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CFB: COVER STORY

Tough times for quick-cash firms

Strict reporting rules put the squeeze on small check-cashing businesses

By Richard Burnett
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The financial fallout from America's war on terrorism is putting the pinch on a surprising target: the neighborhood quick-cash business.

Many small check-cashing firms, wire-transfer services and payday lenders face increasingly strict federal reporting requirements related to their customers and their various transactions.

Such businesses could even find their bank accounts shut down if they can't prove they are complying with the law.

Some firms have already received such "pink slips," as a growing number of banks -- under the same reporting and monitoring pressures -- stop doing business with small, independently owned cash-service companies.

The crackdown is beginning to resemble a nationwide witch hunt, says Rick Lyke, spokesman for the Financial Service Centers of America, which represents cash-service businesses.

"It is a troubling trend," he said. "The banks are doing a wholesale discontinuing of check-cashing business accounts, with no basis for doing so. It is a discriminatory action that has the potential to wipe out the industry."

Banks, in turn, blame the federal Patriot Act -- the far-reaching, oft-controversial law designed to root out terrorist plots and prevent a repeat of the 2001 attacks in New York and Washington, D.C.

Since the law's passage in late 2001, banks have spent billions of dollars fine-tuning their detection measures for money laundering and terrorist-related financing.

Among other things, banks must now monitor customers' deposits, money transfers and other transactions in more detail, cross-checking them with the government's extensive database of known or suspected terrorists. Money-service businesses, such as check cashers and payday lenders, are among those customers -- and are supposed to watch for suspicious transactions as well.

Big operators, such as Advance America and Amscot Financial, say they have systems in place to comply with the Patriot Act.

"As an industry, we have had to get our act together," said Ian MacKechnie, chief executive officer of Tampa-based Amscot, a diversified money-service business that has five branches in metropolitan Orlando.

"We spent \$500,000 to set up a program to make sure we would be compliant," he said. "Now nothing slips through our system -- we check every transaction."

But many smaller firms may lack the resources for such monitoring programs -- and that makes banks nervous, MacKechnie said.

The problem, bankers say, is that federal regulators want them to serve as watchdogs of the money-service industry -- which, unlike other businesses, buys and sells cash rather than goods or services. Banks are supposed to track the industry's voluminous transactions and keep an eye out for suspicious activity, such as frequent wire transfers to the Middle East.

That is an especially tough task for smaller community banks, which don't have the money, staff or technical resources that big banks have.

Orlando-based First National Bank of Central Florida, for example, has only one full-time worker monitoring customer accounts for suspicious activity.

As a result, the bank last year began dropping what it considered high-risk accounts, such as check-cashing firms.

"If you are not on top of this issue, regulators can fine us for being in violation," said Isa Cusack, First National's senior vice president of retail banking. "We have to know who our customers are, monitor what they are doing, and report it if there is something suspicious."

Hundreds of community banks in Florida have made similar moves in recent months, according to Jim McKillop, chief executive officer of Lake Mary-based Independent Bankers Bank of Florida, which provides financial services to banks across the state.

And it may not stop with the check cashers and pay-day lenders.

Small grocers, gas stations and car dealers could be next, because they increasingly provide cash-related services such as wire transfers, money orders and short-term loans, he said.

"We're having to kick out a lot of good customers, some of whom have done businesses with these banks for decades," McKillop said. "We're dealing with a series of unintended consequences that are rippling through the business community."

Diana Thu Van hopes her Longwood business, TMD Food Store, doesn't lose its bank account.

The store once did a lot of check cashing and wire transfers, but with all the new restrictions and regulations, it has cut back significantly, she said.

Symbolic of that change, Van hasn't even repaired the "Checks Cashed" sign on the building facade, which was damaged in August by Hurricane Charley.

"We only do a very few things like that now," Van said. "And we only cash checks of the customers we really know. We won't do more than that -- there's so many problems if you do more."

Everyone -- banks, Western Union, the government -- wants more documentation with every transaction, said Michael Nguyen, the store's assistant manager and Van's brother-in-law.

"Since 9-11, it's just a big risk to cash checks or do anything for anyone you don't know. There are so many fake IDs out there -- fake checks too," he said. "People are just a lot more tricky. Sometimes we've had people come in trying to cash a check and we look at it and just laugh, 'No way.' "

From its inception, the Patriot Act called for greater scrutiny of money-service businesses, but the actual rules were slow to emerge. Last year, however, banking regulators stepped up the pressure for banks to crack down.

A handful of sanctions in 2004 jarred the industry. They included a \$25 million fine against Riggs National Bank in Washington, D.C., and \$50 million settlement involving Birmingham, Ala.-based AmSouth Bancorporation for violating anti-laundering laws.

"The pressure from Congress is immense to have bank regulators follow a strict interpretation of the Patriot Act," said McKillop, of Independent Bankers Bank. "To avoid having the Justice Department come down on them, bank regulators have taken a position of zero tolerance."

Federal regulators say community banks that are dropping money-service businesses as customers may be overreacting. It was never their intention to hurt such businesses, many of which serve cash-strapped "working poor" or minority communities, they say.

"We hear about banks closing down these accounts, and it is a matter of concern to us," said Dan Stipano, chief counsel for the U.S. Office of the Comptroller of the Currency, which regulates federally chartered banks.

"Our view is that they play an important role in the U.S. financial system, particularly to those who have been shut out of the mainstream," Stipano said.

He acknowledged, however, that in some cases banks may find it necessary to close such an account because the business itself is not complying with the Patriot Act.

"Because of the nature of what they do, the money-service businesses do present a heightened risk of money laundering," he said.

Not everyone in the money-service business is up in arms; some payday lenders, for example, say they are unaware of a problem.

"We have not had a single account closed," said Billy Webster, chief executive of Advance America, the nation's largest payday lender. The company, based in Spartanburg, S.C., has about 24 Central Florida locations.

"We comply with all Patriot Act regulations, and we have a very constructive relationship with banks," Webster said. "I suspect this is more an issue with check cashers than payday-advance companies."

That's because payday lenders don't typically handle big cash transactions, Webster said. Florida law limits a payday loan to \$500. Check cashers, on the other hand, can deal with tens of thousands of dollars at a time.

Among the region's large banks, only SunTrust has cut its ties with payday lenders -- a move it made last year, citing regulators' concerns that some of the firms might be guilty of predatory lending practices.

But both SunTrust and Bank of America say they continue to evaluate their money-service clients. So far, there

is no concerted effort to close those accounts, officials say.

Wachovia says it has a "very limited number of relationships" with cash-service businesses and has no plans to systematically close accounts.

All banks, large and small, are taking new looks at money-service businesses since federal regulators issued a Patriot Act-related warning about such accounts late last year.

"This issue has gotten lots of attention from regulators and bank examiners," said John Hall, spokesman for the American Bankers Association. "The industry is struggling with what do about high-risk businesses -- and which ones fit that description."

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