Author makes the case for postal banking

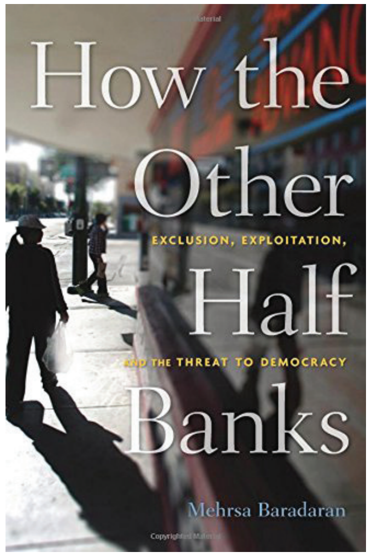
Imagine a woman walking into her hometown post office, going to the clerk and signing over her paycheck for deposit or asking to take out a small, short-term loan. Sounds crazy, right? But it wasn't that long ago that post offices acted as banks. And if Senators Elizabeth Warren (D-MA) and Bernie Sanders (I-VT) have their way, post offices will be the people's banks once again.

The reasons these senators have decided to make postal banking part of their legislative agendas is not primarily because it's good for the Postal Service, but because it would benefit the poorest class of Americans—those known simply as "the unbanked." That it also might financially aid the cash-strapped Postal Service is a side benefit.

"USPS could partner with banks to make a critical difference for millions of Americans who don't have basic banking services because there are almost no banks or bank branches in their neighborhoods," Warren wrote in a Huffington Post op-ed in 2014.

"Although postal banking could potentially save an institution that predates the Constitution and made our first-rate democracy possible, the most important argument in favor of postal banking is its potential to bank the unbanked," Mehrsa Baradaran wrote in her book "How the Other Half Banks." Baradaran, a University of Georgia law professor, believes that basic fairness dictates that the United States must find a solution to the oppressive financial environment that low-income Americans must contend with.

Baradaran has become an outspoken proponent for postal banking, and has met with Sens. Warren and Sherrod Brown (D-OH), the ranking member on the Senate Committee on Banking, Housing, and Urban Affairs. She's also counseled the American Postal Workers Union and NALC. In an interview, she explained that she wrote the book "for average people who want to know how banks work."



To understand why postal banking has become such a big issue, one must look at how banks have changed over the last several decades. The old formula—of people having savings accounts to deposit their money, which banks then loan so other customers can buy cars or houses—is no longer how banks make their profits. The six largest banks, which now account for 70 percent of all assets in the financial system, focus on their wealthiest customers, using the banking products to lead customers to invest in stocks, bonds and other products.

Since there is very little profit in a checking account that has only a few hundred dollars in it at any one time, the large banks drive off these customers by assessing annual fees and high penalties for overdrawing on their accounts. The average minimum deposit for a free checking account is $400, putting it out of reach of many.

So, how does someone who is unbanked survive in our electronic currency economy? As Baradaran explains, it costs a lot of money.

"When an unbanked person gets her paycheck," Baradaran said, "she must go to a check casher; in the process, she loses up to 10 percent of her paycheck. She must then pay her bills, and because most institutions will not take cash for bill payments, she must purchase money orders, which can cost anywhere from 5 to 20 dollars.... Some institutions will accept cash for bill payments, but never by mail, and so paying by cash requires possibly missing work."

Baradaran noted that the average unbanked family with an income of around $25,000 spends about $2,400 per year on financial transactions like these, even more than it spends on food. For the poorest Americans, that $2,400 can be the difference between making it or bankruptcy.

And we are not talking about only a few people—70 million Americans lack a bank account or access to traditional financial services. Without banks or credit cards, where do these people turn in an emergency? When they can, to friends and family. When they can't, to payday and car title lenders, who often prey on those who have nowhere else to turn.

Payday lenders require borrowers to sign over a share of a future paycheck to take out a small loan (usually up to $500) over a short term (usually from a week to a month). Title lenders use the borrower's car title instead of a paycheck as collateral. The interest rates for these loans, while small in the short term (in the neighborhood of $15 per $100 borrowed for two weeks), quickly balloon to several hundred percent annually if the borrower can't repay the loan in the time required.

There are only a handful of lending

corporations, and they do not compete on loan rates, artificially keeping rates at the maximum level allowed by law. These lenders particularly target the poor, immigrants and families near military bases, who generally do not shop for loans based on lowest rates.

Here are some of the staggering statistics Baradaran has put together:

- The average payday lending customer is indebted for 199 days.
- More than 80 percent of payday loans are rolled over or followed by another loan within 14 days.
- Of the loans that are rolled over, 62 percent are part of a sequence of seven or more loans.
- The average borrower pays between $500 and $600 in interest.
- Car title lenders typically have higher limits, meaning they can lend more up front and take more interest as loans are renewed.

Several states have attempted to crack down on the amount of interest these lenders can charge, but lenders have been protected by court victories and intense lending-industry lobbying on state legislatures. Even if all payday and title lenders were shut down, the need for small loans would continue, as evidenced in 2004, when the state of Georgia outlawed payday lenders. Bounced checks, customer complaints and Chapter 7 bankruptcies all increased significantly.

And that's where postal banking comes in. Rather than cutting off access to these loans, the Postal Service could make them more publicly responsible. Baradaran and others (including the USPS inspector general) have recommended that the Postal Service offer small-scale financial transactions at a fraction of the fees payday lenders charge.

"American banks long ago deserted their most impoverished communities, but post offices, even two centuries later, have remained—still rooted in an egalitarian mission," Baradaran wrote. "There have never been barriers to entry at post offices, and their services have been available to all, regardless of income. And so, it is not unreasonable to suggest that as America's oldest instrument of democracy in action, the post office can once again level the playing field, and in the process, save itself from imminent demise."

She points out several strengths the Postal Service would have upon entering the industry:

- USPS can use natural economies of scale (selling a lot of the same product) and economies of scope (a large company selling a lot of differing products) to lower the costs of all its products,
- USPS' infrastructure (the network of post offices) significantly reduces overhead costs (having to open new store fronts),
- USPS has no profit-demanding shareholders, meaning it could offer its products at a cost that would not bankrupt borrowers,
- As the USPS inspector general has explained, the Postal Service could use a Treasury Department program, available only to federal agencies, that allows the garnishment (taking out) of tax refunds to repay debts.

Opposition to postal banking predictably has sprung up from the banking and payday lending industries, as well as from those who believe in free markets operating without government intrusion. Baradaran counters that postal banking would serve customers whom traditional banks already have abandoned, and that history has shown that postal banking has been a successful way to get the unbanked into the system to the point where they can take advantage of traditional banking services.

The old Post Office Department started a banking program in 1910 with a limit on deposits and an artificially deflated interest rate. One key thing the Post Office could offer was security: During times of bank runs and limited availability (bankers' hours), the Post Office was a haven for immigrants and the lower classes. By 1947, the Post Office held $3.4 billion in deposits, had 4 million users and offered banking by mail for added convenience. Eventually, federal deposit insurance and higher interest rates pushed many Post Office bank account holders to traditional banks, and the postal banking system officially ended in 1968.

Though she didn't want to offer a blueprint for a postal bank, Baradaran shared her vision of potential postal banking products and services:

- Savings accounts—"A lot of people still hoard cash," she said.
- Small loans—"Not student loans or mortgages."
- Domestic and international remittance
- Prepaid cards
- ATMs
- Wire transfers

"This is completely possible," Baradaran said. However, about the struggle to get postal banking legislation through Congress: "If the public was paying attention, this would be a no-brainer. Ethical legislators will have to come out and say this is for the best."

One of the most common questions she gets when talking about postal banking is whether postal employees can do the jobs of bankers, and she believes they can. "Look at what the Postal Service can do," she said. "They get mail to every house, every day. There's not a single organization that has the breadth and efficiency of that.

"I always fight back when people in the press ask if postal employees can do this, and I say, 'Walmart employees can do this. Paycheck cashers can do this. Postal employees are the cream of the crop of non-bank people. They're public servants. They're well-trained. They're unionized. They're principled.

"I have absolutely 100 percent faith in postal employees to carry out responsible banking." **PR**