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## Author argues have-nots better served by postal banking

By [Jay MacDonald \(/credit-card-news/authors/jay-macdonald.php\)](/credit-card-news/authors/jay-macdonald.php)

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The United States has two banking systems: one for the haves, the other for the have-nots.

Thanks to banking deregulation that began in the 1970s, the haves enjoy the luxury of readily available credit from a multitude of lenders at attractive rates, while the have-nots face often exorbitant rates and fees from largely unregulated payday lenders and check-cashing services.

University of Georgia law professor Mehrsa Baradaran hopes to prompt a better deal for America's unbanked and underbanked by returning affordable banking services to an address that may surprise you: your local post office.

In her new book, "How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy," Baradaran chronicles how postal banking served as the affordable banking solution for the common man from 1910 until 1966, when it yielded to the postwar glut of savings and loans and community banks. Many countries around the globe still use it. In fact, postal banks are the largest banks in some countries.

Baradaran argues that it's time to head back to the future and revive postal banking here as the cost-effective way to both free the underbanked from the abuses of fringe lenders and revitalize the U.S. Postal Service. After all, the post office already has the nationwide staff and brick-and-mortar branches.

**Q:** Those of us who are inundated with daily credit card and banking offers may be surprised to learn that less fortunate Americans enjoy few of these options.

**A:** That's right; we just don't understand what it's like to be poor. We don't think about the nodes that our money moves through because some bank or service provider or credit card company does all of this stuff for us. When

you're completely out of that sector, it's virtually impossible to get these things done because the financial world revolves around those who have money.

**Q:** Some assume the poor are simply lousy money managers. Are they?

**A:** It's not that the middle class is better with money; it's just that the pitfalls aren't that deep for us. If we're short \$500, most of us have a network of people we can call, our parents or a neighbor. We have this system of support and money and liquidity that allows us to not let our mistakes destroy us. But when you're living hand to mouth, you can do all the great money management you want and it may still leave you exposed to some harsh, harsh realities.

**Q:** That's a situation that banks once helped prevent as a public service until deregulation.

**A:** Absolutely. Today, it's like reverse Robin Hood; they're taking the small money of the poor and paying it up to these payday lenders, who pretend they're these informal, neighborhood places, but they're not. There are about five or six massive, multibillion-dollar corporations built on the much-needed small paychecks of the poor.

**Q:** You propose reviving postal banking. What was postal banking like?

**A:** Very few people remember it. By the time it was phased out in the 1960s, it wasn't super popular; the service had been taken over by banks that were in their heyday. At the time, we had all these banks and they were open to everybody then, so the question was, why do we have post office banking?

**Q:** Why revive postal banking?

**A:** It makes sense because we don't have the world that we used to. A lot of banks have left those communities that are rural, depressed, low income, inner city, while the post offices have remained. There are a lot of these "banking deserts" where people have very simple financial transaction needs. Postal banking is sort of a win-win-win on so many different levels, except the losers will be the payday lending industry. But just that industry; banks are not losers in this scenario because they have long stopped serving those customers.

**Q:** Why now?

**A:** Because we've reached a real crisis, as the banks are now bigger and more powerful, which means they have the ability to pull out of those areas. Community banks are dying by the hundreds every year and they won't be back because they're after the same profit numbers. The post office is also struggling and reaching out for a lifeline. That's why now, and why the post office makes sense.

**Q:** How would postal banking services be structured today?

**A:** I see it as the post office just operating a general service bank. So to the extent that Bank of America has online banking, the post office can, too. What you're basically looking at is an ATM outside the post office and an online account where you can access and transfer your money, online



Author Mehrsa Baradaran

**Postal banking is sort of a win-win-win on so many different levels, except the losers will be the payday lending industry.**

or in person.

**Q:** What would be the advantages for consumers?

**A:** USPS is an institution that has a lot of public responsibilities, so I think disclosure will be better. There won't be all of these sneaky fees, in part because their primary motive will be to offer services to the public instead of just making a profit, and because there will be more disclosure demanded of them. In addition, for a lot of people, the post office is still the community place where they gather. A lot of stuff around the post office is there because people come to the post office. It becomes the center of town in a way.

**Q:** Might they partner with nearby businesses such as supermarkets or even banks?

**A:** A lot of banks have already expressed interest in partnering with the post office, and I think the post office would welcome that. They would need the expertise; they're not bankers. But it's not complicated either. Could postal employees do this stuff? Well, Wal-Mart employees do it. Postal employees are paid more, they're unionized, and they're already highly skilled and better educated. You have the post office selling stamps online, they already do money orders, they already have cash services, so why not?

**Q:** What's the biggest obstacle to postal banking?

**A:** Politics. Anytime you have an idea that benefits a lot of small interests and hurts some concentrated powerful interests, you're going to have a hard time. There will be a lot of people opposed to this, especially the payday lenders and probably the banks, too. Banks tend to oppose everything, even though they can't prove that it's going to hurt them. Poor people are not super powerful politically.

**Q:** Until postal banking gains traction, are you optimistic that the Consumer Financial Protection Bureau's "[ability to pay \(/credit-card-news/credit-card-issuers-verify-income-ability-to-pay-rule-1276.php\)](/credit-card-news/credit-card-issuers-verify-income-ability-to-pay-rule-1276.php)" initiative will rein in some of the abuses of these second-tier lenders?

**A:** There is hope that the CFPB will use some of their limited powers to do this, but a lot of this is state regulated, and a lot of states resist heavily the CFPB's involvement in regulating their payday lenders.

**Q:** Some suggest the new CFPB regulations could even backfire and essentially dry up the few admittedly lousy credit alternatives for the poor. Does that concern you?

**A:** Yes, absolutely. This is the poor's only option. If we take away that option, then what do you do? You have the loan sharks pop up; an even shadier and seedier element of society that may do more physical harm than just charging high interest. I don't think the answer is to take away the one and only option available to people; it's to provide another option that is more regulated and less costly.

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