



FORMAT FOR
PRINTING
sponsored by



March 16, 2007

PAGE ONE

BRANCHING OUT

**Banks Court a New Client:
The Low-Income Earner**

**KeyCorp Experiments
With Check Cashing;
The Fingerprint Ritual**

By ANN CARRNS
March 16, 2007; Page A1

CLEVELAND -- On a recent pay day, nurse's aide Danikca James bypassed the grocery store in a low-income neighborhood where she once cashed her checks and walked into a branch of KeyBank.

The 27-year-old single mother, who barely makes ends meet, was just the sort of customer the big Midwestern bank used to avoid.

NEW ACCOUNTS

- **The Situation:** Banks are courting overlooked customers with services such as check cashing.
- **What's At Stake:** Clients who lack bank accounts or rarely use banks still pay \$11 billion annually in alternative-transaction fees.
- **What's Next:** KeyBank hopes to convert 30% of check-cashing clients to deposit accounts and other services.

That Friday afternoon, Ms. James pressed her thumb on a fingerprint scanner and gave an I.D. to a KeyBank teller. It took minutes to pocket roughly \$400 in cash - the total of her check minus a 1.5% fee of about \$6.


KeyBank, the consumer and small-business unit of **KeyCorp**, the 15th largest bank in the U.S. by stock-market value, is seeking to learn much more about the financial habits of clients like Ms. James. Competition

for deposits from middle-class and wealthy customers has intensified in a saturated banking market. Instead of simply trying to lure clients from rivals, many banks are aggressively courting overlooked customers -- those with limited or no experience with traditional checking accounts.

An estimated 14% of U.S. income earners, or 28 million people, lack bank accounts; many are recent immigrants or have very low incomes. Another 22%, or 45 million people, including those with poor credit histories, use banks only intermittently. The so-called unbanked and underbanked nonetheless spend an estimated \$11 billion in fees for 324 million "alternative" financial transactions annually at check-cashing outlets, money-wire companies or other operations, according to the Chicago-based Center for Financial Services Innovation.

Banks want in on the action. **Bank of America** Corp. is marketing wire transfers to immigrants sending money abroad. The North Carolina State Employees' Credit Union is competing with payday lenders, who offer cash advances on future paychecks. Last year, **J.P. Morgan Chase & Co.** introduced a service allowing low-income tax filers to receive tax refunds on a debit card.

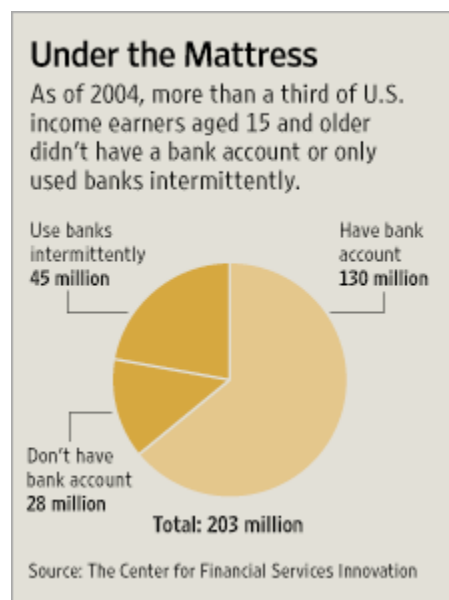
DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit:
www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

Check cashing is another way banks are generating new fees, with a goal of selling clients on checking accounts later. **UnionBanCal** Corp.'s Union Bank of California has offered check cashing for a decade, and says 25% to 30% of those clients migrate to more traditional bank products. U.S. Bancorp in Minneapolis has started a check-cashing pilot in Colorado Springs, Colo. **Wells Fargo & Co.** is testing a way to cash paychecks issued by the bank at its automated-teller machines.

For KeyBank, the idea is to make the most of the 230 branches -- a quarter of its total -- that sit in low- to moderate-income neighborhoods, primarily in slow-growing Northeastern and Midwestern cities. Its parent, KeyCorp, is the product of a 1994 merger of KeyCorp of Albany, N.Y., and Cleveland's Society Corp., which served blue-collar workers along with the affluent. Cleveland, the company's headquarters, was named the country's poorest big city by the U.S. Census Bureau last year.



KeyBank charges 1.5%, up to a maximum of \$22.50, to cash payroll and government checks. That's below the 2.44% average that check-cashing outlets charge, for example, for Social Security checks, says the Consumer Federation of America. So far, KeyBank's three-year experiment has brought in a nearly negligible sum, and future projections still put it at a fraction of one percent of the \$2.64 billion in annual revenue from the KeyCorp unit that includes branch-banking. Many working poor still show allegiance to storefront chains because of their longer hours and willingness to cash more types of checks.

But Bruce Murphy, KeyBank's president of community development, who oversees business in urban areas, calls the push inevitable. In neighborhoods with homeowner rates of as low as 20%, selling home-equity loans, for example, "just doesn't work."

Jeanne Morton, who manages a training center for a Cleveland nonprofit housing group, said she was initially concerned KeyCorp might use check cashing to pitch clients on costly accounts. But she says she's encouraged to see KeyBank providing services at lower costs than many check-cashing chains.

Mr. Murphy, a native of Youngstown, Ohio, came to know Cleveland as a child when he visited his grandmother. Now 54, he says that one of his "formative" experiences as a young African-American was witnessing celebrations in 1967, when Cleveland elected Carl B. Stokes the first black mayor of a major U.S. city.

Much later, overseeing KeyBank's retail operations in Cleveland from 1999 to 2001, he heard the frustrations of employees who felt they had little to offer the mostly African-American residents living near inner-city branches.

The bank subsequently tapped him for the urban-development job. One day in mid-2002, KeyCorp's chairman and chief executive, Henry Meyer III, sat down at Mr. Murphy's table in the corporate cafeteria. Mr. Murphy told him he'd been mulling how to capture fee income from low-income customers. "Henry, we think there's an emerging market in the unbanked," he recalls

saying.

The CEO was receptive. "I'm always looking for new things that aren't way out there on the risk spectrum," Mr. Meyer says he told him. "You've got something here. Go back and think some more about it."

But the CEO says any effort had to make economic sense. "Bruce doesn't work for the KeyBank Foundation," Mr. Meyer said, referring to the bank's charitable arm.

KeyBank began offering checking accounts with no minimum-balance requirements in September of 2002, but that initial attempt to reach less-affluent customers fizzled. Other banks had already started doing the same. Also, even with the balance flexibility, many people didn't qualify because they had a record with ChexSystems Inc., a network that tracks customers with a history of bouncing checks.

The high bar turned prospects off, said Judy Lucas, who oversaw an area that included 20 urban branches. It seemed to reinforce the view of attendees at a bank focus group who had said they didn't trust or respect banks.

Mr. Murphy's team then homed in on a simple idea -- to offer the service those residents regularly used, check cashing.

It was tough swaying some mid-level managers. In meetings in early 2003, he recalls one employee saying, "Are you crazy? These are the very people we're trying to keep out of the bank!"

Security staff also warned that offering check cashing could make branches less safe. It suggested putting tellers behind bullet-proof glass, recalls Michael Griffin, a former housing-development advocate who directs strategy for KeyBank Plus, as the bank calls its check-cashing service.

"The general sentiment was that we were opening the bank vault and taking cash out of it," said Mr. Griffin.



Bruce Murphy

Diane Bujdos, a KeyBank vice president overseeing sales and operations at the branches, noted that branch employees' pay was tied to their office's performance; why should they embrace a program that might attract bad checks and increase losses? If word got out that the bank was doing this, "we could become a target" of customers trying to cash fraudulent checks, she recalls saying.

The complaints convinced Mr. Murphy that some "myth-busting" was in order. In April 2003, his team flew with marketing and risk-management executives to Los Angeles to visit Union Bank of California, which started its check-cashing service in 1993 and now offers it at 15 of its 321 branches. The group boarded a small bus and toured freestanding branches and one inside a grocery store. Union Bank branches offered check cashing at clearly marked locations. People in the check-cashing line were pretty much indistinguishable from other clients. Managers said losses were within expectations.

As the group gathered that evening over dinner, Mr. Griffin, Mr. Murphy's lieutenant, sensed they'd turned a corner. "There was a lot of excitement" that the program could be viable, he says.

Mr. Murphy's team launched a test of KeyBank Plus at five branches in run-down areas of Cleveland. To reduce risk, they limited the service to payroll and government checks; personal and third-party checks weren't accepted. Bullet-resistant glass went up at the St. Clair branch, which had been previously robbed.

The bank redesigned the pilot branches, painting walls in warm mustard hues, and hired a nonprofit organization to teach free financial-literacy classes at an adjoining education center. Mr. Murphy also ordered up a special marketing campaign. One was a collage of photographs, mostly depicting African-Americans, with a focus on a young man dressed hip-hop style in tank top, silver chain and cap.

The program hit some early glitches. To verify enrollees' employment and home addresses, tellers called the customers' bosses and landlords. Ms. Bujdos, the former teller-turned-executive, cringed. "It was intrusive. To me, that says, 'You think I'm lying,' " she says. She also suspected the cumbersome process was discouraging enrollment.

To overcome those problems, the bank in 2005 invested in new technology from Valid Systems Inc. that electronically verifies a customer's identity using a check of multiple databases. Upon enrollment -- required to cash even one check -- clients present identification, such as a driver's license, and a thumbprint for imaging for future identification.

Clients said they didn't mind giving a print. "It feels safer that way," said Pameletta Jones, 48 years old, who cashes her monthly disability check at KeyBank.

By the end of 2006, KeyBank Plus had signed up more than 5,500 Cleveland check-cashing clients. The bank now has check cashing in 26 branches in Cleveland. In mid-January it expanded the service to Albany, N.Y., where it has enrolled about 1,000 customers at 20 branches. Denver and Portland, Ore., are on the list for later this year.

When a branch in working-class Cleveland recently hung a banner inviting customers to cash their tax-refund checks, the manager of an ACE Cash Express Inc. store across the parking lot complained to the property owner. But Eric Norrington, a spokesman for Irving, Texas-based ACE, a chain with more than 1,500 stores nationwide, said his company isn't worried about the competition. He says ACE offers extended hours and more flexibility than banks, which "don't understand the market."

Child-care worker Erika Jones, 28, cashes checks at KeyBank, but says she still must head to a convenience store to pay her utility bill for a 75-cent fee.

KeyBank says it is matching certain conveniences of the check cashers. It soon will offer utility-bill paying for a fee in its branches and is considering a short-term loan service similar to payday loans, but at lower interest rates. It is offering free money orders as a promotion, though it may eventually charge for them.

The average check cashed in the program so far has been about \$750, much higher than KeyBank expected. It's another possible sign that low-income neighborhoods have more money than it appears. Washington, D.C.-based nonprofit Social Compact, jointly funded by the city of Cleveland, KeyBank and others, recently found that one low-income district of Cleveland had a cash economy -- a measure of cash exchanged for goods and services -- of \$116 million a year, higher rates of owner-occupied housing than measured by the census, and 2,200 "relatively stable"

businesses.

KeyBank has cashed checks totaling close to \$16 million, with what it calls minimal losses from forged or bounced checks. Although this only brought in about \$200,000 before expenses, the bank hopes to expand the program and bring in \$16 million in fees over the next three years. It says it aims to convert at least 30% of check-cashing clients to other accounts and services, compared with roughly 3% of enrollees thus far. It has also begun offering a direct-deposit account that allows clients to access paychecks with a debit card. And it has a program that allows clients with bounced-check histories to work their way off ChexSystems, by paying restitution and taking a financial-education class.

"It takes time to change a culture" founded on using cash, says Mr. Meyer, the CEO. "We hope eventually they'll feel confident enough to understand cash flow, the idea of putting some things -- not too many things -- on a credit card," he said.

Ms. James, the nurse's aide who switched over from the grocery store, aspires to qualify for a mortgage. She works evenings and weekends to support two children and takes classes in physical therapy at a community college, in hopes of getting a better job.

Yet, she remains uneasy with traditional banking. As is typical of so-called "underbanked" consumers, Ms. James has a checking account at a smaller institution, Dollar Bank, that she rarely uses. "I just don't like writing checks," she explains. She fears she might forget to note the check in her ledger and incur an overdraft fee.

"I know my system is crazy," she says, "but it works for me."

Write to Ann Carrns at ann.carrns@wsj.com¹

URL for this article:

<http://online.wsj.com/article/SB117401168872338944.html>

Hyperlinks in this Article:

(1) <mailto:ann.carrns@wsj.com>

Copyright 2007 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.