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Postal Banking's Public Benefits

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The financial crisis of 2008 made clear to the public, in a way that had not been apparent for some time, that banks depend for their existence and operation on a structural framework created by the federal government. But policymakers as well as the public at large do not have a clear view of the reason why the federal government regulates the banking industry in the first place—namely, to serve the credit needs of the American public. The continuous, underspecified debate between more and less regulation of the banking sector overlooks one very grave problem: the financial services sector has elected to serve only the middle class and the wealthy, leaving the underbanked poor in the hands of predatory and payday lenders, check-cashing services, and other providers of typically usurious loans. Since the federal government cannot force banks to serve the public through low-cost credit and banking services, they have chosen not to.

Yet this choice rests upon a very selective interpretation of the government’s role. In 2008, Bank of America CEO Ken Lewis said, expressing a sentiment echoed by both the Bush and Obama administrations, “We are so intertwined with the U.S. that it’s hard to separate what’s good for the United States and what’s good for Bank of America. . . . They’re almost one and the same.” It’s true—they are—and on the question of access to banking, the federal government should act like it. But even while banks sit atop a massive government infrastructure, they send armies of lobbyists to fight even the most minimal regulatory impositions.

The close ties between federal policy and banking operation give the government a strong interest in how banks expand access to credit. It is the federal government that enables banks, through low-cost federal deposit insurance, to use other people’s money with minimal risk. Banks also have direct access to money held at the Federal Reserve at low interest (not to mention the “discount window”
loans). When a bank, just like an individual, cannot pay all its bills when they are due, the Federal Reserve gives the bank a short-term loan so they can survive without having to sell off valuable assets. Bank assets consist of mortgages, mortgage-backed securities, and derivative CDOs based on bundles of these mortgage loans. These mortgages are also guaranteed by government agencies such as the Federal Housing Administration and the government-sponsored enterprises (GSEs). GSEs also enable the secondary market that further reduces the risk on these loans and makes them more profitable. The Fed has been reaching far into its toolkit to save banks from their own crisis and to nudge them to lend more. Just one of these programs, called the administered rate, gives banks interest payments for holding excess reserves. One estimate calculated $7 billion in interest payments to commercial banks, including more than $100 million to Goldman Sachs and more than $900 million to JPMorgan Chase. All of this is meant to pass through banks and on to the people. It usually doesn’t.

More fundamentally, money and credit themselves are created by the federal government. Since loans create money, and since mortgage loans and deposits are guaranteed by the federal government, credit policy and moneymaking are functions of federal government policy combined with bank action. The cost and availability of credit is a policy decision.

But, eager to avoid account maintenance costs for low-dollar accounts, banks discourage poor households from using their services. They charge account fees for failing to maintain a minimum balance or for failing to have a job that offers direct deposits. For instance, in January 2018, Bank of America began to charge its lower-income clients a $12 monthly fee for their accounts unless the customer had a direct deposit of $250 or more, or a minimum daily balance of $1,500. This fee would be in addition to overdraft fees, ATM fees, and other fees that add up for poor customers. The FDIC reported in 2016 that 26.9 percent of U.S. households were either unbanked or underbanked, meaning that they obtained financial services and products outside of the commercial banking system.

Without a viable alternative, many poor Americans are left with only volatile and usurious options, such as using payday lenders and check cashers. An empire of payday lenders has emerged to meet this demand. One independent report cited by the Consumer Financial Protection Bureau (CFPB) estimated that there were 16,480 payday loan stores in the United States in 2015—more than all of the McDonald’s in the United States and Canada combined. These lenders charge rates that range from 300 to 2,000 percent APR, pushing their borrowers into a cycle of debt that lands many of them in bankruptcy proceedings.

The unbanked face simple deposit and transaction problems as well. Banks and credit unions have a
monopoly on the transactional payment system through the Federal Reserve. When an individual or an organization needs to send money from one place to another, or to engage in any type of trade, they have to use a bank. Spurned by big banks that cash their customers’ checks at no cost, poor Americans must use private check-cashing companies to access their income—and those companies charge poor Americans exorbitant rates for the same services that big banks provide the middle class for free. These families use up to 10 percent of their income just to access their money.

### The Postal Banking Answer

The dependency of bank lending activity on federal policy makes the exclusion of the poor from the banking system a national problem that must be faced by the federal government. The disparity between how banks treat most Americans and how they treat poor Americans does not have to exist, nor has it always existed. A social contract between banks and the government has been in place since the early days of the republic. The government supports the banks through trust-inducing insurance, bailouts, liquidity protection, and a framework that allows the allocation of credit to the entire economy. Banks, in turn, operate as the central machinery of the economy by providing transaction services, a medium for trade, and individual and business loans that spur economic growth. This entanglement between the state and the banking system means that banks should not be allowed to exclude a significant portion of the public from the bounty of government support. This is not just a problem of the banking market. It threatens our social fabric through the array of disruptive consequences that follow from the lack of normal banking and the vicious cycle of impossible loan payments. If the state is so heavily involved in the banking system, it has a direct interest in making sure that the banking system does not create or contribute to such vast inequality.

Although many policymakers have inferred this obligation on the part of banks and have attempted to force unwilling banks to extend credit beyond their preferred customer base, the democratization of banking is not an issue that should be left up to the private sector. The supply of credit has always been a public policy issue, with banks functioning as intermediaries. Insofar as the state enables credit markets, all creditworthy Americans should have equal access to them. Reasonable and safe credit can, in fact, provide a smoother path both through and out of poverty. If banks are not providing financial services to the poor, the state should provide a public option.

The most promising path toward a public banking option is to use the existing post office framework to extend credit and transaction services to individuals. American banks long ago deserted the most impoverished communities, but post offices, even two centuries later, have remained—still rooted in an egalitarian mission. There have never been barriers to entry at post offices, and their services have
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been available to all, regardless of income. The post office, America’s oldest instrument of democracy in action, can once again level the playing field and, in the process, save itself from imminent demise. (Since I first proposed such a plan in 2013, many policymakers have championed it, including Senators Elizabeth Warren, Kirsten Gillibrand, and Bernie Sanders.) In fact, the USPS Office of Inspector General, a small regulatory branch of the Postal Service, issued a white paper in January 2014 outlining how such a system would work. Senator Gillibrand proposed a bill this year, which I helped draft, but postal banking does not depend on the legislature. It could proceed without legislation if the postmaster general decides to pursue it.

The basic idea of postal banking is to have a public bank that would offer a wide range of transaction services, including deposit-taking and small lending. Post offices could offer these services at a much lower cost than banks and the fringe banking industry because (1) they can use natural economies of scale and scope to lower the costs of the products; (2) their existing infrastructure significantly reduces overhead costs, and (3) they do not have profit-demanding shareholders and would be able to offer products at cost.

While postal banking has the potential to save an essential American institution that predates the Constitution and made our democracy possible, the most important argument in favor of postal banking is that it can provide simple banking services to those with no other good options. In short, it has the potential to bank the unbanked.

The most important potential benefit would be access to savings accounts. Consider the social and economic benefits of a system that enables the unbanked in the United States to leave the expensive and time-wasting cash economy and pay their bills online, send money to family, make debit card purchases, and save money without worrying about draconian overdraft fees. It is not just the unbanked who stand to benefit. There is an even larger portion of the population that lacks bank accounts and has been forced to rely on high-cost fringe loans. Postal banking can provide creditworthy members of low- and middle-income groups small loans without life-crushing fees and interest.

By making banking available to those otherwise deserted by the banking system, the state can minimize the economic and political problems posed by the heavily subsidized, exclusionary, and powerful banking sector. The social contract has been breached. Banks enjoy broad government support but do not serve the entire public. Direct government involvement remedies the breach and bridges the gap in services.
Because of the unique institutional capacities of a nationwide post office, these services can significantly underprice any of those on the market. This is not just a hope or an empty promise. The post office’s own white paper explains how this can be achieved using tools currently available only to the Postal Service. Most of these transaction services are straightforward products that do not require a high level of sophistication. The post office can build on its existing network to meet a significant market demand. Walmart, for example, came to dominate in some financial services to the poor practically overnight, without causing a substantial ripple in its core business. The company has been able to use its size and existing infrastructure to offer financial products at a fraction of the price, while making a healthy profit offering them.

Estimates show that $89 billion is spent each year by the unbanked on financial fees and services. All of this money goes to alternative financial service providers—payday lenders, check cashers, and other nonbanks that charge high fees to store and move people’s money. Providing these services at much lower costs has the triple advantage of reviving the beleaguered but too-important-to-fail Postal Service, putting money back in the pockets of the poor, and providing an alternative to a harmful industry that has proved nearly impossible to control through regulation.

Postal banking may seem radical to many in the United States who are convinced that banking should be a “private market” free from “government intervention,” but it is a normal part of life for the rest of the world. Postal banking abroad is the norm, not an aberration. Postal banking has been operational in many Western countries since the 1800s, and currently fifty-one countries have postal banking as their primary method of financial inclusion. Only 6 percent of postal carriers worldwide do not offer banking services, and it is estimated that postal banking has banked over one billion people around the world. There are a variety of models worldwide—some focused on the poor and others that offer postal banking services to the entire population. In fact, the United States is one of the only developed countries in the world without a postal banking network. Yet we do not need to look abroad for a justification or even a model for postal banking when we can refer to our own history. Although it has been largely forgotten, the United States once ran a successful postal banking system.

The rebirth of that system can lead to increased saving by the broader public, something earlier American postal banks did for half a century. By offering low-barrier savings accounts, the post office can again become a refuge for the countless small savers in the United States who have been shut out of the banking system because their too-small savings accounts are no match for high bank fees. Increased access to low-cost savings accounts can greatly benefit a population living without any financial cushion. Postal savings accounts could potentially provide much-needed financial buffers that
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Postal savings could also reinvigorate a culture of saving that has been long lost in the United States but retained in Japan and Germany, at least in part because of their strong network of postal banks. For families living month to month with little financial cushion, avoiding the excessive fees normally faced by the unbanked could make a significant difference. It is difficult to measure how many people are not saving in banks because of financial and cultural barriers of entry, but it is possible that, just as in the 1900s, hoarded money from across the country would pour into the postal banks from under mattresses, prepaid cards, or funds otherwise wired abroad.

Postal Lending

Historically, federal government involvement in credit markets has increased lending and lowered the costs of credit. By insuring deposits, providing liquidity through the central bank, creating secondary markets enabled by GSEs, and building a structure of government support, private banks have been able to lend at unprecedented levels. Postal banks could connect to this existing apparatus and route credit directly to borrowers without having to circulate the money through the bloated banking system.

Postal lending will likely be controversial, but it has the potential to radically advance the lives of the American public while balancing the skewed credit markets. Even small loans of less than $500 at a reasonable interest rate can help a significant portion of the American public withstand a short-term credit crunch. Much like central bank liquidity for struggling large banks, the post office would provide liquidity for struggling individuals.

These loans would need to be structured such that they provide borrowers with a reasonable path toward repayment. As “unsecured” loans, or loans without an asset given as a security, they can take a few forms. They can be designed as low-cost installment loans, like those created by Arthur Morris. These loans are repaid over time with a set number of scheduled payments for a set term (anywhere from one month to several years). Much like a mortgage, which is a “secured” installment loan, each payment is used to pay back both principal and interest. Payments can be made in person or electronically deducted from the borrower’s bank account, and a cosigner can even be used to guarantee the loan and reduce default risk. The post office can also offer a lower-cost payday loan, which works as an advance on future income. The loan would carry a fee or an interest rate for an upfront loan that would need to be paid back with the next paycheck. If the borrower needed more
time to pay, they would take out another loan and pay another fee.

The source of these funds would be the same as the funds from which banks lend: deposits and federal government loans. The scale would be much smaller, however. Even if the post office were to lend half of the American public (about 150 million people) $500 each, that would be $75 billion—a tenth of the $7.7 trillion the Federal Reserve pledged to the largest banks in 2009.\(^8\) Just as the federal government has enabled other markets for credit, so it can enable this one. It would operate as any other bank with a central bank cushion and liquidity support. The capital used to lend could come from customer deposits or financial transaction revenues. In other words, little to no taxpayer money needs to be used in postal lending. Banking, however, is already a heavily subsidized sector, so if a startup or ongoing capital infusion were required, it would just bring credit services to low-income Americans on par with the rest of the population.

Still, all lending is risky. Postal savings accounts and financial transaction products bear little to no risk of loss, but lending money sometimes means losing money—especially when it comes to lending to people with little financial cushion. Of course, the case can be made that these households need the credit more than any other, but that argument does not make it a good idea for the post office to lend if it means that it will lose money.

A system of strong and accurate underwriting procedures will also need to be developed that can adequately separate the insolvent from the merely illiquid and only lend to the latter. Of course, this is easier said than done. Creating a foolproof formula to do such a thing would require the ability to accurately predict the future. There will always be loans that default as long as human beings are responsible for repaying them. Yet those with low and moderate income are no less capable of paying back a small, low-cost loan than a large corporation is of paying back a large one. Any individual or company, wealthy or poor, can take on too much debt at too high a cost and be crushed by it. Still, formulas such as credit scores that track an individual’s history of previous repayments can eliminate some of the guesswork.

When it comes to distinguishing creditworthy borrowers among the low income, credit scores are often too blunt a tool. Innovative private lenders have already realized this and are working to develop fine-tuned underwriting formulas based on publicly available borrower data to predict loan default with better results than credit scores.\(^9\) Pioneering peer-to-peer internet lenders have begun to boast of their success in deploying these emerging mathematical models for small lending. The post office can rely on this developed expertise in designing its own underwriting system. The bottom line is that doing any sort of underwriting, even simply using credit scores, would set the post office apart from
the payday lending industry, which currently makes no attempt to distinguish between borrowers. The FDIC reports that “the prevailing underwriting criteria of most payday lenders require that consumers need proof only of a documented regular income stream, a personal checking account, and valid personal identification to receive a payday loan.”¹⁰

The lesson from history’s “banks with a soul” is not to reuse their tools but their approach. The post office need not rely on relational lending for good underwriting today but must learn to adopt existing modern technology to offer fair, useful, and self-sustaining products to those neglected by mainstream banks. The post office must also account for loan losses through accurate pricing, capital buffers, reserves, and other rules of sound banking so that they do not face a persistent shortfall. If they do face a liquidity shortage, however, any government help aimed at restoring their balance sheets would only level the lending playing field.

There are several reasons to believe that the post office is uniquely capable of lending responsibly while reducing the costs of small loans. The most important feature of the post office is that it is not an institution motivated by profit-making, and therefore it will only charge borrowers the actual cost of the loan. This has been the necessary premise behind every successful movement to foster financial inclusion. The S&L, the credit union, and the postal savings banks were successful in achieving their goal of financial inclusion so long as they did not let profits supplant their public duties. The post office is an independent agency connected to the federal government, meaning that all excess profits are forfeited to the Treasury. The post office has no shareholders demanding a return on investment, so it is unlikely that the organization will be motivated to take advantage of its customers for private gain. All gains will be public, as will losses. A board of directors, presumably public representatives chosen by the president, will be tasked with overseeing its activities.

Precautions would also need to be taken to maintain the confidentiality of borrowers and provide indebted borrowers with appropriate recourse in the event of error or undue hardship. In this, the government is also uniquely capable. Government agencies can offer much more privacy to customers than any fringe lender or bank. The government has a developed set of norms and laws that govern the behavior of its agency actors and which ensure that all citizens have a right to contest unfair or arbitrary government action.¹¹ In contrast, fringe lenders often collect and share customer data and sell defaulting loans to other private buyers, in transactions that are often kept secret. Once you have entered into a contract for a loan with one of these lenders, the right to collect on that loan can be sold to any third party. The post office’s collection process, on the other hand, would have to be made public and submitted to agency and legislative review, which would offer more public participation than any other lending and collection mechanisms currently used. The individuals
involved would maintain the same, if not higher, privacy protections granted to all other customers of regulated banks.  

In addition, the post office can naturally reduce the high costs of lending to the poor because of its already existing and large network of branches. Compared to payday lenders, the post office can reduce costs immediately by using its existing branches and staff, thus saving money otherwise spent on advertising, marketing, personnel, and stores. It can add revenue on day one without the expense of starting an operation from scratch. One of the important lessons of banking history is that large and national banking won out against small-unit banks, in part because of natural efficiencies. The size and reach of the post office can lead to lower costs of credit. This ability to offer more at a lower cost is the reason large banks now dominate the market. “Economies of scale,” or control of a large market of a single product, could bring down the costs for financial services and even loans if the post office has many customers. “Economies of scope”—costs saved when an institution can sell a variety of products—could mean, for example, lower costs on loans because the post office is attracting more deposits, cashing more checks, or wiring more funds. We know economies of scale and scope work; they are the reason banks conglomerated and rushed to form “banking supermarkets.”  

Finally, because the post office never left the communities deserted by banks and other businesses, it is not only available in all the regions forsaken by banks, but it has developed an ongoing relationship of trust within these communities. Building on my postal banking proposal, social scientists Terri Friedline and Mathieu Despard created a database and five research reports concerning U.S. households’ access to financial services. They determined that “37% of all zip codes in the U.S. lack either a bank or credit union. Further, almost 90% of these banking deserts were in rural areas.” They concluded, “The good news is that the density of post offices in these deserts is 1.11 per 1,000 people, compared to only 0.27 in non-deserts. This means that post offices are abundantly located in places where financial services are lacking.”  

In these communities, many unbanked individuals already buy money orders at their local post office. This means that the post office has access to a customer base that is not comfortable in banks. Surveys of the unbanked show that minority groups are significantly more likely to be unbanked than other groups. This is especially true for populations in certain regions of the country, such as blacks in the South, regardless of income or financial status. Certain groups simply do not patronize banks because they do not trust them. But the cultural and class barriers that keep many people away from the mainstream banks do not exist at the local post office.
OBSTACLES AND CRITICS

There are of course challenges to using the postal service or providing a public option in general. Critics will attack the idea on ideological, anticompetitive, and practical grounds. Just as in the 1800s, the ideological opposition will likely revolve around the idea of too much state intervention in markets, a slide toward socialism, and an overbearing or paternalistic state. But while pitting a public option against a private banking market is a handy rhetorical tool, it’s just smoke and mirrors. The banking system exists on a foundation of heavy state intervention, and the post office already engages in some financial services such as money orders.

There will also be opposition from banks, which for two centuries have reliably and consistently opposed any potential threat to their market share—even before they are certain it will be a threat. Whenever a postal banking proposal has been advanced, banking industry lobbyists have quickly responded not only that they were already meeting the market needs, but also that it was a terrible idea—“the worst idea since the Ford Edsel.” The credit union lobbyists have also opposed the idea and reasserted that they are meeting these needs. These claims were also made a hundred years ago about postal banking, and they were as wrong then as they are now. Banks are no longer interested in small accounts or small loans.

Policymakers beholden to payday lenders will also likely oppose postal banking, saying that payday lenders are doing the best they can to meet the needs of a hard-to-bank public. While any market share gained by the post office would come directly from the payday lending industry, payday lending is one industry whose decline should not be lamented. The large and profitable industry serves very little public purpose besides meeting the credit demands of the desperate with interest rates only the desperate would pay.

Others will doubt whether an inefficient government agency could manage the complexity of offering financial services to a large sector of the population. Yet postal banking systems already operate in dozens of countries on a daily basis. It is also worth noting that the U.S. Postal Service manages to deliver mail to every mailbox in the country, even in remote U.S. territories that other shippers will not service. Although some claim that postal employees who are trained to sort mail and sell stamps will not be able to manage financial products, these critics underestimate postal employees. Unlike many similarly situated companies, the post office still offers its employees a route to the middle class. As such, they are able to recruit many talented and loyal employees.

Not only are postal employees capable individuals, but the provision of simple financial products
does not require years of skilled training. Consider the numerous bank tellers or Walmart and Cash America employees who manage this very thing while earning smaller hourly wages and fewer benefits than postal employees. Can the post office handle the challenges of becoming a quasi-banking institution? There is no indication it cannot, especially with the help of specialized banking and industry experts who would almost certainly be enlisted to help with the transition. The post office even contemplated partnering with banks or credit unions for their servicing and ATM functions.

Postal banking alone will not cure poverty, nor can it alone reverse the slide of the middle class. But it is clear that when people do not have a safe place to save, they will not save. Solving this problem is not a matter of partisan dispute but a matter of the common good itself. And if people do not have access to low-cost loans, they will fail in greater numbers and in more serious fashion. When banks are drowning, the government throws them a lifeline through cheap credit so that they can live another day. When the poor are drowning, payday loans are like a millstone of crushing debt around their neck. Postal banking could offer to struggling Americans the same type of government credit already given to banks at a much lower cost, and with a much wider public benefit.

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**Notes**


7. United States Postal Service Office of Inspector General, 13. This white paper suggests that USPS can offer loans with a 28 percent APR, a rate sustainable for the post office and its customers.


9. This process has been used to administer and adjudicate government actions in the realms of veterans affairs, social security,
immigration, patents, and all other areas in which citizens are involved with the government. There is a large body of case law, constitutional law, and administrative law that sets the standards and rules that agency officials must follow in their interactions with citizens. For example, the Supreme Court decided in *Mathews v. Eldridge*, 424 U.S. 319 (1976) that citizens have a right to due process when their welfare benefits are taken from them. The Administrative Procedure Act (APA) also gives citizens a right to a trial in front of an administrative law judge for most agency decisions affecting their rights. If a citizen wished recourse against the federal government for garnishment of tax returns, such a process would likely be granted.

10 These privacy protections are contained in Title V of the Gramm Leach Bliley Act.


