Going Postal

by Steve Brown

Chances are you saw the recent news that the U.S. Postal Service is considering offering certain kinds of banking services. Groans and jokes have flooded the airwaves as a result of this easy fodder. After all, most of us probably think about the Post Office in terms of TV characters like Cliff, the know-it-all mailman on Cheers, Newman from Seinfeld, or Mr. Rogers' postal carrier sidekick who ironically used "speedy delivery" as an all-subject catch phrase. That phrase is a bit of a stretch from the real postal motto "Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds". We still like Newman's quip - "I was never that big on creeds".

Given email, Congressional meddling, social media, smartphones, FedEx and other changes, the written letter has largely died out as a communication method. The result has been a bloated government agency searching for economic viability. While it may feel more efficient to use FedEx for certain things, most of us will be happier to send a birthday card electronically with dancing or singing and a bit more panache. The problem with the Postal Service offering banking services is that we have been down this road before. Consider the Post Office already offers Postal Money Orders (checks with no expiration and which can be replaced if lost or stolen) with little success.

Going further back in history, Congress established the Postal Savings System in 1910. Back then, the agency guaranteed deposits to attract savings from individuals who were storing money in cookie jars and mattresses. This was at a time of little confidence in the banking system and FDIC insurance was 20+ years in the future. Bankers initially viewed the Postal Savings System as competition but changed their minds quickly once laws directed the Post Office to redeposit the money into local banks. Later on, as banks came to pay higher interest and offered depositors insurance, the deposits in the Postal Savings System waned and it officially ended in 1967. Private enterprise won out, the FDIC insurance works just fine and adding a new competitor with government backing into an industry already under siege by non-banks and others is sadly ridiculous.

The move to get into banking, however, comes from the roots of a report by the Office of the Inspector General. It found about 68mm Americans in 2012 had no savings or checking accounts. Because of that and since they used alternative channels, these households were estimated to have paid $89B in 2012 on interest and fees to non-bank financial service companies just to carry out basic transactions. That comes to about $2,400 per household or about 10% of the income of a low-income family.

The problem here is that the OIG needs to incorporate recent efforts of the CFPB into their report before opening the door to the Bank of Post Office. Most of these non-bank activities relate to shady operators like car title and payday loan outfits, check cashers and pawn shops. Here, the CFPB has been gearing up and moving aggressively to regulate such organizations and hold them accountable. Time will clear all this up.

Unfortunately for community banks, the report by the OIG suggests that the Postal Service with its large physical branch network could reach into areas where banks are closing unprofitable branches (like rural areas or less-desirable inner city neighborhoods). This sounds like it makes sense, but it ignores the fact that the Post Office would offer banking services at ALL of its locations - with government backing. This will decrease profitability in an already strained banking industry and lead to even more branch closures. There are plenty of providers of services like debit cards, savings accounts, money orders and small consumer loans and the field is already crowded. Perhaps a better move would be to close Post Offices throughout the country, downsize to something that makes sense given today's realities around physical mail.

BANK NEWS

4Q FDIC

The headline was "FDIC-insured institutions reported aggregate net income of $40.3B in the fourth quarter of 2013, a $5.8B (16.9%) increase from the $34.4B in earnings that the industry reported a year earlier." A closer look at the data finds on a YOY basis (2013 vs. 2012): total number of institutions declined 271 to 6,812 (-3.8%); total employees fell 41,490 (-2.0%); assets (+1.9%); loans and leases (+2.6%); loan loss reserves (-16.2%); OREO (-21.5%); deposits (+3.5%); brokered (+7.9%) and FHLB advances (+21.6%). The biggest loan growth in percentage terms was in municipal (+19.5%); multifamily (+12.2%); auto (+10.4%) and loans to depository institutions (+10.3%). The biggest percentage declines for loans were in home equity (-7.9%); SFR (- 3.4%) and credit cards (-0.4%). Also of note in loans: nonfarm nonresidential (+3.4%); construction (+3.4%); farmland (+5.4%); C&I (+6.8%) and farm loans (+5.4%). Other key metrics: loans 30-89 days past due (-14.5%); loans 90 days+ past due (-21.8%); nonaccrual loans (-27.9%). Tomorrow we will take a closer look at banks under $1B in size to specifically pick up trends at community banks.

Consumer Debt

The Fed reports consumer debt levels climbed 2.1% in 4Q to the highest in 6Ys ($11.5T), driven by increased borrowing to buy homes, cars and pay for schooling. Despite the increase, levels are 9.1% below 3Q 2008 levels when consumers were borrowing heavily.

Less Branching

Analysts at Evercore Partners project JPMorgan Chase will focus more energy on online channels and will eventually cut 700 branches from its footprint over time.