

The Straits and Strictures of the US Post Office's “Non Bank Financial Services”

Warren's Post Office Proposal: Palast Aims at the Wrong Target

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[Web of Debt](#)

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Investigative reporter Greg Palast is usually pretty good at peering behind the rhetoric and seeing what is really going on. But in tearing into Senator Elizabeth Warren's support of postal financial services, he has done a serious disservice to the underdogs - both the underbanked and the US Postal Service itself.

In his February 27 article "[Liz Warren Goes Postal](#)," Palast attacked her support of the USPS Inspector General's proposal to add "non-bank" financial services to the US Postal Service, calling it "cruel, stupid and frightening" and equating it with the unethical payday lending practices it seeks to eliminate.

After "several thousand tweets by enraged liberals," he wrote a follow-up article called "[Brains Lost in Mail—Postal Bank Bunkum](#)," in which he contends, "the Postal Governors are running a slick, slick campaign" to "use federal property to run illegal loan-sharking shops." He says they would "team up with commercial banks to cash in on payday predation," exempting themselves from Warren's own consumer protection regulations.

His first article concludes:

While the USPS wants to "partner" with big banks, why not, instead, allow community credit unions to use post offices as annexes to provide full, complete, non-usurious neighborhood banking services? This is the type of full-service "postal banking" successful in Switzerland and Japan that is envisioned by Ellen Brown, not the payday predation proposed by the USPS.

I obviously agree with him on the full-service postal banking alternative, but that is not something Congress appears ready to approve. Palast has not looked closely at the [white paper from the Inspector General's office](#) relied on by Senator Warren, or at the research on payday lending and the inability of credit unions to service that market. The IG's proposal, rather than fleecing the poor, would save them from being fleeced by offering basic financial services at much reduced rates. And that makes it a very good start.

The Straits and Strictures of the USPS

In analyzing the proposal, we need to consider the stressed circumstances and limitations of the Postal Service. It is fighting for its life, after the nefarious 2006 Postal Accountability and Enhancement Act (PAEA) rendered it insolvent. Apparently intended to force the privatization of the post office, [the Act required the prefunding of postal retiree health benefits](#) for 75 years into the future. That means funding workers not yet born, an onerous burden no other public or private company is required to carry.

Worse, as the white paper notes:

The 2006 Postal Accountability and Enhancement Act (PAEA) generally prohibits the Postal Service from offering new nonpostal services. However, given that the Postal Service is already providing money orders and other types of non-bank financial services, it could explore additional options within its existing authority.

Given the hostility among conservatives in Congress to postal expansion of any sort, full-service banking (involving deposits, checking and savings accounts, and home and business loans) is unlikely to be authorized any time soon. But the proposed prepaid Postal Cards would simply be an electronic 21st century extension of paper money orders, and short-term Postal Loans could be construed as advances on those cards. According to the white paper, the proposed Postal Card would cost users less than half what they pay for prepaid cards now, and Postal Loans would cost them *less than one-tenth* the cost of a payday loan, a substantial savings for the poor.

It sounds good, but where will the post office get the money for the loans if it cannot branch into taking deposits? And where will it get the capital to back the loans when it is insolvent? The white paper states:

Electronic payment products like Postal Cards might be a wise entry point, and would expand upon existing services like paper money orders. . . . The right partners could bring much needed startup cash to the table as part of the deal, overcoming the Postal Service's current funding limitations.

The white paper also suggests partnering with banks for the back-end network and expertise necessary to deal with a national or global card system. But the RIGHT partners are emphasized:

One important note of caution: the Postal Service should be very mindful to ensure that no partnership damages its reputation. The level of trust the Postal Service has earned from the public is an unmatched asset, and one that should not be jeopardized.

Billions More for the Poor

The white paper notes that more than a quarter of all US households do not have a bank account, or use costly services like payday loans and check-cashing exchanges just to make ends meet. People who filed for bankruptcy in 2012 were on average just \$26 per month short of meeting their expenses, so even modest savings would make a major difference to them:

The average underserved household has an annual income of about \$25,500 and spends about \$2,412 of that just on alternative financial services fees and interest. That amounts to 9.5 percent of their income. To put that into perspective, that is about the same portion of income that the average American household spends on food in one year. In 2012 alone, the underserved paid some \$89 billion in fees and interest.

Banks are closing branches all over the country, mostly in low-income areas; but post offices are still to be found everywhere. They could offer affordable financial services that would save the underserved billions of dollars in exorbitant fees and interest.

Postal Loans could be made for less than a tenth of the fees charged for a typical payday loan of the same size. The example is given of a \$375 loan paid off in 5-1/2 months. A typical payday lender would charge annual interest of 391%, for a total of \$520 in interest and fees. For a comparable Postal Loan, the borrower would pay a \$25 upfront loan fee and 25% interest, making the total for interest and fees a mere \$48 across the life of the loan. The white paper concludes:

If even one-tenth of the 12 million Americans who take out a payday loan each year got this hypothetical Postal Loan instead, they could collectively save more than half a billion dollars a year in fees and interest. And that is to say nothing of the benefits Postal Loans could bring to the 10 million unbanked U.S. households which cannot even get payday loans.

The proposed Postal Loan could save these marginal borrowers about \$100 per month, potentially saving them from bankruptcy:

If this helped decrease personal bankruptcies by just 5%, it would not only help more than 50,000 people a year avoid the lasting stigma and financial effects of bankruptcy, it would also potentially keep some \$10 billion a year in loans and other debts from being dragged through bankruptcy court, where much of it would be canceled at tremendous expense to creditors (most of whom are financial institutions). That would be good for American families, for banks, and for the entire country.

The Questionable Credit Union Alternative

Palast argues that his credit union can give the same loan for 10%, but this is doubtful. In a fall 2012 article titled "[Are Payday Lending Markets Competitive?](#)", Victor Stango shows that credit unions, despite their claims, are generally not able to offer competitive payday loans. Few credit unions even offer them, because both credit unions and borrowers themselves find the credit union version unattractive. Stango's survey found that borrowers actually preferred the higher-priced payday loans, because they had fewer restrictions.

Banks do not generally make small personal loans, even to creditworthy borrowers, because they are not cost-effective for the bank; and the underserved often cannot get credit cards because they have bad or nonexistent credit histories, making them a high credit risk. They therefore turn to payday loans, on which credit unions do offer lower rates; but they can offer them only by being more restrictive on approval and repayment terms and by adding fees. More restrictive terms mean credit union payday loans have lower default risk; but risk-adjusted prices on standard payday loans, says Stango, may actually be no higher than those on credit union payday loans.

The National Credit Union Administration now [allows an APR of 28%](#) on short-term small loans. Lenders can't really afford to do it for less, because there are so many defaults.

As for big banks licking their chops at getting in on the USPS' 25% short term loans, this hardly seems likely either. Big banks, including Wells Fargo, Bank of America and JPMorgan Chase, are [already major funders of payday lenders](#)—the ones in the 391% bracket. The USPS returns will seem paltry by comparison.

Profits to the People

Postal Loans and Postal Cards are only two of a suite of non-bank financial services proposed in the white paper that could result in substantial savings for the poor, while at the same time generating much-needed profits for the struggling Postal Service itself. Postal profits serve the public by keeping the Pony Express running and postage stamps affordable.

The Inspector General's white paper concludes, "As the Postal Service continues to look for new ways to serve the citizens of the 21st century, non-bank financial services may be the 'killer app' for diversifying its revenue base."

It may also be the killer app for keeping both the poor and the Postal Service itself out of bankruptcy.

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