

**ILLINOIS DEPARTMENT OF FINANCIAL & PROFESSIONAL REGULATION  
THE DIVISION OF FINANCIAL INSTITUTIONS**

IN RE: PETITION OF COMMUNITY )  
CURRENCY EXCHANGE ASSOCIATION )  
OF ILLINOIS, INC. AND COMMUNITY )  
CURRENCY EXCHANGE LICENSEES TO )  
TO INCREASE THE MAXIMUM RATE FOR )  
CASHING CHECKS )

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**POST-HEARING SUBMISSION OF THE COMMUNITY CURRENCY EXCHANGE  
ASSOCIATION OF ILLINOIS, INC. AND COMMUNITY CURRENCY EXCHANGE  
LICENSEES IN SUPPORT OF THEIR PETITION TO INCREASE THE MAXIMUM  
ALLOWABLE CHECK-CASHING RATE**

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May 19, 2017

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The Community Currency Exchange Association of Illinois, Inc. and its member currency exchange licensees that have joined in the above referenced and previously submitted Verified Petition to Increase the Maximum Rate for Cashing Checks (the “Petition”)<sup>1</sup> present this additional submission (this “Submission”) after the public hearing of May 9<sup>th</sup> 2017 (the “Hearing”) on the Petition before a Panel<sup>2</sup> of the Division of Financial Institutions (the “DFI”) of the Illinois Department of Financial and Professional Regulation (the “IDFPR”). This Submission is provided at the invitation of the DFI<sup>3</sup> to respond to questions asked and information requested by members of the Panel at the hearing and to comment on the testimony of Dory Rand of the Woodstock Institute. References or citations to the transcript of the hearing will be by page number preceded by “Tr”.<sup>4</sup> As far as Petitioners are aware, the only objection, written or oral, to the Petition was made by Dory Rand of the Woodstock Institute.

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<sup>1</sup> The Petition and the Appendices to it were filed with the DFI on February 10<sup>th</sup>, and the Report of Navigant Consulting in support of the Petition was filed on April 20, 2017. The Petition, the Appendices to it, and the Navigant Report were entered into the record at the Hearing by Mr. Louis Butler without objection.

<sup>2</sup> The DFI Panel (the “Panel”) consisted of Francisco Menchaca, Director of the DFI, John A. Lartz, Deputy Director of the DFI, Thomas Leightner, Supervisor of Currency Exchanges, and Louis Butler, General Counsel for the DFI.

<sup>3</sup> The DFI announced at the hearing that post-hearing comments could be submitted to the DFI through May 19, 2017.

<sup>4</sup> Louis Butler informed counsel for the CCEA that the DFI has copies of the transcript of the Hearing and that it is not necessary to attach a copy of it to this Submission.

### **A. Breakdown of Smaller Checks.**

At the Hearing, Director Menchaca requested Martin Lieberman, the President of the CCEA, for a breakdown of the number of checks in \$50 brackets under \$1250 to be provided to the DFI as that detail was shown in the Petition for larger checks. Tr. 60. Petitioners contacted iStream and obtained that information. Attached under Tab A in columnar form is a breakdown of checks under \$1250 in the same format as was presented for checks over \$1,250. This spreadsheet was derived from aggregated data collated by iStream, the payment processor for MB Financial Bank, Republic Bank and First Midwest Bank. iStream was able to flag and extract data from about 5.5 million checks that currency exchanges cashed for its customers and then deposited with these three banks for collection during the period July 1, 2015 through June 30, 2016. As noted by Mr. Lieberman at the Hearing, currency exchange checks processed by the three banks account for about 75% of all checks deposited by currency exchanges. Tr. 54.

### **B. Adjustment Amount Shown in Navigant Report.**

At the Hearing, Bernard Ford of Navigant was asked by Director Menchaca about an adjustment amount reflected on Schedule 1 of the Navigant Report of almost \$2,000,000.<sup>5</sup> That adjustment was made to correct a difference shown on the DFI annual consolidated report for currency exchanges for 2015 between total revenues minus total expenses so that they equal the net revenues shown on those reports. This difference is explained in more detail by Navigant under Tab B.

### **C. Technology and Costs of Store Operation.**

Mr. Ford of Navigant was asked if technology has made store operations more efficient and therefore less costly to operate. Tr. 32-33. Mr. Ford and others answered this question in

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<sup>5</sup> It's also reflected on the combined consolidated financial reports prepared by the CCEA under Tab 6.

several ways. Technology developments have required currency exchanges to upgrade their computers and programs, which involves additional costs. New and better technology has also increased the risk of fraud – making it easier for bad actors to create counterfeit checks that look genuine, and by exposing currency exchanges to cashing physical checks that have already been scanned for image deposit and payment through remote deposit capture. Tr. 75; 103. These technological developments increase the exposure of currency exchanges to fraud losses. In addition, Ryan Beilman in his testimony indicated that compliance costs include special programs for capturing data that may expose criminal activity, such as money laundering or specially designated nationals, privacy protections, spotting red flags indicating possible criminal activity, knowing your customer, to name a few. His company’s compliance costs increased significantly over the past decade even though the number of stores it operates decreased by more than half.

**D. Non-Regulated Charges – Photocopying, Faxing, Etc.**

Mr. Ford was asked why he reported based on his interviews that some currency exchanges were charging below market rates for photocopying and wire transfers. Tr. 33-34. Dory Rand of the Woodstock Institute even suggested that charging more for these and other “peripheral” services would be a better way for currency exchanges to increase their profits instead of raising check cashing rates. Tr. 46-47. Revenues from price regulated currency exchange services make up the large majority of total currency exchange revenues. The DFI’s consolidated reports showed that in 2015 the four largest revenue sources for currency exchanges were from services where the rates currency exchanges can charge for them are restricted by law or, in the case of utility bill payments, by the terms of third party agreements – check cashing, money order issuance, license plate services and utility bill payments. Revenues from these four services in 2015 constituted just over 74% of all currency exchange revenues. See Petition Appendices, Tab 6. The remaining

25.7% of revenues include a myriad of services provided by currency exchanges, including photocopying, notarizations, money transmissions, loading and cashing debit and prepaid credit cards, receiving and processing payments, taxes and fees to the city, county, state and CTA, and all the other services that currency exchanges can provide. Rates and fees for most of these services currency exchanges are allowed to charge are restricted by third party agreements or regulated by the IDFPR or other government agencies.

Many of the peripheral services that currency exchanges provide cannot be marked up significantly; market conditions and what the public and common sense dictate prevent it. Customers will simply not use these services if they are priced too high or beyond what they can pay to get them elsewhere. Mr. Lieberman and Mr. Levitt testified that currency exchanges cannot charge \$5.00 a page for photocopying; they need to attract customers to them, not drive them away. Tr. 54-65 (Lieberman: “When an individual comes into one of our stores and needs some documents faxed to a lawyer or that are working day service with the State that have to fax their hours in, we can’t charge them \$5 a page. We can’t charge them \$25 for a notary. This is the community we service. These are our customers. That would be taking advantage, and we don’t do it.”); Tr. 79 (Levitt: “To say that we can pick up fees from photocopying is ludicrous. We charge 25 cents for a photocopy. For faxing we might charge a dollar. You can’t charge more than that. Good sense would dictate.”) Mr. Iberl also testified on this point. Tr. 115 (“We don’t have a lot of other areas, as was mentioned earlier, to raise rates. Check cashing with 40 to 50, 60 percent of our business, that is an area that the rate structure has to address the cost and also profitability, and the risk associated with it.”)

**E. Effect of Rate Increase on Store Profitability and Rate of Return.**

Several of the witnesses for the Petitioners were asked how the rate increase would affect the bottom line for currency exchanges and whether it would increase their rates of return to levels sufficient to keep them in the business or make them achieve rates of return in the range comparable with other similar types of businesses. Tr. 35-37, 57-58, 70, 83-84, 105, 114. Mr. Lieberman testified that he was hoping that eventually the requested rate increase would result in a bottom line addition of \$12,000 per store per annum on average<sup>6</sup> which would work out to an addition to the bottom line of the industry of about \$3,500,000. He does not assume that the full rate increase authorized could take effect either quickly or in all cases.

The exact amount of how much the rate increase will add to the bottom line of currency exchange stores is a guestimate, because there are so many variables involved in predicting how much additional profits the industry will be able to make as a result of the DFI's adoption of the proposed increase in check cashing rates. The CCEA cannot and would not tell its members, for antitrust and other reasons, that each owner and each store should implement and charge, immediately after new rates take effect, the maximum rates allowed for check cashing. Many factors govern the decision by a store owner of when and by how much a rate increase can be adopted – competition, delay, owner discretion, fear of loss of customers, the time to implement, gradual implementation, customer base, profile of checks cashed, and bracketing are some of the variables that Petitioners cannot control or predict; they all serve to delay and limit the ability of the industry to realize or implement maximum check cashing rates. Moreover it will be an owner-by-owner and store-by-store decision. How much an owner can raise check cashing rates in one

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<sup>6</sup> If that increase in profits per store occurred as Mr. Lieberman hopes, it would approximately double the rate of return of currency exchange stores on average putting them in the lower end of the spectrum of rates of return for comparable businesses, but at least in the ballpark.

of his stores may be different than for another store he operates in a different location with different competition and clientele. Tr. 35-36, 57-59.

What is important is (i) the owners have more discretion to increase their check cashing rates based more on market forces and their business needs rather than being subjected to abnormally low mandatory rate caps, and (ii) even though the magnitude of the amount of the increase to the bottom line (profitability) cannot be predicted with any certainty, the increases will definitely help resuscitate a stagnant and ailing industry. See Tr. 79-80 (Mr. Levitt: “Rate ceiling that’s reasonable and commensurate with our needs and the risks, would go a long way towards helping profitability”); Tr. 99 (Tufano: “[W]e need some help. We need some control over our pricing to assure the future of our industry. We cannot keep seeing costs rising while our fees are frozen by regulation and be expected to offer the same great service that have for decades”); Tr. 105 (Hershman: “Under current market conditions in the suburbs, an increase in the maximum check cashing rate may only be applied by my company to a portion of the checks that we cash, but it gives us the ability to make adjustments as the competitive environment changes and opportunities arise. The request[ed] increase will help stem the rate of closure of our stores and currency exchanges throughout the State of Illinois.”); Tr. 114-115 (Iberl: If the Petition is granted, it will help bring up rates of return earned by currency exchanges to levels more comparable to that of other businesses. He also stated “What we are asking for is the ability to charge rates for check cashing that are more market oriented, so to speak, but also to allow us the opportunity to adjust our check cashing rates in the competitive environment in the communities.”); Tr. 65-66 (Lieberman: “Gentlemen, without those check cashing fees, we don’t have any place to go. . . . I’m losing stores at a terribly fast rate, and the reason we are losing them is because they can’t make the bottom line. . . . If they [the stores] are not making profits, they don’t have it [proper

capital], and they close. . . . So we are at a unique spot. We need this rate increase because this is life and death to us, and the communities we service. . . .”).

The fact that the impact of the rate increase cannot be measured with certainty, is not a reason to deny it given the ailing condition of the industry and the limited impact of the rate increase requested on the vast majority of checks cashed by currency exchanges.

**F. \$1250 as Rate Change Point.**

Mr. Ford and Mr. Lieberman were asked why the rate increase of .75% proposed will apply to checks over \$1250 – why was that number chosen as the change point for increase check cashing rates. Tr. 38, 56. Mr. Lieberman answered that the CCEA wants the larger increase of check cashing rates of an additional .75% to apply to only a relatively small percentage of checks cashed, and the small rate increase of 1/400 (.25%) to apply to the vast majority of checks cashed. The iStream numbers show that over 93% of all checks cashed are under \$1250. See Petition Appendices, Tab 17. Second, Mr Lieberman explained that \$1250 was chosen because if the minimum wage hits \$15 an hour, a paycheck at that rate for a 40 hour week for two weeks will, even without any withholding, still be less than \$1250.<sup>7</sup> Tr. 56-57. Note also that a worker earning \$1250 a week without overtime is earning around \$31,200 per year, or about twice the level that Dory Rand said was the income level where a high percentage of earners are underbanked or unbanked. Tr. 44-45. Petitioners’ witnesses also testified that larger checks carry larger risk and more time and effort and therefore cost to verify. Tr. 60-61; 81-82. Finally, common sense tells us that payees of larger checks are more likely to comparison shop for check cashing rates. If a person wanting to cash a large check doesn’t want to pay 3% to a currency exchange, that person

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<sup>7</sup> 80 hours X \$15/hr = \$1200.



is probably better able and certainly more incentivized to look elsewhere to cash his or her large check or even open a bank account with it.

**G. Increase in Rates from Last Rate Increase Authorized by the DFI.**

Mr. Ford was asked how many currency exchange licensees raised their rates since the last rate increase was implemented. Tr. 38. Mr. Ford did not know. The CCEA does not track check cashing rates of its members and so does not have that information to supply. Mr Lieberman testified that some currency exchanges took 4-5 years to adopt or phase in the check cashing rate increase allowed from the last rate hearing in 2007. At the 2007 hearing, there was testimony to the effect that it took long periods of time for some store owners to increase their rates. Petitioners expect that to be the case this time around as well and, as Mr. Herschman and others testified, in some cases, owners will not be able to implement the full rate increase. Tr. 105

**H. Percentage of Revenues from Check Cashing in Illinois vs. Other States.**

Mr. Ford was asked what percentage of revenues of currency exchanges in other states is from check cashing. Tr. 39. Neither he nor Mr. Lieberman had that information. Tr. 79. Mr Levitt testified that check cashing fees constitute up to 80% of the revenues of his stores in other states. Tr. 79.

**H. Woodstock Institute Testimony.**

The position of the Woodstock Institute does not take into account or rebut the specific reasons set forth in the Petition and the factors required by the Currency Exchange Act for the DFI and the IDFPR to increase check cashing rates. Dory Rand's testimony at the Hearing was more of series of general statements and data to the effect that currency exchanges cash checks for the unbanked and underbanked, that these people tend to be of lower economic means, racial minorities and less educated and so should not be subjected to a check cashing rate increase. Tr.

44-46. The one solution that she offered for the financial plight of the industry is for currency exchanges to charge more for unregulated services they sell to the public.

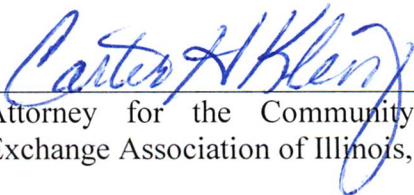
There are several problems with this approach: First, as stated under Point D above, the dollar volume of unregulated services that currency exchanges can offer and the amount of increase in rates of peripheral services that currency exchanges can realistically charge for them will not materially help the financial plight of currency exchanges. Second, these same underbanked and unbanked people will likely be using currency exchanges for these other services for which the Woodstock Institute says currency exchanges should increase their charges and prices. Third, the rate increase proposed, an increase of .25% per check up through \$1250, will minimally affect the unbanked and the underbanked. On a \$200 check, it amounts to a 50 cent increase in check cashing fees. Fourth, the premise of Dory Rand's objection to the Petition is that it is unreasonable to charge the unbanked and underbanked the higher rates the Petition seeks is not supported by what other states allow check cashers to charge. This is a factor the Currency Exchange Act requires the DFI to consider in passing upon a petition for a rate increase. As noted in the Petition, the Navigant Report and the testimony, the vast majority of other states allow much higher check cashing rates or impose no caps at all on them – allowing market forces to determine what is reasonable. Fifth, Woodstock's position undermines the statutory requirement that currency exchanges be allowed to make a reasonable profit. By Ms. Rand's reasoning, if some people can't afford to cash checks at currency exchanges, the currency exchange owners should forego charging a fee to those customers to cash their checks. That means no profits. How can that be a reasonable profit? Finally, the position of the Woodstock Institute does not recognize that keeping currency exchange stores open benefits the communities they serve, especially the unbanked and underbanked. See particularly the Testimony of Jerry Tufano and John Iberl. It gives people in

these communities a choice of a convenient place to go to handle their financial and governmental transactions. Dory Rand even testified that banks are closing or not building their branches in underbanked neighborhoods. Tr. 48. By not allowing currency exchanges to make a profit that will keep the owners in business, the communities that these currency exchanges service will be the losers – as they have been over the past decade with 187 currency exchange store closures..

**Conclusion.**

For the reasons stated in the Petition, the Petition Appendices, the Navigant Report, at the Hearing by the seven witnesses supporting the Petition and for the reasons stated above, Petitioners urge the IDFPR and the DFI to grant the Petitioner’s Petition and increase maximum check cashing rates in Illinois by .25% for checks up to and including \$1250 in amount, and by .75% for checks over that amount to help sustain the financial viability of the currency exchange system as mandated by Illinois law.

Respectfully submitted

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**TAB A**

**iStream Collated Data on Number of Checks Cashed by Currency Exchanges by \$50 increments under \$1250 from July 1, 2015 through June 30, 2016 at MB financial Bank, Republic Bank and First Midwest Bank**

<b>RANGE</b>	<b>TOTAL # of Checks Cashed</b>	<b>Running Subtotal</b>	<b>Running % of Total Checks Cashed</b>
0.01 -- 50	541,006	541,006	9.72%
50.01 -- 100	562,512	1,103,518	19.82%
100.01 -- 150	480,609	1,584,127	28.45%
150.01 -- 200	393,886	1,978,013	35.53%
200.01 -- 250	337,221	2,315,234	41.59%
250.01 -- 300	353,678	2,668,912	47.94%
300.01 - 350	325,896	2,994,808	53.79%
350.01 -- 400	298,547	3,293,355	59.15%
400.01 -- 450	242,448	3,535,803	63.51%
450.01 -- 500	247,227	3,783,030	67.95%
500.01 -- 550	184,750	3,967,780	71.27%
550.01 -- 600	177,391	4,145,171	74.45%
600.01 -- 650	145,268	4,290,439	77.06%
650.01 -- 700	144,885	4,435,324	79.67%
700.01 -- 750	209,239	4,644,563	83.42%
750.01 -- 800	98,239	4,742,802	85.19%
800.01 - 850	73,831	4,816,633	86.51%
850.01 - 900	69,488	4,886,121	87.76%
900.01 - 950	54,005	4,940,126	88.73%
950.01 - 1000	87,349	5,027,475	90.30%
1000.01 -- 1050	42,757	5,070,232	91.07%
1050.01 -- 1100	38,582	5,108,814	91.76%
1100.01 -- 1150	30,065	5,138,879	92.30%
1150.01 -- 1200	33,060	5,171,939	92.90%
1200.01 -- 1250	24,242	5,196,181	93.33%
1250.01 -- 1300	23,256	5,219,437	93.75%
1300.01 -- 1350	18,389	5,237,826	94.08%
1350.01 -- 1400	17,467	5,255,293	94.39%
1400.01 -- 1450	14,254	5,269,547	94.65%
1450.01 -- 1500	22,503	5,292,050	95.05%
1500.01 -- 1600	22,965	5,315,015	95.47%
1600.01 -- 1700	17,803	5,332,818	95.79%
1700.01 -- 1800	16,025	5,348,843	96.07%
1800.01 -- 1900	12,194	5,361,037	96.29%
1900.01 -- 2000	18,954	5,379,991	96.63%
2000.01 -- 2100	9,456	5,389,447	96.80%
2100.01 -- 2200	9,471	5,398,918	96.97%
2200.01 -- 2300	7,290	5,406,208	97.10%
2300.01 -- 2400	6,622	5,412,830	97.22%
2400.01 -- 2500	10,025	5,422,855	97.40%
2500.01 -- 2600	5,343	5,428,198	97.50%
2600.01 -- 2700	4,696	5,432,894	97.58%
2700.01 -- 2800	4,482	5,437,376	97.66%
2800.01 -- 2900	4,245	5,441,621	97.74%

2900.01 -- 3000	11,376	5,452,997	97.94%
3000.01 -- 3100	3,357	5,456,354	98.00%
3100.01 -- 3200	3,229	5,459,583	98.06%
3200.01 -- 3300	2,867	5,462,450	98.11%
3300.01 -- 3400	2,740	5,465,190	98.16%
3400.01 -- 3500	3,612	5,468,802	98.23%
3500.01 -- 3600	2,527	5,471,329	98.27%
3600.01 -- 3700	2,212	5,473,541	98.31%
3700.01 -- 3800	2,438	5,475,979	98.36%
3800.01 -- 3900	2,238	5,478,217	98.40%
3900.01 -- 4000	4,478	5,482,695	98.48%
4000.01 -- 4100	1,954	5,484,649	98.51%
4100.01 -- 4200	1,974	5,486,623	98.55%
4200.01 -- 4300	1,857	5,488,480	98.58%
4300.01 -- 4400	1,822	5,490,302	98.61%
4400.01 -- 4500	2,285	5,492,587	98.66%
4500.01 -- 4600	1,658	5,494,245	98.69%
4600.01 -- 4700	1,695	5,495,940	98.72%
4700.01 -- 4800	1,724	5,497,664	98.75%
4800.01 -- 4900	1,875	5,499,539	98.78%
4900.01 -- 5000	4,678	5,504,217	98.86%
5000.01 -- 6000	14,947	5,519,164	99.13%
6000.01 -- 7000	9,286	5,528,450	99.30%
7000.01 -- 8000	8,347	5,536,797	99.45%
8000.01 -- 9000	5,676	5,542,473	99.55%
9000.01 -- 10000	12,849	5,555,322	99.78%
10000.01 -- 11000	1,642	5,556,964	99.81%
11000.01 -- 12000	1,349	5,558,313	99.84%
12000.01 -- 13000	1,171	5,559,484	99.86%
13000.01 -- 14000	991	5,560,475	99.87%
14000.01 -- 15000	1,070	5,561,545	99.89%
15000.01 -- 16000	762	5,562,307	99.91%
16000.01 -- 17000	613	5,562,920	99.92%
17000.01 -- 18000	604	5,563,524	99.93%
18000.01 -- 19000	424	5,563,948	99.94%
19000.01 -- 20000	607	5,564,555	99.95%
20000.01 -- OVER	2,884	5,567,439	100.00%

TOTALS	5,567,439
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**TAB B**

**Navigant Explanation of Adjustment Amount**



**Supplemental Testimony to  
May 9, 2017 Public Hearing  
Regarding Currency Exchange  
Check Cashing Rate Increase**

*Prepared for*

**Illinois Department of Financial and  
Professional Regulation – Division  
of Financial Institutions**

*Prepared by*

**Bernard J. Ford**  
Managing Director

**May 19, 2017**



## Supplemental Testimony

During the public hearing conducted on May 9, 2017 I was asked to explain the adjustment line items on Schedule 1 of my report, "Analysis of Currency Exchange Revenue, Expenses, and Profitability: 2008 – 2015" ("Report"), and specifically the adjustments in 2015. Those line items were labelled as "Reconciliation – Adjustments".

Schedule 1 of my report was prepared based upon data compiled by the Division of Financial Institutions ("DFI") from individual annual report submissions by Illinois currency exchanges for the years 2008 to 2015. Navigant received the data from Jenner & Block, LLP, outside counsel to the Community Currency Exchange Association ("CCEA"). The revenue and expense line item data presented on Schedule 1 is based upon a schedule prepared by the CCEA using the yearly data compiled by the DFI.

The adjustment amount in 2015 of \$1,994,326 was applied by the CCEA as a debit (negative adjustment) to Total Revenue and a credit (positive adjustment) to Net Income. After discussions with John Iberl at the CCEA, we understand the 2015 adjustments were made by Mr. Iberl to reconcile the Total Revenue and Net Income presented in the 2015 currency exchange data as received from the DFI.

The file from the DFI presents Net Income \$4,203,968.<sup>1</sup> However, the schedule shows Total Revenue of \$144,554,058 and Total Expenses of \$142,344,416, which would yield Net Income of \$2,209,642. The discrepancy is attributed to revenue line items which sum to \$146,548,384 rather than the total presented, \$144,554,058. Therefore, the (\$1,994,326) credit adjustment to revenue was applied so the individual revenue line items will total \$144,554,058, and a debit adjustment of \$1,994,326 was applied to Net Income in order to reconcile to the Net Revenue of \$4,203,968 as presented in the data from the DFI.

We have not received additional documentation which would further explain the discrepancy between Total Revenue and the sum of the individual revenue line items, or the discrepancy between Net Income presented of \$4,203,968 and the difference between the totals for revenue and expense, \$2,209,642. We have received PDF Versions of the DFI's "Currency Exchange Annual Report, Consolidation Report" for the years 2008 to 2014. All the reports contain adjustments to Total Revenue; however, the reports do not provide explanations for the adjustments.

Without receiving further documentation from the DFI, or having conversations with knowledgeable personnel at the DFI, I cannot provide any further explanations for "Reconciliation – Adjustments" line items.

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<sup>1</sup> File name, "2015 Currency Exchange Data"