

BROKE USA – CHAPTER 14

MAXIMIZING SHARE OF WALLET

Las Vegas, October 2008

Tim Thomas, the owner of Daddy's Money Pawn Shop in Wichita, could not really say why he flew from Kansas to Las Vegas for the 20th annual check-cashers' meeting. Around him the ambitious scurried about, dreaming of new markets to conquer, but Thomas was content with the way things were.

"I've got a good manager, so basically my time is mine," he said. Thomas typically shows up at his shop mid-morning. He inspects the previous day's receipts, does a quick scan of the books, and makes up the day's lunch schedule. Except for tax season, that's his workday, pretty much over just two hours after it starts. Sometimes he goes to the health club to work out but mainly, Thomas said, "I play a lot of golf."

Thomas, who was 54 when we met in the fall of 2008, didn't choose the poverty business as his path to Easy Street so much as it chose him. He was in his mid-30s and working a route for a vending-machine supplier when a childhood friend asked him to help him open a pawnshop in Wichita. That didn't quite work out as either had hoped, but a new world had been opened to Thomas, and in short order he was managing a rival pawnshop that was also doing a robust business cashing people's checks and making payday loans—small loans against a person's next paycheck. In 1999, after eight years of working for someone else, he opened Daddy's Money. It, too, would be a full-service financial center making pawn loans but also handling a range of low-denomination financial interactions.

Daddy's Money faces stiff competition. A partial list of rivals within the Wichita city limits includes A-OK Pawn, the Pawn Shop, King's Pawn, Cash Inn, Money Town, A Loan at Last, Aces' Pawn, Air Capital Pawn Shop, Cash Inn Pawn, C&C Pawn Shop, Country Pawn, Easy Money Pawn Shop, Mr. Pawn, and Sheldon's Pawnshop. But apparently even in the country's 51st most populous city, with 350,000 residents, there's more than enough business to go around. Daddy's Money, Thomas acknowledged, turns a handsome profit.

"I'm making a lot of money," he said shaking his head, as if he were as astonished as the next guy over his good fortune.

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When the poverty industry pioneers described why they did what they did for a living, it was never about the money. In their minds, they were helping people and providing a valuable service to a community that couldn't survive without their work every day.

But Thomas didn't reach for the high moral plane when describing how he made his money. That became immediately clear once he started talking about his various businesses, starting with check-cashing. Check-cashing generates only a few thousand dollars in fees per month, accounting for a small sliver of Daddy's Money's revenues, but it's also a lucrative piece.

Kansas is one of 17 or so states where there's no cap on the fees a check-cashing establishment can charge. Thomas takes a relatively small portion (2 percent) when a customer presents a payroll check but a high one (10 percent) if it's a handwritten personal check. On the surface, that makes sense. Cashing a handwritten check seems far riskier than cashing one issued by an established business. But Thomas has removed almost all the risk inherent in the transaction before a clerk slides over any money. By that point, an employee has spoken to both the person who has written the check, to verify that it's good, and to the bank, to make sure the funds are available.

Why, then, does he still take one-tenth of the face value of a check, given the improbability that it will bounce?

"Because I can," Thomas said with an amiable smile. "Other states have their rules, but in Kansas I can charge as much as I want. It's part of the game you play."

Playing the game means taking whatever nips Thomas can from every check cashed inside his store. People who don't have a bank account must pay their gas and electric and cable bills in person, using cash, or they must pay someone like Thomas to pay the bills for them—at \$2 per bill. He has also partnered with Western Union for those customers, immigrants especially, who want to wire money overseas. But Thomas didn't use a word as genteel as "partner." Western Union pays him a "kickback," Thomas said, every time a customer made a wire transfer, just as he earned a "kickback" each time he sold one of the prepaid debit cards he peddles for a subsidiary of American Express.

"If I sell a card for \$10.95, I get \$5," he said. "Every time they swipe a card to make a purchase, something like a nickel or a dime or maybe a quarter kicks back to me"—depending on how much one of his customers spends on a transaction.

Cash advances represent another healthy source of Thomas's revenues. In most other states where payday loans are offered, customers can't take out back-to-back loans indefinitely, but in Kansas, they can. That cuts both ways, Thomas said. It's great for the bottom line if a customer simply pays another 15 percent commission every other week for months at a time before paying back a loan. The flip side is that there's nothing in the law to stop that customer from taking out a second or a third loan. Thomas imagines the customer who borrows \$500, the maximum allowed under Kansas law. "That loan is costing him \$75 every two weeks," Thomas said. That might not sound like much, he said, but \$150 a month can swamp, say, the home health-care worker earning \$8 an hour and taking home \$1,000 per month.

"If one month he has trouble keeping up with his payments, he'll take out a second payday loan and then a third," he said. "After a while that's self-defeating. They're looming on bankruptcy and they just don't know it. And I'm not getting paid." Defaults eat up roughly one-fifth of his payday revenues—more or less the same number that the big chains report.

In the payday business, September and December are typically the best months of the year because of back-to-school and the holidays. But Thomas is also in the tax-preparation business; that means January and February are the most lucrative for Daddy's Money.

Almost every enterprise that's part of the fringe economy takes a stab at the tax-return business. Tim Thomas's experience at Daddy's Money shows why so many take the plunge. Thomas charges \$65 for every return he fills out—good compensation, he said, for a job that typically takes him less than 30 minutes. And while that's the end of the work he must do, that's just the start of the ways in which he is remunerated for his efforts.

The pages of Checklist the monthly magazine of the check-cashing industry, are marbled with the ads of companies pitching their services as a no-fuss way of making money in the tax business. Refund Today ("NO Tax Knowledge Necessary"), for instance, offers a product it calls "EZ Refund": Pay nothing out of pocket, its ad reads, and we provide the software you'll need and also the back-office support. That means they take care of everything from electronically filing the completed tax return with the IRS to arranging the loan terms for those seeking a rapid refund. There's also extra money to be earned providing what in the industry they call the refund-anticipation loan—a high-interest, short-term loan for those who don't want to wait the two or so weeks it typically takes the IRS to mail out a refund check. Under Thomas's deal, he earns \$6 for every client who opts to take out one of these loans (most do, he said) and then at the

end of the season receives a bonus check based on the volume of his loan business. In recent years, that's meant an extra \$2,000 to \$3,000 in revenues.

The refund-anticipation loan pays off in two additional ways. There's the extra check-cashing fees he earns from those who invariably choose to cash a check on the spot, and also the corresponding boost in pawn sales. Because of the earned-income tax credit, the tax season is the one time each year that many of the working poor feel rich, and his pawnshop is a bargain-hunter's dream, a veritable warehouse crammed with flat-screen TVs, jewelry, video cameras, video games, and power tools—"everything except firearms," Thomas said. Not surprisingly, he said, the first two months of the year are his best on the pawn side of the business, which accounts for around half his revenues.

In other environments, Thomas might seem covetous. But at the conference in Las Vegas, surrounded by fresh-scrubbed junior executives in shirts stamped with the names of some of the country's largest Poverty, Inc. brands, he comes across as the last modest man. He knows he could make a lot more money if he opened a second or a third store, but then, that would mean spending his days bouncing between stores and constantly fretting over new hires. Besides, what would he do with that extra money? "I'm not a greedy individual," he said. "I'm fine with the one store."