Postal Savings Banks*

Raymond Natter

July, 2014

The concept of the postal system for the provision of consumer banking services is not new. As early as 1861, post office savings banks were established in the United Kingdom, and by the turn of the Century, there were over 11,000 post offices offering banking services. The success of the English system was copied by the creation of postal savings banks in Austria, Holland, France and Hungary, among other countries.

In 1871, Postmaster General Cresswell recommended the establishment of a similar system in the United States. He argued that a postal savings system would bring large sums of money into circulation, thereby allowing these funds to serve economic growth. In 1892, Postmaster John Wannamaker also argued for the creation of postal savings banks on the basis that commercial banks (at that time) did not serve the needs of the common working man, were located in inconvenient places, and had limited hours of operation. Private savings banks were primarily located in New England, and therefore were not available to the majority of the country. Wannamaker also saw the system as a source of funding for the modernization of the Post Office Department, including the construction of new offices and the introduction of new postal services. Another factor motivating the creation of postal savings banks was the relatively large number of bank failures in this era, including the failures of private and state chartered savings banks. These failures, with significant losses to depositors, resulted in a public reticence in placing deposits in private banking institutions.

President Theodore Roosevelt, supported the idea of establishing a Post Office banking system in 1907, and the concept was included in President Taft's platform in the 1908 election. In 1910, Congress acted, and established the "Postal Savings System" in the United States. The stated purposes of postal savings were: to provide a safe place to invest funds for working class families who did not have access to private banks; to encourage individuals who were afraid of using private banks due to the repeated banking panics of that era; to increase the supply of currency in circulation; to make banking services more convenient for working class people. It was also thought that the post office banks would attract the savings of immigrants who were familiar with this system in their home countries. To alleviate any concerns about safety, the 1910 legislation explicitly guaranteed all deposits through the full faith and credit of the United States.

The legislation created a three member board of trustees to run the postal savings system, consisting of the Postmaster-General, the Attorney General and the Secretary of the Treasury. The board was authorized to make all necessary regulations for the receipt, investment and repayment of funds deposited

*The information contained in this newsletter does not constitute legal advice. This newsletter is intended for educational and informational purposes only.

into the system. The board designated the post offices that would also serve as savings banks. Accounts could be open by anyone over the age of 10, and a married woman was specifically authorized to open an account in her own name "without any interference from her husband."

The maximum amount that could be held was originally limited to $500, and interest on savings could be set at 2 percent, which was below the rate offered by private banks at that time. Funds could be withdrawn on demand. The limit on deposits was raised to $2,500 in 1918. Postal savings banks were prohibited from collecting fees for cashing checks or providing any other service to their depositors.

The U.S. Treasurer was required to hold 5 percent of the funds deposited into the Postal savings banks as a reserve. Up to 30 percent of the remainder of the deposits could be invested in U.S. treasury bonds, and the rest had to be deposited in national and state banks. Deposits in national and state banks had to be collateralized by state general obligation bonds, and had to bear interest of 2.5 percent. The banks chosen for these deposits had to be in the same locality as the postal savings bank.

Any profits earned by the postal savings banks were to be returned to the Treasury as part of that year's postal revenues.

Deposit growth increased gradually until 1933, when deposits grew rapidly as a result of the failure of hundreds of private banks. Total deposits in the Postal Savings System increased in the 1940s when the 2 percent return offered by post office banks was in excess of the interest paid by private institutions. By 1947, the Postal Savings System held $3.4 billion ($36.8 billion in today's dollars) and had over 4 million depositors. Following the war, interest rates paid by private banks rose and goods became available for consumer purchase. Further, the passage of the Federal Deposit Insurance Act in 1933 enabled private banks to offer a federal guarantee on a portion of the deposits, thereby helping to restore confidence in the private banking system. Deposits in the Postal Savings System declined to $416 million by 1964. Studies indicate that the use of the Postal Savings System increased during times of financial turmoil, when consumers appreciated the full faith and credit protection of their deposits, and during periods of low interest rates, when the 2 percent return offered by the postal savings banks become competitive, if not advantageous.

By the early 1950s the continued need for the Postal Savings System was seriously questioned. Federal and state savings banks and savings and loan companies had grown in significance and geographic distribution. Federal deposit insurance provided safety for modest deposits. U.S. savings bond investments were being offered through payroll deductions. Further, by this time the Postal Saving System's 2 percent interest rate was no longer competitive, and the public shifted deposits to higher yielding, FDIC insured, private institutions. In 1952, the GAO issued a report questioning the continuing need for the system. In 1965, the Postmaster General recommended that the system be abolished, which was endorsed by President Johnson. In 1966, Congress passed legislation to phase-out the system, Postal banks ceased accepting deposits on April 27, 1966.

The Postal Savings System officially ended on July 1, 1967, with $50 million in unclaimed deposits. These funds were transmitted to the Treasury Department to be held in trust for the depositors. In 1984, Congress adopted a statute of limitations, and no claims for lost deposits filed after July 1985 will be recognized.

Raymond Natter is a partner with the law firm of ***Barnett Sivon & Natter, P.C.***