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# Postal Banking Is Back -- On Democratic Party Platforms -- But Is It Viable?

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Postal Banking, which Elizabeth Warren promoted back in 2014, is back on the Democratic Party agenda, or at least on the platform of several of its presidential candidates.

The revival of postal banking — the Post Office dropped savings account in 1967 because of a decline in deposits — has been based on two not always compatible concepts. In 2014 the Postal Service suggested it could make money from banking while still undercutting the usurious rates of payday lenders.

Democrats are advocating it as a way to help people who don’t have bank accounts and often fall victim to the high fees charged by payday lenders.

Kevin Wack of [The American Banke](https://www.americanbanker.com/opinion/postal-banking-is-back-on-the-table-heres-why-that-matters)r reported last April that Sen. Kirsten Gillibrand, D-New York, has proposed making the country’s Post Office into financial service centers with small low-cost loans, payments, checking and savings accounts and online services. Senator Bernie Sanders has also proposed postal banking and it was a little-noted part of the Democratic Party’s platform in 2016, although, as Wack dryly noted:  “Hillary Clinton, whose candidacy was hurt by her paid speeches to Goldman Sachs, was undoubtedly a poor vessel for the idea.”

Mehrst Baradaran, a prominent authority of the problems poor people have with banks, and author of “How the Other Half Banks,” is an enthusiastic proponent of postal banking.

Alan Pyke, writing for the[leftist ThinkProgress](https://thinkprogress.org/gillibrand-warren-usps-postal-banking-payday-loans-2f4f1f72eb4a/) site, suggests the senators are ignoring, and perhaps harming, years of patient work that have been focused on experimenting with postal banking. The 2016 contract with the American Postal Workers’ Union (APWU) called for pilot programs, Pyke wrote.

Baradaran applauded Gillibrand’s proposal as public option for the unbanked, Pyke said.

“Super low interest loans, probably way too low, but she really wants to be bold and say this is about the public not about saving the post office,” he quotes Baradaran

Peter Conti-Brown, assistant professor of legal studies and business ethics at the Wharton School, University of Pennsylvania, thinks the Postal Service would be walking into a trap.

“Professor Baradaran and those who have followed her deserve enormous credit for steady efforts first to expose the problem of the un- and underbanked in the U.S. and now to rally policymakers around a specific proposal. But is it the right solution?”

Conti-Brown dismisses, perhaps too quickly, the debate over bricks and mortar vs. mobile banking. He notes that the USPS could do mobile.(I will address that issue in a future article.) His bigger concern is the Postal Service as a collection agency on bad loans.

“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.”

The Postal Service is the highest rated government agency but it is difficult to think it will sustain that popularity if it is chasing down poor people for loan repayments.

A second key objection is the idea of low-interest rate loans to high-risk 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.”

Pyke at ThinkProgress writes that “Research suggests that low-cost alternatives to payday lending are only sustainable at annual interest rates in the mid-double-digits.”

He points to [Colorado laws](https://thinkprogress.org/one-chart-destroys-the-talking-point-lawmakers-are-using-to-protect-their-payday-lender-buddies-155bcc7bd82d/) on payday lending which results in interest rates to of 121% compared to Florida’s 304%.

“The (payday lending) industry makes almost all its revenue from the minority of its customers who almost never get out of debt, and we know how to make rules that break that abusive pattern without pushing the industry out of business and leaving the destitute to their own devices,” Pyke concludes.

He describes how Congressman Dennis Ross (R-FL), has proposed federal payday lending regulations along the lines of Florida’s loose rules and notes that “almost the whole Florida delegation joined as co-sponsors of Ross’s bill to forestall those federal rules — including Rep. Debbie Wasserman Schultz, the head of the Democratic National Committee and a co-author of Florida’s regulatory sleight of hand…”

For more on payday lenders, their political clout and how the Trump administration has largely destroyed the Consumer Finance Protection Board’s payday lending regulations, see Nick  Confessore’s excellent [New York Times Magazine article.](https://www.nytimes.com/2019/04/16/magazine/consumer-financial-protection-bureau-trump.htm)

[Elevate](https://www.elevate.com/),  which specializes in unsecured lending to people with nonprime credit, charges around 100% for its loans, still a great deal compared to 400% to 500% for payday loans, [according to its CEO](https://www.forbes.com/sites/tomgroenfeldt/2018/04/25/elevate-provides-safe-credit-to-people-banks-cant-serve-with-fico/#50622a1e4fb1). Unlike payday lenders, Elevate seeks to help customers improve their financial health: It rewards borrowers' good financial behavior by cutting the interest rate as borrowers make consistent payments and reports customers' payments to major credit bureaus to help improved damaged credit scores. But it makes Sen. Gillibrand’s claim to be able to offer low-interest loans to high risk individuals look naive.

“WE SAVED OUR CUSTOMERS  $ 4,857,210,965  OVER PAYDAY LOANS,” Elevate says on its web site.

It offers its advanced analytics technology to banks to evaluate credit worthiness of credit prospects.