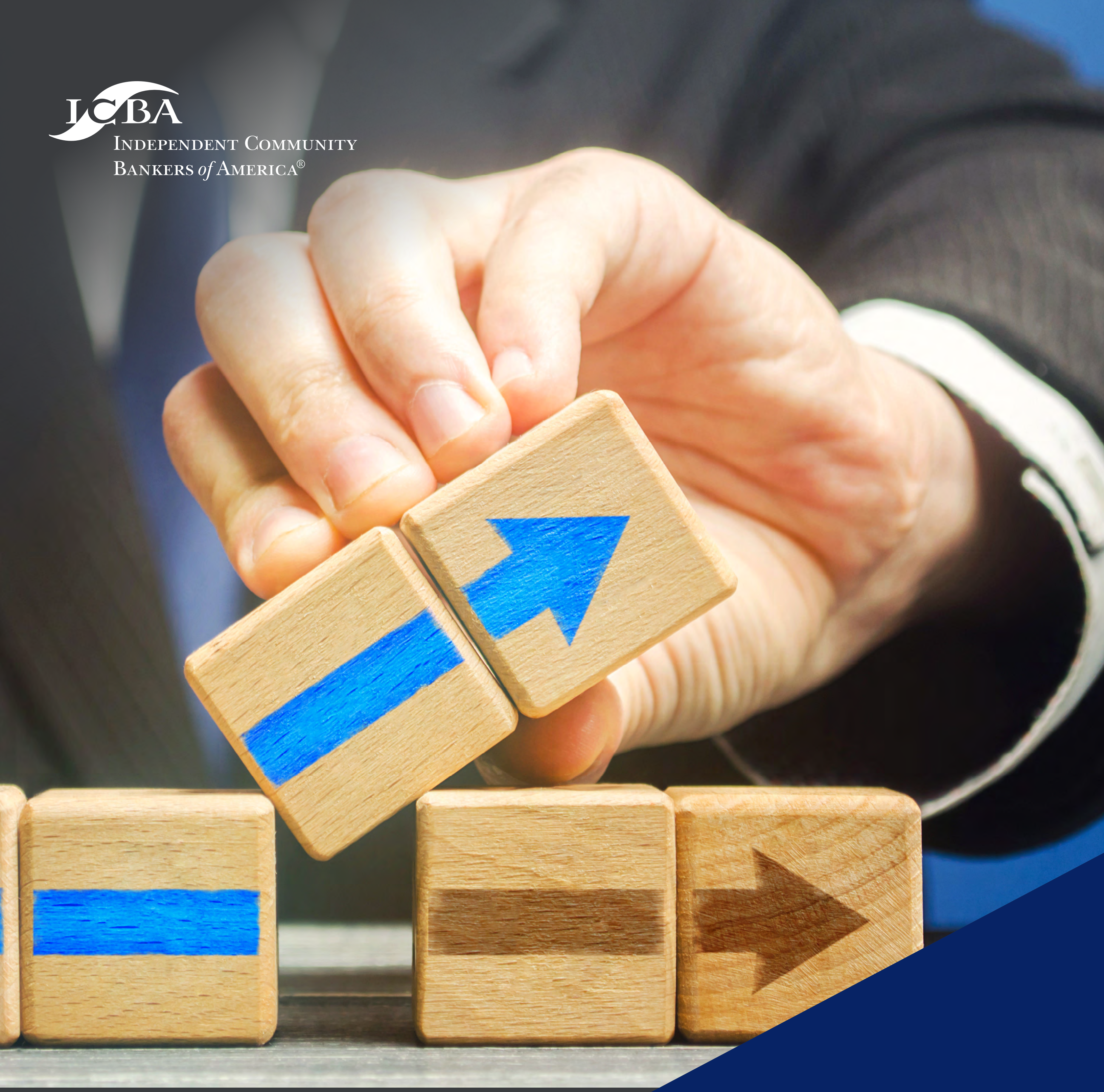
ICBA
Independent Community Bankers of America®



POSTAL BANKING

A Flawed Proposal in Pursuit of a Worthy Goal—A Series

JULY 2021

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Part III: Alternatives for Reaching the Unbanked

Community bankers are committed to serving their communities, including unbanked populations. A community cannot thrive without inclusive access to the banking system. This concern is too important to entrust to an untested proposal.

Postal banking is not the solution. It is a risky, poorly thought-out experiment. In the first part of this series, we argued that postal banking would jeopardize the core mission of USPS: timely delivery of the mail on which consumers and commerce depend. In the second part, we argued that banking is a complex venture for which USPS is ill suited. Postal banking would likely lose money and further jeopardize the agency's precarious financial condition. In this third and final part of the series, we offer realistic, viable alternatives for reaching more of the unbanked based on new technologies and established financial institutions.

Our goal should not be to isolate the newly banked in a stunted, subpar form of banking, but to bring them into the mainstream of banking where they can grow their household finances and take full advantage of opportunities for wealth building that exist there.

LEVERAGE COMMUNITY BANKS FOR GREATER FINANCIAL INCLUSIVENESS

Community banks have distinguished themselves as ideal partners in bold initiatives to increase financial inclusion. Community banks recently demonstrated their geographic versatility and commitment to underserved communities by originating more than 55.8 percent of all Paycheck Protection Program (PPP) loans, despite accounting for just over 18 percent of total bank industry assets. This program enabled more than 3800 community banks to act as the conduit for more than 2.8 million distressed small businesses seeking federal loan assistance within 98.5 percent of low-income counties, 97 percent of rural counties, and 93.8 percent of urban counties.

Community banks are investing the same energy that they brought to the PPP to increasing financial inclusion. Solutions include: credit building initiatives that allow consumers with thin or nonexistent credit files to build a credit history with special savings and loan products. Some community banks are using alternative data, such as cash flow, or utility and rent payment history, in their underwriting to supplement traditional credit data. Community banks are finding new ways to surmount barriers to serving new immigrants to the U.S. including accepting alternative forms of identification to satisfy customer due diligence rules and other Bank Secrecy Act regulations.

We encourage Congress and the banking agencies to build on the success of a 2008 FDIC pilot program designed to encourage more financial institutions to provide affordable small-dollar loans. Over the course of two years, 31 participating community banks originated more than 30,000 small-dollar loans totaling over $40.1 million. They averaged more than 1,000 loans per quarter. Additional pilot programs examining the sustainability of community banks offering no- or low-cost checking and savings accounts are a viable alternative to postal banking.

ICBA has a robust set of recommendations for Congress and the banking agencies to further leverage the community ties and resources of community banks.

MINORITY DEPOSITORY INSTITUTIONS AND COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs) specialize in serving minority or low-income communities that are disproportionately unbanked. Without the work of these institutions, the unbanked population would be markedly higher. There are currently 143 MDIs holding over $299 billion in assets touching 600 minority-majority communities nationwide. There are 250 CDFI banks, primarily serving low-to-moderate income markets and maintaining accountability to those target markets. Their impact in the communities they serve is significant and must be leveraged for greater reach.

Minority banks are expert in reaching at-risk demographics. They are effective in these communities because of their understanding of their cultural practices, differences, languages, and norms, allowing them to customize products and services that meet their unique needs. Critically, reaching the unbanked requires the ability to overcome barriers to trust. Trust and cultural understanding are the core value propositions such institutions offer. A postal bank would not be similarly qualified. What's worse, a postal bank could accelerate the closure of MDIs and harm the communities they serve.

Congress should enact legislation to promote and strengthen MDIs and support their reach into unbanked households. Measures could include permitting MDIs to utilize nontraditional means of raising capital to support additional lending. MDIs typically lack access to the public capital markets that larger banks enjoy. In addition to capital, Congress and the federal banking agencies should create programs to promote investments, technical assistance, mentorship, and collaborative relationships between minority banks and community banks at large. A new "Impact Designation" for banks with a specified percentage of loans extended to low-income borrowers would ensure that assistance is directed to those institutions that are having the greatest impact in low-income communities.

The Promoting Access to Capital in Underbanked Communities Act of 2021 (H.R. 2561) is intended to promote de novo community bank formation, including MDIs, by phasing in capital standards over three years. Start-up capital is often the greatest impediment to forming a new bank, and this provision would help spur the creation of new MDIs and Impact Banks. This kind of regulatory flexibility, recognizing the financing disparities of different types of banks, is critical to promoting the formation of additional, mission-driven banks positioned to serve unbanked and underbanked communities.

Measures to strengthen CDFIs include: Funding the CDFI Fund's Loan Loss Reserve Fund for small dollar loans and providing additional appropriations for the CDFI Fund to provide technical assistance to CDFIs. Policymakers should also streamline the application and recertification process for MDIs to receive the CDFI designation. This would not only provide the flexibility for these institutions to reach first-time customers, but also encourage the formation of de novo MDIs, increasing the number of private, community banks focused on serving financially underserved communities. MDIs and CDFIs must be a solution to the challenge of the unbanked.

FINANCIAL TECHNOLOGY HAS THE POTENTIAL TO DRAMATICALLY EXPAND ACCESS TO BANKING SERVICES

According to FDIC data, 49.5 percent of unbanked households and 83.2 percent of underbanked households have regular access to a smartphone, while 28.5 percent of unbanked households and 76.1 percent of underbanked households have regular access to the internet. Smartphone and internet access can and will continue to expand with the support of targeted policy initiatives. Younger people of all demographics are already predisposed to use mobile banking and mobile payments, according to the Federal Reserve's most recent survey on Consumers and Mobile Financial Services.

Partnerships between community banks and fintech providers are a critical part of ensuring greater access to financial services beyond the reach of physical branches. ICBA supports initiatives to expand affordable access to broadband and other technologies and promote the use of fintech as a means for unbanked and underbanked households to access banks with low-cost product offerings. Bank-fintech partnerships are the future of banking, and we must ensure that it expands in an inclusive and affordable manner.

While postal banking proposals include mobile banking, USPS's absence of experience with this technology, as well as in underwriting and management of the assets and liabilities that lie behind mobile banking, suggest that better alternatives exist. There is no rationale for USPS to create mobile banking to compete with far more established and efficient players in the marketplace.

POSTAL BANKING IS NOT THE ANSWER

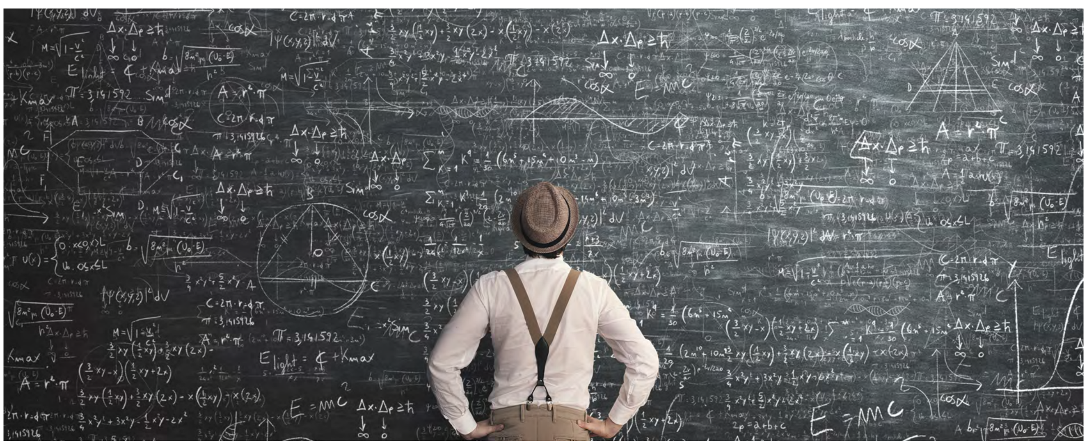
Solutions for the unbanked must be based on the proven viability of established institutions, especially MDIs, as well as the promise of new financial technologies. A postal bank that lacks experience and would be financially unviable, as we demonstrated in the second installment in this series, cannot effectively reach nor sustainably serve underserved communities.

Proposals for postal banking rest primarily on the USPS branch network, suggesting that it would reach more underserved "banking deserts." This premise is false. USPS's geographic footprint does not provide a substantial advantage within a highly crowded financial services market. In fact, commercial bank branches outnumber USPS branches by nearly 3 to 1. Moreover, in the most at-risk American counties based on average income, households below the poverty line, and unemployment, community banks have a higher branch presence than the USPS. This topic is further examined in the second installment of this series.

Other Installments in This Series

PART I

Argued that postal banking would jeopardize the core mission of USPS: timely delivery of the mail on which consumers and commerce depend



PART II

Explores the inherent risk and complexity of financial services, a venture for which USPS is ill suited and that would likely lose money and further jeopardize the agency's precarious financial condition.

About ICBA

The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 52,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 760,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than $4.9 trillion in assets, $3.9 trillion in deposits, and $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at icba.org.

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