Prepared Testimony of
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President, SwypCo, LLC
On behalf of
The National ATM Council, Inc.
before the
Subcommittee on Financial Institutions and Consumer Credit
of the
Committee on Financial Services
of the
United States House of Representatives
February 15, 2018

Chairman Luetkemeyer, Ranking Member Clay, and Members of the Subcommittee, thank you for this opportunity to testify before you today. My name is Tim Baxter. I live in The Colony, Texas, a Dallas suburb, and am President of SwypCo, LLC, a full-service ATM placement company and a provider of ATM processing services. We own 48 ATM terminals and provide processing services to our clients, accounting for 1,385 ATM terminals in total, located in Texas and 17 other states, ranging from Arizona to New York. I am married, with two children and three grandchildren, and am a proud veteran of the United States Marine Corps.

I first entered the ATM industry in 2004, after spending 25 years with one company in the commercial coffee industry. My career in ATMs began with a VISA-registered independent service organization (ISO), where I learned the industry and all aspects of its service and equipment, network rules, and sponsoring bank rules of operation.

I am testifying today on behalf of The National ATM Council, Inc. ("NAC"), a nonprofit association of individuals and businesses that are engaged in the ownership, operation, or servicing of independent automated teller machines—ATMs that are not owned or operated by banks or other financial institutions. I am a member of NAC and, in addition, was a founding member of its Board of Directors, on which I continue to serve.

NAC and its members wish to thank the Subcommittee for holding this hearing. We believe it is an opportunity to expose the widespread and severe consequences that in recent years have resulted from financial institutions' practice of "de-risking." We also applaud the determination of the Subcommittee, according to a letter to me from the Chairman dated February 1, 2018, to explore "methods to eradicate prejudicial treatment of industries by federal financial regulators." That prejudicial treatment has flowed directly from federal regulators' implementation of Operation Choke Point, in 2013, which, as the Chairman's letter states, has been directed at what regulators termed "high risk" customers of financial institutions, whose transactions and accounts with and through such institutions were, according to the regulators, "deserving of heightened regulatory scrutiny."

At the outset, we want the Subcommittee to know that NAC supports enactment of H.R. 2706, the Financial Institution Customer Protection Act, introduced by Chairman Luetkemeyer, which would impose appropriate and necessary limitations and conditions on the ability of any federal bank regulatory agency to direct or order any depository institution to terminate a specific customer account, or group of customer accounts, or otherwise to restrict or discourage any such institution from entering into or maintaining any banking relationship with a specific customer or group of customers. We believe that enactment would provide material relief to our industry and to the businesses and consumers throughout the nation whom we have the honor to serve.

"De-risking" by financial institutions—taking steps to reduce or eliminate the supposed risks of doing business with so-called "high risk" customers—can involve any number of measures.

Unfortunately for the independent ATM industry, it has become all too clear, especially over about the past 18 to 24 months, that a growing number of the banks that historically have served our industry by holding the deposit accounts that provide ATM operators access to the national payments system, through which virtually all ATM transactions must be conducted, have sought to "de-risk" their institutions by ordering closure of the deposit accounts of any customer engaged in the ATM industry, and refusing to open any new accounts for any person or firm in the industry.

Closing any such account has immediate and drastic consequences for the accountholder. Quite simply, it is impossible for an ATM operator to do business without having a bank account. When a cardholder withdraws cash from his or her account at any ATM that is not owned or operated by the cardholder's own bank, that withdrawal necessarily can be accomplished only by transmissions made through one or more of the nation's electronic funds transfer networks, which are accessible only through a bank account.

In recent years, increasing numbers of businesses and individuals in the independent ATM industry have been notified by their banks, without explanation, that their deposit accounts are to be closed, or, in some cases, already have been closed. These accountholders often have been customers who had enjoyed years, or even decades, of successful, trouble-free relationships with their banks. They were and are businesspeople who operated their businesses in full compliance with applicable laws and regulations. In many instances, the accountholder's own banker—the bank's "relationship manager" for the account—has been an advocate for the accountholder, seeking, without success, to convince senior management of the bank that the account relationship should be maintained.

I have been a victim of such "de-risking" in my own ATM businesses. In addition, as a member and a director of NAC, I have learned about the experiences of numerous other NAC members—and of others in the independent ATM industry who weren't NAC members but who contacted our organization to seek help or advice after they had learned that their bank accounts were being or had been closed.

I do not want to dwell here on my own experiences—it is the widespread negative impact of "de-risking" on individuals and businesses, throughout our industry, that we want to make clear to the Subcommittee—but I would be pleased to describe and discuss my experiences in some detail if the Subcommittee would like me to do so.

A few illustrative examples may help the Subcommittee understand why this is such an urgent issue for our industry. A NAC member who is an ATM operator in Houston, after having been told that his customer relationship with Wells Fargo was being terminated by the bank, contacted NAC and told us he had found another bank, to whom he'd described his business and his need for a new bank, and that the institution had responded that it would be happy to have his business. This individual had a considerable history in the ATM business and had maintained his bank accounts at Wells Fargo for approximately 20 years.

At the time that Wells closed his accounts, the bank was charging and receiving from him approximately $2,000 in monthly operating charges for servicing his accounts. For whatever reason, when Wells decided that it was dissatisfied with the relationship, the bank didn't request more information from him about his business, his accounts, or the transactions in or through those accounts. It didn't offer to maintain the account by means of an increase in the operating charges imposed on his accounts. Instead, it simply notified him that the bank was closing all of those accounts.

After he'd found another bank and moved his business's account there, he proceeded to make arrangements to operate his business, and service his ATMs, from his new bank. While he had banked at Wells Fargo, he'd had a contract with an armored-car service to make cash deliveries for his terminals from Wells Fargo. When his new bank told him that it was necessary that he switch to a different armored-car service that the bank used, he canceled his existing contract and arranged for cash deliveries to be made by the service that was used by that bank.

He then scheduled a delivery of $200,000 in cash from his new bank, to be used to replenish his ATMs. On the evening before that delivery was to be made, the bank notified him that it was closing his account and that no delivery of cash would be made the next day. He was told that the bank would remit $200,000 to him by check or wire transfer but would not provide him cash. When he asked why the bank closed his account, he was told that it was closing the accounts of all its customers who were in the ATM industry.

In some instances, financial institutions have given customers prior notice—sometimes 10 days, sometimes 30 days, sometimes even 60 days or longer, prior to the effective date of account closure. In other instances, there was no prior notice.

One of our members learned that his business's accounts had been closed only when he logged on to his bank's website at about 9:30 one evening and found that there was no indication on the site that any of his accounts ever had existed. Believing that there had been some serious failure impairing the website's operation, he then telephoned the bank's support line and, after having gone through security protocols, was told only that all of his accounts had been closed and that he would have to call or visit the bank the next day to obtain further information. When he called the bank on the following day, it refused to provide him any information except that a check would be mailed to him for the balance in his accounts.

Another NAC member, in southern California, was notified by his bank last April that it was closing his account. When he asked the reason for the bank's action, it refused to provide any. He sent to NAC a list of more than two dozen banks and credit unions that he then had called or visited, in May and June, in unsuccessful efforts to find another institution that would accept his account. NAC even has heard from firms—such as those that buy and sell ATM businesses, or that broker such transactions—that have never owned or operated a single ATM, and never have loaded cash into one, but that nevertheless have had their bank accounts closed, apparently because of their association with the ATM industry.

Yet another NAC member, in Tennessee, found out—only when he learned that one of the ATMs owned by his business would not accept his own debit card—that his bank had closed his business and personal accounts. This gentleman, 64 years old, had been a public school bus driver for more than 20 years, and invested his life's savings in the small ATM business that he built up over a decade.

Some banks have attributed their closure of accounts to factors that they describe in vague terms such as "regulatory burdens," and even some that, in written notifications, have told depositors that they were under no obligation to provide any reason and that they therefore would not do so, also have indicated in conversations that the closures resulted from pressure from their regulators. A few banks have sought to justify account closures by stating that, as a matter of policy, they do not serve "money services businesses," even though, in 2007, the federal Financial Crimes Enforcement Network ("FinCEN") published interpretive guidance clarifying that, under federal law, a nonbank owner or operator of a typical ATM—one that offers cardholders access to their bank accounts only for purposes of making balance inquiries or cash withdrawals—is not considered a "money services business."

One thing has become clear to us, as the incidence of these closures has grown exponentially over about the past two years: Wells Fargo and several other large banks have been the most systematic, uniform, and rigorous in cutting off and denying bank accounts to the independent ATM industry. It is perhaps no coincidence that these institutions have by far the nation's largest branch networks and largest ATM networks. Moreover, during this same period these institutions have been actively rolling out and vigorously promoting and advertising various proprietary offerings to their customers, including the capabilities of their "touchless/NFC (near-field communication)" mobile apps, which are designed to function only with each bank's own ATMs, and not with any others.

These large, nationwide institutions accordingly stand to realize significant competitive advantages by the shrinking presence of independently owned ATMs, which is an inevitable and continuing consequence of the banks' unjustified refusal to offer or provide banking services to independent ATM owners and operators. Because these banks' own branch and ATM networks are among the most extensive in the nation, their collective blacklisting of accounts of the independent ATM industry, as a matter of corporate policy, has particularly devastating effects.

Banks' treatment of ATM providers as "high risk" businesses is wholly unjustified. Every independent ATM operator must be sponsored by a sponsoring bank, which conducts thorough, detailed due diligence on any person or firm that seeks to become an ATM owner or operator. Those that survive this initial vetting—which must be successfully completed before anyone can enter into the business—thereafter are required to submit detailed monthly reports to their sponsoring banks. Each owner or operator also must undergo an annual review and audit by its sponsoring bank. In addition, all of them are required to operate their businesses in strict accordance with detailed and extensive network rules that are issued and enforced by Visa, MasterCard, and other networks.

Although the underlying "product" of every ATM business is cash, it should be readily apparent that the detailed regular audits, reviews, and reporting that are required of those businesses, under network rules and by their sponsoring banks, should suffice to establish that there is no rational basis for banks to treat them as sources of undue risk of being involved in unlawful activity.

The account closures afflicting the independent ATM industry do not, in our view, accomplish any legitimate regulatory or law-enforcement objective, but they unquestionably cause grave and continuing harm: first, to the legitimate, law-abiding ATM businesses that are deprived of the bank accounts that are essential to their continued operation; and, second, to the innumerable members of the banking public that benefit every day from the services provided by the independent ATM industry. If the increasing incidence of blanket account closures by banks is permitted to continue unabated at its current pace, the resulting constriction on the availability of cash will have severe and growing adverse effects on the most vulnerable geographic and economic sectors of the nation, and ultimately on all Americans who rely on widespread, convenient access to cash.

In addition, the refusal by banks to offer deposit accounts to businesses in the independent ATM industry directly contravenes the affirmative obligation of every insured depository institution, under the Community Reinvestment Act, to demonstrate that the deposit services offered by the institution serve the convenience and needs of the communities in which it does business. Submitted with my prepared testimony is a copy of a letter dated September 20, 2017, from the Executive Director of NAC to Rep. Carolyn B. Maloney, which sets forth the bases of NAC's position that the refusal of banks to provide deposit services to independent ATM owners and operators is contrary to the lawful obligations of those institutions under the Community Reinvestment Act.

The independent ATM industry fulfills a critical role in the American economy. According to the most recent available data, the total number of ATMs deployed throughout the nation is approximately 470,000, which provides U.S. residents the highest per-capita availability, of any nation in the world, of ready access to cash from the funds held in their bank accounts. This widespread availability of sources of cash provides enormous benefits to our nation's economy. A substantial majority—nearly 60 percent—of the nation's ATMs are independently owned, and a great many of those independent ATMs are located in underbanked low-income urban neighborhoods, and in sparsely populated rural areas, where few bank offices, and few bank-owned ATMs, can be found.

To better understand this key issue, NAC contracted with an independent group of researchers, with experience in geographic and economic analysis, to conduct a study of certain aspects of the ATM marketplace. This team consisted of PhD and research professors from The Center for Economics and Geographic Information Systems (GIS) Research, of the Department of Economics and Geography at the University of North Florida, in Jacksonville. In their study, they compared the demographic characteristics of the areas in which independently owned ATMs are located with those of the areas where bank-owned ATMs are located. A copy of the study is submitted with my testimony.

After identifying the geographic locations of bank-owned and independent ATMs, the study compared a range of demographic and socioeconomic characteristics of those areas, in an effort to identify the characteristics that distinguish the areas served by independently owned ATMs from those of the areas served by bank-owned ATMs. The characteristics selected for comparison were: total population; population density; labor force participation rate; median age; unemployment rate; education (measured by number of residents, and proportion of population, with college degrees); median and average household income and disposable income, and median and average home values.

The authors of the study state their general conclusions as follows:

> In this study we find clear statistical evidence that independent ATMs in the U.S. tend to be located in areas that are disadvantaged in demographic and socioeconomic status, when compared to bank-owned ATMs. The locations of independent ATMs tend to have less population, lower population density, lower labor force participation rate, less college-educated population, higher unemployment rate, lower median and average income (household and disposable), and lower home values.

The study also cites a report in the February 5, 2018, editions of The Wall Street Journal about branch closures in the U.S. banking industry in recent years, which begins: "Banks are closing branches at the fastest pace in decades, as they leave less profitable regions . . . ." The study says that, according to the Journal's report, between July 2016 and June 2017 more than 1,700 bank branches were closed in the U.S., and further observed that while shutting down branch offices has boosted banks' profits, "it has put their rural customers in trouble, forcing some to travel long distances for access to cash. . . . In this context independent ATMs play an even more important and growing role in giving certain sections of the population (i.e. rural, inner city) access to financial services that could have been otherwise limited."

In all too many areas, if independently owned ATMs are shut down, the only available alternative for local residents will be to travel—in urban areas several miles or more, and in rural areas perhaps 20 miles, 30 miles, or even 50 miles—to get to the nearest bank branch or bank-owned ATM, or perhaps an independent ATM. *Widespread, reliable access to cash is one of the principal drivers that sustains the strength and growth of America's consumer-driven economy, and independent providers of ATM services are a principal and indispensable source of that access.*

Residents in the areas served by independently owned ATMs, and the local retail and service businesses that also serve those residents, regularly count on the availability, day in and day out, of the cash that consumers can reliably access only through ATMs. It also is important to recognize that such access is of special importance to those segments of the populace who rely upon nonbank ATMs as the only convenient, low-cost, and readily available way for them to access the growing range of benefits that are provided by government agencies solely through electronic benefit transfer (EBT) cards.

We in the independent ATM industry want to assure the Subcommittee that we recognize the value and importance of fair and vigorous enforcement of federal and state laws and regulatory requirements adopted to prohibit illicit financial transactions, including money-laundering and financing of criminal activities such as terrorism and trafficking in illegal narcotics. We understand that financial intermediaries such as banks are at risk of being misused or exploited by those engaged in furthering or promoting such illicit activities, and that appropriate monitoring, documenting, and recordkeeping of transfers of high volumes of currency unfortunately are necessary elements of appropriate enforcement regimes.

We therefore do not suggest that fair and sensible enforcement of the Bank Secrecy Act and related laws be curtailed or reduced in any respect. On the contrary, such enforcement protects us all. At the same time, we urge that the Subcommittee recognize that for federal regulators to encourage or permit financial institutions to cut off financial services, and deny bank accounts, to legitimate businesses that are operating in accordance with the law, and that accept and cooperate with financial institutions' conduct of due diligence on those businesses and on their transactions and activities, unavoidably will cause severe injury to those businesses, to their customers—the banking public who want and need the access to their funds that ATMs provide—and to the other businesses, throughout the nation, with whom those customers in turn do business.

Because of its recognition of the importance and necessity of appropriate BSA/AML enforcement, several years ago NAC began working to formulate a set of operating principles and procedures for use by ATM owners and operators, in order to facilitate BSA/AML compliance by the banks that serve the ATM industry. The result of these efforts was NAC's "Recommended Settlement/Vault Cash Account Guidelines for U.S. ATM Operators," which is posted on NAC's website, and a copy of which is submitted with my testimony. The Guidelines are intended to ensure that the banks that serve our industry will be provided, by their customers in the industry, the data and information that federal financial regulators expect every bank—in the conduct of its due diligence and for purposes of its account monitoring and related compliance duties—to obtain from any of its depositors that are independent providers of ATM services.

Based on guidance published by the Federal Financial Institutions Examination Council ("FFIEC") in its BSA/AML Examination Manual, available on the FFIEC's website, the Guidelines identify certain data, information, and records that ATM businesses that subscribe to and operate under the Guidelines agree to compile and provide to their banks on a regular basis.

These materials, according to the examination manual, include the data and information that bank examiners, in evaluating banks' BSA/AML compliance, are expected to review in the course of the examination process. The Guidelines incorporate many of the detailed requirements set forth in the examination manual, and thus are intended to serve as an educational tool, for ATM operators and for their bankers, as to what information needs to be documented by ATM businesses, provided by them to their banks for review by auditors and compliance staff, and made available by the banks for review by examiners in accordance with the provisions of the manual.

In an ATM business that operates under the Guidelines, the currency that is loaded into the business's ATMs is provided from one or more bank accounts, commonly known as a Settlement Account, which, as set forth in the Guidelines, is structured to operate as a "closed loop." The sole use of the funds that are held in any such account is to provide the currency that is loaded into ATMs owned or operated by the accountholder.

There are two, and only two, sources of the funds that are deposited into any Settlement Account: first, deposits made by the accountholder, and subject to customary due diligence by the Settlement Bank on such matters as the source(s) of the deposited funds, and the reasons that the deposit is needed; and, second, deposits received through automated clearing house (ACH) transfers that originate in the respective depository banks of cardholders who have made withdrawals from the business's ATM, and that are made in settlement of those withdrawal transactions. Surcharge or interchange revenue of the accountholder's ATM business, and any other revenue or income that it may receive, is deposited solely into other bank accounts wholly separate and apart from its Settlement Account(s). These operating procedures, and the reporting and recordkeeping that are provided for in the Guidelines, are intended to eliminate the possibility that any of the funds that flow through the Settlement Account could in any way be misused or diverted to illicit purposes, without such misuse being readily detected by the Settlement Bank.

During the course of developing the Guidelines, NAC had multiple meetings with officials and staff of FinCEN to review and discuss drafts of the Guidelines, and to solicit the agency's views about the effectiveness and utility of the Guidelines in describing, facilitating, and promoting appropriate documentation and recordkeeping, on the part of providers of ATM services, to enable the banks with which they do business to comply with their obligations under BSA/AML requirements. We understand that FinCEN views the Guidelines favorably, and NAC has urged, and continues to urge, its members to subscribe to the Guidelines and operate in accordance with them, and to review and discuss them, and their use and purposes, with their bankers.

We have met with the Acting Comptroller of the Currency and his senior staff and have requested that Comptroller Otting and the OCC work with NAC in addressing this situation and the serious issues that it presents. NAC and the banking agencies all share the same interests: implementing regulatory and enforcement procedures that provide for fair and effective enforcement of BSA/AML statutes and regulations, while assuring reliable provision of financial services, including deposit accounts, to law-abiding, legitimate businesses and individuals, on terms and conditions that do not impose undue or unreasonable burdens upon them or their business activities. **We are hopeful that the Subcommittee will join with us and urge the Comptroller's Office, and the other federal financial regulatory agencies, to work with NAC, and with the men and women of our industry, to relieve the existential threat that the current growing wave of unnecessary account closures presents for law-abiding independent ATM providers. We would also ask that the Subcommittee be open to an appropriate additional specific legislative resolution, should this prove necessary.**

Thank you again for the opportunity to appear before the Subcommittee and to present to you the views and concerns of NAC and its members on the important issues that are affecting, and indeed threaten the very survival of, our business.

Executive Director: Bruce Renard | Chair: George Sarantopoulos | Vice Chair: Patrick Conner | Secretary: Mike Powell | Treasurer: Chris Waters

NATIONAL ATM COUNCIL
Representing · Protecting · Serving · U.S. Independent ATM Operators ®

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September 20, 2017

The Honorable Carolyn B. Maloney
United States House of Representatives
2308 Rayburn House Office Building
Washington, D.C. 20515-0001

Dear Congresswoman Maloney:

On behalf of the National ATM Council (NAC), which represents the nation's independent providers of ATM services, I am writing in regard to a growing crisis affecting our industry which has resulted from the actions of the increasing number of banks—many of them national banks—that, without explanation, have ordered the closure of the deposit accounts of independent businesses that own or operate ATMs, effectively forcing them, in many cases, to cease operations entirely.

For the reasons discussed below, we believe that the actions of these banks are in direct contravention of their obligations under the Community Reinvestment Act of 1977, 12 U.S.C. §§ 2901 *et seq.*

The magnitude and potential impact of this crisis is illustrated by the essential role that independently owned ATMs fulfill in our national economic system. Of the approximately 430,000 ATMs deployed throughout the nation, approximately two-thirds are owned and operated by independent, nonbank businesses. Many of these ATMs are located in low-income urban neighborhoods, and in sparsely populated rural areas, where few bank offices or bank-owned ATMs can be found.

Many among the under banked populations who live in these areas rely on nonbank ATMs as the only convenient and readily available way to access a variety of benefits that are provided by government agencies solely through electronic benefit transfer (EBT) cards. It also is relevant that any bank that provides banking services to independent ATM businesses, and that regularly carries out its obligations of BSA/AML compliance by, among other things, conducting due diligence on its customers, thereby would have actual knowledge of the activities of the ATM businesses that it serves, including where the ATMs that they operate are located, and the communities and neighborhoods that they serve. Moreover, ATM providers are thoroughly reviewed/examined/vetted by their sponsoring bank(s), ATM processors and ATM ISOs, both prior to being authorized to own/operate/place an ATM, and thereafter on an ongoing basis in order to remain in operation.

Over the past 12 to 18 months, numerous independent ATM owners and operators, many of whom have had trouble-free banking relationships for years, or even decades—and all of whom have been engaged in the lawful operation of their businesses—have been told by their banks that, usually for reasons not specified, their deposit accounts are to be closed, sometimes within 50 days or 60 days, sometimes within 30 days, and sometimes sooner. Even more troubling, the pace of these account closures has accelerated markedly since around the beginning of this year. In addition, a great many of these business people, when they then have tried to move their accounts to a new bank, have been told by numerous other financial institutions, repeatedly, that new accounts cannot be opened for ATM owners or operators.

According to reports that NAC has received from its members, in a number of cases these banks have indicated that their actions were prompted by pressure from regulatory authorities. While we have no direct knowledge as to whether regulators in fact have exerted such pressure, such reports are pervasive and consistent enough to be extremely disturbing. Given the important role of the services provided by independent ATM businesses in communities often not otherwise served by the banks where those ATM companies do their banking, even the possibility of any such pressure is concerning.

The unwarranted blanket closings of the accounts of independent ATM operators should be assessed in terms of the requirements of the CRA, as enumerated in the provisions of the Act and, more particularly, in regulations promulgated there under by the federal banking agencies, such as sections 25.24(a) and 25.24(d)(3) of the regulations of the Office of the Comptroller of the Currency, codified in Title 12 of the Code of Federal Regulations. While much of the discussion and commentary respecting CRA requirements has been directed at the obligations that the Act imposes on banks' lending activities, it also should be recognized that, in section 2901(a)(1), the CRA declares that banks "are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business."

The sections of the OCC's regulations cited above provide that the agency's assessment of banks' CRA performance is to include analysis of "both the availability and effectiveness of a bank's systems for delivering retail banking services," 12 C.F.R. § 25.24(a), and that among the criteria for evaluating such availability and effectiveness are "[t]he availability and effectiveness of alternative systems for delivering" such services. Moreover, those alternative systems, the regulation expressly states, include "ATMs not owned or operated by or exclusively for the bank," § 25.24(d)(3).

Thus, when any bank orders closure of the accounts of a business that is lawfully engaged in providing retail ATM services, and thereby deprives that business of, among other things, access to the national payments systems and a reliable source of currency for its ATMs, one inevitable consequence is that the bank thereby will have eliminated from the communities that it serves an important segment of the alternative systems available for delivering retail banking services to those communities. Any such action by a bank thus will have the effect of curtailing the availability of retail banking services in the communities whose convenience and needs the bank is obligated to serve, and will directly contravene the express obligations of such institutions under the CRA.

We respectfully suggest that there is an urgent need for the OCC, and the other federal bank regulatory agencies, first, to consider the entire range of retail banking services that the CRA obligates financial institutions to assure are available in the communities that they serve, and, second, to take prompt and effective action to bring a halt to wholly unjustified bank actions that serve only to restrict the availability to the public of needed retail banking services, the availability of which the CRA directs insured financial institutions to encourage and promote. We would greatly appreciate any aid that you may be able to provide to us. We have provided extensive supporting information to your office and we stand ready to work with you in any way in which we might be helpful to your efforts.

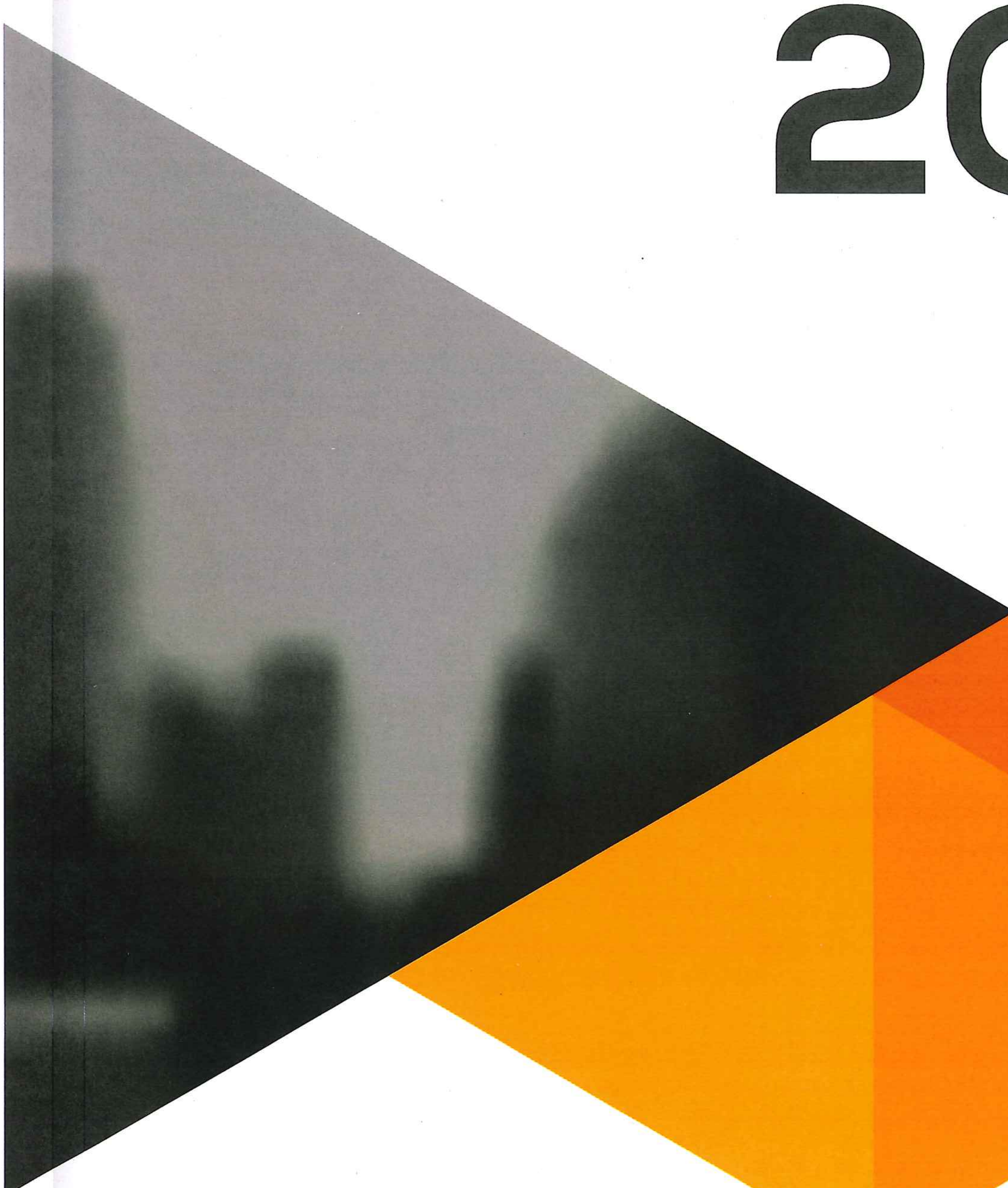
Sincerely,

Bruce W. Renard

Bruce Wayne Renard
Executive Director

Locational Study of ATMs in the U.S. by Ownership

2018



ATM Analysis Based on National Data

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The Locational Study of ATMs in the U.S. by Ownership

Executive Summary:

Analysis based on national data shows that, compared to ATMs owned by banks or financial institutions, the independent ATMs tend to be located in areas with less population, lower population density, lower median and average income (household and disposable), lower labor force participation rate, less college-educated population, higher unemployment rate, and lower home values.

1. INTRODUCTION

The United States is one of the world's largest Automatic Teller Machine (ATM) markets, with 17 ATM networks operating in the nation. The U.S. enjoys the highest per capita ATM deployment of any country in the world. The ownership structure of ATMs has evolved over time, with a growing share of independent ATM networks. Today few bank-owned networks remain, while non-bank owned networks range from those provided by payment processors such as First Data and Fidelity National Information Services (FIS), to card programs and other independent ATM networks. Many of the non-bank ATM deployers began positioning themselves in the U.S. in the 1990s, following Visa and MasterCard's relaxation of rules on directly imposing end user surcharges upon cardholder customers and non-customers for using ATMs. Currently, there are approximately 470,135 ATMs in the U.S., with 191,741 bank-owned and 278,394 independent. The top 10 banks in the U.S. in 2016 with the largest ATM fleets are as follows.[1]

BANK	Number of ATMs	Percentage
JPMorgan Chase & Co.	18,623	17.50%
Bank of America Corp.	16,062	15.10%
Wells Fargo & Co.	12,800	12.10%
PNC Bank	8,996	8.50%
U.S. Bancorp	5,001	4.70%
BMO Harris Bank	4,775	4.50%
BB&T	3,361	3.20%
Citizens Bank	3,200	3%
Citigroup Inc.	3,200	3%
Fifth Third Bank	2,650	2.50%

The largest non-bank ATM provider in the U.S. is Cardtronics, with in excess of 100,000 ATMs deployed in America, and the second largest U.S. independent ATM provider is Payment Alliance International, with over 70,000 ATMs in service. These companies own/operate many of their own ATMs and also support numerous other ATM providers. Beyond these two large independent providers, there are thousands of other independent ATM providers across the U.S., some operating as ISOs (Independent Service Organizations) and some independent ATM deployers who operate as affiliates of those ISOs. These companies range from very large ATM ISOs with thousands of ATMs under their aegis, to small affiliates with only one ATM owned/operated.

More than two thirds of ATMs in the U.S. are deployed in various retail locations. This is primarily due to the high proportion of terminals in the market that have been deployed by non-banks. Convenience stores and drugstores are the most popular locations for deployers, though a

[1] Information is collected from https://www.bankrate.com/.

wide range of retail, leisure, travel and workplace locations are also common choices by both banks and independent ATM owners.

The aim of this project is to carry out a locational study of ATMs by ownership type in the U.S. and determine whether independent ATMs tend to be located in areas that significantly differ from bank-owned ATMs, in terms of demographics and socioeconomic status of their locations at the census block level. By utilizing statistical and GIS analysis, this study has the following findings:

> **Based on the national data, the locations of independent ATMs, compared to those of bank-owned ATMs, tend to have less population, lower population density, lower labor force participation rate, less college-educated population, higher unemployment rate, lower median and average income (household and disposable), and lower home values. All mean differences are statistically significant at 1% level.**

The report is structured as follows: Section 2 describes data and methodology, Section 3 reports the results, while the conclusion appears in Section 4.

2. DATA AND METHODOLOGY

The location data used in our study are retrieved from ESRI's ArcGIS Business Analyst (2016) for the U.S.. According to ESRI, the original sources of the data are the following:

- Business (e.g. ATMs) locations – *Infogroup*
- Demographics and socioeconomic status – U.S. Census Bureau and *American Community Survey*

To determine the ownership of over 470,000 ATM machines in the U.S., the research team conducted a detailed review of every reported name and location of businesses (ATMs) to determine whether each ATM is owned by a bank or a financial institution (bank-owned ATM). In the case an ATM is not owned by a bank or a financial institution, it is considered independently owned (independent ATM). Among the 470,135 ATMs across the nation, we identified 278,394 independent ATMs, accounting for 59.2 percent of all ATMs.

The main objective of the study is to determine whether independent ATMs tend to be located in areas that significantly differ from bank-owned ATMs in terms of demographics and socioeconomic status of their locations at the census block level. The demographic and socioeconomic characteristics we selected include:

a. total population
b. population density

c. labor force participation rate[2]
d. median age
e. unemployment rate
f. number of people with bachelor's degrees
g. proportion of population with bachelor's degrees
h. median and average household income
i. median and average disposable income
j. median and average home values.

We compare bank-owned and independent ATM locations based upon the differences in the values of socioeconomic status ("Independent" – "bank-owned"). As uncontrolled state-level differences can distort or sometimes reverse the estimates, we have implemented a control for baseline differences in the socioeconomic status between states by using multiple regression analysis when analyzing the national data.

3. RESULTS

First, we compare the means of the socioeconomic characteristic between locations of bank-owned ATM and independent ATMs locations in the US. As shown in Table 1 column (1)-(4), the locations of independent ATMs, compared to those of bank-owned ATMs, tend to have less population, lower population density, lower labor force participation rate, less college-educated population, higher unemployment rate, lower median and average income (household and disposable), and lower home values. All mean differences (column (5)), are statistically significant at the 1% level (column (6)) based on t-tests that account for sampling error in bivariate analysis.

[2] Researcher self-created variable. It is calculated as the sum of employment and unemployment populations divided by total population.

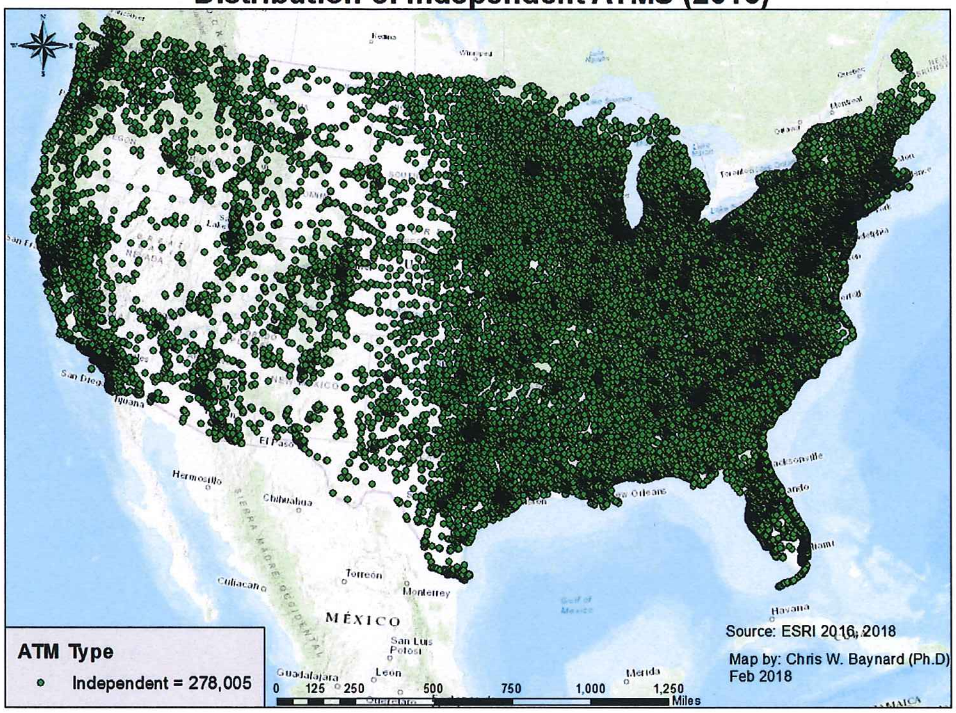
Table 1: Comparison of Socioeconomic Status and Demographics between Locations of Bank-Owned ATMs and Independent ATMs

	Bank-Owned		Independent		Independent - Bank-Owned (w/o control of state-level differences)		Independent - Bank-Owned (w/ control of state-level differences)	
Variable	(1) Mean	(2) Std. Dev.	(3) Mean	(4) Std. Dev.	(5) Difference	(6) P-value	(7) Difference	(8) P-value*
Total Population	1,755.58	1,432.10	1,674.36	1,275.05	-81.22	< 0.01	-61.25	< 0.01
Population Density	4,980.15	11,824.92	4,426.26	11,631.53	-553.89	< 0.01	-328.60	< 0.01
LF Participation Rate	0.51	0.12	0.50	0.11	-0.01	< 0.01	-0.01	<0.01
Median Age	40.00	8.63	39.52	8.30	-0.48	< 0.01	-0.51	< 0.01
Unemployment Rate	5.98	5.32	6.57	5.80	0.59	< 0.01	0.65	< 0.01
Bachelor's Degree	264.87	324.84	209.63	268.88	-55.23	< 0.01	-50.55	< 0.01
Density of Bachelor's Degree	0.14	0.09	0.12	0.08	-0.03	< 0.01	-0.02	< 0.01
Median Household Income	57,497.25	30,754.36	51,353.56	25,925.02	-6,143.69	< 0.01	-5,093.60	< 0.01
Average Household Income	75,641.47	40,727.35	66,853.44	33,352.96	-8,788.03	< 0.01	-7,451.80	< 0.01
Median Disposable Income	45,683.84	21,305.18	41,378.74	18,123.01	-4,305.10	< 0.01	-3,553.40	< 0.01
Average Disposable Income	56,941.66	25,276.42	51,428.38	21,291.45	-5,513.28	< 0.01	-4,627.50	< 0.01
Median Home Value	250,485.90	201,280.90	206,912.60	169,875.50	-43,573.30	< 0.01	-32,679.20	< 0.01
Average Home Value	279,421.90	211,748.80	235,254.40	178,975.40	-44,167.50	< 0.01	-33,060.30	< 0.01
Number of Observations	**191,741**		**278,394**					

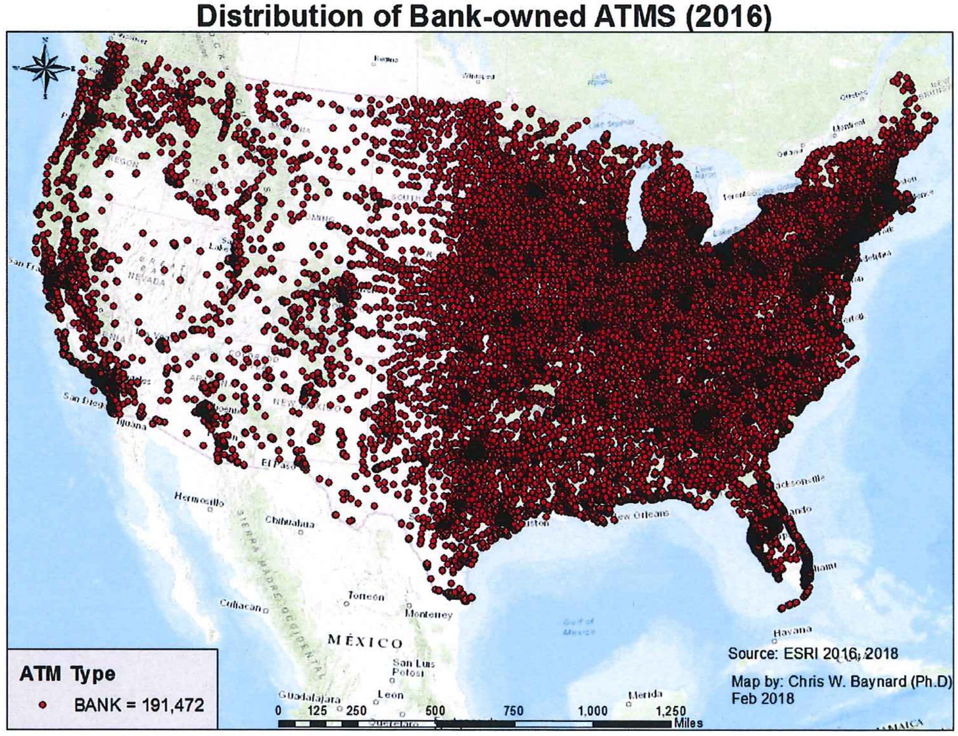
* p-value based on robust standard error with correction for zip code level covariance.

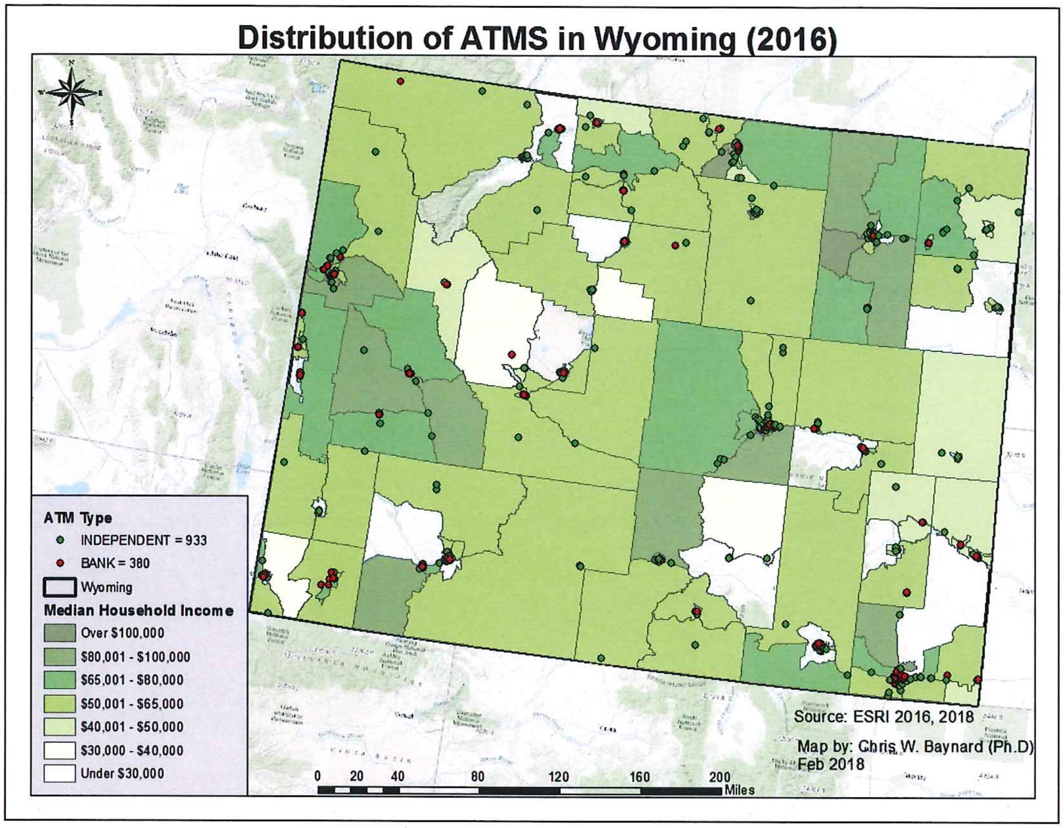
Due to concerns that baseline differences in socioeconomic status between states can bias the results of comparison that is based on raw means calculated across all states, we implement additional controls in our comparison. As shown in column (7), the differences in socioeconomic status between locations of independent and bank-owned ATMs are noticeably reduced when the state-level baseline differences are controlled. But these differences remain sizeable and statistically significant at 1% level (column (8)).

Distribution of Independent ATMS (2016)

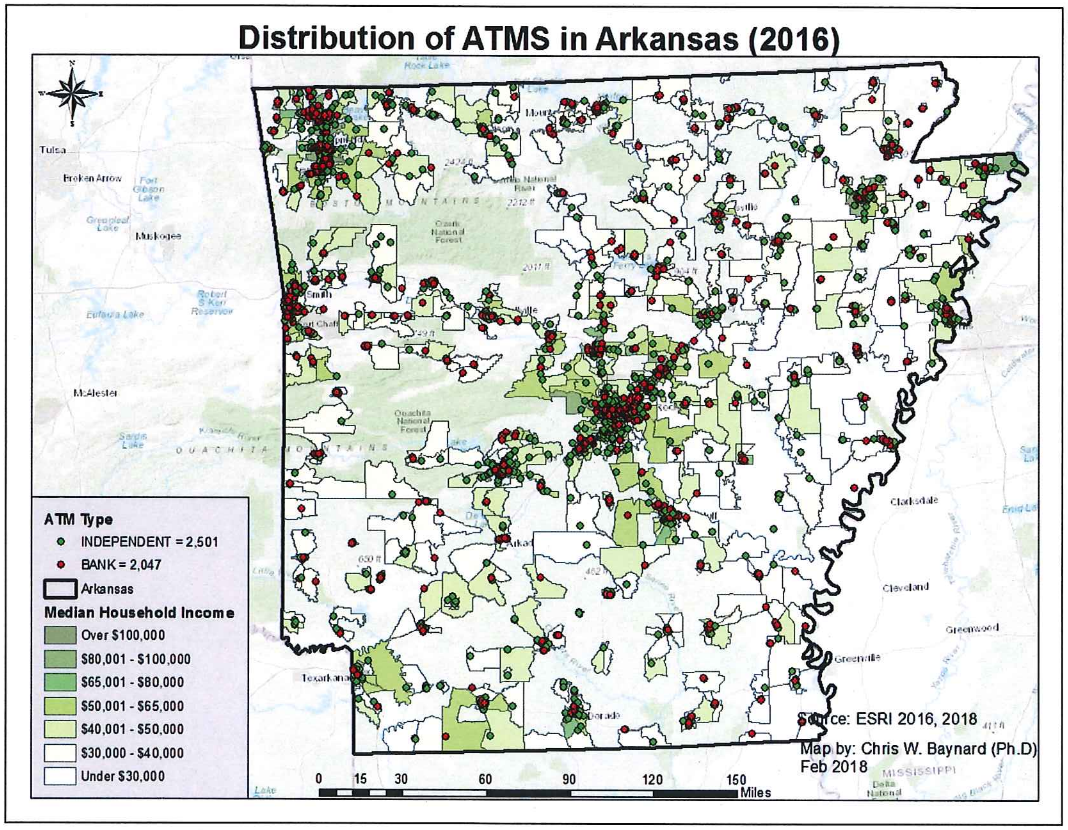


Distribution of Bank-owned ATMS (2016)

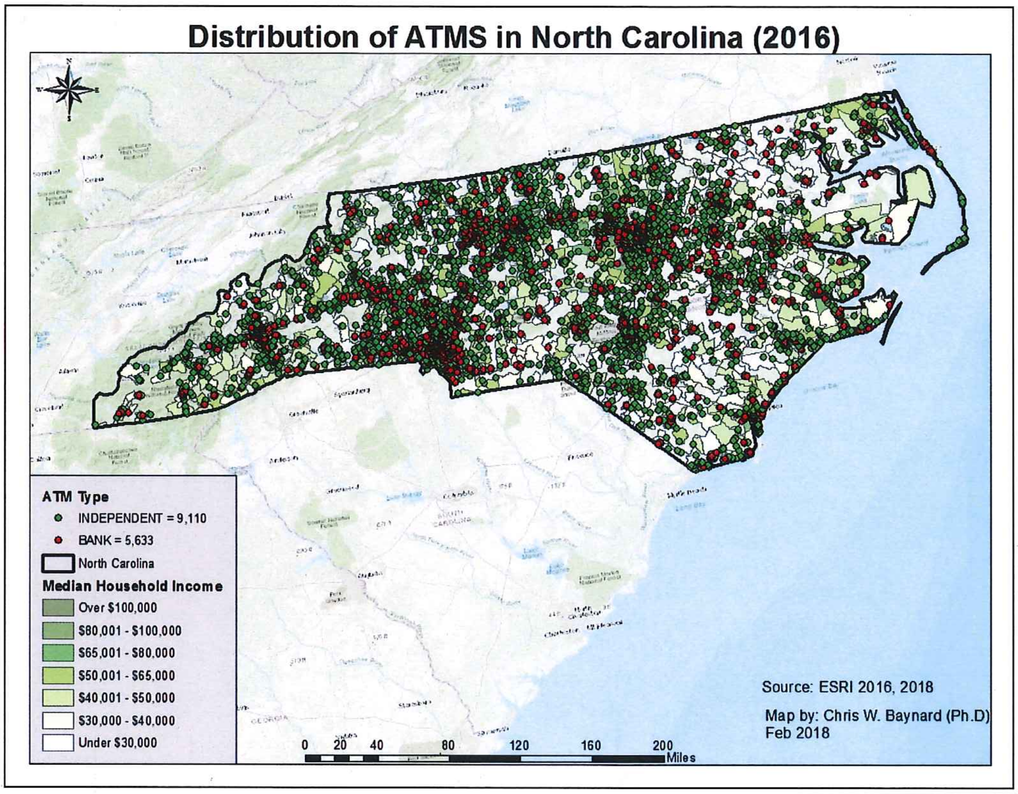




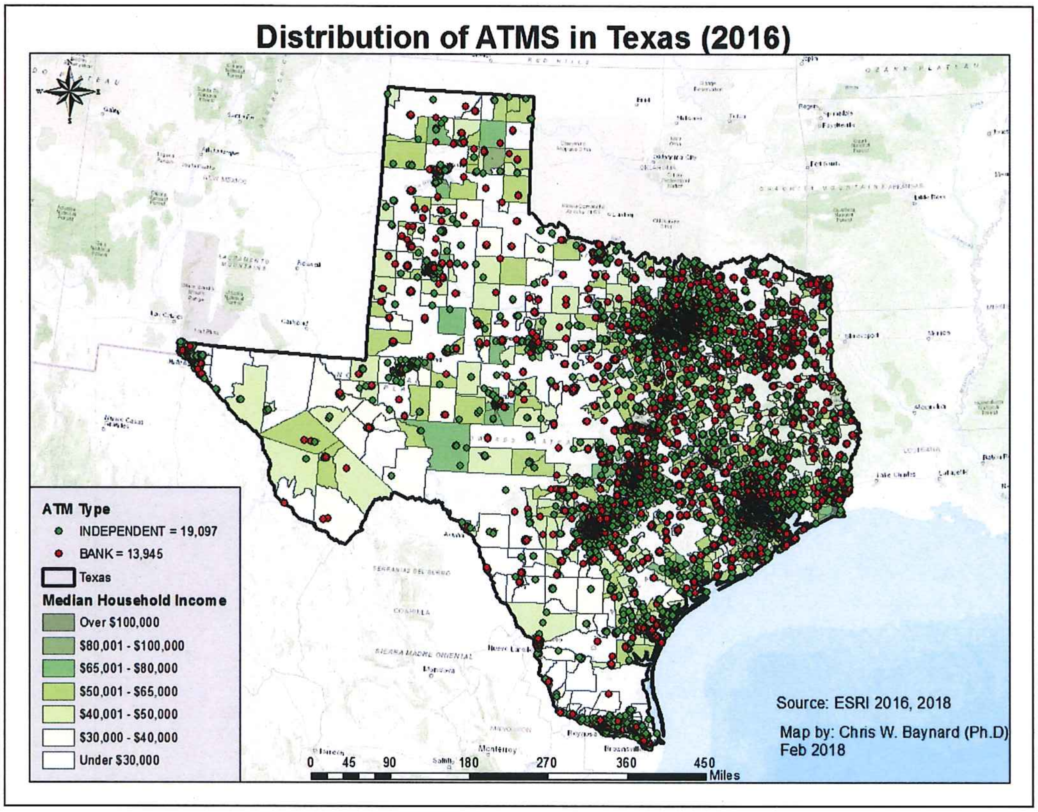
NOTE: only census block groups containing ATMs (Independent or Bank-owned) are shown.



NOTE: only census block groups containing ATMs (Independent or Bank-owned) are shown.



NOTE: only census block groups containing ATMs (Independent or Bank-owned) are shown.



NOTE: only census block groups containing ATMs (Independent or Bank-owned) are shown.

4. CONCLUSION

It is important to mention that the relative number and percentage of independent ATM terminals may have been underreported due to the growing industry trend of "bank branding." Under "bank branding," ATMs are branded as certain bank-owned machines, but are in fact terminals owned by independent ATM providers. However, given the fact that bank branded ATMs would be an insignificant percentage of bank-owned ATMs, we believe there would be no major change in the results.

In this study we find clear statistical evidence that independent ATMs in the U.S. tend to be located in areas that are disadvantaged in demographic and socioeconomic status, when compared to bank-owned ATMs. The locations of independent ATMs tend to have less population, lower population density, lower labor force participation rate, less college-educated population, higher unemployment rate, lower median and average income (household and disposable), and lower home values.

Based on our findings, it is expected that independent ATMs serve areas with higher concentrations of unbanked/underbanked citizens who rely on cash and therefore have a greater need for convenient access to cash. According to a recent report by the Wall Street Journal[3], banks have closed branches as they leave less profitable regions, where fewer customers use tellers for routine transactions. According to the report, between July 2016 and June 2017 more than 1,700 branched have closed. The closing decisions are taken examining deposit levels at each branch and commute time to the nearest location. While the strategy has helped banks to reach profit records, it has put their rural customers in trouble, forcing some to travel long distances to have access to cash. Although banks are opening new offices, their major expansions are into big cities or affluent areas where they previously didn't have branches. In this context independent ATMs play an important role in giving certain sections of the population (i.e. rural, inner city) access to financial services that could have been otherwise limited.

According to Wenzel (2014), the entry of Independent Service Operators into ATM markets increases the size of the total ATM network. Although, it is often argued that the surcharge fees by the independent ATMs decrease consumer surplus, this has been proven incorrect by several researchers. For example, Donze and Dubec (2009) have proposed that surcharges improve ATM deployment and make consumers better off if travel costs to reach cash are high. It can also be argued that given the fact that most independent ATMs are located in lower median and average income (household and disposable) neighborhoods, they serve areas with higher populations of Electronic Benefit Transfer (EBT) cardholders, and are required by state laws to provide discounted or no ATM surcharges for these transactions.

It is also expected that independent ATMs serve areas that tend to be associated with higher rates of crime. Although we are unable to address this relation in our current research due to data

[3] Details available at https://www.wsj.com/articles/banks-double-down-on-branch-cutbacks-1517826601.

limitations, based on the report of Bureau of Justice Statistics for the period of 2008 and 2012, persons in poor households at or below the Federal Poverty Level had more than double the rate of violent victimization as compared to persons in high-income households.[4] Given the relation of independent ATMs and relatively low average-income neighborhoods, we can therefore expect that independent ATMs are also serving these high crime localities.

In short, key findings of our analysis support the notion that independent ATMs serve a majority of the disadvantaged and rural populations in the U.S., based on their socio-economic characteristics. In other words, in the absence of independent ATMs, the minority population would be underserved by the banks and other financial institutions, and they would face much more limited access to cash or money withdrawal stations.

References:

Donze, Jocelyn, and Isabelle Dubec. "Paying for ATM usage: good for consumers, bad for banks?" *The Journal of Industrial Economics* 57, no. 3 (2009): 583-612.

Wenzel, Tobias. "Independent service operators in ATM markets." *Scottish Journal of Political Economy* 61, no. 1 (2014): 26-47

[4] Please visit https://www.bjs.gov/index.cfm?ty=pbdetail&iid=5137 for details.

Recommended Settlement/Vault Cash Account Guidelines for U.S. ATM Operators

Version 01 | 10/21/2016

Introduction & Summary

"Cash-intensive businesses" – as that term has been defined by financial regulators – include independent owners and operators of automated teller machines (ATMs), and businesses (such as ATM Vault Cash Providers, or AVCPs) that often supply the cash that is loaded into, and dispensed from, such ATMs.

To provide the services that such ATMs offer to the public, providers must have bank accounts from which they supply vault cash for the ATMs, and into which they can direct the deposit of the electronic funds transfers used to effect the settlement of virtually all ATM transactions. Because of the large volumes of cash used in their businesses, independent ATM owners and operators are subject to heightened scrutiny in their dealings with the insured banks and other financial institutions at which they maintain deposit accounts. The accounts of all cash-intensive businesses are subject to detailed requirements imposed by the federal Bank Secrecy Act (BSA), including scrutiny under Anti-Money Laundering (AML) programs that the BSA requires all depository institutions to adopt and enforce.

Such scrutiny includes requirements that those institutions: verify the identities and backgrounds of the holders of all such accounts; understand those depositors' businesses, including their respective source(s) of funding and the anticipated volumes of currency to be used in their business operations; and thoroughly understand the uses and purposes of their deposit accounts.

The new industry Guidelines have been developed to ensure that the accounts of independent ATM businesses are maintained and operated in a manner that will provide a level of enhanced transparency and trackability for ATM vault cash/settlement accounts that will eliminate any legitimate concerns that otherwise might arise from providing banking services to such businesses.

Recommended Settlement/Vault Cash Guidelines for U.S. ATM Operators (Guidelines)

The Board of Directors of NAC, in consultation with NAC members and its counsel, developed the following Guidelines, which provide a set of reporting and operating procedures for ATM businesses, as bank depositors, to follow in the management and operation of deposit accounts that are used to provide the cash that is loaded into ATMs and dispensed from those machines. The practices and procedures incorporated in the Guidelines are intended to facilitate the proper conduct of due diligence by the financial institutions where the deposit accounts used to fund ATMs are maintained.

By specifically enumerating the data and information that the holders of such accounts – whether ATM owners/operators or AVCPs – are regularly required to compile and provide to their depository banks, the Guidelines are intended to ensure that those banks will have the information they need in order to comply with their obligations under BSA/AML statutes, regulations, and guidance; and, then, appropriately document such compliance for their examiners and regulators.

Definitions

1. Definitions

A. ATM Cash Balance – the amount calculated in accordance with Paragraph 4 hereof.

B. ATM Operator – a natural person or an entity engaged primarily in the business of owning, leasing, managing, or otherwise controlling access to the interior of, an ATM, including its internal cash vault. The term ATM Operator does not include, and is not intended to refer to, persons or entities that are engaged primarily in the business of owning or operating retail establishments and that also may own, lease, control access to the interior of, or load cash into, one or more ATMs on the premises of such establishments.

C. Automated Teller Machine ("ATM") – an unmanned device deployed within the continental U.S. and U.S. territories, to offer consumers access to cash, respond to bank account balance inquiries, and in some cases provide other banking services.

D. Independent Sales Organization ("ISO") – a natural person or an entity that is (i) approved by, and under contract with, a Sponsor Bank to deploy and service ATMs, and (ii) under contract with an approved acquiring processor to route ATM transactions to those networks for which the ISO has been registered by the Sponsor Bank.

E. Settlement Account – the deposit account established pursuant to Paragraph 3 hereof.

F. Settlement Bank – the financial institution at which any Settlement Account is established.

G. ATM Vault Cash Provider ("AVCP") – a natural person or an entity, which may include an ATM Operator, that owns the cash that is loaded into and dispensed from an ATM. The term ATM Vault Cash Provider does not, and is not intended to, refer to persons or entities that are engaged primarily in the business of owning or operating retail establishments and that also may own, lease, control access to the interior of, or load cash into, one or more ATMs on the premises of such establishments.

H. Sponsor Bank – a financial institution that is a principal member of one or more electronic funds transfer networks having a program to allow registration of ISOs for authorized access by ATMs to such networks.

2. To comply with these Guidelines, ISOs, ATM Operators, and AVCPs shall, as applicable:

   A. Subject themselves to and comply with such underwriting as is performed by Sponsor Banks on ATM Operators and AVCPs, in accordance with each such Sponsor Bank's policies and procedures.

   B. Deploy their ATMs in accordance with the terms of a customary agreement with their Sponsor Banks or their sponsored ISOs, and conduct their operations in compliance with all applicable requirements imposed upon the operation and ownership of ATMs by (i) their Sponsor Bank(s); (ii) ISO(s), if any, with which they contract; (iii) the electronic funds transfer networks through which their transactions are conducted; (iv) their acquiring processor(s); and (v) federal, state, and local law.

   C. Subject themselves, and their respective principals, to such background checks (e.g., criminal/credit/OFAC reviews, etc.) as are customarily required by Sponsor Banks of their ISOs, under the applicable Sponsor Bank's policies and procedures related to (i) the Bank Secrecy Act and (ii) such Sponsor Bank's Anti-Money Laundering programs.

   D. Inform their Sponsor Bank(s) in writing and on a timely basis of any material changes to their due diligence information as may be customarily required by their Sponsor Bank(s), for each of the ATMs operated by or through them.

3. ATM Operators that are also AVCPs, and other AVCPs utilized by ATM Operators, shall:

   A. Establish and maintain one or more bank accounts ("Settlement Accounts"), to be used solely for the maintenance of any and all ATM vault cash, and which shall be (i) the exclusive source(s) of the cash to be loaded into each ATM Operator's respective ATMs; and (ii) the sole account(s) for receipt of the corresponding settlement funds returned in repayment for the cash dispensed by such ATMs.

   B. Deposit any and all surcharge and interchange revenue of or from ATM transactions into a bank account or account(s) separate and apart from the Settlement Accounts established in Paragraph 3.A. immediately preceding, and shall not at any time commingle such revenue with any Settlement Account or any vault cash funds therein. Each of the Settlement Accounts established hereunder shall be funded initially by a deposit into such account by the applicable party (i.e., ATM Operator that is also an AVCP or any other AVCP), and the balance in such account shall be increased and decreased only through deposits made into and withdrawals from such Settlement Accounts, as described, and for the purposes specified, in this Paragraph 3.

4. Each ATM Operator that is an AVCP, and each other AVCP, shall submit to its Settlement Bank(s), and, for AVCPs that are not also ATM Operators, to each ATM Operator for which it provides funds, the information set forth below, or such alternative information as may be reasonably required by such Settlement Bank(s):

   A. A written report, to be submitted within 30 days following the establishment of any Settlement Account or the initial certification of an existing Settlement Account under Paragraph 8 hereof, that accounts for the amount and source(s) of all funds initially deposited into such Settlement Account and, for a preexisting Settlement Account, the current balance of funds in such Settlement Account as of the report date. In addition, this report shall also describe and account for the amount of any funds then present in the ATM(s) serviced by such Settlement Account, and any pending amounts due to settle into the Settlement Account (the aggregate of the Settlement Account balance, the balance in the ATM(s) serviced by the Settlement Account, and the amount due to settle into the Settlement Account shall be referred to herein as the "ATM Cash Balance"); and

B. A written report, dated as of each calendar quarter-end, and to be submitted within 30 days following each such calendar quarter-end, which shall be subject to audit by the relevant Settlement Bank(s) and, if applicable, by such ATM Operator, and which shall account for any and all changes in the ATM Cash Balance between the date of such report and the date of the most recent previous initial or quarterly report submitted pursuant to this Paragraph 4.

5. Each ATM Operator that is an AVCP, and each other AVCP, shall maintain current records of the following due diligence information for each ATM operated by or through it, or serviced by it, shall provide this information to its Settlement Bank(s), and shall promptly inform such Settlement Bank(s) in writing of any material changes to such information:

   A. Terminal ID
   B. Name, address, city, state, and ZIP code of terminal location
   C. ATM owner's name and complete physical address
   D. Monthly cash withdrawal dollar volume
   E. Monthly number of cash withdrawal transactions
   F. Source of cash loads
   G. Frequency of cash loads
   H. Name(s) and address(es) of AVCP(s), if any

6. Notwithstanding the requirements of Paragraph 5 hereof, the dollar amounts, transaction volumes, and other proprietary business information provided by ATM Operators or AVCPs to Settlement Banks hereunder shall be afforded confidential and privileged treatment by the recipient Settlement Banks. Such information shall be used solely for purposes of fulfilling each such Settlement Bank's applicable BSA/AML responsibilities and shall be disclosed internally only on a need-to-know basis to bank personnel engaged in BSA/AML monitoring and compliance activities.

7. ATM Operators, in order to be in compliance with these Guidelines, shall utilize the services only of AVCPs that also agree in writing to comply with and be bound by all of the terms of these Guidelines.

8. At such time as an ATM Operator that is also an AVCP, or any other AVCP, shall bring its operations into compliance with these Guidelines, such party shall provide to its Settlement Bank(s) a written and notarized certification, signed by such party (if a natural person), or a principal of such party (if an entity), attesting that such party is operating in accordance with these Guidelines, and confirming such party's intent to provide the initial and ongoing reports, and other access to relevant information, as provided for in these Guidelines.

For more information, questions and/or comments...

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