

**New, Safe and Affordable Credit Options  
for America's Underbanked:**  
*Lessons Learned, Trends, and Implications for Government Policy*

**A Symposium Sponsored by The Pew Charitable Trusts,  
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and the Center for Financial Services Innovation**

October 23, 2009, 8:00 am – 1:30 pm EDT  
HVC 215 Capitol Visitor Center

Notes on my wrap-up to  
**Panel Two: Lessons Learned from Efforts to Serve this Sector to Date –  
Problems of Scale and Access**

**Jonathan Zinman, Dartmouth College**

- I question the premise that there is a large, scalable underserved market in the U.S.
- Seems like credit cards can reach at least 70% of U.S. households, and IT trends working in the industry's favor medium/long-term
- **Many of the remaining households—the tens of millions of “credit underserved”-- are probably underserved for rational/sensible/efficient reasons**
  - Weeded out
  - Weed selves out
    - debt aversion
    - sophist. about own limits
    - **\*sophist about own income prospects (credit not the answer to your financial ill-health if you don't have somewhat steady employment prospects!)**
    - **\*high value on convenience (no market failure if someone buys milk at convenience store)**
  - Flow in (everyone thin file at some point)
    - Clearly things can do to speed this
- I have yet to see an alternative to the credit card model that looks scalable/sustainable (at lower prices than payday, etc.) in the U.S.
- Re: lessons from LDCs, it's important to keep in mind that
  - a) rates are often high there as well
  - b) labor costs are relatively low
  - c) borrower potential/creditworthiness is often different: more likely to see cream-skimming in LDCs because markets are so broken there
  - d) lack of flex in credit products an issue (nostalgia for installment lending, but doesn't necessarily make sense in theory or practice)
- To the extent there is hope for product/access innovation in the U.S. I think it lies in experimenting with longer maturities.

**- Postscript: the conference changed my view on this. It seems like there is potential to deliver small-dollar loans efficiently (low cost, with choice architecture that helps people make considered/informed decisions) through employers.**

- On a related note, I also question the premise that expanding access to credit for this population is a necessarily good thing
- The evidence on whether people do themselves more good than harm with small dollar credit is mixed
- The evidence also suggests that even when credit does improve outcomes, it's not necessarily because people use it wisely in the sense of traditional economic rationality, it's because in the absence of small dollar access from a payday lender or microlender consumers tap even more expensive sources of liquidity (loan sharks, bank overdrafts).

More constructively:

- It's important to remember that the "high return" uses of small dollar credit are in smoothing bad shocks.
- Consumers have other options for doing this: saving and insurance
- I'm actually more sanguine about the prospects for improving those product spaces in the U.S. than prospects for doing so in credit.

In credit space:

- preserving access
- trying to stamp out clearly deceptive practices
  - enforcement costs make this a challenge though

**\*helping consumers using existing wisely**

- Credit bundled with other innovations to be truly and broadly beneficial
  - product space: commitment products
  - communication space: info and help at right time, framed in right way
    - Hopefully Panel 3 can touch on some of these approaches