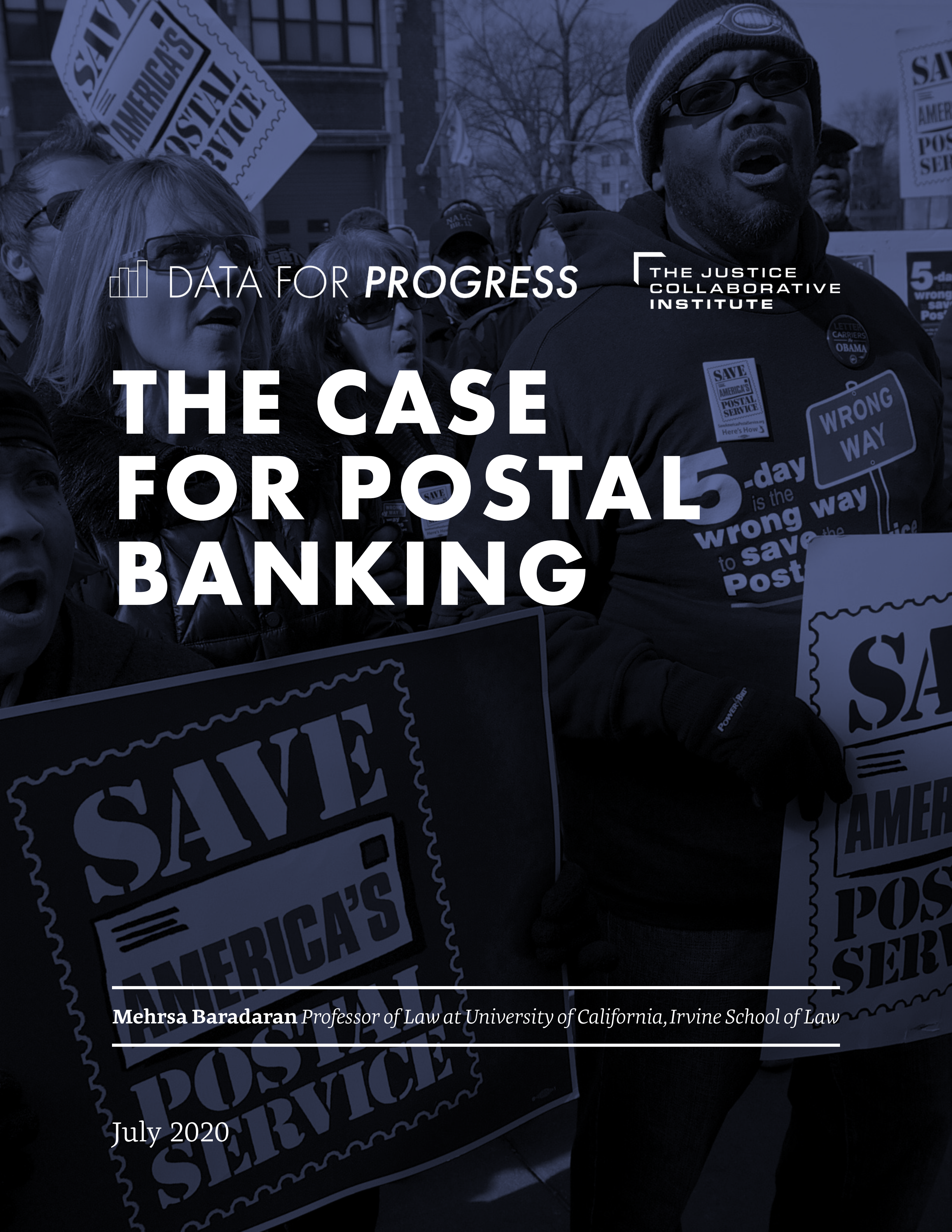

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THE CASE FOR POSTAL BANKING

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INTRODUCTION

Income inequality in the United States is worse than ever, a divide deepened by the coronavirus pandemic and the government's inadequate response. The mainstream banking industry has reinforced economic disparities by excluding the poor from financial services that would help them escape poverty. Private banks, though heavily subsidized by the federal government, are designed to maximize profits. Efforts at forcing the banking sector to provide credit and services to low-income individuals and communities have failed because these services are not profitable. The result is that one in four American households are unbanked or underbanked, forced to rely on usurious, unregulated fringe lenders and services.

The United States Post Office (USPS) could resolve this market mismatch by offering basic banking and credit services. Postal banking is not a new idea—for several decades, including during the Great Depression, we had a Postal Savings System—but it is particularly important given the financial crisis facing both our most vulnerable populations and the Post Office itself. Postal banking would:

- Provide consumer financial services to underbanked communities, and help vulnerable populations achieve financial security and build savings;
- Create a public option to compete with private banks; and
- Strengthen the USPS, a vital part of our nation's infrastructure.

Polling by Data for Progress shows bipartisan net support (41% support, 34% oppose) for the USPS offering low-cost financial services and products, such as "digital wallets" with debit cards, online banking, and automatic bill pay.

A majority of polled likely voters found persuasive the following arguments for postal banking:

- 58% of likely voters agreed that access to an USPS account would save individuals who rely on payday and fringe lenders thousands of dollars a year in fees.
- 58% of likely voters agreed that the USPS could offer needed financial services in underserved areas that have few or no banks.

Banking for the Underbanked

A 2017 survey by the Federal Deposit Insurance Corporation (FDIC) found that one in four households, nearly 27% of Americans, are either unbanked or underbanked, relying on services outside the mainstream financial system, such as payday lending or check cashing. The underserved rates for Black and Hispanic households and working-age people with disabilities are substantially higher than for white Americans.

The majority of financially-underserved people report that they simply do not have enough money to have a bank account, most frequently citing the high or unpredictable fees associated with mainstream banking. But the alternative—non-bank, fringe financial services—comes at a hefty price as well. A 2014 Post Office white paper found that the average annual income for an underserved family was $25,500, and about 10%

of that income, or $2,412, went to fees and interest paid to access credit or other financial services—services that households with bank accounts often receive for free. That is roughly the percentage of income that the average American household spends annually on food.

Access to credit is also critical to financial stability. Banks do not offer small personal loans because they are not cost-effective to underwrite. People frequently turn to credit cards to finance small purchases, but individuals with insufficient credit history or a poor credit rating are often unable to get a credit card. The poor are forced to seek credit from fringe lenders or payday lenders, which are notoriously usurious. Payday lenders offer short term, high-cost loans that in 36 states average a nearly 400% annual percentage rate. Borrowers, who are most often low-income and experiencing financial difficulties, become entangled in a cycle of debt, paying more in fees than they receive in credit. In total, Americans spend $9 billion each year on payday loan fees.

Postal banks could fill this gap, offering no-fee banking services and small loans at reasonable terms that allow individuals to build credit, pay off their debt, and establish savings. The money that would otherwise go to exorbitant fees and interest can then be spent for needs like rent or groceries, bolstering the overall economy.

A Public Option with a Public Mission

The Post Office is uniquely situated to provide public banking services. One reason is its wide network of physical locations, many of them in rural areas, that an effective system requires. Even in the age of online and mobile banking, physical access to banks is important. The FDIC reports that in 2017, 86% of banked households visited a branch at least once, and over a third visited 10 times or more. Private banks have largely abandoned rural and impoverished communities. But because of its mandate to provide secure, affordable, and efficient service to every address in America, the Post Office remains. Fifty-nine percent of Post Offices are in ZIP codes with zero or one bank branch.

In addition, the Post Office is already equipped to provide low-cost public services. While the Postal Savings System no longer exists, pieces of it remain in past and current products like money orders and prepaid debit cards. Due to its unique institutional nature, the USPS can provide these and many other transaction services at a lower cost than the financial sector's private counterparts.

Another factor is the trust and experience that people have with the USPS "brand." A lack of trust is the second most common reason people reject banks, and experiences with predatory financial services like payday lenders only reinforce the skepticism. A 2020 consumer survey found that the USPS is the number one most trusted brand. The USPS's ubiquity and public mission is critical to earning the trust needed to effectively expand financial services and credit to the underserved.

A Revitalized Post Office

The Post Office, like many businesses, has suffered declining demand during the coronavirus pandemic. The USPS has told Congress that without a large infusion of federal funding, it will become insolvent by the fall. The Trump administration—which, notably, has been dialing back consumer financial protections—has shown little interest in shoring up the Post Office. President Trump called it a "joke" and threatened to allow it to go bankrupt unless it raised its package prices "four or five times."

But the Post Office is vitally important to the nation's infrastructure, especially in rural communities. It delivers to every address—160 million delivery points six days a week—far exceeding the capacity of any other delivery service. The Post Office subsidizes the costs of remote delivery with income from more profitable services, allowing it to charge uniform, reasonable rates. It is also a critical source of jobs, services, and revenue in the states with large rural populations.

Financial service offerings have the potential to generate significant new revenue for the Post Office. The USPS estimated in 2014 that if even 10% of what the underbanked spend on interest and fees in the fringe sector went to affordable options at the Post Office, it could lead to nearly $9 billion in new revenue each year. Postal banking not only has the potential to give millions of American households better financial options, it could also save this critical public institution.

CONCLUSION

Postal banking is critical to serving underbanked communities and providing access to services that lead to solvency and savings. Given the widening economic devastation, it is imperative that we expand access to financial services and credit in a public, not profit-oriented mission. Postal banking is not just a good idea to replace predatory fringe lenders and provide low-cost, accessible financial services that can help lift people out of poverty, it is also central to saving a vital part of our nation's infrastructure.

POLLING METHODOLOGY

From 7/10/2020 to 7/12/2020 Data for Progress conducted a survey of 1,390 likely voters nationally using web panel respondents. The sample was weighted to be representative of likely voters by age, gender, education, race, and voting history. The survey was conducted in English. The margin of error is +/- 2.6 percent

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