



# Creating a Postal Banking System Would Help Address Structural Inequality

By Danyelle Solomon, Mehrsa Baradaran, and Lily Roberts | October 15, 2020

Created more than 200 years ago, the United States Postal Service (USPS) has had a profound effect on the social and economic conditions of America's neighborhoods and communities. Delivering more than 140 billion pieces of mail to more than 42,000 urban, suburban, and rural communities in 2019, the free and universal service mandate to circulate information is what makes the USPS a respected American institution.<sup>1</sup>

It is also an equalizer institution. The U.S. Postal Service delivers mail everywhere, it has offices everywhere, and it imposes no extra charges or fees for delivering mail to certain communities. Furthermore, it delivers essential services, such as prescription drugs, a critical lifeline for seniors and people with disabilities; paychecks for people who don't use direct deposit; and letters and packages, both critical ways of delivering information and goods. COVID-19 has showcased how critical an institution the USPS is in getting Americans essential items without risking their health.

Moreover, the pandemic and the initial policy responses to it have further elevated the importance of addressing systematic barriers to wealth building for Black Americans as well as other communities of color. Earlier this year, for example, the billions of dollars in stimulus funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act failed to reach the communities that most needed help.<sup>2</sup> Lawmakers failed to account for the quarter of American households that are unbanked or underbanked,<sup>3</sup> leaving them waiting extra weeks to receive a paper relief check—if they received one at all. While the immediate problem was one of access, COVID-19 shone a spotlight on a systematic problem and created a sense of urgency to fix it.

By doing so, the pandemic has provided an opportunity for policymakers to structurally change the financial system itself. Despite the gains made through the Community Reinvestment Act and the Community Development Financial Institutions Act<sup>4</sup> to accurately assess the root causes of the disparate treatment of Black Americans in the U.S. financial system, policymakers have thus far failed

to focus solutions on institutions such as banks instead focusing on individuals and communities. Policymakers should build on this solid foundation by further investing in the U.S. Postal Service by expanding its services to include postal banking.

Postal banking should be a core part of the USPS' mission to deliver services to almost every community in the country. Structuring the U.S. financial system to leverage the reliability of the Postal Service will help automatically provide banking to communities across the nation and minimize their reliance on predatory lenders that strip them of their wealth. Minimizing such predatory practices must be a necessity for policymakers who want to tackle the root causes of inequality. Postal banking would provide millions of Americans with a universal, easily accessible, and essential service that has low, uniform costs and no motive to profit from communities. It would also support an American institution.<sup>5</sup>

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## Understanding the history of racial discrimination in U.S. financial systems

African Americans have long faced racial discrimination in mainstream American financial systems. For centuries, even free Black Americans were prohibited from owning property in many states, as well as from participating in certain occupations, including finance, and from becoming members of building and loan institutions. Personal lending among African American businessmen, or lending through churches or mutual aid societies, gradually transitioned into a movement for the establishment of credit and banking systems among free African Americans. Yet high-profile betrayals such as the Freedman's Bank debacle squandered deposits and community wealth, and African Americans continued to be excluded from banks aimed at white depositors—which were intended, as so much private enterprise and government policy have been, to create and strengthen white wealth.<sup>6</sup> This exclusion was followed compounded by decades of housing and credit discrimination through public policy, as redlining and the continuing inability to access credit through mainstream financial institutions stripped wealth from Black communities.<sup>7</sup>

These decades-old policy decisions still affect communities of color today. Furthermore, housing and credit discrimination remain prominent in the U.S. economic system. The inability to participate fully in the financial system, free from discrimination and predatory actions, places African Americans in a particularly vulnerable position. Today, only 50 percent of Black people are fully banked, meaning they have a checking and/or savings account,<sup>8</sup> compared with 85 percent of white individuals. Black people are more likely to incur higher costs when relying on nontraditional financial institutions.<sup>9</sup> Because they do not have access to more traditional banking institutions, they are forced to turn to

predatory lenders that charge extremely high rates for fees and services.<sup>10</sup> For example, the interest rates and fees on transactions charged by fringe lenders can be upwards of 600 percent, representing a tax on people's income.<sup>11</sup> It has been estimated that these charges could represent up to almost 10 percent of the average underserved person's annual income—just to access a basic economic service.<sup>12</sup>

## The Freedman's Savings and Trust Company

The Freedman's Savings and Trust Company was signed into law by President Abraham Lincoln in 1865, with the intent to provide a savings institution for newly freed slaves and their descendants. In less than a decade, the company had opened 37 branches in 17 states and Washington, D.C. It gained more than an estimated 70,000 depositors and more than \$57 million in deposits.<sup>13</sup>

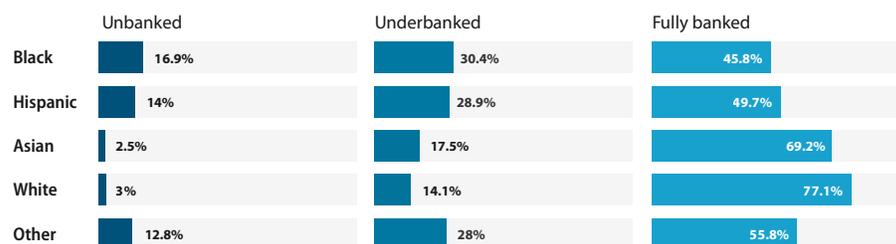
After several years of deposits from individuals, families, and benevolent societies and organizations, however, well-intentioned mismanagement by those with no financial expertise—as well as outright fraud and risky investments in self-dealing—led to the bank's collapse. The funds remaining in the bank were lost, as were the deposits that had been withdrawn by customers during several years of public uncertainty about the bank's fate. Although the bank's failure predated federal deposit insurance, contemporary advertisements and records indicate that bank representatives led potential depositors to believe that their account would be backed by the federal government and thus immune from risk.<sup>14</sup> Depositors lost significant assets, and many Black families and communities lost faith in financial institutions. As civil rights activist W.E.B. Dubois stated, "Then in one sad day came the crash—all the hard-earned dollars of the freedmen disappeared; but that was the least of the loss—all the faith in saving went too, and much of the faith in men."<sup>15</sup>

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## Financial exclusion creates an added burden in wealth building for communities of color

Today, nearly one-quarter of American households are either unbanked or underbanked. Black Americans represent 36.6 percent of the unbanked population, meaning they have no savings or checking account. They represent 22.8 percent of the underbanked population, meaning that while they have a bank account, they primarily rely on fringe banking options such as check cashers. Overall, the Black population only represents 9.3 percent of the fully banked population, while white Americans represent 75.2 percent of the fully banked population. (see Figure 1) The driving factor in households being either unbanked and underbanked is a lack of access to mainstream banking institutions in their communities.<sup>16</sup>

**FIGURE 1**  
**Rate of unbanked, underbanked, and banked U.S. households in 2017, by race**



Source: Federal Deposit Insurance Corporation, "2017 FDIC National Survey of Unbanked and Underbanked Households" (Washington: 2018), Tables 3.2 and 3.3, available at <https://www.fdic.gov/householdsurvey/2017/2017report.pdf>.

Decades of deregulation, high market competition, and the subprime mortgage crisis caused banks to abandon communities of color as customers. The rapid consolidation of financial institutions caused many low-income communities to go without access to a bank. In fact, more than 90 percent of the 1,800 bank branches that have closed since 2008 were in communities with household income below the national median.<sup>17</sup>

Lack of access to a traditional bank account only compounds the other harms Black Americans face in the U.S. economic system. Wealth and access to a wealth-creating financial system provide individuals and families with the ability to respond to economic shocks and protect against a structure that subtracts wealth. For example, lack of wealth forces people to rely on predatory lenders, payroll advances, and check-cashing. Check-cashing fees can run as high as 3 percent to 5 percent for each check, a high cost for purchasing money orders or other tools that can convert cash into bill payments.<sup>18</sup> ATM fees, meanwhile, can run as high as \$7.50 per transaction. Overall, this can add up to hundreds or even thousands of dollars per year.

In addition to the harm that lack of access to a bank account causes customers, it is important to recognize the compounding impact of these barriers. For example, Black workers typically earn only 78 cents for every \$1 earned by white workers, and these numbers get worse when looking at both race and gender. Black women, for example, earn 62 cents for every \$1 earned by a white male.<sup>19</sup> Furthermore, the unemployment rate of Black workers remains twice the rate of white workers. The racial wealth gap, already stark prior to COVID-19, is likely growing due to the pandemic.<sup>20</sup> Not only are Black workers earning less than their white counterparts, they also have less wealth, and it costs them more to access and save the money they have earned because they are more likely to lack a bank account. Easy access to liquid savings is particularly necessary as electronic transactions become more prevalent, including for transit agencies and other necessities.

In short, lack of access and lower wages compound to make wealth building harder for Black Americans. By removing barriers to mainstream financial services, as well as the ability of predatory lenders to strip wealth out of Black communities, federal policymakers can make effective changes that could help close the racial wealth gap.

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## The USPS should expand its services to include postal banking

By allowing the U.S. Postal Service to expand its services into banking, policymakers would remove the structural barrier currently facing a quarter of Americans. A more robust postal banking model could provide communities of color and low-income individuals access to a broader array of financial products and services—including bank accounts, small loans, and check cashing—at a much lower rate than typical banking institutions. Sen. Kirsten Gillibrand (D-NY) has introduced legislation, the Postal Banking Act (S. 2755), that would allow the U.S. Postal Service to offer such services.<sup>21</sup>

The American public is also supportive of a postal banking option. A July 2020 survey conducted by Data for Progress found 41 percent bipartisan support for the USPS offering these basic services.<sup>22</sup> Furthermore, it found that 58 percent of likely voters agreed that access to a USPS bank account would save individuals from relying on predatory lenders, as well as offer much-needed services to underserved communities.<sup>23</sup>

Creating a robust postal banking system could allow for easier disbursement of future policy interventions, including future stimulus-related checks from the federal government, similar to the Economic Impact Payments made in April 2020; quarterly disbursements of earned income tax credit or child tax credit payments; or baby bonds.

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## Conclusion

As the nation grapples with taking the appropriate next steps to rebuild following the COVID-19 pandemic and resulting economic crisis, it is important that policymakers make long-term structural changes to ensure more equitable outcomes for all Americans. By expanding the mandate of the U.S. Postal Service to include postal banking, the federal government could provide essential services. Postal banking would fix a structural error in the U.S. financial system and mitigate the harm many Black communities face from predatory lenders.

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