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Mehrsa Baradaran

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Dear Chairman Crapo and Ranking Member Brown,

I am a banking law professor at the University of Georgia School of Law and author of several articles and books on banking and inequality. In *How the Other Half Bank: Exclusion, Exploitation, and the Threat to Democracy*, I studied the problem of financial inclusion in the United States and after extensive research, I came to the conclusion that postal banking would be the least costly and most effective policy for spurring economic growth, increasing financial inclusion, and addressing historic banking inequalities. I very much appreciate the opportunity to provide this Proposal to use Postal Banking to Spur Financial Inclusion.

The Problem: It is Expensive to be Poor

One of the great ironies in modern America is that the less money you have, the more you pay to use it. The American banking industry has stopped serving those who are too poor to bank. Many of the unbanked and underbanked live in “banking deserts,” or regions or neighborhoods that banks have abandoned due to profitability concerns. A full quarter of American households rely on fringe banking services and must pay high fees just to turn their paychecks into cash, pay their monthly bills, or send money to a family member.¹ Annually, approximately \$89 billion is spent on costly alternative financial transactions.² The “unbanked” and “underbanked” pay much of their income—up to 10%—just to use their money.³ For these families, the total price of simple financial services each month is more than they spend on food. And these expenses can mean the difference between a family’s financial survival or its failure. For example, on average, families who file for bankruptcy were usually less than \$30 short per month on meeting their expenses.⁴ Eliminating the expense of fringe banking could lead to a savings of \$200 per month, which could save many families from the devastation of bankruptcy. The fact that so much money is being spent by the poor to pay for simple financial services that the non-poor get for free is a national tragedy.

This problem, however, reaches well beyond those traditionally considered poor. Ninety percent of Americans consider themselves “middle class,” yet the number of people who must rely on alternative financial instruments is anywhere from 20 to 40% of the population.⁵ And the tragedy of money being siphoned from the paychecks of ordinary Americans is the least egregious part of a much larger problem. Sometimes those who live paycheck to paycheck face an unexpected emergency. Over *half* the people in the United States are so cash-strapped that they

¹ In 2015, 24% of households used alternative financial services. Unbanked and underbanked rates are higher among: lower income households, less-educated households, younger households, black and Hispanic households, and working-age disabled households. FDIC, “2015 FDIC National Survey of Unbanked and Underbanked Households.” Available at <https://www.fdic.gov/householdsurvey/>.

² USPS, Office of the Inspector General, “Providing Non-Bank Financial Services for the Underserved” (January 27, 2014). White Paper Report Number: RARC-WP-14-007. Available at https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf.

³ The average unbanked family with an annual income of around \$25,000 spends about \$2,400 per year, almost 10% of their income, on financial transactions. KPMG, “Serving the Underserved Market, 2011,” 1, <http://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/Documents/serving-underserved-market.pdf>

⁴ Center for Financial Services Innovation (CFSI), “2012 Financially Underserved Market Size Study” (December 2013), 1. Available at <http://www.cfsinnovation.com/content/2012-financially-underserved-market-sizing-study>

⁵ Rakesh Kochhar & Rich Morin, “Despite recovery, fewer Americans identify as middle class,” *Pew Research Center*, January 27, 2014, <http://www.pewresearch.org/fact-tank/2014/01/27/despite-recovery-fewer-americans-identify-as-middle-class/>.

would not be able to access \$400 without selling something or borrowing money.⁶ When these people face an emergency, they often have to take out loans at 300 to 2000% percent APR.⁷ The need to borrow to deal with emergencies—often at the very highest interest rates—adds another layer of financial strain on those least able to bear it.⁸ Research reveals that living in such a state of financial insecurity leads to a host of other seemingly unrelated problems in health, parenting, and general well-being.⁹

The harder problem is how to fix this glaring inequality. Every legislative effort to remedy this problem for the last three decades has tried to use carrots and sticks to cajole banks to offer services to the poor, but banks operating in a highly competitive market have not been interested or have been unable to serve the needs of their less profitable potential customers. In fact, banks impose punishingly high fees on low-income customers.¹⁰ Over 90% of bank closures since 2008 have been in low-income zip codes, exacerbating the problem of financial inclusion and increasing the number of banking deserts across the country.¹¹ There is a disparity in banking services today: a mainstream, regulated, and federally-subsidized banking sector serving the wealthy and middle class, and a wild-west hodgepodge of unregulated lenders that provide services to the low-income.

Postal Banking

Postal Banking has the potential to address this troubling inequality while creating a widespread economic benefit. By providing financial services to millions of unbanked and underbanked Americans, the post office will put hard-earned money back in the pockets of vulnerable populations and allow these funds to be circulated in the communities that most need them. The lack of savings is a financial and psychological strain that can likewise be alleviated through easier access to a savings account. Providing a buffer of savings will lessen the sharp financial edges of Americans living in financial turmoil. Postal Banking could include any of the following features: savings accounts, bonds, financial transactions, remittance services, and small dollar loans. Any and all of these services would cost nothing for taxpayers, bring revenue to the Post Office, add more beneficial spending to the economy, and alleviate the inequalities in our banking system.

Postal banking has the potential to alleviate financial hardship while benefiting the economy for the following reasons:

⁶ Consumer and Community Development Research Section of the Federal Reserve Board's Division of Consumer and Community Affairs, *Report on the Economic Well-Being of U.S. Households in 2014*, (Washington, DC: Board of Governors of the Federal Reserve System, 2015), 3. Available at <https://www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf>.

⁷ According to the Consumer Financial Protection Bureau, over 80% of payday loans are followed by another payday loan within fourteen days; half are in a sequence of at least ten loans. And loan sizes go up with each subsequent loan as do interest rates. Many debtors end up paying more in fees than the original principal amount of the loan and many are simply unable to reduce the debt over time. Consumer Financial Protection Bureau Office of Research, *CFPB Data Point: Payday Lending* (2014), 4.

⁸ Michael S. Barr, "Financial Services, Saving, and Borrowing Among Low- and Moderate-Income Households: Evidence from the Detroit Area Household Financial Services Survey," in *Insufficient Funds: Savings, Assets, Credit, and Banking Among Low-Income Households* (Robert M. Blank & Michael S. Barr, eds., 2009), 136 (noting interest rates as high as 7000%).

⁹ Sendhil Mullainathan and Eldar Shafir, *Scarcity: The New Science of Having Less and How it Defines Our Lives*, (London, United Kingdom: Picador, 2014).

¹⁰ FDIC, "FDIC Study of Bank Overdraft Programs" (November 2008), 79. Available at https://www.fdic.gov/bank/analytical/overdraft/FDIC138_Report_Final_v508.pdf. A Pew Study recently surveyed 2,010 participants and found that of the 671 unbanked participants, 60% cited their reason for being unbanked as overdraft fees that were too high or unpredictable. The Pew Charitable Trusts, "What Do Consumers Without Bank Accounts Think About Mobile Payments" (June 22, 2016), <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/06/what-do-consumers-without-bank-accounts-think-about-mobile-payments>.

¹¹ A recent study showed that from 2008-2013, banks shut 2,000 branches—93% of which were located in postal codes where the household income is below the national median. 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>. Robin Sidel, "After Years of Growth, Banks are Pruning Their Branches," *Wall Street Journal*, March 31, 2013, <https://www.wsj.com/articles/SB10001424127887323699704578326894146325274>.

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- Geographic and statistical research shows that postal banking can provide a significant economic benefit to the many “banking deserts” across the United States, particularly in rural communities, low income communities, and minority communities.¹² Many low-income individuals save their money at home because they do not trust banks or because banks have left their neighborhood or are otherwise inaccessible due to high fees.¹³
- In the United States, 59 percent of post offices are in ZIP codes with zero or one bank branch, illustrating the potential access which postal banking can provide in bank deserts. As there are over 35,000 Post Offices, the reach of postal banking is unparalleled.¹⁴
- Two studies on international postal banking show that (a) more than 1.5 billion people worldwide are banked through the post office, (b) the post office is the largest and most accessible banking network worldwide, (c) the post office is the number one agent of financial inclusion worldwide, (d) postal banking has led to economic growth in many of the countries where it is operating, and (e) the United States is well-positioned to use its post office network to increase financial inclusion.¹⁵
- Research conducted on multiple countries shows that increased financial inclusion leads to increased GDP and economic growth overall. Key findings are that “recent evidence using rigorous research methodologies appears to generally confirm the policy makers’ convictions that inclusive and efficient financial markets have the potential to improve the lives of citizens, reduce transaction costs, spur economic activity, and improve delivery of other social benefits and innovative private-sector solutions.”¹⁶
- There are several low-cost and low complexity paths toward adopting postal banking. The post office could proceed on its own to adopt banking capabilities or it could partner with a bank or credit union network to do so. The Office of the Inspector General believes that such a program would yield a significant revenue for the post office.¹⁷

¹² Mathieu Despard, Terri Friedline, and Kevin Refior, “Can Post Offices Increase Access to Financial Services” (February 2017), Available at <https://aedi.ku.edu/sites/aedi.ku.edu/files/docs/publication/FI/Postal-Banking.pdf>.

¹³ FDIC, “2015 FDIC National Survey of Unbanked and Underbanked Households.” Available at <https://www.fdic.gov/householdsurvey/>.

¹⁴ American Postal Workers Union, “Postal Banking”, <http://www.apwu.org/issues/postal-banking>.

¹⁵ Alexandre Berthaud and Gisela Davico. “Global Panorama on Postal Financial Inclusion: Business Models and Key Issues” *Universal Postal Union*, (March 2013). Available at

http://www.uniglobalunion.org/sites/default/files/pictures/post/globalpanoramafinancial_inclusion_upu_en.pdf. See also, Nils

Clotteau and Bsrat Measho, “Global Panorama on Postal Financial Inclusion 2016” *Universal Postal Union*. Available at:

http://www.upu.int/uploads/tx_sbdownloader/globalPanoramaOnPostalFinancialInclusion2016En.pdf. Countries that used to have postal banking have seen a resurgence in postal banking recently. China has recreated its postal bank with the China Postal Savings Bank in 2007 with over 40,000 branch offices. In Brazil, 6,000 post offices began reoffering banking services in 2011. This trend indicates a global revival of postal banking. Olivier Butzbach & Kurt E. von Mettenheim, “Alternative Banking and Theory,” *Account. Econ. Law* 5 (2015): 119-121.

¹⁶ Robert Cull, Tilman Ehrbeck, and Nina Holle, “Financial Inclusion and Development: Recent Impact Evidence”, *Consultative Group to Assist the Poor*, (April 2014). Available at <https://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf>

¹⁷ USPS, Office of the Inspector General, “Providing Non-Bank Financial Services for the Underserved” (January 27, 2014). White Paper Report Number: RARC-WP-14-007. Available at https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011_0.pdf.

Almost every developed country across the globe has adopted postal banking in one form or another. What few people seem to remember is that the United States did, too. In fact, our postal banking system, first proposed in 1871, began in 1910 and successfully banked millions of Americans until 1966 when it was phased out during the heyday of community banking when there was no need for the postal banks. When it began, postal banking brought millions of new immigrants and rural citizens into the United States banking system. Postal banking was the most successful experiment in financial inclusion in the United States—a problem that we are facing once again.¹⁸

The United States Post Office was organized by the authors of the Constitution. James Madison, Alexander Hamilton, and George Washington with the help of Postmaster General Benjamin Franklin made three crucial decisions in The Postal Service Act of 1792: The post would be self-sustaining, but not profit-oriented; it would serve every community regardless of costs; and it would be the agent of democracy by subsidizing the dissemination of information from the capital to the rest of the country. The post office still retains this central mission: “The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services *to all communities*.”¹⁹ The Post Office is not only an institution that has always been reliable, efficient, and egalitarian, but it was pivotal in the creation of our democracy and continues to be essential to the operation of the routes of national commerce. There is no institution better equipped to help heal the inequality in the U.S. financial system than this institution with a profound democratic heritage.

Not only would postal banking alleviate significant financial pressure on the already stressed lives of the low-income, but it would be an economic boon to the nation. This unbanked population is currently unplugged from the nation’s economy and we all suffer from the disconnection of resources and individuals from the broader economy. Postal Banking is a relatively cost-free solution to a widespread problem of financial access. It is historically tried and tested and will yield benefits to the economy, the low-income population, and the broader banking sector.

Thank you for the opportunity to express my views on postal banking as a path toward economic growth. If you have additional questions on these issues, please contact me at mehrsa@uga.edu or 646-382-2632.

Sincerely,

Mehrsa Baradaran

¹⁸ Mehrsa Baradaran, *How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy*, (Harvard University Press, 2015).

¹⁹ 39 U.S.C. § 101 (2017) (emphasis added).