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July 13, 2021

The Honorable Chris Van Hollen
Chairman
Subcommittee in Financial Services
and General Government
Senate Committee on Appropriations
United States Senate
Washington, D.C. 20510

The Honorable Cindy Hyde-Smith
Ranking Member
Subcommittee in Financial Services
and General Government
Senate Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Chairman Van Hollen and Ranking Member Hyde-Smith:

On behalf of community banks across the country, with more than 50,000 locations, I write today to express our strong opposition to taxpayer funding for a postal banking pilot project within the United States Postal Service (USPS) as part of the fiscal year 2022 appropriations act for Financial Services and General Government. Postal banking in any form is an ill-advised idea fraught with unintended consequences. We urge you not to go down this highly controversial and potentially dangerous path.

Our opposition to postal banking is based on three considerations. First, Postal banking would jeopardize the core mission of United States Postal Service (USPS) – the timely delivery of letters and parcels on which American commerce and consumers depend. USPS has struggled to maintain adequate delivery standards, which remain well below the agency’s target of delivering 96 percent of mail on time. Improving delivery times must take priority over all other initiatives. Importantly, many of our most vulnerable citizens continue to receive Social Security checks and prescription medications through the mail. USPS is increasingly part of our elections infrastructure as more ballots are delivered and returned through the mail. Reliable mail delivery is important for keeping rural America socially and economically connected with the rest of the country, especially as many areas continue to lack access to broadband.

Our second objection is that USPS is ill-suited to the provision of financial services and would operate under constraints and with an expense structure that would ensure losses. Consumer banking is an inherently complex enterprise. Successful underwriting and management of assets and liabilities is a highly specialized skill demanding seasoned judgment. In the era of systems hacking, securing financial data against ever evolving threats has become that much more challenging. A postal bank would have to build data security systems from scratch. A security failure would expose the financial data of millions of customers, breaching their privacy and making them vulnerable to identity theft and other forms of fraud. It would also be costly for USPS, which would be required to cover fraud losses.

Postal banking would create revenue losses estimated to run hundreds of millions annually. Under Senator Gillibrand’s Postal Banking Act, for example, the postal bank would be required to pay interest on savings accounts comparable to what a commercial bank pays but would charge interest on loans at a rate well below rates charged by commercial banks and other financial institutions, the 1-month Treasury

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rate. At today's rates, a postal bank would earn a net interest margin of just .01 percent. These constraints, together with the expenses a postal bank would incur – high employment costs including benefits for staff qualified to provide financial services, as well as the significant start-up costs of capitalization and of upgrading branches to accommodate security and technology – ensure that it would sustain significant annual losses and divert scarce resources from USPS's core mission.

Finally, the important policy goal of banking the unbanked is too important to entrust to an untested proposal. To reach the unbanked, Congress should focus on the proven viability of establish institutions, especially minority depository institutions (MDIs). Minority banks in particular are expert in reaching at-risk demographics because they understand these communities and their unique needs. 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. ICBA support a series of proposals that would strengthen MDIs and support their reach into unbanked households.

In addition, past pilot programs to encourage more financial institutions, including community banks, to provide affordable small-dollar loans have shown promise. 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.

Finally, financial technology has the potential to dramatically expand access to banking services. Partnerships between fintech providers and community banks will ensure 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 with low-cost product offerings.

ICBA and America's community banks urge you to oppose funding for a postal bank pilot project. It would be a serious mistake for the USPS to enter into a highly competitive, complex new industry with the potential to ruin itself and its core function and put American taxpayers at further risk.

Thank you for your consideration.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC: Members of the Senate Committee on Appropriations

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