

Federal Reserve Checking Accounts and Postal Banking: Highlights of the Policy Debate

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In advance of the Democratic National Convention, the Biden-Sanders Unity Task Force, appointed by Democratic presidential nominee Joe Biden and Senator Bernie Sanders (D-VT), released its recommendations in a [110-page policy document](#). The document states that a main goal for congressional efforts in financial services should be “affordable, transparent, trustworthy banking services for low- and middle-income families, including bank accounts and real-time payment systems through the Federal Reserve and easily accessible service locations, including postal banking.” The task force’s specific recommendations include the Federal Reserve providing a real-time payments system¹ and affordable retail banking accounts, as well as government-provided easily accessible service locations, “especially postal banking to make it possible for everyone to access physical banking locations.” The idea of postal banking has garnered attention in recent days in light of news reports surrounding the United States Postal Service, its financial condition, and the possibility that it is entertaining the concept of offering banking services at retail locations. Below, we provide a brief summary of two bills, the Banking Act for All and the Postal Banking Act, that U.S. Senators have introduced to provide broad-based banking services through the Postal Service and Federal Reserve. We also identify open questions regarding these efforts.

BANKING ACT FOR ALL

Earlier this year, Senator Sherrod Brown (D-OH) introduced the Banking Act for All, [S. 3571](#) (116th), which would require the Federal Reserve and all banks that are members of the Federal Reserve System (e.g., national banks, state member banks) essentially to provide free bank accounts for all residents and citizens of the United States and all businesses domiciled in the United States, including persons eligible to receive stimulus payments for coronavirus relief.

¹ As is relatively well-known, the Federal Reserve Board (“FRB”) has been considering the development of a real-time payments system for many years. In 2019, it [announced](#) plans to develop a new round-the-clock real-time payment and settlement service called the FedNowSM Service to support banks’ provision of faster end-to-end payments to their customers. The FRB anticipates the FedNowSM Service will be available in 2023 or 2024. Additional [details](#) were announced in early August 2020.

The act would require the Federal Reserve and member banks to maintain digital dollar wallets for those who apply. All deposits for such accounts would appear to be held at the Federal Reserve. A member bank would have a pooled account at the Federal Reserve for customers' individual accounts and would be required to provide services and functionality no less favorable than those it offers its existing transaction accounts (e.g., debit cards, mobile banking, ATM access, automatic bill pay). State nonmember banks and credit unions would also be permitted to offer these accounts, provided that they comply with the requirements applicable to the member banks.

In places where access to physical member bank branches is limited, access and availability to application and account services would be provided by the Federal Reserve through U.S. Postal Service retail facilities.

THE POSTAL BANKING ACT

Senator Kirsten Gillibrand (D-NY) also has introduced a bill to provide the unbanked and underbanked access to financial services through the U.S. Postal Service: the Postal Banking Act, [S. 2755](#) (115th). The act would make certain types of retail banking, such as checking accounts and small-dollar loans, available at U.S. Postal Service locations. Even though the bill died in a previous session of Congress, Senator Gillibrand renewed her call for Congress to reestablish postal banking in a [New York Times op-ed](#) earlier this year as part of her solution to save the U.S. Postal Service from insolvency.

Under the Postal Banking Act, the U.S. Postal Service would be authorized to provide basic financial services, including (A) low-cost, small-dollar loans not to exceed \$500 at a time, or \$1,000 from one year of the issuance of the initial loan; (B) checking and interest-bearing savings accounts not to exceed the greater of \$20,000 or 25% of the median account balance reported in the FDIC's quarterly Consolidated Reports of Condition and Income; (C) transactional services, including debit cards, automated teller machines, online checking accounts, check-cashing services, automatic bill-pay, and mobile banking; (D) remittance services, including international remittance services; and (E) other basic financial services as the U.S. Postal Service determines to be in the public interest. The act allows the U.S. Postal Service to partner with banks to provide checking and savings accounts.

We note that, although the bill would significantly expand the U.S. Postal Service's responsibilities, the bill is not wholly unprecedented. The U.S. Postal Service currently offers some types of financial services, such as money orders and international money transfers, although it is generally prohibited from offering new non-postal services. From the early 20th century until the late 1960s, the U.S. Postal Service also offered

savings accounts through a service known as the Postal Savings System. Moreover, post offices in many other countries currently offer financial services. In 2016, the Universal Postal Union published a [paper](#) finding that 91% of postal operators worldwide offer some form of financial services (183 out of 201), with postal services in 87 countries offering checking or savings accounts.

OPEN QUESTIONS

Although the probability of enactment of either bill under the current political environment is very low, the chances of success could significantly increase in a fully Democratic government. The task force recommendations and both bills share the goal of establishing government programs to provide easily-accessible banking services throughout the United States. The foregoing summary, however, also suggests that fundamental questions of how to achieve this goal are yet to be decided.

- **What services will be provided?** The efforts summarized herein all appear intended to offer checking accounts with modern functionality. However, it is unclear whether lawmakers will wish to include other retail banking services. The Postal Banking Act, for example, not only includes small-dollar lending and other financial services, but allows the U.S. Postal Service to expand the types of financial services it offers as it determines is in the public interest.
- **Which agency will provide those services?** Lawmakers have identified the Federal Reserve and the U.S. Postal Service as potential providers of banking services. Designating either agency would meaningfully add to the agency's responsibilities and require the agency to develop expertise in retail banking, likely requiring years to fully develop and many agency rulemakings. The differences, however, in the agencies may significantly effect how retail banking services are provided. Compare, for example, the approximately 30,000 post offices in the United States to the Federal Reserve's lack of "retail" locations.
- **What role will private sector banks play in the provision of services?** Depending on the proposal and, perhaps in large part, the implementing agency, the provision of the services by private sector banks could range from compulsory to unnecessary. In other words, the government may choose to act through banks, possibly imposing significant additional burden on banks or being an opportunity, depending on how a program is structured, or to establish itself as a competitor for certain services. Related questions like the scope of banks subject to any requirement and any reimbursement of expenses or losses also appear to be subject to additional consideration.

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Please do not hesitate to contact us with any questions.

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