Negative: Postal banking

By “Coach Vance” Trefethen

**Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.**

The AFF case proposes to bring back simple banking services at Post Offices, as most other major countries do today and as the US did from 1911-1966. This is a bad idea for several reasons. First, the ones it proposes to help don’t need any help. The “unbanked,” who supposedly don’t have access to banks, in fact most of them do have access and simply choose not to use them. And there are lots of options available to them, and more on the way. Asking the Post Office to handle your money is almost the punchline to a bad joke, because as soon as you say it, you would think how silly it is that an institution that loses billions of dollars every year could be trusted with anyone’s money. It is true that the US did have some limited form of Postal banking from 1911-1966, but what we did back then was very limited compared to what the AFF is proposing. Evidence showing it worked then doesn’t apply to now. Instead, the Postal service will simply be stuck with bad loans and poor customers who will fail to repay their loans and bounced checks, leaving taxpayers on the hook.

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Negative: Postal Banking

NEGATIVE PHILOSOPHY / OPENING QUOTES

Postal Banking: Just plain dumb

Rep. Ted Budd and Tom Schatz 2019 (Budd – Congressman from N. Carolina. Schatz – President of Citizens Against Government Waste) 2 July 2019 “Postal banking, an idea whose time should never come” https://www.washingtonexaminer.com/opinion/op-eds/postal-banking-an-idea-whose-time-should-never-come

The USPS has been slow to address the agency’s long-standing structural problems. It should be seeking ways to modernize its broken business model, rather than seeking to enter other business sectors outside its core competency. It would be both counterintuitive and just plain dumb to give this already-failing federal institution wider latitude to infringe on the private market for financial services.

INHERENCY

1. No “unbanked” crisis

Few unbanked and it’s by choice, not lack of access. And tens of thousands of entities can reach them in Status Quo

Rep. Ted Budd and Tom Schatz 2019 (Budd – Congressman from N. Carolina. Schatz – President of Citizens Against Government Waste) 2 July 2019 “Postal banking, an idea whose time should never come” https://www.washingtonexaminer.com/opinion/op-eds/postal-banking-an-idea-whose-time-should-never-come

The so-called underbanked are either [unbanked](https://www.fdic.gov/householdsurvey/) (6.5% of U.S. households) or underbanked by choice, not for a lack of access to banking institutions. Not only is there no national “unbanked” crisis, there are also tens of thousands of private sector entities that have the competency and ability to reach all Americans.

No shortage of banking options in America today. “Unbanked” population is only 7%

Eric Grover 2018 (principal at Intrepid Ventures, a corporate development and strategy consultancy) 17 May 2018 “Return to sender: Here's what's wrong with postal banking” AMERICAN BANKER <https://www.americanbanker.com/opinion/return-to-sender-heres-whats-wrong-with-postal-banking>

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](https://www.fdic.gov/householdsurvey/2015/2015report.pdf), according to the Federal Deposit Insurance Corp.

2. FDIC + AEI programs

FDIC economic inclusion programs working with Alliances for Economic Inclusion (AEI)

Federal Deposit Insurance Corporation 2018 (federal agency insuring bank deposits) 15 Feb 2018, FDIC 2017 ANNUAL REPORT https://www.gao.gov/assets/700/690081.pdf

The FDIC supported community development and economic inclusion partnerships at the local level by providing technical assistance and information resources throughout the country, with a focus on unbanked and underbanked households and low- and moderate-income communities. Community Affairs staff support economic inclusion through work with the Alliances for Economic Inclusion (AEI), Bank On initiatives, and other coalitions originated by local and state governments, and in collaboration with federal partners and many local and national non-profit organizations. The FDIC also partners with other financial regulatory agencies to provide information and technical assistance on community development to banks and community leaders across the country.

3. FDIC “Safe Accounts” program + Minor Repair: Awareness campaign

FDIC (Federal Deposit Insurance Corp.) has the “Safe Accounts” program to reach the underserved.

Federal Deposit Insurance Corporation 2018 (federal agency insuring bank deposits) 15 Feb 2018, FDIC 2017 ANNUAL REPORT https://www.gao.gov/assets/700/690081.pdf

Building on the insights gained from the survey, the FDIC has undertaken a number of initiatives to expand economic inclusion. The FDIC introduced the Safe Accounts pilot in 2011 in response to survey findings and with the encouragement of the Advisory Committee on Economic Inclusion. Safe Accounts have a low or no minimum balance requirement, are electronic-based, use debit cards, do not include overdraft or nonsufficient funds fees, and have low, transparent monthly fees. These accounts are designed to better enable unbanked and underbanked households to access the banking system and to sustain banking relationships over time. Since the pilot concluded, we have identified examples of banks across the spectrum of the industry—money center, regional, and community banks— as offering accounts consistent with the features of the Safe Account.

9 out of 10 Americans live in a county having access to Safe Accounts, but awareness is lacking

Federal Deposit Insurance Corporation 2018 (federal agency insuring bank deposits) 15 Feb 2018, FDIC 2017 ANNUAL REPORT https://www.gao.gov/assets/700/690081.pdf

FDIC analysts estimate that nine in 10 Americans live in a county with a branch of an institution that offers Safe Accounts. This represents a significant improvement since 2011, but many banks and consumers remain unaware of the benefits of these low-cost, card-based products.

Minor Repair: More funding for the existing awareness campaign about Safe Accounts

Federal Deposit Insurance Corporation 2018 (federal agency insuring bank deposits) 15 Feb 2018, FDIC 2017 ANNUAL REPORT https://www.gao.gov/assets/700/690081.pdf

To ensure that consumers who would benefit from Safe Accounts are aware of their availability and to encourage bank engagement, the FDIC has partnered with the non-profit Cities for Financial Empowerment Fund, Bank On programs, and FDIC-supported Alliances for Economic Inclusion, and has worked with other community groups, banks, state and local governments, and philanthropic organizations. Through these forums, we provide outreach to representatives of hundreds of community-based organizations and bankers across the country. Bringing these groups together creates opportunities to identify strategies to reach unbanked populations by lowering the barriers to accessing banking services.

4. Wal-Mart

Inherency: Walmart already doing low-cost services. Minor Repair: Grant Walmart a permit to do more

Todd Zywicki 2019 (senior fellow at the Cato Institute, George Mason University Foundation Professor of Law at George Mason University School of Law, Senior Scholar of the Mercatus Center at George Mason Univ.) 13 June 2019 “Postal Banking Isn’t the Fix for Financial Inclusion” https://www.cato.org/publications/commentary/postal-banking-isnt-fix-financial-inclusion

A decade ago Walmart applied for a banking charter, [only to run into a buzz saw of special-interest opposition](https://www.reuters.com/article/us-walmart-bank/fdic-says-wal-mart-will-pull-bank-application-idUSWAT00716520070316)from incumbent banks, consumer activists and FDIC regulators. Walmart eventually pulled the application, which would have enabled it to offer a full suite of banking services through its more than 5,000 stores, including checking and savings accounts. Instead, it offers a variety of more limited services through its [MoneyCenter activities](https://www.walmart.com/cp/walmart-money-center/5433), including check cashing for a [flat fee of $4](https://www.walmart.com/cp/check-cashing/632047) and [money orders for 88 cents](https://www.walmart.com/cp/money-orders/5791922?adid=22222222254421113918&wmlspartner=wmtlabs&wl0=b&wl1=g&wl2=c&wl3=311994872549&wl4=aud-566049426705:dsa-569222926777&wl5=9008138&wl6=&wl7=&wl8=&veh=sem&gclid=Cj0KCQjwxMjnBRCtARIsAGwWnBM3VDVWx5SOK3-RnCt80TGN), compared to [$1.25 at the post office](https://www.usps.com/shop/money-orders.htm). Moreover, unlike the post office’s 9-5 hours and long lines, most Walmart stores are open 24 hours a day, thereby catering to shift workers, hourly workers and others who cannot bank at times that are convenient for unionized postal employees. Walmart transformed retailing in America; permitting Walmart, and potentially other retailers such as Amazon or even convenience stores to seek bank charters, would likely do the same for financial services.

5. New product & services

New products and services are coming online now, and non-profit organizations are getting them available at low cost

Christy Chung Hevener and Marvin M. Smith 2009 (Hevener - M.G.A. Federal Reserve Bank of Philadelphia Marvin M. Smith, Ph.D. Federal Reserve Bank of Philadelphia ) ethical disclosure: article is undated but references events in 2009 “Innovative Financial Tools for Serving the Underbanked” <https://pdfs.semanticscholar.org/c409/d98003f7069fb59d0c76613120e9eebe08be.pdf>

Many of these underbanked consumers rely heavily on fringe financial service providers, including check cashers and payday lenders, to conduct routine financial transactions, and pay high fees in the process. However, the emergence of new products and services, such as prepaid cards, has broadened the menu of financial services available to the underbanked. Nonprofit organizations, among others, have adopted these new financial products as a way to provide financial services to their members at a lower cost.

HARMS / SIGNIFICANCE

1. Customers don’t perceive any harm from Alternate Financial Services (AFS, called “fringe” providers by AFF)

**“Fringe” / AFS = things like payday lenders, pawn shops, check cashing services, etc., that allegedly rip off the poor who use them, according to AFF.**

Los Angeles Study: “Underbanked” have bank accounts but choose not to use them. Some customer with bank accounts choose to use Alternate providers.

**[Analysis: these are people who have bank accounts, yet voluntarily choose not to use the bank but to go to these terrible “fringe” providers. Wonder why, if banks are good and alternates are bad? It must not be because they lack access to bank services, but because they perceive the alternatives are better.]**

Pew Health Group 2010 (a division of the Pew Charitable Trusts, a non-profit research organization) “UNBANKED BY CHOICE: A look at how low-income Los Angeles households manage the money they earn” July 2010 <https://www.frbsf.org/community-development/files/pew_unbanked_report.pdf>

The data shows different patterns of financial behavior between the Banked and the Unbanked in our study. Moreover, it reveals that the Banked and Unbanked further segment into distinct sub-groups based on their usage of financial services and providers: a banked only group, a cross-over group that has bank accounts but also uses AFS, an unbanked AFS-only group, and an unbanked cash economy group that uses cash only. Banked Only: households with at least one bank account that use banks for all financial services and transactions. Cross-Over: households with at least one bank account that regularly use non-bank providers for some financial services or transactions (sometimes popularly referred to as “underbanked”).

L.A. Study: Cross-over customers (using both banks & AFS) use AFS because they perceive AFS has value and have no negative opinion of it

Pew Health Group 2010 (a division of the Pew Charitable Trusts, a non-profit research organization) “UNBANKED BY CHOICE: A look at how low-income Los Angeles households manage the money they earn” July 2010 <https://www.frbsf.org/community-development/files/pew_unbanked_report.pdf>

The cross-over population appears to provide a particularly strong potential market for banking services. While cross-over customers maintain a bank account for certain purposes, such as to receive direct deposit from an employer, they purchase other financial products based on perceived value from AFS providers. Regularly using both banks and AFS providers, this group has no significant negative perceptions associated with either industry player.

L.A. Study: Banked and Unbanked customers are equally satisfied wit h their services

Pew Health Group 2010 (a division of the Pew Charitable Trusts, a non-profit research organization) “UNBANKED BY CHOICE: A look at how low-income Los Angeles households manage the money they earn” July 2010 <https://www.frbsf.org/community-development/files/pew_unbanked_report.pdf>

All respondents tend to like and trust the financial provider they have. The Banked are not more satisfied than the Unbanked. Those in the cash economy segment trust banks more than AFS providers, though they use neither. Most of these respondents, particularly Latinos, do not place high trust in credit unions.

2. Unbanked by choice: 29% use cash

L.A. Study: 29% of the “unbanked” don’t need any banking services: they do everything in cash

Pew Health Group 2010 (a division of the Pew Charitable Trusts, a non-profit research organization) “UNBANKED BY CHOICE: A look at how low-income Los Angeles households manage the money they earn” July 2010 <https://www.frbsf.org/community-development/files/pew_unbanked_report.pdf>

Many of the Unbanked conduct their financial transactions exclusively in cash. Almost one-third (29%) of the surveyed Unbanked exist in the cash economy. As discussed below, we conservatively estimate there are at least a million unbanked persons in the Los Angeles Metropolitan Statistical Area (MSA), making the cash economy segment some 300,000 strong. The other two-thirds of the Unbanked rely on AFS providers for financial transactions.

3. Unbanked by choice: 22% voluntarily abandoned banks

L.A. Study: 22% of the unbanked are unbanked by choice. They had bank accounts and voluntarily dropped them

Pew Health Group 2010 (a division of the Pew Charitable Trusts, a non-profit research organization) “UNBANKED BY CHOICE: A look at how low-income Los Angeles households manage the money they earn” July 2010 <https://www.frbsf.org/community-development/files/pew_unbanked_report.pdf>

Almost two-thirds of unbanked individuals in our survey (63%) have never had a bank account. Thus, they constitute an untapped market for banks. More than one-fifth (22%) of the Unbanked who have had accounts have voluntarily left the mainstream banking system, indicating a high level of customer dissatisfaction.

SOLVENCY

1. Incompetence with money

Postal Service constantly loses money and massively in debt. They can’t be trusted with anyone else’s money

Rep. Ted Budd and Tom Schatz 2019 (Budd – Congressman from N. Carolina. Schatz – President of Citizens Against Government Waste) 2 July 2019 “Postal banking, an idea whose time should never come” https://www.washingtonexaminer.com/opinion/op-eds/postal-banking-an-idea-whose-time-should-never-come

The United States Postal Service has [lost](https://www.gao.gov/key_issues/us_postal_service_financial_viability/issue_summary) $69 billion over the past 11 years and has $143 billion in unfunded liabilities. Its financial performance has not exactly been inspirational. Yet some members of Congress, including those senators also running for president, such as Kirsten Gillibrand of New York, Bernie Sanders of Vermont, and Elizabeth Warren of Massachusetts, are still talking about expanding the scope and mission of the USPS to include banking services. It makes no sense for an agency that is so deep in debt to be given the responsibility to handle anyone else’s money.

2. No trust

Post Office banking won’t reach the underserved because who would trust them to handle anyone’s money?

Rep. Ted Budd and Tom Schatz 2019 (Budd – Congressman from N. Carolina. Schatz – President of Citizens Against Government Waste) 2 July 2019 “Postal banking, an idea whose time should never come” https://www.washingtonexaminer.com/opinion/op-eds/postal-banking-an-idea-whose-time-should-never-come

A key argument behind the push for postal banking is that it would allow greater reach to an “underserved” market. This idea is laughable. There is no reason to believe people would trust the USPS over alternative financial institutions. In fact, its reputation for service and its financial condition would likely create distrust that it could handle anyone’s money.

3. USPS can’t make it work

US Postal Service says it should focus on mail delivery and not get into banking

Rep. Ted Budd and Tom Schatz 2019 (Budd – Congressman from N. Carolina. Schatz – President of Citizens Against Government Waste) 2 July 2019 “Postal banking, an idea whose time should never come” https://www.washingtonexaminer.com/opinion/op-eds/postal-banking-an-idea-whose-time-should-never-come

The president’s postal service task force [concluded](https://home.treasury.gov/system/files/136/USPS_A_Sustainable_Path_Forward_report_12-04-2018.pdf) that an agency with such limited expertise and capital should not expand into any new business, such as postal banking, where it does not have either competence or advantage, or where there is a risk of additional financial exposure. When the USPS inspector general [suggested](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-14-007_0.pdf) in January 2014 that the agency could provide financial services, the USPS [responded](https://about.usps.com/news/statements/072916.htm) by noting that its “core function is delivery, not banking.”

Post Office admits “tremendous challenges” to do banking. Need a lot more expertise, capital, systems and infrastructure

Todd Zywicki 2019 (senior fellow at the Cato Institute, George Mason University Foundation Professor of Law at George Mason University School of Law, Senior Scholar of the Mercatus Center at George Mason Univ.) 13 June 2019 “Postal Banking Isn’t the Fix for Financial Inclusion” https://www.cato.org/publications/commentary/postal-banking-isnt-fix-financial-inclusion

In fact, the [post office’s own 2015 internal study](https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-15-011_0.pdf) admits that it is highly unlikely that the post office would own its own actual bank. Instead, the report indicates that the most likely scenario involves partnering with private companies to provide them with preferential access to postal facilities to hock their wares with the post office taking a cut of the action — hardly a transformative innovation. Indeed, the post office’s report noted “tremendous challenges” associated with becoming a full-blown bank offering a full range of financial services: “For starters, the Postal Service may have to retrofit offices, hire significant financial expertise, build internal systems on a massive branch network, raise billions of dollars in capital, and bring in a staff of compliance managers.”

4. A/T “Worked until 1966”

New proposals (including Sen. Gillibrand’s proposal) go way beyond the 1911-1966 policy, so it’s not comparable

Todd Zywicki 2019 (senior fellow at the Cato Institute, George Mason University Foundation Professor of Law at George Mason University School of Law, Senior Scholar of the Mercatus Center at George Mason Univ.) 13 June 2019 “Postal Banking Isn’t the Fix for Financial Inclusion” https://www.cato.org/publications/commentary/postal-banking-isnt-fix-financial-inclusion

Postal banking [is not a new idea](https://slate.com/news-and-politics/2014/08/postal-banking-already-worked-in-the-usa-and-it-will-work-again.html). In the United States, the post office offered small-dollar savings accounts from 1911 to 1966. Modern proposals are more ambitious than merely offering savings accounts, but the contours of a functioning postal banking system remain fuzzy. Sen. [Kirsten Gillibrand’s proposal](https://www.congress.gov/bill/115th-congress/senate-bill/2755/text) is a mere six pages long, but it is much more ambitious than the earlier version of the postal bank, which offered only small savings account services. Her proposal would authorize the post office to offer basic financial services such as check-cashing, money orders, and remittances, checking and savings accounts, and to even offer small-dollar loans as an alternative to current payday loans.

5. Vague and unworkable business model

Postal bank can’t actually make any money and the plan is too vague to work

Todd Zywicki 2019 (senior fellow at the Cato Institute, George Mason University Foundation Professor of Law at George Mason University School of Law, Senior Scholar of the Mercatus Center at George Mason Univ.) 13 June 2019 “Postal Banking Isn’t the Fix for Financial Inclusion” https://www.cato.org/publications/commentary/postal-banking-isnt-fix-financial-inclusion

Banks make money by serving as a financial intermediary. But how would a postal bank make money? Gillibrand’s proposal specifically prohibits the postal bank from engaging “in traditional banking activities such as lending,” so that option is out. Beyond that, the proposal offers no solid details, nor does the website for [Campaign for Postal Banking](http://www.campaignforpostalbanking.org/mission-statement/). Sanders and Ocasio-Cortez’s [four-page legislative proposal](https://www.sanders.senate.gov/newsroom/press-releases/senator-sanders-and-representative-ocasio-cortez-unveil-the-loan-shark-prevention-act-to-protect-consumers) to regulate interest rates — unveiled alongside their endorsement of postal banking — doesn’t even mention USPS getting into financial services as part of the legislation, much less provide operational details.

6. Won’t solve for “payday loan” problems

Post Office can’t do payday loans better than private sector

Todd Zywicki 2019 (senior fellow at the Cato Institute, George Mason University Foundation Professor of Law at George Mason University School of Law, Senior Scholar of the Mercatus Center at George Mason Univ.) 13 June 2019 “Postal Banking Isn’t the Fix for Financial Inclusion” https://www.cato.org/publications/commentary/postal-banking-isnt-fix-financial-inclusion

Some proponents suggest that the post office could make money by competing with payday lenders by [making small-dollar loans](https://slate.com/business/2018/04/kirsten-gillibrands-ambitious-postal-banking-bill.html). But this is a fantasy. Default rates on payday loans are high - [approximately 15% of annual revenue](https://www.fdic.gov/bank/analytical/cfr/2005/wp2005/2005-09.pdf) — and no one has even hinted at how the post office will do a better job underwriting and collecting on small-dollar loans than current providers with years of hard-earned experience. Payday lenders earn most of their revenue off repeat customers; yet the strongest advocates for postal banking are [also among the most outspoken critics of repeat borrowing on payday](https://www.americanbanker.com/news/gillibrand-aims-to-wipe-out-payday-lenders-with-postal-banking-bill) loans. Gillibrand’s proposal caps the interest rate on small-dollar loans at just above the one-month Treasury bill rate, [currently about 2.40%](https://fred.stlouisfed.org/series/DGS1MO), with no adjustment for operating costs or default losses.

Other factors motivate payday loan customers that the Postal Service can’t solve

Todd Zywicki 2019 (senior fellow at the Cato Institute, George Mason University Foundation Professor of Law at George Mason University School of Law, Senior Scholar of the Mercatus Center at George Mason Univ.) 13 June 2019 “Postal Banking Isn’t the Fix for Financial Inclusion” https://www.cato.org/publications/commentary/postal-banking-isnt-fix-financial-inclusion

In addition, [payday loan customers report](https://object.cato.org/sites/cato.org/files/serials/files/regulation/2012/11/v35n3-5.pdf) that price is only one of the many features that they consider in shopping for a payday loan; because many of them are shift and hourly workers, they appreciate the long hours that payday lenders are open as well as the speed and customer service offered by payday lenders. Convenient hours and speedy customer service are not generally regarded as hallmarks of the post office, to say the least. As a result, it is doubtful the post office [will be able to compete](https://www.wsj.com/articles/ex-wall-street-lawyer-is-behind-plan-to-have-post-office-compete-with-banks-11559381400?reflink=share_mobilewebshare) with payday lenders on the terms consumers care about and would have to be provided a government-protected monopoly to even potentially succeed — as Sanders and Ocasio-Cortez’s do by effectively outlawing competition through low interest-rate ceilings.

7. A/T “Works in other countries”

Fails in other countries: They’re going the opposite direction now, privatizing postal services

Robert Hennelly 2015 (journalist) CBS NEWS “A new line of business for the post office: Banking?” 9 Nov 2015 https://www.cbsnews.com/news/a-new-line-of-business-for-the-post-office-banking/

But for the Cato Institute's Chris Edwards, who edits the Cato Institute's [Downsizing Government](http://www.downsizinggovernment.org/), such an expansion would be ill advised. Edwards said the rest of the world is moving to break up and privatize their public postal systems to save money and bringing about major innovations. Edwards pointed to Germany's privatizing of Deutsche Post, which he said not only improved postal service but helped set the stage for Deutsche Post to acquire DHL, the global shipping giant. "In Japan, Italy and England they are breaking up these octopus-like public conglomerates," Edwards told CBS MoneyWatch. "It's clear that when things are in the public sector, they're bloated because there's no incentive to economize to produce profits."

8. Won’t solve poverty

Access to banking products won’t solve poverty – some people are just poor because they don’t have money

Nicki Cohen, Josh Wright, Katy Davis, Chaitra Chandreasekhar, Piyush Tantia, Tim Spence 2015 (Cohen – Associate with Ideas42. Wright and Tantia – both are Executive Director of Ideas42. Davis – VP of Ideas42. Chandrasekhar – Principal with Oliver Wyman. Spence – Partner with Oliver Wyman. Oliver Wyman is a leading global management consulting firm. Ideas42 - Non-profit design and consulting firm that uses insights from the behavioral sciences to address complex social problems) REIMAGINING FINANCIAL INCLUSION <https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2015/nov/Reimagining-Financial-Inclusion-Final.pdf> (brackets added)

While tools for managing volatility will make many LMI [low & moderate income] consumers better off, some consumers will not achieve a position of financial stability with even the best designed financial products. Consumers fall into one of four categories when it comes to income and expenses (see Exhibit 7 below). Better financial products can help many consumers, though they will not necessarily solve deeper problems like persistent and significant income shortfalls (see consumers in category A) – these problems require more substantive interventions from outside the financial services industry, like workforce development support.

9. Other barriers to mainstream banking

Insurmountable barriers to mainstream banking: Garnishment, legal actions, identification

Nicki Cohen, Josh Wright, Katy Davis, Chaitra Chandreasekhar, Piyush Tantia, Tim Spence 2015 (Cohen – Associate with Ideas42. Wright and Tantia – both are Executive Director of Ideas42. Davis – VP of Ideas42. Chandrasekhar – Principal with Oliver Wyman. Spence – Partner with Oliver Wyman. Oliver Wyman is a leading global management consulting firm. Ideas42 - Non-profit design and consulting firm that uses insights from the behavioral sciences to address complex social problems) REIMAGINING FINANCIAL INCLUSION <https://www.oliverwyman.com/content/dam/oliver-wyman/global/en/2015/nov/Reimagining-Financial-Inclusion-Final.pdf>

In addition, a subset of the population faces more insurmountable barriers to using the mainstream banking system. Some consumers are subject to garnishment, a legal procedure by which a court order gives a creditor or debt collector permission to freeze or take funds from an individual’s bank account for debts owed. Even the threat of this type of legal action may deter consumers from obtaining a bank account. Other consumers (around 7% in the U.S.) cannot open an account due to identification, credit, or banking history problems. Some of these consumers may not be able to open an account because of information that appears in ChexSystems due to past banking behavior, like overdrafting. In these circumstances, there are relatively few products available to meet their financial needs.

DISADVANTAGES

1. Hurts consumers and taxpayers

Postal banking hurts consumers and taxpayers by disrupting private industry

Rep. Ted Budd and Tom Schatz 2019 (Budd – Congressman from N. Carolina. Schatz – President of Citizens Against Government Waste) 2 July 2019 “Postal banking, an idea whose time should never come” https://www.washingtonexaminer.com/opinion/op-eds/postal-banking-an-idea-whose-time-should-never-come

A postal bank would hurt consumers and taxpayers by undercutting well-regulated, private financial intuitions and undermining the fundamental role of the postal service. A failing federal agency should not enter and disrupt a private industry that is already competitive and efficient. The national market-driven, merit-based banking system operates much differently and yields far fairer results than would a politically driven operation.

Harms consumer s and taxpayers by redirecting resources through political motivation

Eric Grover 2018 (principal at Intrepid Ventures, a corporate development and strategy consultancy) 17 May 2018 “Return to sender: Here's what's wrong with postal banking” AMERICAN BANKER <https://www.americanbanker.com/opinion/return-to-sender-heres-whats-wrong-with-postal-banking>

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.

2. Bad loans

Link: Plan increases over-consumption of credit to poor customers

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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](https://fred.stlouisfed.org/series/DGS1MO). 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.

Link: High rates of bad loans are inevitable

Prof. [Peter Conti-Brown](https://www.brookings.edu/author/peter-conti-brown/) 2018 (Assistant Professor of Legal Studies & Business Ethics - Wharton School, University of Pennsylvania) 31 May 2018 “Why the next big bank shouldn’t be the USPS” <https://www.brookings.edu/research/why-the-next-big-bank-shouldnt-be-the-usps/>

Very soon after entering the banking business, a postal banker will face a low-income borrower in default. Default is an inevitable aspect of banking. Given the population in question—people with few resources, living paycheck-to-paycheck even in good times—default expectations will be much higher.

Impact: Postal Bank lending displaces payday lenders (one of AFF’s goals)… so taxpayers take the losses instead of the payday sharks

Eric Grover 2018 (principal at Intrepid Ventures, a corporate development and strategy consultancy) 17 May 2018 “Return to sender: Here's what's wrong with postal banking” AMERICAN BANKER <https://www.americanbanker.com/opinion/return-to-sender-heres-whats-wrong-with-postal-banking>

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.

Impact: Bad loans will bankrupt the system and taxpayers will be on the hook

Prof. [Peter Conti-Brown](https://www.brookings.edu/author/peter-conti-brown/) 2018 (Assistant Professor of Legal Studies & Business Ethics - Wharton School, University of Pennsylvania) 31 May 2018 “Why the next big bank shouldn’t be the USPS” <https://www.brookings.edu/research/why-the-next-big-bank-shouldnt-be-the-usps/>

Let’s be clear: Keeping interest rates low for populations that have a high risk of default is a governmental subsidy. Interest rates are not simply bankers extracting their pound of flesh from innocent borrowers. Interest rates reflect overall market conditions, profit margins, and (importantly) default risk. Regulation should ensure that unfair, deceptive, and abusive practices are not permitted. But high interest rates are not necessarily a sign that someone has been abused. It may be a sign that someone is at high risk of default. If Senator Gillibrand’s vision to provide “low-fee and low-interest rate micro-loans” would extend credit at prices that default risk cannot justify, the government is on the hook for that difference. If that interest rate is priced below what the default risk would justify, then postal banking will quickly run out of money and require significant governmental support to remain viable.

Works Cited