bill could be bonanza for industry

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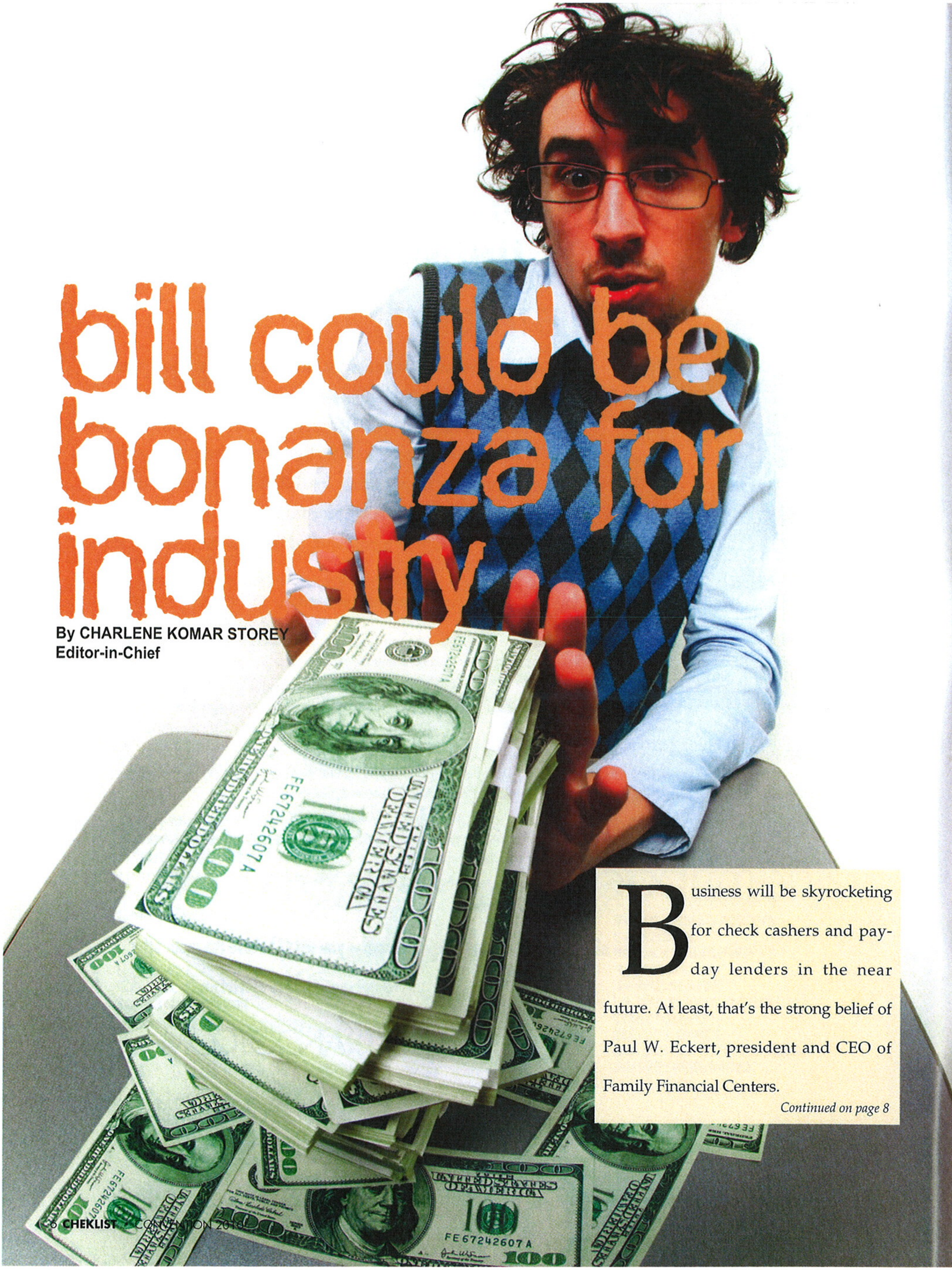

Business will be skyrocketing for check cashers and payday lenders in the near future. At least, that's the strong belief of Paul W. Eckert, president and CEO of Family Financial Centers.

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The force behind the business explosion, he says, is the new financial overhaul bill. Yes, the very same Dodd-Frank Wall Street Reform and Consumer Protection Act that has been causing so much gnashing of teeth (see Associations Work to Influence New Agency, page 16) is welcomed by Eckert.

"We're excited about it," he says, as is his Doylestown, Pa.-based team. "The people we bring in have a different mindset," he adds.

While many are dreading the potential problems presented by a new federal oversight agency, Eckert is looking in a different direction. He sees the restrictions placed by the bill on banks as eventually moving more customers to non-bank businesses, continuing the movement created by the poor economy.

The latter, Eckert believes, has delivered a strong dose of reality to many consumers, forcing them to accept their true income.

During the boom a few years past, most folks lived as though they were doing better than they really were, he says, because every few years, they cashed out the equity in their homes by refinancing or taking a secondary mortgage.

Now, they actually must live on what they make — and that often means living paycheck to paycheck, and avoiding bank fees.

"What has happened is that the economy has changed the landscape of the industry," Eckert says.

And although Family Financial Centers is getting ready for the federal government's move to finalize its move away from paper checks, Eckert isn't seeing a slide in income from checks.

"The volume of checks has increased," he says, adding that a lot of people now have two part-time jobs, increasing the number of instruments to be cashed, although the face values are less.

"A lot of people we're servicing, we've never serviced before," Eckert says.

Paul Eckert, CEO, Family Financial Centers

Positive Changes

Now, he predicts, the new legislation will create more changes that will be favorable to the industry.

As banks see income from overdrafts plummet, they will make up those losses with recurring charges, Eckert predicts. The days of free checking and the like are over. "Charges on consumers will go up drastically, and banks will drive people to us."

Beyond cashing checks and, in states where permitted, fielding payday loans, Family Financial Centers offer a variety of services customers may have gotten elsewhere in the past.

"I'm a firm believer in customer-for-life, and we want to help people through different phases of their financial life. It will be more affordable dealing with us than using a bank. We can offer them everything that banks can't," Eckert says.

While emphasizing that the business remains check cashing-driven, he says that ancillary services give FFCs more traction.

These include such traditional industry stalwarts as money orders, bill payment and money transfer to prepaid debit cards, wireless phone cards, calling cards and home dial-tone service, cell phone airtime, payroll cards and tax preparation, as well as three types of direct deposit and a savings program.

The company has gone beyond these to offer biometric finger-printing programs, gift card swaps, a discount energy plan, family discount medical plans, car insurance lead generation, and debt advice.

"We acquired a competent and ethical debt settlement company," Eckert says. From there, customers can move into similarly no-nonsense debt repair.

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He does believe that short-term payday loans will be a particular target of the new federal agency. "Payday loans are where regulations are really going to hit," Eckert says.

While some laws controlling payday loans might work — FFC, as an internal policy, bans rollovers — banning legal short-term loans is foolish, he believes.

"When you try to do something contrary to human nature, it won't work. Outlawing payday loans, like they did in Ohio — all they're doing is transferring those people to less savory alternatives."

But the assault on payday loans will continue. As a result, payday loans won't disappear, but will be heavily modified, Eckert predicts. Family Financial Centers is working on rolling out traditional installment loans. "It's taking time," he admits.

Different Model

While keeping on top of legislation and developing new products, FFC is following its unusual franchise model. While it opens brand-new outlets and has gotten into stores-within-a-store, it still concentrates on buying out established check cashers and turning the operations over to new franchisees.

Most of its 30 franchises (with 10 more to be opened this year) are in first-tier suburban areas, with some in urban settings. The company has converted a wide array of stores, from two former David's Check Cashing outlets in Brooklyn to one-time bank branches in Hispanic supermarkets in Phoenix. An $18 million Philadelphia store that has had the same owner for a quarter-century is the latest conversion.

The vast majority of franchisees are multi-store operators who also own other businesses. "When they see the business model, they say, 'This is like a bank branch,'" Eckert says.

That business model allows the company to avoid many common problems, Eckert claims. Take financing. It has helped with three recent SBA deals, he says; these were acquisitions, so the existing cash flow was a big plus in getting the loans.

Family Financial Centers operation in Harrisburg, Pa.

Internal financing is available; it mostly covers furniture, finance and equipment, but in some cases, such as store-within-a-store hybrids, the company will finance completely beyond the 20 percent to 30 percent down payment. There's also an investor fund for acquisitions.

Eckert adds that the current economy helps the company is another way: there are lots of good real estate deals available, especially in strip malls. When considering a location for a new store, the company performs a demographic analysis. (With existing stores, current customers are surveyed to learn what they like, and what they'd like to see done differently.)

Many owners of existing stores are getting out because of fear of bank discontinuance, Eckert says. While touting Family Financial Centers ability to offer these individuals a viable exit strategy, he says that's an overreaction, and again points to changes in the financial landscape: banks facing the loss of so much income will be hungry to renew contracts with check cashers.

As for FFC, it deals smoothly with several banks, Eckert says. "They come in every six months and look at our software updates and the like." The banks don't require franchisees to set money aside in a CD, he says. "The system prevents all the problems that cause blow-back from regulators."

Keeping Customers

Conversions take place quickly, according to Ken Parsons, vice president of real estate, construction and new center development, to keep the business running smoothly. New computer systems are put in place after hours the same day the contract is signed. The cosmetics, all in its blue, gold and white colors, typically are done over the next weekend.

The company prefers to keep the existing personnel. Tellers become accustomed to incentives for signing up customers for ancillary services. But customer service is the centerpiece of the re-training that takes place.

"Our customers like being valued. They like being treated better — and why wouldn't they?" Eckert asks. "And if you do these things, you'll feel good about what you do.

"Just because someone makes less money or is in a hard situation dosesn't mean they're 'less.'" ■