Mary Jackson: People need alternatives to bank loans

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By now, Rhode Islanders are all too familiar with the dismal statistics and the lingering effects of the recent economic recession. Rhode Island currently has the highest unemployment rate in the nation, and although there are indications that median incomes are rising, the Ocean State is still struggling. For many in Rhode Island, unemployment or underemployment continues to obstruct financial recovery, and residents are all too often left with limited options to fill the gaps in income or credit. Because of poor or no credit, they are turned away from traditional banks and credit unions for loans.

During a survey of U.S. households, the Federal Deposit Insurance Corporation used data collected to determine how many households in America participated in mainstream banking. The survey found that more than one in four U.S. households were considered unbanked or underbanked — meaning they did not have any type of deposit account at an insured depository institution or that they do have a bank account, but used alternative financial service providers to gain access to credit. According to this survey, Rhode Island currently has the highest percentage of unbanked and underbanked families in New England, at nearly 25 percent.

Although there has been a great deal of conversation on eliminating non-bank lending in Rhode Island, these statistics show that residents simply require and demand options. As we have seen in a number of other states, eliminating options for the financially underserved does not eliminate the need for such products. It means that consumers must find other ways to get the financial help that they need. This help often comes in the form of unlicensed lenders, who are not regulated by state or federal laws. Today, technology plays a huge role in how consumers conduct their personal banking. Alternative financial service products are certainly no exception. A recent study conducted by the Federal Reserve found that underbanked populations tend to own mobile phones and smartphones in larger numbers than the rest of the population. And these same populations complete financial transactions on their smartphones. In fact, more unbanked Americans will seek a loan online instead of in the traditional storefront, just part of the latest trend of consumer preferences in financial services, according to investment bank JMP Securities.

Some in Rhode Island have attempted to fill this widening gap, providing consumers with small-dollar, short-term loans. Unfortunately, the scope and size of the underlying problem necessitates a more sophisticated and technology -driven solution that is regulated by the federal government. Federal oversight of non-bank lenders will protect borrowers by offering regulated options, and provide them with a variety of innovative credit products they cannot get from mainstream banks. A federal regulatory framework governing online lenders would also weed out industry bad actors and trigger more innovative and timely non-bank credit products. Such legislation would include a robust role for the Consumer Financial Protection Bureau and begin to pivot consumers away from short-term payday loans to longer installment loan products, particularly online.

Lack of access to safe and secure financial service products is a critical issue, which adversely impacts millions of Americans and scores of Rhode Islanders. For the last several y ears, Washington has focused on providing a regulatory framework to rein in Wall Street. Today, we need these same tools to help Main Street.

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