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Postal Service Ponders Future in Underbanked

FINANCE: Cash-Strapped Entity Faces Flood of Criticism
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The U.S. Postal Service has an answer for the growing legions of folks who are under-banked: It wants to offer banking services.

In a white paper released last month by the Office of Inspector General for the Postal Service, the agency makes a case that it could help an estimated 68 million adults in this country who don’t have a bank account and use costly services such as payday loans to get by.

The agency, which has seen heavy loss of market share from the likes of United Parcel Service Inc. (NYSE: UPS) and FedEx Corp. (NYSE: FDX), said it’s well-positioned to provide nonbank services such as prepaid debit cards, mobile transactions, money transfers and even small loans for “unexpected expenses.”

The Postal Service posits that because it’s already offering money orders and international money transfer services and because its branches are nearly everywhere, it could make a difference to families who do not or cannot obtain services from traditional sources — and who rely on alternative sources that charge exorbitant fees.

According to the report, the average under-banked household spends $2,412 annually on interest and fees for alternative financial services.

The Postal Service insists it’s not seeking to put banks out of business.

“The Office of Inspector General is not suggesting that the Postal Service become a bank or openly compete with banks,” the report says. “To the contrary, we are suggesting that the Postal Service could greatly complement banks’ offerings.”

A History in Financial Services

To support the concept, the Postal Service notes it has a history of providing financial services. Starting in 1911, the agency operated a postal savings system allowing anyone to make deposits. The idea was to give citizens, primarily new immigrants, a reliable, government-owned place to stash their cash, instead of hiding it in their mattresses.

The Postal Service would pay depositors 2 percent on their money and then transfer the funds to banks, which paid the Postal Service 2.25 percent. The banks benefitted because the going rate most were paying on deposits then was 3.5 percent, the report said.

During the Great Depression, when so many banks failed, the system attracted a lot of new customers. In the 1940s, when the 2 percent rate on deposits was better than what most banks were paying, it also gained business. By 1947 it held about $3.4 billion from some 4 million customers. Soon after that, deposits dropped off until the government ended the system in 1967, the report said.

Many bankers called the Postal Service’s idea utterly ridiculous, especially given the agency’s woeful track record of losing money.

For the 2013 fiscal year ended Sept. 30, the Postal Service reported a net loss of $5 billion, the seventh consecutive year that it had a net loss. For the first quarter of fiscal 2014 that ended in December, the agency reported net losses of $354 million. It also said unless there is corrective legislative action, it will default on a $5.7 billion contribution to its employee retiree health plan.

“This makes about as much sense as banks getting into delivering mail,” said Rick Sanborn, CEO of Seacoast Commerce Bank in San Diego.

“The whole notion is more than crazy,” he said. “That government agency does nothing but lose billions, and they think they can jump into and profitably run a division that does financial services? And not just financial services but the highest-risk financial services, payday lending?”

Congressman Incredulous

The Postal Service report released in late January also drew the attention of U.S. Rep. Darrell Issa, R-Vista, who chairs the House Oversight and Government Reform Committee, which oversees the agency. Issa is also a top advocate of eliminating Saturday mail delivery service.

Issa, who’s been in Congress since 2001, noted that the Postal Service pays no federal, state or local taxes, and is backed by taxpayers in the event of bankruptcy.

“With these inherent advantages over the private sector, allowing [the Postal Service] to expand into broad new arenas, such as the financial services industry, would be unacceptable and represent a massive expansion of the power of government,” he said in a statement to Fox News.

David Ely, a finance professor at San Diego State University, said while there is a need for helping unbanked people, the Postal Service’s proposal doesn’t clearly define where it will get the revenue to pay for such services.

“They have to develop a clearer business model to demonstrate this is going to be a viable business, and articulate where the revenue will come from,” he said. “They’ll need to make loans to generate revenue but they don’t say how much they’ll charge.”