

## FULL DISCLOSURES, INCREASED COMPETITION IN SHORT-TERM LOAN MARKET HELPS WORKING FAMILIES

A paper by the Urban Institute, “*Enabling Families to Weather Emergencies and Develop The Role of Assets*”, by Signe-Mary McKernan and Caroline Ratcliffe, finds that most low-income working families need access to small loans to help them weather bad patches. The paper poses the question, “Which asset-related policies would help low-income families the most?”

The authors conclude that policies should “make small short-term loan options more transparent and less costly but still available for consumers with few other alternatives.” They write, “We do not recommend eliminating these loans, which could be replaced by alternatives that make families even worse off.”

The paper is part of the Urban Institute’s Low-Income Working Families project. Available online at [http://www.urban.org/UploadedPDF/411734\\_enabling\\_families.pdf](http://www.urban.org/UploadedPDF/411734_enabling_families.pdf).

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### Policy Recommendation: Increase Competition for and Regulation of Small Loans

#### ➤ Increase Regulation of Small Loans

- Regulate standard, clear, and timely disclosures of the total loan cost so consumers know their full obligation and can easily compare what various lenders charge for loans.
  - The total cost of lending should be disclosed as one or two numbers, in a standardized form, totaling all fees for a loan of the stated duration.
  - Stating the fee as a dollar amount instead of or in addition to the annual percentage rate (APR) may be easier for consumers to understand on short-term loans.
- The case for regulating fees or interest rates on small loans is less clear and warrants further research and consideration.
  - Does regulating prices charged make fewer small, short-term loans available? If profits are not excessive, then regulating prices will limit availability. If profits are excessive, then the policies proposed here—regulating disclosures; requiring licensing, reporting, and examinations; and creating incentives for financial institutions to provide small loan services—should increase competition and drive prices down.

#### ➤ Develop a Longer-Term Loan Product

- A longer-term loan product for habitual users—those who rely on short-term loans frequently or for long periods—is needed.
- Regulating disclosures and creating incentives for traditional financial institutions to provide small loans would create this product de facto.

#### ➤ Create Incentives for Traditional Financial Institutions to Provide Small Loans with Piggyback Savings