasury and the banking industry. Would it not be counterproductive for Treasury to support bank affiliations with businesses that discourage savings and record-keeping and that cost more than a bank's NJ Consumer Checking Account or an ETA? At worst, these arrangements would eventually result in denying recipients an account at a financial institution, or denying access to such an account as these arrangements would make it even easier for banks to rationalize closing branches and raising ATM fees.

Fringe bankers do not need the federal government's help in grabbing market share in minority and working class communities. Several studies have documented that check cashers already dominate in minority neighborhoods and in some cases outnumber banks by ratios higher than 10 to 1 in lower income, minority communities. Considering this, the Treasury Department should be employing every policy tool at its disposal to reverse the higher market presence of check cashing outlets. If Treasury provides non-federally insured institutions with access to a captive market of millions of unbanked recipients of federal benefits and wages, the market penetration of check cashers in underserved neighborhoods will truly dwarf that of banks and thrifts. In contrast, if Treasury restricts EFT to federally-insured institutions, and otherwise prohibits affiliation between banks and non-depository "payment service providers", banks and thrifts can begin to regain market share in traditionally underserved areas. Unquestionably, this can only be achieved if banks and thrifts do their part in being both accessible and affordable to residents of these neighborhoods. In a sense, allowing banks to establish relationships with check cashers in underserved areas takes away some of their responsibility to serve all the communities from which they draw their deposits, by allowing them to pass their service responsibility on to less secure, unregulated and high-priced businesses. This is contrary to the spirit, if not the letter, of the Community Reinvestment Act, and would certainly encourage a form of "service redlining." It is hard to believe that any bank would affiliate with a check-cashing service in a gourmet supermarket in a wealthy neighborhood and thus deprive itself of potential upper-income customers. In those areas, banks actually *open branches* in the supermarkets. The proposed affiliations would probably only occur in inner-city or rural areas where banks either no longer have, or never did have a branch.

Of the three scenarios described in the ANPRM, the first requires that the recipient withdraw the full amount of the federal payment. In addition to promoting unsafe money handling, this

arrangement will add the cost of any money orders to pay bills to the initial $1.60 and the cost of withdrawing that first full amount by check. With a NJ Consumer Checking Account, the monthly fee is $3.00 (only $1.40 more than the initial fee for scenario #1), the recipient gets 8 check withdrawals at no additional cost, and unlimited slip withdrawals. The account is less expensive, safer, and the recipient has control over his own funds. In the second scenario, the individual recipient's money is not federally insured. In addition, the stated fees are all higher than those paid for a NJ Consumer Checking Account. As for the third scenario, there is no control of the program fees, and the language of the proposal sounds as if the program is designed specifically to keep people away from the "financial institution's offices." Again, this smacks of "service redlining," something that NJ Citizen Action could never condone.

New Jersey Citizen Action agrees with the National Community Reinvestment Coalition that if the Treasury Department wishes to support the reinvestment stimulated by CRA and the fair lending laws, it needs to prohibit non-federally insured institutions from participating in the EFT system. Moreover, in New Jersey, where every bank is required by law to offer a low cost New Jersey Consumer Checking Account, allowing Federal payments to be siphoned off into unregulated and expensive "payment service providers" would be counterproductive and would undermine our efforts to have financial institutions serve the communities from which they draw their deposits.

Yours truly,

Cathy Malmstrom

Cathy Malmstrom
CRA Organizer