

Improving Leverage: Making Credit Better for Consumers

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Credit Is Essential to Much Asset-Building

- Homes
 - Home repair
- Businesses
- Higher education
- Cars

Use of Credit Has Increased

- Prices of many large items have outpaced incomes of most Americans
- Credit more broadly available
 - Lifting of usury ceilings
 - Credit scoring
 - Risk-based pricing
 - Asset-backed securities
 - National competition

But Credit Has Also Gotten Harder to Use Well

- Complex
 - More complex products and providers
 - Unbundling of products
 - Changing rates and terms
 - Move from closed end to open end credit
- Ubiquitous
 - Plastic demanded for many standard transactions
 - Internet and other remote purchase opportunities
 - Culture and commercials

Channels Matter

- Mortgages
 - Depositories
 - In or out of assessment area
 - Independents
 - Brokers
- Businesses
 - Depositories
 - Guaranteed loans
 - Credit cards
 - Factors
- Auto
 - Depositories
 - Standard dealers
 - Buy here, pay here

The Goal: A Good Loan

- Transparent: Consumer understands both advantages and risks of product
- Fairly-priced: Priced in a manner consistent with underlying risk and cost
- Net benefit: Consistent with long- and short-term interests of consumer, who has a reasonable prospect of repaying

Market Structure and Knowledge

- License and regulate mortgage brokers
- Alter incentives in Community Reinvestment Act implementation
- Support and enhance government-sponsored information gathering, research and dissemination

Products

- Enhance quality and timing of disclosures
- Improve availability of “good loans” through regulation of products and practices
- Leverage participation of government-related entities

Consumers

- Improve quality, quantity and effectiveness of financial education for children and adults
- Change the context within which credit is purchased to favor asset-building

Conclusion

While credit remains an essential part of much asset building, the experience needs to be improved for the consumer, which will also work to the benefit of creditors and society. There are many policy levers that can help make this happen.