

BANK PARTNERSHIPS BENEFIT CONSUMERS

As millions of U.S. consumers confront financial challenges resulting from tenuous and uncertain economic conditions, including historic inflation, many are once again turning to credit to help manage their financial obligations. In a recent study, the Federal Reserve Bank of New York found the largest year-over-year increase in credit card balances in two decades. But credit cards aren't a one-size-fits-all solution; other credit options may be better suited to some borrowers and their needs.¹

Amid the clear need and demand for credit, bank partnerships enable banks to collaborate with non-bank consumer financial services providers to ensure all consumers have access to a range of innovative, cost-effective credit choices in a competitive marketplace.

There's no denying the importance of access to credit to individuals and communities: the Federal Reserve Bank of New York examined access to credit across the country, concluding that the ability for residents to access credit – and have options to choose from – not only makes them better off individually, facilitating financial security and upward economic mobility, but supports communal health, well-being, and resiliency.²

Yet many communities do not protect residents' ability to access credit. In a number of states, lawmakers have implemented policies designed to restrict, even eliminate their constituents' credit options, rather than strengthen them. Activist groups have supported these measures, some calling instead for banks to do more to provide consumers with credit options, rather than a competitive, regulated free market comprising both bank and non-bank providers.³

Banks have long resisted providing some forms of consumer credit, particularly shorter-term, small-dollar loans. While some have entered the market, providing such options to their existing customers, most do not see the value of making significant investments in this sector of the credit market – often serving less-than-prime borrowers. Further, they recognize they do not have the capabilities, experience, and customer and community relationships to bring such products to market at scale.

Bank partnerships provide the best of both worlds, combining a bank and non-bank's financial strengths, technical capabilities, and sector expertise and experiences to advance access to the regulated credit consumers need. The result:

- **More safe, reliable credit access:** Consumers have ready access to regulated credit, including when confronting limited community-based providers, unfair policy restrictions, and/or the constriction of other credit.
- **More choice:** Consumers have a wider range of credit solutions, including varying loan sizes and terms, from which to choose the option that works best for their financial situation and needs.
- **More market competition, efficiency, and innovation:** Together, banks and non-banks – including smaller providers – can enter and ensure a vibrant, competitive credit market, collaborating to improve and evolve consumer credit, from new technologies and products to reduced fraud.
- **A better customer experience:** Borrowers benefit from bank-non-bank partnerships as a result of strengthened access to more credit options, evolving services designed to meet their changing needs and expectations, and competition on price and other factors, all powered by regulated providers committed to exceptional customer service and consumer protection.

¹ "Total Household Debt Surpasses \$16 trillion in Q2 2022; Mortgage, Auto Loan, and Credit Card Balances Increase," Federal Reserve Bank of New York, August 2, 2022, <https://www.newyorkfed.org/newsevents/news/research/2022/20220802>

² "Unequal Access to Credit: The Hidden Impact of Credit Constraints," Federal Reserve Bank of New York, September 2019, <https://www.newyorkfed.org/medialibrary/media/outreach-and-education/community-development/constraints-on-access-to-credit.pdf>

³ "Momentum is Building for Small-Dollar Loans," The Pew Charitable Trusts, September 12, 2018, <https://www.pewtrusts.org/en/about/news-room/opinion/2018/09/12/momentum-is-building-for-small-dollar-loans>