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## Can the US post office deliver financial inclusion?

Ronan Lynch: 16th March 2015 11:45am

Low-paid workers on zero-hour contracts have tasks that the more fortunate among us don't have to worry about: cashing cheques and paying bills without a bank account. They also have to pay heavily for the privilege of borrowing money to make ends meet. As Barbara Ehrenreich observed in her bestselling book *Nickel and Dimed*, "It's expensive to be poor."



Professor Mehrsa Baradaran

In some of the world's most populous countries, authorities are looking at ways to spread financial services to their citizens, with China and India looking to establish postal banks in the near future. The United States once had a thriving postal banking system, and some advocates of financial inclusion think that it's time to bring that service back to life.

Mehrsa Baradaran, associate professor of law at the University of Georgia, is one of the leading advocates of postal banking in the US. With studies showing that up to 38 percent of the US population is unbanked or underbanked, there's a vast number of people relying on fringe banking institutions. Baradaran's academic work cites a study showing that almost

half of US adults could not access \$2,000 in credit within 30 days.

As a result, cheque cashers and payday lenders thrive in the US, and an unbanked family earning an average of \$25,500 spends 10 percent of that income on fees and interest. As Professor Baradaran points out, there is one institution historically, geographically and culturally well placed to serve this population: the United States Postal Service (USPS).

## The long battle for postal banking in the US

"Postal banking started in Great Britain in 1861 and the US Postmaster General John Creswell proposed it in the US ten years later," Professor Baradaran told Retail Banking Intelligence. "He thought it would pay for the telegraph system. The president, Ulysses S Grant, thought it was a good idea, but the country's bankers were against it. They didn't like the idea of money going directly to the treasury. They were suspicious of centralised power. At that time, most of the banks were actually concentrated in the northeast with hardly any in the South and the West.

"During the next 40 years, almost 100 bills went before the Senate but they all died. This was despite the fact that almost every president and postmaster general during that time supported the idea."

The economic crisis in 1907 saw bank runs happen across the country, and William Taft won the 1908 election after promising to introduce postal banking to bring credit to the South and the West. In 1910, the Postal Savings Bank Bill was passed, though it was watered down to limit deposits to \$100 a month and had a savings cap of \$500. The interest rates for deposits were set at 2 to 2.5 percent and the bank was allowed to issue loans.

"People said that postal banking wouldn't work because poor people were not financially literate, or didn't have money – the same arguments you hear today – but they were a success," says Professor Baradaran. "And although they were aimed at the rural poor, they attracted lots of urban immigrants coming from Europe who were used to the idea of postal banks from their home countries. The Post Office offered information in 24 different languages and handed out information about the service right outside the ports where immigrants were arriving. Immigrants accounted for about 70 percent of deposits, though they were only 15 percent of the population.

The postal banks had another boost after the 1929 crash, when people switched their money out of failing banks into the postal banks. They had \$1.2 billion in deposits by 1934, which was about 10 percent of the total commercial banking system.

"As part of the banking reform of 1933, Franklin Delano Roosevelt decided to introduce the FDIC (Federal Deposit Insurance Corporation) to insure savings, and people started to return to the banks. So that was the beginning of the end for the postal banks.

"They still played a role in the economy, selling treasury bonds after the Great Depression and offering banking by mail for soldiers serving in the Second World War, but after the war they couldn't compete with the banks, which were offering higher rates of interest. Then you

had really the golden era of banking in America during the 1950s when there was a bank in every district, and by the 1960s the postal banking system was quietly closed down, as part of the general streamlining of the federal government under Lyndon B Johnson."

## The 1960s: decline and disappearance

In the early 1970s, the banks started to abandon low-income neighbourhoods. With postal banking no longer around, payday lenders and check-cashing bureaus came in in their place. The following decades saw a wave of consolidation, and the great Savings & Loan crisis saw many communities left without banks.

Then the widespread adoption of PCs and the arrival of free email services dealt an almighty blow to the centuries-old practice of sending letters, and businesses offered their customers the ability to pay bills online, depriving the post office of the business of bills going one way and cheques the other. The rise of private delivery services such as Fedex and UPS also took business away from the Post Office. It wasn't all downhill – the USPS has a share of the packet delivery business from the online retailer business that has in turn taken a bite out of the high street retail business.

Still, the Post Office has a mandate to provide a universal service and has to deliver to places that other delivery services would write off as unprofitable. In 2012, the Post Office hit its \$15 billion credit limit with the US Treasury. Its critics point out that it has accumulated losses of \$47 billion since 2004 after being compelled in 2006 to prefund its pension liabilities for the next 75 years.

"It is in a dire situation and the Post Office must either shrink its service or expand its revenue," says Professor Baradaran. "There's no bill on the floor at present to solve this, although there is some support from people like Senator Elizabeth Warren." For Professor Baradaran, expanding its reach into postal banking is a natural fit for the Post Office, with its extensive network in low-income neighbourhoods, its ability to offer credit at low rates because of its scale and the level of trust placed in the institution by its customers.

She points out that even the underbanked can't generally get short-term small loans, because it is an unprofitable business for the banks. Those people who cannot get small loans and fail to qualify for credit cards are then forced to turn to payday lenders, who charge rates that rise into triple digits on an annualised basis. The 2014 white paper from the Office of the Inspector General of the Post Office suggests that a postal bank could offer small loans with an APR of less than 30 percent, which could fill a gap currently occupied by payday lenders.

The popular TV comedian John Oliver featured payday lenders in his HBO show last year, pointing out that there are more payday lenders in the US than there are branches of McDonald's and Starbucks' combined. Citing payday lenders such as Kwik Kash, the comedian warned that people should not trust operators that were unable to spell their main business offering correctly.

## Opposition from the community banks

US regulators have been trying to break links between payday lenders and the big banks that in some cases provide for automatic withdrawals to pay down these loans, earning hefty overdraft fees when accounts go into the red. It's not only the big banks and payday lenders that oppose postal banking. At the recent annual meeting of Independent Community Bankers of America in Orlando, CEO Cam Fine reminded delegates that the association had to block Washington DC from introducing postal banking. Speaking to Fox News last year, he summed up his attitude to government intervention in financial services succinctly: "Bad idea."

Yet the US government has not been falling over itself on the postal banking issue. Five of the nine seats of the USPS board of governors have been vacant since 2006. Mickey Barnett, the chairman of the board up to December 2014, expected to return as chairman in January of this year, but civil rights activists and postal unions made it known that Mr Barnett previously worked as an attorney who lobbied for the New Mexico Independent Financial Services Association – which represents payday lenders – and successfully opposed his reappointment. As a result, three people now sit on the board, leaving it without a quorum and handing extra power to the Postmaster General.

Since becoming president in 2009, Barack Obama has offered one nomination, and that is currently being held up in the Republican-controlled Congress. Professor Baradaran does not lay the blame entirely on Congress. "Obama could make it happen," she says.

Those six empty seats around the boardroom table suggest postal banking is not on his list of priorities.

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