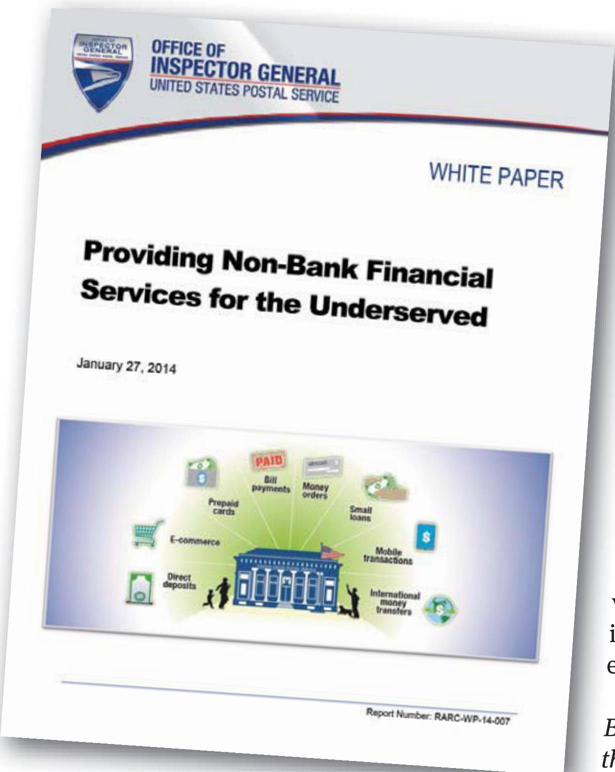
USPS inspector general sees a future in payday lending, other financial services

In the future, if you need a small loan to carry you through to payday, you may be able to just go to your post office. This is but one idea presented in a report by the United States Postal Service inspector general in January that could net the cash-strapped USPS billions and help hardworking Americans save on extortion-level interest rates and fees from private lenders. Since the release of the report, some media commentators and even members of Congress have embraced the out-of-the-box thinking.


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

WHITE PAPER

Providing Non-Bank Financial Services for the Underserved

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"We've long said that the postal network is ripe for innovation," NALC President Fredric Rolando said. "Using the retail network to serve the underserved is just one way that the Postal Service can profit while bettering the lives of our customers: the American public."

The report, *Providing Non-Bank Financial Services for the Underserved*, was released on Jan. 27. According to the report, one in four U.S. households lives at least partially outside the financial mainstream—lacking bank accounts or using costly services such as payday lenders. On average, households that use these costly services spend $2,412 a year on interest and fees for these financial services.

For those who are cut off from normal banks, the Postal Service might offer the unique recipe to reach them. The Postal Service already visits their houses six days a week. Because it is an agent of the federal government, many Americans, from diverse backgrounds, have a greater degree of trust in the Postal Service than they do in private banking institutions.

"The public's trust in banks to protect their personal information has declined since 2004, dropping from 48 to only 35 percent in that time," the report said. "In addition, a June 2013 survey found that only 26 percent of the public has much confidence in U.S. banks, and that this number has not risen above 40 percent since 2007.

"On the other hand, a recent market survey found that 68 percent of respondents agree or strongly agree that the Postal Service is reliable and trustworthy."

Beyond trust, location favors the Postal Service as well. In many rural communities, Americans are more likely to see a post office before they see a bank. In 38 percent of all ZIP codes, there is a post office, but no bank branch. And 21 percent of ZIP codes have only one bank. A recent study for the banking industry predicts that 40 percent of all bank branches will close over the next 20 years, so the number of communities without a bank branch is likely to increase in the years ahead.

While these numbers would suggest that a full-service Postal Service banking institution might succeed, politically, it appears a non-starter. From 1910 until 1967, the old Post Office Department offered savings accounts, often held by recent immigrants and the poor. At its peak in 1947, the system held almost $3.4 billion in deposits. But in 1967, Congress passed a law stripping the Post Office of this business so it would not compete with private banks. Not much has changed in Congress since then, as highlighted by remarks from Rep. Darrell Issa (R-CA).

"Currently, the Postal Service pays no federal, state, or local taxes, is exempt from most state and local laws," Issa said in a statement. "With these inherent advantages over the private sector, allowing USPS to expand into broad new arenas, such as the financial service industry, would be unacceptable and represent a massive expansion of the power of government."

However, the IG report attempts to find a service that Congress would allow the Postal Service to enter. "The Office of Inspector General is not suggesting that the Postal Service become a bank or openly compete with banks," the paper's executive summary reads. "To the contrary, we are suggesting that the Postal Service could greatly complement banks' offerings."

The report examines a number of services the Postal Service—which already handles money orders for customers—could provide, including offering reloadable prepaid debit cards, mobile transactions, domestic and international money transfers, a Bitcoin exchange, and most significantly, small loans. It could offer credit at lower rates than fringe lenders do by taking advantage of economies of scale.

The average payday loan is for $375. It carries an average effective annual interest rate of 391 percent. Typically, the loans are paid back over 4½ months, costing $520 on top of the principal. The report suggests that the Postal Service could offer the same loan with only a 28 percent interest rate.

Unsurprisingly, many private bankers stand opposed to the idea. Camden R. Fine, chief executive of the Independent Community Bankers of America, has already called the post office proposal "the worst idea since the Ford Edsel."

But Fine and other critics are ignoring the success many foreign posts have seen by moving into financial services. As reported in the January issue of *The Postal Record,* such postal services as Swiss Post and Brazil's Empresa Brasileira de Correios e Telégrafos have shown tremendous profit on financial services. In Brazil, when the postal service teamed up with a private bank to offer financial transactions at its retail network in 2001, the initial contract was valued only at $125 million for 10 years. So many citizens used the new bank that the second contract, for just half the duration of the first, was valued at $1.5 billion.

According to the OIG report, if the Postal Service made the services they recommended a reality, the Postal Service might ultimately see revenue increase by $8.9 billion per year.

Since the report, media outlets including *The Washington Post,* Fox News and the *St. Louis Post-Dispatch* have weighed in on the idea. (You can read these and more articles on the report at Postal Facts on nalc.org.)

In Washington, the idea already has several congressional fans. Both the Sanders and DeFazio bills (which the NALC supports) allow USPS to diversify its range of services to meet unmet public needs. And a new proponent recently lent her voice to the OIG's report.

"If the Postal Service offered basic banking services—nothing fancy, just basic bill paying, check cashing and small dollar loans—then it could provide affordable financial services for underserved families, and, at the same time, shore up its own financial footing," Sen. Elizabeth Warren (D-MA) said. "The Postal Service is huge—employing more than a half million people—and its history is long and complicated. Any change will take time. But this is an issue I am going to spend a lot of time working on—and I hope my colleagues join me. We need innovative ways to create pathways for struggling families to build economic security, and this is an idea that falls in that category."

"It's great to see that support from Senator Warren," President Rolando said. "We will look to her for help as we attempt to innovate the Postal Service's business."

Rolando is no stranger to innovative ideas. He proposed forming an infrastructure bank in the July 2013 issue of *The Postal Record.*

"What if we allowed Americans to open savings accounts in the nation's post office and directed those funds into national infrastructure bonds that would earn interest for depositors and fund job-creating projects to replace and modernize our crumbling infrastructure?" he wrote. "A post office bank would not compete with private banks—it would not offer commercial loans or mortgages. But it could serve the unbanked and fund infrastructure projects selected by a non-partisan [national infrastructure bank]."

This idea, along with the new report from the inspector general reflect the many opportunities for innovation the unique postal network could allow, if only Congress and USPS management are willing to listen.

You can download and read the full report at uspsoig.gov. **PR**