

Return to sender: Here's what's wrong with postal banking

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Sen. Kirsten Gillibrand, D-N.Y., already has her eye on the 2020 presidential race.

Last month she introduced the Postal Banking Act, proposing the U.S. Postal Service offer small-dollar loans, checking and savings accounts, debit cards, ATMs, check cashing, bill payment and mobile banking. With this measure, Gillibrand aims to steal some of progressive heartthrob Sen. Elizabeth Warren's thunder — and to score points with the postal union.

But postal banking is a horrendous idea.

For starters, it would further politicize America's already overpoliticized banking system by Washington directly designing, setting credit for and pricing financial services.

Banking systems driven by the market and those driven by politics produce very different outcomes. The market rewards delighting consumers — and it ruthlessly punishes those who don't deliver and those who take risks for which they aren't adequately compensated. By contrast, politically driven systems funnel benefits to specific constituencies, with costs borne by society writ large.

Moreover, the USPS already faces challenges fulfilling its constitutional mandate. First-class mail volume declined 38.7% from 2007 to 2017. The service is sustained by taxpayers, and since 1971 it's accumulated a \$62 billion deficit. Gillibrand's bill would open the floodgates for the USPS to gain massive additional subsidies to offer financial services it has no business offering.

By statute and political pressure, financial products would be priced below market and what's commercially sustainable. The Postal Banking Act would cap interest rates at 101% of the Treasury one-month constant maturity rate — which from 2008 through 2016 hovered just above zero. In April it was 1.62%. Making unsecured loans of several hundred dollars to subprime borrowers at these rates is a losing proposition, and would spur overconsumption of credit.

Government agencies seek to expand their roles and power. Gillibrand would give the USPS carte blanche to provide other financial services it “determines appropriate to the public interest.” Political pressure would mount to cut credit standards and fees, and offer more money-losing services. Postal banking would be a powerful vehicle for laundering subsidies to political constituencies Gillibrand is cultivating, rather than cutting them government checks outright. Those constituencies include progressives and brass-collar Democrats, the postal union, community activists and organizers and low-income families and minorities. In one fell swoop she would check a lot of boxes.

State-subsidized financial services delivered through 35,000 post offices and branches would force banks to weaken credit standards and pricing

discipline. If Sen. Gillibrand wants to subsidize specific Americans, let her propose doing so, in the light of day.

Additionally, by providing easy, cheap credit nationally, Gillibrand aims to destroy the payday lending industry, a dream Warren and former Consumer Financial Protection Bureau Director Richard Cordray never realized. Providing low-interest loans to risky borrowers would boost credit, and likely take business from payday lenders. Taxpayers would pick up the tab.

If there's a shortage of financial services for some Americans it's been caused by Washington. Gillibrand decries the lack of access to free banking and saving vehicles for the poor. Yet she supported price controls on debit interchange fees, which were directly responsible for the post-Dodd-Frank reduction in free checking accounts without conditions.

The financial services industry is fiercely competitive: There are 33,000 bank branches and 425,000 ATMs. Financial services delivered through major retailers such as Walmart and 7-Eleven, the national money-transfer networks Western Union and MoneyGram and a patchwork of finance companies blanket the country. Nearly 80% of Americans have a smartphone, and so each potentially has a portal to financial services, anywhere, anytime. At the same time, only 7% of American households are unbanked, according to the Federal Deposit Insurance Corp.

Banks don't more aggressively court the unbanked because of smothering regulation and the stigma that well-served policymakers attach to financial products that come with higher fees. But those fees are necessary to serve

riskier customers and those requiring more service. Regulators and activists condemn high fees on the one hand and yet they lament the availability of credit for these consumers.

Gillibrand's proposal for Washington getting into banking is a reminder that when government causes a problem, progressives' answer is always more government. A postal bank — one that would be ruled by politics rather than the market — would harm consumers, taxpayers and the banking industry.

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