The Postal Service Isn't a Bank: Don't let it act like one

by Eric Grover

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The U.S. Postal Service's inspector general wants the agency to deliver financial services along with the mail. It's a horrendous idea. It would open another floodgate of politicized lending and weakening credit standards, put taxpayers on the hook, unfairly compete with private-sector financial institutions, and violate current law.

To see where this is headed, look to mortgages and student loans, the largest consumer credit markets. Government-sponsored enterprises and agencies held or guaranteed 64 percent of all home mortgages at the end of the third quarter. Washington provides directly or guarantees a whopping 93 percent of student loans. Effectively, both markets are nationalized.

Lo, over the last year, partisans of an even greater government role have been beating the tom-toms for the Postal Service to provide financial services, putatively to help the unbanked and "underbanked" and offset its losses delivering mail. The inspector general's white paper "Providing Non-Bank Financial Services for the Underserved" floated the idea of the Postal Service's delivering payment and credit products. Moving the ball down the field, he issued a request for expert proposals detailing how this would work.

Progressive heartthrob Senator Elizabeth Warren gushed, "If the Postal Service offered basic banking services — nothing fancy, just basic bill paying, check cashing, and small-dollar loans — then it could provide affordable financial services for underserved families, and . . . shore up its own financial footing." Singing from the same hymnal, *The New Republic*'s David Dayen enthused that President Obama should step in, bypass Congress, order USPS to deliver financial services, and thereby create jobs.

If Warren and Dayen believe that this would be an attractive business, presumably they think that they or USPS management are savvier than bankers. If the profit opportunity here is so good, why does a government agency need to be involved? Perhaps Warren should tap her well-heeled network, launch Warren Bank, and make a killing by doing good.

The white paper laments that 27 percent of Americans have no emergency savings and, without a hint of irony, suggests the Postal Service could encourage savings. The personal savings rate fell from 13.1 percent in 1973 to a paltry 4.9 percent in 2013, not because Americans couldn't save at the local post office, but substantially because of financial repression — government maintaining artificially low interest rates, holding down the cost of the national debt, and putatively bolstering an anemic economy. The Fed has kept the real federal-funds rate negative since 2008, punishing savers and causing systemic capital misallocation.

Postal-banking advocates argue that the un- and underbanked are a problem the Postal Service is uniquely qualified to address. Maybe it's a problem, though 21 percent of those who don't have a bank account, when polled, say they "don't need or want an account." The "underbanked" have bank accounts but are so deemed because they use financial services of which enlightened regulators don't approve.

The market for consumer financial services is vigorously competitive and innovative, where it's permitted to be. Government shouldn't deliver services better performed by the private sector. The USPS inspector general's identified opportunities — unsecured consumer loans, general-purpose reloadable prepaid cards, bill payment, savings accounts, and check cashing — are well served by private-sector firms. The white paper preposterously suggests that the Postal Service could profitably provide short-term loans to risky consumers at 9 percent of the cost of private-sector payday loans.

With 31,000 retail offices, the Postal Service has national distribution. That, however, is not a compelling reason to provide non-postal services. Nationwide, there are almost 100,000 retail bank branches and over 400,000 ATMs. Retailers with national footprints such as Walmart, Safeway, Walgreens, and 7-11 distribute financial services. Western Union, MoneyGram, and a host of non-bank financial-services providers blanket the country. And smartphones and PCs increasingly provide truly ubiquitous, 24/7 banking access.

The white paper decries the difficulty that people with bad or non-existent credit histories have in getting loans through “typical underwriting models.” They have difficulty because they’re risky. The Card Act capped credit cards’ annual fees other than penalty and finance fees at 25 percent of credit limits, which reduced the supply of credit cards to the subprime consumers the legislation was sanctimoniously promoted as helping. And Consumer Financial Protection Bureau mandarins’ regulatory straitjacket curbs consumer-credit innovation and availability. More than anything, America’s un- and underbanked need a vibrant and innovative financial-services sector. Free to design and price products and compete, the financial-services industry can and will serve almost anybody.

The USPS is financially challenged. E-mail, fax, text messaging, and competitors such as FedEx and UPS have chipped away at demand for its services. From 2006 to 2013, total mail volume declined 27.5 percent. From 2007 through 2013, USPS incurred net losses of $46 billion.

It perceives offering banking as a financial lifeline. Realistically, however, it would be yet another avenue for bolstering the Postal Service’s political support and tapping taxpayers to subsidize payment cards and credit for politically sympathetic constituencies. Credit would be further politicized and credit standards weakened. And it would be unfair for a government agency to compete with private-sector firms free to fail. Profitably delivering financial services to risky consumers is difficult. If the USPS were independent and wanted to serve this market, one would wish it well.

Further, the suggestion from *TNR*'s Dayen notwithstanding, it is currently illegal for USPS to provide these services. In the Postal Accountability and Enhancement Act 2006, Congress barred USPS from providing "non-postal services" unless they were being offered as of January 1, 2006.

Of course, some would like to change the law. In July, Democratic congressman Elijah Cummings and 22 Democratic cosponsors introduced the Innovate to Deliver Act to authorize the USPS to provide non-postal services in a manner consistent with the public interest — i.e., the bill would give USPS carte blanche. The one thing Cummings proposed that fell within the organization's mission was permitting it to compete with FedEx's and UPS's shipping of alcohol.

And while these days it may seem a quaint worry, postal banking would be of dubious constitutionality. The Constitution authorizes Congress "to establish Post Offices and Post Roads." It does not, however, expressly authorize the federal government to provide consumer financial services — or, for that matter, to finance mortgages, student loans, aircraft exports, and solar-power companies.

Congress should scale back government's role in consumer credit, not expand it.

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