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**Testimony
Bartlett Collins Naylor
Financial Policy Advocate
Congress Watch, a division of Public Citizen
For
The House Committee on Oversight and Reform
Hearing: The Financial Condition of the Postal Service
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Chair Cummings, Ranking Member Jordan, and members of the committee: On behalf of more than 500,000 members and supporters of Public Citizen, we offer the following comments regarding the financial condition of the United States Postal Service (USPS).

The most glaring problem facing the USPS' financial integrity is the congressional-inflicted mandate to pre-fund 100 percent of retiree health benefits for 75 years into the future, as provided in the 2006 Postal Accountability and Enhancement Act. This costs some \$5 billion a year. We stand in solidarity with our brothers and sisters in postal unions who ask that this crushing mandate be reformed. These include the American Postal Workers Union, the National Association of Letter Carriers, the National Postal Mail Handlers Union, and the National Rural Letter Carriers Association.

We also believe that the USPS's financial integrity can be improved through the addition of expanded financial services and postal banking. We provide this testimony to explore this idea more fully, including the benefit to consumers as well as the postal service from implementing postal banking.

In brief, postal banking refers to the provision of low-cost, consumer-driven financial services via the postal service. This could range from check cashing, bill payment, savings accounts and small-dollar loans. Postal banking would benefit consumers who do not have access to traditional banks as well as those who would prefer a more public option. America enjoyed banking services provided by the USPS from 1911-1967. The idea had gestated for more than 40 years previously, facing opposition from the banking sector, which feared competition, and from others who feared government control of finance. The Panic of 1907 involved massive bank runs, altering these political dynamics. By 1910, Congress authorized postal banking. The public banking sector grew steadily and proved important to government financing of investments. During World War II, Defense Savings Stamps purveyed by postal banks generated some \$8 billion for war funding. Deposits peaked in 1947 at \$3.4 billion.¹

¹ Mehrsa Baradaran, *A Short History of Postal Banking*, SLATE, (Aug 18, 2014) <https://slate.com/news-and-politics/2014/08/postal-banking-already-worked-in-the-usa-and-it-will-work-again.html>

Outside the United States, postal banking is common. Some 1.5 billion people worldwide patronize various postal service banking services.²

Existing law unfortunately limits the types of financial services that can currently be offered by the postal service, but even those limited products and services would greatly improve consumers' access to lower-cost financial services options, particularly those in un- or under-banked situations. For example, the USPS could offer expanded money orders, check cashing, pre-paid gift cards, and bill payment—growing revenues for the providing increased convince to customers in addition to cost savings. Expanding the existing services could bring in around \$1.1 billion per year for the USPS after initial ramp-up.

Moreover, expanding the postal service's operations into more financial products represents an opportunity to generate additional revenue for the USPS. Already, the postal service provides domestic and internal money orders. In one year reviewed, this generated income of \$56 million (\$166 million in revenue less \$110 million in costs.)³ Expanding into other alternate financial products might generate nearly \$9 billion in revenue annually, according to the same report.⁴

Postal banking would also meet a pressing need for consumers. Nearly a quarter of all American households are underserved by the banking sector. This includes those without any bank account, and those who are unable to qualify for such products as a credit card and must turn to expensive alternatives such as payday loans.⁵ Forty percent of Americans report they cannot finance an emergency need exceeding \$400, according to the Federal Reserve.⁶ It is expensive to be poor: The average underserved household reported annual income of about \$25,500 and spent \$2,412 of this on alternative financial services, such as payday loans. This is 10 percent of income, which is the same proportion that average households spend on food.⁷ In the majority of cases, payday loans become debt traps; the average borrower takes out 10 loans in succession before finally paying off their obligation, according to the Consumer Financial Protection Bureau. Thus, a loan meant to meet an emergency becomes its own emergency.⁸

² *About Financial Inclusion*, UNIVERSAL POSTAL UNION (website visited April 27, 2019) <http://www.upu.int/en/activities/financial-inclusion/about-financial-inclusion.html>

³ *Providing Non-Bank Financial Services for the Underserved*, OFFICE OF THE INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE, (Jan. 27, 2014) https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf

⁴ *Providing Non-Bank Financial Services for the Underserved*, OFFICE OF THE INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE, (Jan. 27, 2014) https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf

⁵ 2017 FDIC National Survey of Unbanked and Underbanked Households, FEDERAL DEPOSIT INSURANCE CORP (website visited April 29, 2017) <https://www.fdic.gov/householdsurvey/>

⁶ *Report on the Economic Well Being of the U.S. Households*, FEDERAL RESERVE, (May 22, 2018) <https://www.federalreserve.gov/newsevents/pressreleases/other20180522a.htm>

⁷ *Serving the Underserved Market*, KPMG, (2011) <http://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/Documents/serving-underserved-market.pdf>

⁸ *Payday, Vehicle Title and Certain High-Cost Installment Loans*, CONSUMER FINANCIAL PROTECTION BUREAU (Feb. 6, 2019) <https://www.consumerfinance.gov/policy-compliance/rulemaking/final-rules/payday-vehicle-title-and-certain-high-cost-installment-loans/>

The Office of the Inspector General of the USPS outlined a replacement for this debt trap with what it calls a “postal loan.”⁹ This would be similar to a payday loan, but with an interest rate that could be a tenth as much as that charged by the private sector. The private sector covers underwriting, or the process of ensuring that the borrower can repay, by charging exorbitant interest rates and fees. (It costs roughly as much to underwrite a small dollar loan as a high dollar loan. That means prime interest rates don’t make small dollar loans profitable.) As a government agency, the USPS could resolve this problem by using the Treasury Department’s program that allows federal agencies to collect debts from tax refunds of debtors who fail to repay the small dollar postal loan.

Postal banking can also serve the spreading geography of banking deserts. Throughout the nation, banks are closing branches, primarily in low income areas with a concentration of already underserved citizens. More than 90 percent of branch closures come in ZIP Codes with average household incomes below the national median average.¹⁰ Meanwhile, the USPS offices are ubiquitous. Nearly two thirds of post offices are located in ZIP Codes with one or no bank branches.¹¹

Public Citizen believes that current statutes provide the USPS authority to expand its services to meet important financial needs of low- and moderate-income patrons with no additional action from Congress. We urge this committee to write formally to the Post Master General and ask her to advantage this existing statutory authority to implement pilot programs. These programs should start by adding ATMs, paycheck cashing, bill payment and electronic money transfers in all post offices.

We also ask the committee to promote ways to expand financial services offered by the postal service including savings and checking accounts, small dollar loans, and other banking services. We believe the committee should call for the creation of a task force to perform an assessment of community needs (via field hearings, for example) that postal banking can meet. This task force should be composed of unions, financial reform and community groups, and credit unions and community banks. And, Public Citizen would also support legislation to expand the authority for the USPS to provide greater financial services.

In conclusion, the high proportion of Americans underserved by the private sector banking industry, especially those forced into the debt trap of expensive payday loans, demands that Congress consider a viable public solution to consumers’ needs while benefitting the USPS’s bottom line. Postal banking represents part of the solution to both of those problems.

Thank you for your consideration.

For comments or questions, please contact Bartlett Naylor at bnaylor@citizen.org or (202) 454-5186.

⁹ *Providing Non-Bank Financial Services for the Underserved*, OFFICE OF THE INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE, (Jan. 27, 2014) https://www.uspsig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf

¹⁰ Frank Bass and Dakin Campbell, *Predator Targets Hit as Banks Shut Branches Amid Profits*, BLOOMBERG, (May 2, 2013) <http://www.bloomberg.com/news/2013-05-02/post-crash-branch-closings-hit-hardest-in-poor-u-s-areas.html>

¹¹ *Providing Non-Bank Financial Services for the Underserved*, OFFICE OF THE INSPECTOR GENERAL, UNITED STATES POSTAL SERVICE, (Jan. 27, 2014) https://www.uspsig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf