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## Check Cashers, Redeemed

By DOUGLAS McGRAY

The lobby of the Nix Check Cashing outlet on South Figueroa and West Imperial, in the Watts neighborhood of south Los Angeles, was bright and loose. Twenty or so people, black and Latino, dressed in jeans and T-shirts or sport jerseys or work uniforms, stood in a line that snaked back from a long row of bulletproof cashiers' windows all the way to the front door. The room was loud, in a friendly way; everyone seemed to be talking with everyone else. Every once in a while, all together, the line would erupt into raucous laughter.

"Next customer," said a cashier, Joseph, a young black guy with a sweet, quiet manner. He wore black sneakers, black Dickies and a white polo shirt with a Nix logo — a retail uniform.

The customer at the window next to Joseph's looked over her shoulder. "Sister!" she yelled. "Next in line!"

It didn't feel like a bank.

Twenty or thirty years ago, traditional financial institutions fled neighborhoods like Watts, and guys like Tom Nix, co-founder of the biggest chain of check cashers and payday lenders in Southern California, rushed into the vacuum. They built a whole new financial subculture, which now includes regional giants like Nix, national brands like Ace Cash Express, Advance America and Check 'n Go and thousands of local chains and anonymous corner stores — more outlets, in total, than all the [McDonald's](#) restaurants in the United States plus all the [Starbucks](#) coffee shops. Inside, it's like banking turned upside down. Poor customers are commodities, deposits are irrelevant, bad credit makes for a good loan candidate and recessions can be boom times. Add up all those small transactions and throw in businesses like pawnshops and auto-title lenders, and you've got a big industry — \$100 billion annually and growing. Nix alone pulled in \$28 million in fees last year.

"Next customer," Joseph said. A guy slid his paycheck and a Nix ID card under the window. Joseph stamped the check, placed it under a gunmetal contraption called a photoscope, next to the ID card, and pulled a lever, thunk, which snapped a picture of the man, his ID and his check on a single negative. Then he counted out 20s. "Do you want to pay any bills today?" Joseph asked. "You get five free money orders with that."

There are two big problems with businesses like Nix Check Cashing. One is that the fees are high. Most cashers pocket between 2 and 4 percent of each check's value, which a recent [Brookings Institution](#) study calculated could add up to \$40,000 in fees over a customer's working life. And their version of credit, a two- or four-week cash advance against a postdated check, known as a payday loan, is even pricier — about 30 times the annualized interest rate of a typical credit card.

The second problem is that cashing your paycheck, instead of depositing it, encourages you to spend all your money rather than saving whatever is left over at the end of the month. (Down the counter, a pair of young black women in tight, bright tops looked around a bit nervously as a cashier counted out thousands in small bills. “It’s tax-refund time,” the cashier told me as the women walked out.)

But it’s also true that traditional banks are far from blameless, especially where low-income customers are concerned, and check cashers and payday lenders do get some important things right. “If they’re properly regulated and scrutinized, there’s nothing wrong with check cashing as a concept and there’s nothing wrong with payday loans as a concept,” Robert L. Gnaizda, general counsel for the Greenlining Institute, a California nonprofit focused on financial services and civil rights, told me. “And there’s nothing automatically good about free checking accounts if you have multiple fees whenever you make the most minor mistake.”

Today’s financial crisis has many origins. But here’s one cause that is often overlooked: Traditional bankers badly misread the market for financial services in low-to-moderate-income communities. “Banks have been approaching these customers purely from a short-term-gain perspective, and they’ve missed opportunities,” Matt Fellowes, director of the Pew Safe Banking Opportunities Project, told me. Banks declined to offer small, simple lines of credit to poor and blue-collar customers, leaving them to payday lenders, while they pushed high-limit, high-interest credit cards on everyone and acquired hundreds of billions in subprime debt. They undervalued the hundreds of billions a year in modest paychecks that pass through a place like Nix and ended up short on cash. Now that the economy has turned ugly, these poor and blue-collar customers are the hardest-squeezed. Payday loans are up, Nix told me when I spoke to him recently, and check-cashing revenue is down.

Legislators around the country have identified savings as a way to shore up low-income communities and expand the middle class. There are a few significant bills before Congress, and more at the state level, that would help poor and working-class families save money — like increasing the amount welfare recipients are allowed to sock away before the system cuts off their benefits. But some 28 million Americans still go without a bank account, including more than 20 percent of Latino and African-American households, and more than 50 million have no credit score, which means no access to mainstream credit. These are the people in line at Nix.

A number of city and state governments have announced moratoriums on new check-cashing stores or set a ceiling on their fees. Fifteen states, including New York, have either outlawed payday lending or capped interest rates low enough to make it a money loser. And in 2006, Congress effectively banned payday loans to military personnel anywhere in the country. At the same time, lawmakers have tried to nudge banks toward low-income customers. By the end of the year, in the biggest effort yet, Gov. [Arnold Schwarzenegger](#) of California plans to announce the rollout of an initiative called Bank on California — a concept piloted in 2006 in San Francisco, where the mayor’s office persuaded banks to relax their standards, and in some cases their fees, for new account holders in exchange for a free marketing push from the city in poor neighborhoods. Officials from several other states, interested in copying the idea, will visit California for the kickoff, and more than three dozen cities, including Seattle, Los Angeles and Savannah, Ga., are already drawing up their own versions.

But while regulation has curbed some of the worst excesses of the alternative financial-services industry and made mainstream banking more accessible, there remains a big gap between those worlds. As C. K. Prahalad, the

economist and author of “The Fortune at the Bottom of the Pyramid,” told me, “We don’t think enough about how to migrate from one to the other in a sensible way.” Check cashers and payday lenders want to keep their customers, and banks tend to be ambivalent about luring them away or unsure how to do it.

Tom Nix’s life, and his work, is the story of how we got here, to a separate and mostly unequal financial industry for the poor. But it may also be the story of a new way out. Last fall, Nix sold his entire chain for \$45 million to one of the country’s largest credit unions, Kinecta, which turned around and gave him an unlikely assignment: Put a credit-union window in every Nix store and help Kinecta take mainstream banking services to some of L.A.’s poorest neighborhoods — by thinking less like a bank and more like a check casher.

“They’re absolutely blazing a new path,” says Jennifer Tescher, director of the Center for Financial Services Innovation, a nonprofit research group affiliated with Chicago’s Shore Bank. “They bought the chain wholesale and then kept Tom Nix as an executive, which in many ways is very smart.” A few banks and credit unions have tried retail check-cashing start-ups, or arm’s-length partnerships with existing check cashers, but they’ve come at the industry as outsiders. Bankers were always in charge. Or they operated on a comparatively small scale. Nix Check Cashing carries a million customers in its database.

“I’ve always wanted to vilify check cashers,” says Elwood Hopkins, a consultant working with the L.A. mayor’s office on the city’s version of a Bank on California scheme. “And this is in no way a defense of the fees. But I think financial institutions have a lot to learn from them.”

Tom Nix is tall and trim with short gray hair, narrow-set eyes and faintly ruddy skin. He has a 40-foot boat he likes to sail off Catalina Island, and the sticker on the bumper of his new Lexus says that that’s what he’d rather be doing. He wears a conservative suit, a banker’s suit, even for ambling around Compton and Watts, which he does like a small-town mayor, greeting everyone who passes by. “How you doing?” he said, nodding, as we passed a young black guy in a baggy Sixers jersey that hung down to his knees. Nix is white; most of his customers are not.

Nix got into check cashing by accident. His dad, Tom Nix Sr., managed a fleet of drivers who delivered bread door to door, the way the milkman delivered milk. By the 1960s, delivery was a dying business, but at the warehouse in south L.A. where Nix’s drivers loaded their trucks, locals, mostly poor, mostly black, would come around to buy day-old bread. So Nix’s father started selling groceries out of the warehouse.

Nix took me to see the old store. Now it’s called Pancho Grande. A mural of the Virgin Mary, in bright hues, stands taller than the door. The neighborhood, once almost entirely black, is now mostly Latino, Nix explained, a shift that happened across south L.A. as immigrants came up from Mexico and black families left for the inland suburbs. When the Nix store was here, mom-and-pop grocery stores and liquor places usually cashed checks free. But between bad checks and bounced checks, shopkeepers in the neighborhood lost money, even though they would turn away people who looked risky — whatever risky looked like to them. So in the early 1970s, Nix Jr., who had become his father’s partner, made a photo ID for their customers and ordered his first photocopier, then an arcane new security tool. Soon Nix was cashing checks for anyone who walked in, doing it fast and cutting the family’s losses. “People lined up down these stairs,” he said, pointing to the store’s office at the back. “All the way

down the center aisle and out to the sidewalk.”

For most of the 20th century, banking was a protected business. If you wanted to open a new bank, you had to go before a board of regulators and prove you wouldn't provide competition that would threaten an existing bank in the neighborhood. In exchange for a captive market, banks had to abide by strict rules. But in the mid 1970s, regulators started to allow more competition. Banks had to pay closer attention to their profits and their losses. Suddenly, Nix's local bank began charging him a fee to deposit checks into his commercial account. Nix realized he either had to stop cashing checks for people or start charging them for the service.

“We charged a dime at first,” Nix recalled. “People got mad, they left, but in a couple months, business returned. Then we charged 35 cents. Same thing happened. Then we started to charge 1 percent. We began to realize this might be a business.”

In 1978, Nix leased an old gas station in Watts and built it into what looked like a tiny, stripped-down bank. He called it Nix Check Cashing. A year later, he was cashing a million dollars in checks each week. Then in 1980, Congress began to deregulate the banking industry. Branches sprouted in rich neighborhoods, where they battled one another for the wealthiest depositors, and they shut down in poor and working-class neighborhoods. Where they remained, they introduced new fees for customers who kept little in their accounts for the bank to invest. Around the country, the check-cashing business boomed. Nix opened new stores as fast as he could raise capital. Any place the banks neglected, that was the real estate he wanted. By the end of the 1980s, Nix had grown big enough to get name-checked by the [Beastie Boys](#): “I'm charming and dashing/I'm rental-car bashing/Phony-paper passing/At Nix Check Cashing.”

“That's name recognition!” Nix told me with a smile.

Times have changed, somewhat. Today more than 90 percent of check cashers and payday lenders sit within a mile of a bank, according to a recent Brookings Institution report. It's no longer primarily geography, in other words, that is keeping banks and poor customers apart. “Banks aren't shying away from low- and moderate-income neighborhoods,” says Fellowes, the report's author. But, he added, “they're not going after the opportunity in an informed-enough manner to be very successful.”

The first thing you notice when you walk in the door at Nix is a list of products, services and prices, a bit like a fast-food menu. Some of the prices are quite high, but the charges are neither confusing nor deceptive. “They're going to charge you \$13, is that O.K.?” a cashier — young, Latina, long blond hair, long pink nails — asked as a bulky, middle-aged guy handed over a stack of cash to send via Moneygram.

Even the payday loans are transparent. “Your max is \$150, so make it out for \$172.50,” the cashier Joseph told a stocky black woman in a baseball cap, standing at the counter with an open checkbook. (Unlike check-cashing customers, payday borrowers are by necessity bank customers — they have to write a postdated check to get a loan.) The woman was paying a lot — \$22.50 to borrow \$150 for just two weeks. But there were no surprises, no hidden fees.

Compare that with what a lot of banks do. [Bank of America](#) took heat earlier this year for more than doubling the interest rate on some credit-card accounts, even if the cardholder pays every bill on time. Banks, meanwhile, have nearly quadrupled their fee income in the last decade, according to the F.D.I.C., while credit-card late charges and over-limit charges have nearly tripled. Fees imposed on customers for temporarily overdrawing their accounts — by accident or on purpose — have been particularly lucrative; banks made \$25.3 billion in 2006 on overdraft-related fees, up 48 percent in two years, according to the Center for Responsible Lending. On the Web site of Strunk and Associates, a big seller of overdraft programs, bank and credit-union executives offer glowing testimonials. “Strunk’s program has exceeded expectations,” one writes. “We have generated a 100 percent increase in overdraft revenue.”

Some customers choose Nix over a bank because it is cheaper than paying overdraft fees. For others, it’s convenient. Some go to Nix because check cashing is what they know. Others go because they live in communities where nobody takes a check or a card, not even the landlord, and cash machines are scarce. Still others go because they always seem to have a Final Notice in the bill stack, and they can’t wait a week or longer for a paycheck to clear — that includes a lot of people with a bank account somewhere.

But there are less-obvious factors too. Nix hires from the neighborhood and pays well enough that cashiers stick around. Word spreads, and in Watts or Highland Park or Pacoima, that reputation often carries more weight than some bank ad on a bus stop. “It’s social marketing 101,” says Hopkins, the consultant.

I frequently saw cashiers address customers by name and ask about family or friends in common. One customer asked if the manager could come over, then broke the news that her husband had passed away. “What happened?” the manager gasped. Then, shaking her head: “He always came in with his pennies.” And Nix dresses up branches less formally than banks do — no suits, no office furniture, no carpeting — so a construction worker can show up straight from his shift, in dirty clothes, and, Nix says, not feel out of place.

Nix’s cashiers also try to never say no. Take photo identification. A lot of customers don’t have a driver’s license. Nix stores have accepted high-school yearbooks. They’ve been known to cash a McDonald’s paycheck if someone comes in wearing a McDonald’s uniform. They even have a phone in the lobby, so a cashier can call a customer’s job site and then patch the customer in, listen to him talk to his supervisor and decide if they sound like a legitimate boss and employee. Nix says he loses as much as 5 percent of his check-cashing revenue on bad checks, but it’s worth it, he says, to be known as a place that says yes.

I met Oscar Enriquez leaving the Nix branch in Highland Park, a working-class area near Pasadena. He was skinny and just shy of middle age, with a quick grin and tattoos down his sunburned forearms. Enriquez worked in the neighborhood as a street cleaner; he picks up trash and scrubs graffiti. The job paid about \$425 a week, he told me, a good chunk of which he wired to his wife, who has been living in Mississippi and taking care of her ailing mother. He told me he tries to avoid debt whenever he can. “If I don’t have money, I wait until the next payday,” he said firmly. “That’s it.” But he pays a fee to cash his paychecks. Then he pays even more to send a Moneygram to his wife. There’s a bank, just down the street, that could do those things free. I asked him why he didn’t take his business there.

“Oh, man, I won’t work with them no more,” Enriquez explained. “They’re not truthful.”

Two years ago, Enriquez opened his first bank account. “I said I wanted to start a savings account,” he said. He thought the account was free, until he got his first statement. “They were charging me for checks!” he said, still upset about it. “I didn’t want checks. They’re always charging you fees. For a while, I didn’t use the bank at all, they charged like \$100 in fees.” Even studying his monthly statements, he couldn’t always figure out why they charged what they charged. Nix is almost certainly more expensive, but it’s also more predictable and transparent, and that was a big deal to Enriquez.

Marlo Lopez had no broad gripe with banks, but his experience was similar. He moved to the United States from Peru a couple of years ago (with a visa) and got a job as a mechanic at a food-processing plant. Lopez opened his first bank account last summer. A couple of months later, out for dinner, he overdrew his account by 18 cents and got hit with a \$35 penalty. It was his fault, he said; he thought he had more in the account than he did. Still, losing that money all at once unsettled him. He kept the account but returned to cashing his checks at Nix.

In the spring of 2007, Nix was working hard to unload his business. He had actually been trying to sell his chain to a bank for more than a decade, and now he was running out of time. He was about to turn 60, and he thought he owed his family (and his investors) an exit. Nix wanted to sell high to a responsible bank, retire well and be a hero, the guy who took real banking to L.A.’s poorest neighborhoods. But the most likely buyer was another check-cashing chain. Nix was prepared to do the deal, but it was not how he dreamed of going out.

Then Kinecta Federal Credit Union called with its offer. “We were trying to understand why check cashers have been successful in underserved areas where banks haven’t,” Kinecta’s president and C.E.O., Simone Lagomarsino, told me. What they concluded was that most banks simply didn’t know low-income neighborhoods or understand them. “We go in with this cookie-cutter approach: This is our branch, this is our way we do business,” she says.

As Nix and Lagomarsino negotiated the sale, he encouraged her to make it easier for his customers to open a bank account. At most banks, if you’ve bounced too many checks, you’re banned for five to seven years. Lagomarsino agreed to reduce that limbo period to one year. Next she realized she would need to deal with the most controversial part of Nix’s business, the payday loans. At first, she told me, “I assumed we wouldn’t do them.” Nix actually felt the same way, once. In the late 1980s, when a few check cashers started to accept postdated personal checks and advance cash for a fee, Nix thought it was a sleazy scheme. He thought so even after California legalized the practice in 1997. “I didn’t want to be a loan shark,” he told me. “But the reality is, customers wanted it.”

He told Lagomarsino why. A bounced check, a fee to reconnect a utility, a late-payment fee on your credit card, or an underground loan, any of those things can cost more than a payday loan. And then there are overdraft charges. “Banks, credit unions, we’ve been doing payday loans, we just call it something different,” Lagomarsino says. “When it starts to get used like a payday loan, it’s worse.”

The payday borrowers I met at Nix were a complex group. There was Johnny Bravo, an ex-marine, now a harried

delivery driver. ("I'm not even supposed to be here," he said, rushing back to his truck with a fold of bills.) He told me he gets a payday loan every other Friday, pretty much without fail. Sometimes he needs it for bills. Sometimes it's for gas — he owns a big, thirsty S.U.V. But mostly he described the loan as cash to enjoy his weekend.

"How much do you think you spend a year on payday loans?" I asked.

"Well, finance is about 45 dollars; add that up . . .," he said, and paused. "Comes out to a pretty good chunk of change," he admitted. "But I don't think of it that way."

Bravo is exactly the kind of case consumer advocates bring up when they call for a ban on payday loans. But for better or worse, the guy loves Nix. "They treat me with respect, they're really nice," he said. He's especially fond of the manager, Beatriz. She grew up in the neighborhood and has worked at Nix for almost 20 years now.

Then there was Carlos Garcia. He got out of the military, got some credit cards and got in trouble. It took him a few years to pay off his debt. Now he's careful, but money is still tight. He usually works two full-time jobs, and he earns enough for himself. He has a couple of brothers, though, who have been out of work, and he has his mother to help look after. That takes him to Nix a few times a year for a loan. But he's strategic. "I get it because I want to make a payment on time," he said. He does the math, he told me, and borrows only when the fee for a small loan will cost less than the penalty for a late car payment or an overdraft charge.

As different as they are when it comes to money, Garcia and Bravo agreed on one thing: "I don't use credit cards," Bravo said. "I don't want to get into debt." That may sound crazy coming from a guy who spends more than \$1,000 a year to borrow a thin stack of 20s over and over, but he had a point. It may be hard, some months, to pay off a \$255 payday loan. But credit cards can get you into more serious trouble; credit-card debt can add up fast and linger for years.

Kinecta's executives decided to keep the payday loan and change the terms. Starting with three stores in the spring, and eventually across the entire chain, Nix is increasing the maximum loan from \$255 to \$400. They are dropping the fee from 18 percent (\$45 for a two-week \$255 loan) to 15 percent (\$60 for a two-week \$400 loan). And they will rebate a third more (\$20, in the case of a \$400 loan) into a savings account, after six months, if you pay your loans back and don't bounce any checks. People get payday loans because they have no savings, Lagomarsino explained. After six months, heavy payday borrowers will accumulate a small balance. Enough, she and Nix say they hope, to convince them they can afford to save more. Later, they say, they intend to drop fees further for borrowers who always pay back on time.

Once Kinecta finishes rolling out its new payday loans, Lagomarsino has promised to open Nix's books to outside researchers and publish data on its profits and losses. In the meantime, Kinecta will be under enormous scrutiny. "Some people said, 'Why does it have to be so visible?'" Lagomarsino told me, and laughed. "One or two branches wouldn't make a difference. This is the beauty of buying Nix. They were the largest alternative financial-services company in Southern California. If they change their fee structure, everyone has to change."

At the Nix Check Cashing in Highland Park, one of Kinecta's first credit-union windows opened at the end of April. It's a tiny branch, squeezed into a strip mall, a few storefronts down from a slummier-looking check casher and across the parking lot from an Advance America branch. By the door, a hand-drawn whiteboard advertised free checking and savings accounts. Inside, customers had to pass through a gantlet of Kinecta signs ("free," "we're all about convenience") to reach the check-cashing windows. Then, whenever someone slipped a check across the counter (or bought a bus pass, or mobile-phone minutes, or a prepaid debit card), Nix tellers asked if they'd like to open a free savings or checking account with a \$5 deposit.

I expected mostly brushoffs. But people had questions. Lots of them, actually. (What's a credit union? Are there fees? What's the minimum balance? Can I deposit my checks at Nix for free?) Often people started in with the questions as soon as they got to the window, before the cashiers got around to a sales pitch. That doesn't mean they all signed up. Most of them didn't. But several did, and very few rejected the idea outright.

When I visited Nix in his new office at Kinecta, he seemed optimistic about the new business. "I've been trying to do this banking thing for more than 15 years," he said. "If we do it, the rest of the industry copies us." But, he said, "it has to be a viable business model."

Nix's definition of "viable" means some public criticism is bound to follow him to Kinecta. Even after knocking more than 30 percent off the fees, Nix's payday loans are still expensive, and Nix says he hopes to issue more of them, not fewer, because Nix stores will be cheaper than the competition. The fees are still astronomical, and more troubling, right now the average borrower at Nix takes out seven loans a year — with fees than can equal an annualized interest rate of 312 percent. "Any form of credit can be abused," Nix said when I asked him about the problem of repeat customers. "There's the guy who gets five credit cards. For some reason, it's O.K. when it's a mainstream product. There's a double standard."

It's going to take a lot of \$20 rebates from Nix before someone with a payday-loan problem would accumulate any real savings. I asked Nix if he would consider advertising to these customers, straight out, that payday loans are bad for them. What about check-cashing customers who, out of habit, resist the idea of signing up for a bank account that would save them money?

"The last thing I want to tell someone who's been my customer for 20 years is, 'You've been a fool for 20 years, you never should have been coming in,' " Nix said, with a sudden edge in his voice. "I want to create choice."

Selling to the poor is a tricky business. Poor people pay more for just about everything, from fresh groceries to banking; Prahalad, the economist, calls it the "poverty penalty." They pay more for all kinds of reasons, but maybe most of all because mainstream firms decline to compete for their business. Nix has served customers that traditional financial institutions neglected, but he has also profited from that neglect. Whether he profited too much, charging poor communities what the market would bear — that's a moral question as much as an economic one. And there's no simple answer.

Not everyone is ready to trust Nix's motives just yet, or to embrace him as a champion of the poor, especially consumer advocates who have spent years lobbying to cap check-cashing and payday-loan rates and remember

when Nix charged even more than he does today. “It behooves predatory companies like Nix to be seen positively by their communities,” says Roberto Barragan, president of the Valley Economic Development Center and a critic of Nix from way back. “But at the end of the day, it’s not about the financial well-being of his customers.”

For now, most banks remain reluctant to fight with check cashers and payday lenders for low-income customers; they don’t believe there’s enough in it for them. Just a few years ago, though, wire-transfer companies like [Western Union](#) were the only option for immigrants who wanted to send money abroad. Banks thought it was a sketchy business. The transfer companies charged about the same as a payday loan, \$15 to send \$100 to Latin America. But then a few banks decided to compete with them, even accepting foreign ID cards. And then banks started to compete with one another. And pretty soon, just about every bank wired money overseas. Businesses like Western Union had to slash their fees by nearly two-thirds.

“These communities spend about \$11 billion a year on ghettoized financial services, about the same as what Wall Street spends on mergers-and-acquisitions fees,” says John Hope Bryant, founder of the nonprofit Operation Hope. “We’re not talking about small change. But there’s no competition for these dollars.” That’s the idea behind plans like Bank on California: to convince banks that marketing themselves to poor customers isn’t just a charitable act; it’s a benefit to the bottom line.

Nix says he hopes his model will do the same thing. “We’re going to be a tough competitor,” he told me. “We’re going to get a lot of business, and that’s going to force the rest of the industry to take a look at their prices, to be able to compete.” It’s not how you expect a banker to the poor to talk. But he might be onto something.

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