

Encourage Innovation in Credit Availability

The abuses of the subprime crisis have made it all too easy to overlook the myriad benefits of consumer credit. Innovations in mortgages, credit cards, and unsecured loans such as payday advances, have made it possible for more people to borrow money they need for a variety of purposes—from starting a business or advancing one’s education. In the mid-1990s, a college student named Sergey Brin used personal credit cards to start the search engine business that would become Google, the revolutionary firm that has brought countless benefits to America and the world

Muhammad Yunus won the 2006 Nobel Peace Prize for expanding “microcredit” in Bangladesh—yet in America microcredit providers are often derided as “predatory lenders.” In 2007, Austan Goolsbee, now a top economic adviser to President-elect Barack Obama, warned in *The New York Times* that, “regulators should be mindful of the potential downside in tightening too much.” Such restrictions, he wrote, would hurt “someone with a low income now but who stands to earn much more in the future” with the help of access to credit.

Government certainly has a role in preventing fraudulent lending practices, but it should

leave payment terms and interest rates up to the interested parties to negotiate. It should also reduce the paperwork burden of traditional lending institutions to spur competition among credit providers. Congress should:

- Reject attempts to put interest rate or price controls on credit vehicles.
- Repeal or scale back a variety of regulations—from Sarbanes-Oxley provisions to the Internet gambling ban—that impose myriad paperwork requirements on financial institutions that, by adding to their overall costs, indirectly make services more expensive to borrowers and depositors at all income levels. These rules hit small community banks and credit union’s particularly hard.
- Reduce “know your customer” requirements on banks and other financial institutions to investigate their customers’ backgrounds. These rules often overwhelm law enforcement with useless reports and have adverse impacts on the low-income “unbanked” population by making it more difficult to open a bank account.

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