BANKING ON THE POSTAL NETWORK

How expanding financial services could add up for USPS and the public

Tens of millions of Americans have inadequate access to banks or simple financial transactions, keeping many of them on the fringes of the economy and living paycheck to paycheck.

The Postal Service could soon help to change that.

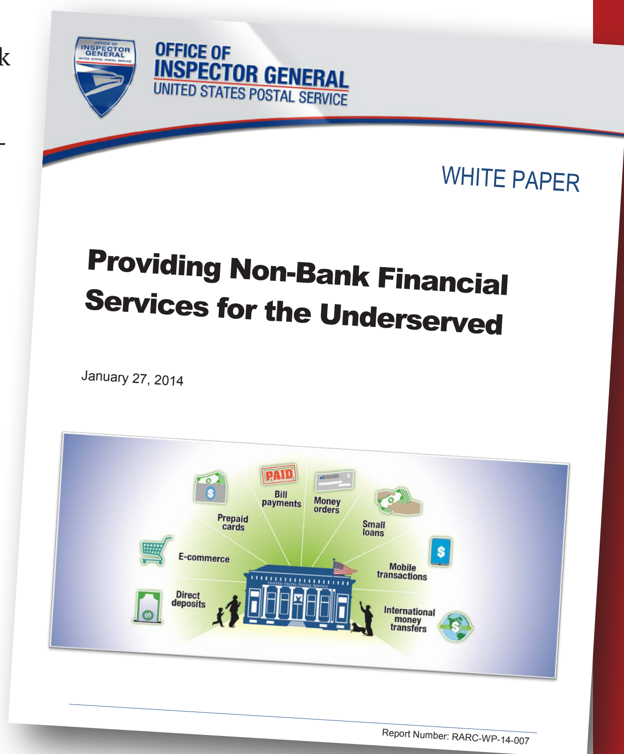
USPS is a trusted, reliable government agency whose universal network reaches every home and business in the United States, including those without Internet connections or nearby bank branches. With a nationwide retail network already in place, the Postal Service is well situated to bring simple but vital financial services to rural areas and to underserved city dwellers—services such as fund transfers or savings accounts.

With NALC's support, the postal banking idea is gaining steam. The Postal Service's Office of the Inspector General (OIG) endorsed postal banking in a white paper this year, and now Congress is taking an interest.

"Postal banking is one of the most promising innovations for the USPS," NALC President Fredric Rolando said. "The Postal Service's universal network is a great resource that could easily provide reasonably priced financial services for millions of people with little or no access to them, with a great benefit to the Postal Service on the revenue side."

Serving the 'unbanked'

There is no shortage of potential customers for the basic financial transactions that most of us take for granted. One in four American households are "unbanked"—lacking bank or credit accounts or easy access to simple transactions—according to *Providing Non-Bank Financial Services for the Underserved*, the white paper the OIG's office released in January.


OFFICE OF INSPECTOR GENERAL
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WHITE PAPER

Providing Non-Bank Financial Services for the Underserved

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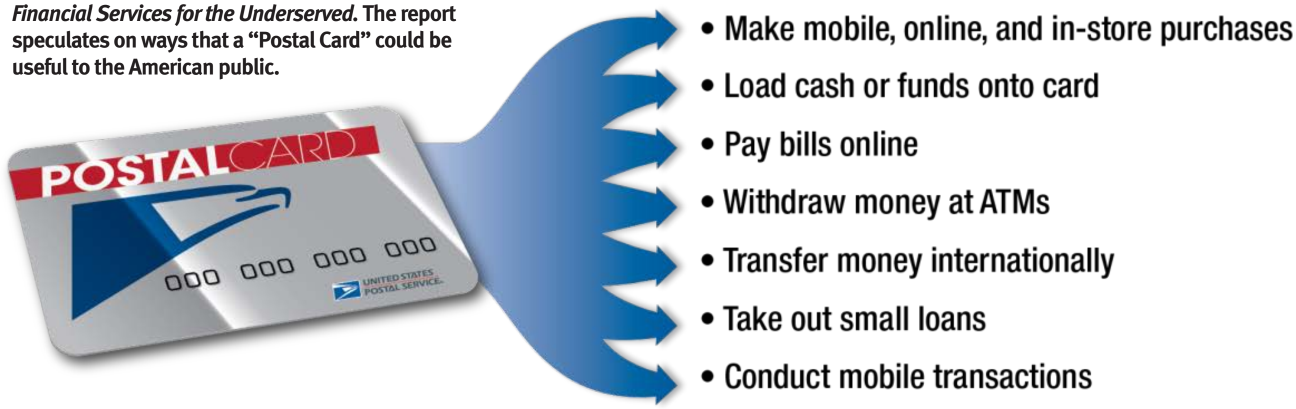
Americans are unbanked for various reasons. Some, whether in rural areas or struggling urban cores, don't live near a bank and lack Internet access to use online banking. Some can't afford or don't qualify for bank accounts, or don't trust banks with their money or personal information. Many turn to high-priced payday lenders for access to credit, which winds up costing them more than those with bank access—an average of $2,412 on interest and fees annually, according to the OIG report (see sidebar). That's more than most of these households spend on food each year.

Whether they are held back by access, cost or trust, unbanked Americans could find the Postal Service a great solution, because the agency comes with easy access, low cost and unparalleled trustworthiness.

According to the OIG report, 38 percent of ZIP codes have a post office but

An image from the OIG report, ***Providing Non-Bank Financial Services for the Underserved.*** **The report speculates on ways that a "Postal Card" could be useful to the American public.**



no bank branch. That number is likely to grow, says one banking industry study, since bank branches are closing rapidly and banks are consolidating, with the smaller community banks being swallowed up by large ones. Research firm S&L Financial found that banks are reducing the number of branches in areas where the annual median income is below $50,000 (while adding more of them in higher-income neighborhoods).

On the other hand, the Postal Service has post offices in most communities, rich or poor, rural or urban. USPS could offer basic services like debit cards, small loans or savings accounts, bill-paying and money transfer services (it already offers money orders). As a government agency that is required to sustain itself but not aim for profit, the Postal Service would charge reasonable rates for financial transactions, undercutting the costs imposed by many private lenders and others who take advantage of this lack of choice.

Also, in an era of hacking and online data theft, the public's trust in banks to protect personal information has declined to 35 percent, compared with 48 percent 10 years ago, the OIG report said. Contrast this with the Postal Service, an agency with its own police force to investigate fraud, paper transactions that can't be hacked and poll results that consistently rank it as the most trusted federal agency with an approval rating exceeding 80 percent.

"By offering vital financial services at a reasonable price using its existing retail network, the Postal Service is perfectly positioned to serve a need that the private sector isn't meeting," Rolando said, "which is exactly what government agencies are supposed to do."

NALC already is on record as supporting the postal banking concept. Delegates at the 2012 national convention in Minneapolis adopted a resolution endorsing the idea. In the July 2013 issue of *The Postal Record*, President Rolando proposed forming a postal infrastructure bank, using funds from postal depositors as capital for road and bridge construction and repair.

"Offering financial services could have some beneficial side effects," NALC Chief of Staff James Sauber added, "including boosting mail volume and making e-commerce easier for both buyers and sellers. And as the inspector general's report noted, it could bring billions in new revenue for the agency."

The OIG report threw out a ballpark figure of $8.9 billion in new annual revenue going to the Postal Service, assuming that only 10 percent of the current spending on payday lenders and other bottom-feeding financial services companies went to the Postal Service instead. The report also noted that traditional banks would benefit from new business gained through partnerships with the USPS. Banks would also benefit because for many people at risk of financial ruin, easy access to financial services could prevent them from going over the brink and defaulting on debts to banks.

A familiar idea

Today's postal banking proposals didn't come out of left field. Several postal agencies in other countries provide financial services to their citizens today, and the predecessor of the USPS, the U.S. Post Office, once offered similar services.

France, Germany, Japan, China, Brazil, India and New Zealand are among the countries where residents can take advantage of a range of financial services through their postal systems, sometimes in partnership with private banks. George Collins, post and logistics' national industry organizer for New Zealand's Engineering, Printing and Manufacturing Union (EPMU), spoke at the NALC Convention in Philadelphia in July about the success of Kiwibank, his country's postal bank that now generates most of the postal system's revenue. "After 12 years, it is now seen as one of the major banks in New Zealand," he said.

America's postal system once offered similar services. Congress authorized the Post Office to offer savings accounts and the sale of savings bonds beginning in 1911, shortly after the Panic of 1907 shook confidence in banks. Deposits soared after the bank failures that set off the Great Depression and peaked in 1947, when 4 million Americans had a total of $3.4 billion in postal savings accounts. After banks regained public confidence and offered higher interest to savers, postal accounts declined and Congress discontinued the program in 1967.

The Postal Service has the authority to offer a few basic financial services right now, such as money orders—in fact, the USPS has 70 percent of the U.S. market share of money orders. Customers buy 100 million or so postal money orders each year, generating a small profit for the agency. The USPS also is currently testing the sale of prepaid gift cards, which generally are available in post offices that sell greeting cards. The results look promising and the test is expanding.

A payday lender in Richmond, VA.

Photo by Taber Andrew Bain

The postal banking concept has attracted positive news media attention lately, including business-oriented outlets not usually sympathetic to proposals for new government services. In August, *BloombergBusinessweek* contributor Chris Farrell lauded the idea as a way to encourage people to boost their savings and avoid payday lenders. "The U.S. can take advantage of the long experience of other countries to design a state-of-the-art postal banking service," he wrote. Forbes and *The Economist*, among many publications, also have written positive stories recently.

Congress takes notice

The Postal Service may have the legal authority to offer other additional financial services now. New postal banking legislation, however, would allow USPS to take advantage of the full potential of postal banking, as well as silence critics who say that USPS shouldn't be involved in the bank business. It also would push postal management to act.

On July 15, Rep. Cedric Richmond (D-LA) introduced the Providing Opportunities for Savings, Transactions and Lending Act (POSTAL) Act, H.R. 5179, to allow USPS to offer basic financial services, including checking accounts, interest-bearing savings accounts and money transfers, and to allow the Postal Service to partner with private banks to offer these services. In addition, the legislation would create a "Postal Card" that would serve as a debit card and provide access to savings accounts for postal banking customers.

"The NALC appreciates the efforts of members like Rep. Richmond, who are thinking outside of the box by seeking alternative ways for the Postal Service

Who are payday lenders?

Many people with no access to bank accounts or traditional credit turn to short-term "payday loans" to get quick cash to tide them over until their next paycheck, Social Security check or other regular payment arrives. They also may take out similar loans secured by collateral such as a car title. Lenders like these often flock to low-income neighborhoods that traditional banks shun. Some of these lending companies started as pawn shops.

Payday lenders also cluster near military bases, taking advantage of modestly paid, young service members with little financial experience or families struggling to stay afloat while one spouse is away on active duty. Some end up with money troubles or even canceled security clearances after borrowing at high interest rates.

Payday loans are meant to be paid back in a few weeks, but they often come with outrageous terms that trap borrowers in long-term debt or cause them to lose collateral. According to the Center for Responsible Lending, a non-profit group that fights predatory lending practices, the average interest rate on a payday loan, if stretched out to a full year, is more than 400 percent.

Along with high fees for services such as cashing checks, paying bills and transferring funds, payday loans are one reason the unbanked spend an average of $2,412 a year on fees and interest—about 10 percent of their average household income and more than they spend per year on average for food. Households with access to mainstream banks usually spend a much smaller proportion of their income on financial services.

With such high costs of access to credit, many desperate people who resort to payday loans end up owing more and more and turning again to expensive loans to get by, falling into a cycle of growing debt that is hard to escape. The federal Consumer Financial Protection Bureau says four out of five borrowers of these "short-term" loans end up extending them past two weeks, and half of them end up taking out at least 10 loans before paying back everything they owe. Some lenders use illegal or harassing tactics against customers who don't pay on time and who don't know their legal rights as borrowers. Overall, the lenders make an estimated $80 billion each year with these tactics.

Common myths about postal banking

MYTH: Postal banking would represent a dramatic intrusion of government into the financial sector.

FACT: The government already is deeply involved in banking, to the benefit of both bankers and their customers. Government agencies regulate interest rates and the money supply, insure or guarantee many deposits, loans and other accounts and regulate how banks operate. And Congress would outline exactly what the Postal Service could or could not do in legislation enabling postal banking.

MYTH: Postal banking would unfairly compete with private banks.

FACT: For most customers who would use them, most of the financial services the Postal Service would offer aren't available from banks anyway. The USPS Inspector General's financial services white paper explicitly says it doesn't see the Postal Service competing with banks. "To the contrary, we are suggesting that the Postal Service could greatly complement banks' offerings."

MYTH: Postal employees couldn't handle offering financial services without significant training.

FACT: Postal employees already handle complex transactions. Postal clerks routinely cash checks and money orders and handle complex transactions, including changing mail rates and classifications and customs forms. Clerks also are trained to handle responsibilities related to stopping bank fraud and money laundering through the mail. Routine financial services are a natural addition to postal workers' skills and would require little extra training.

MYTH: To provide financial services, the Postal Service would need to hire many new employees and build new facilities.

FACT: Postal banking would leverage existing postal facilities and personnel, both of which are well-suited to provide basic financial services. It's as simple as adding new services to the list the USPS already offers, using existing workers at existing post offices.

to serve the public and strengthen the agency," President Rolando said. "We think this legislation is a positive first step toward finding that balance."

In the past, other members of Congress from both political parties have introduced or endorsed postal banking legislation.

In a pre-recorded speech to NALC Convention delegates in Philadelphia this summer, Sen. Elizabeth Warren (D-MA), a member of the Senate committee that oversees banks, called for the Postal Service to offer financial services.

"Banks are rapidly abandoning lower-income and rural neighborhoods, and that's where the U.S. Postal Service comes in," Warren said. "The USPS is the only organization with the public mission, the infrastructure, the experience and the well-trained employees that are needed to address this problem."

Warren has talked with the Obama administration about using executive authority to order the Postal Service to offer financial services under existing law without waiting for Congress to pass a bill. Frustrated with congressional inaction on other issues, Obama increasingly has used his executive authority, and if the Senate falls into Republican control after the midterm elections on Nov. 4 and lawmakers continue to block progress on this and other issues, the president might turn to his executive authority again (see the legislative story on page 6 for more information about the midterm elections).

Answering the critics

NALC is working in partnership with other postal unions and advocacy groups to build support for postal banking, including BankAct, an organization founded specifically to press for postal bank services. BankAct President Marc Armstrong, who also spoke at the Philadelphia convention, compared postal banking to other basic services—"public options"—that the government offers, such as utilities, roads and public schools.

"Public options exist in order to remedy the inadequacies and inequality of so-called 'free' markets that are critical to the well-functioning of an economy," Armstrong said. "Whether they are access to clean drinking water, a network of roads for safe transportation and free education for all school-age children, public options provide the basic building blocks that expand the capacity of an economy. Low-cost payment services and access to banking products provided by a trusted organization are building blocks that we've overlooked in the past."

Critics such as Rep. Darrell Issa (R-CA), chairman of the House committee that oversees the Postal Service, have called postal banking "a massive expansion of government power" by an agency exempt from banking regulation. Armstrong called such concerns unfounded.

"If government is good at anything, it is good at compliance," he said. "A postal bank would likely grow to be an independent arm of the USPS, run by people with banking experience, and fully compliant with all consumer banking regulations."

Since it isn't driven to maximize profits like banks are, the Postal Service would set minimal prices for its financial services and make them simple to understand and choose from, Armstrong added. Postal employees—who already have demonstrated the ability to deal with complex information and transactions—could easily handle the added responsibilities.

"The U.S. Postal Service is known for its narrow set of products and services provided at a low cost," Armstrong said. "The ability for the USPS to consistently deliver as a low-cost provider is one of its strengths. People trust the USPS to provide them with an excellent service at a reasonable or low price."

President Rolando agreed. "Once you look at it, postal banking makes a whole lot of sense," he said. "NALC is going to continue to urge policymakers on Capitol Hill and at L'Enfant Plaza to see the logic of it and make it happen." PR