McWilliams: Bank agencies debating approach to encouraging small-dollar loans

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FDIC Chairman Jelena McWilliams today said regulators are trying to decide whether to put forward guidance or a formal regulation to encourage banks to offer small-dollar loans.

“If we do this by a rulemaking, it would have to be by its very nature more prescriptive,” McWilliams told reporters on the sidelines of a Cato Institute conference. “If you tell [banks] there’s only three ways to do this, will they do it?”

“If you do guidance, you can be less prescriptive and give them a little bit more of a framework without pinpointing the exact benchmarks,” she added. “Is that a bad thing? That’s open for discussion as well.”

The agency last year requested feedback on ways to encourage banks to offer such loans, and McWilliams has since said she wants to work with her fellow regulators to come up with a joint approach.

She hasn’t said whether the FDIC would look to change language in its current guidance that encourages banks to limit deposit advance products to an interest rate of 36 percent or less.

“The cap is probably holding some banks back, but what’s holding banks back more so is the uncertainty,” McWilliams said.

“What I have heard from the bankers is that they’re willing to offer small-dollar products, even if it doesn’t make them much money or any money, so long as you’re not exposed to liability,” she said. “Because the idea is they need to expand [their] customer base.”

In her remarks at the conference, McWilliams also said financial agencies were hoping “to be able to finalize changes to the [Volcker] Rule's proprietary trading restrictions sometime this summer,” in addition to officially removing small banks from the regulation this month.