BY BILL STREETER

Misplaced angst

"When people desperately need cash there is potential for abuse. All the more reason to have **A BETTER SOLUTION"**

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Without the power to know people's motives, which no person has, other than his own, you're bound to have situations like the current debate over direct deposit advance loans. Much as with that other lightening rod, overdraft protection, good and bad uses coexist. In fact, it's hard to think of *anything* about which that wouldn't be true in the world of finance—credit cards, swaps, mortgages, ATMs, and, for that matter, *money*.

But to the point at hand: deposit advance programs are short-term loans in advance of the arrival of a government or other scheduled payment. They fill a need as old as money itself—an empty pocket and a pressing need for cash. Such loans are a better iteration of an admittedly motley collection that includes pawn shops and payday lenders. It doesn't take a genius to recognize that when people desperately need cash there is potential for abuse. All the more reason to have a better solution.

A sudden need for cash is often very legitimate: a car quits working; catastrophe strikes; unexpected medical expenses crop up. Some needs come and go quickly. Others may linger for months. It's doubtful anyone in government or elsewhere would deny the legitimacy of such needs. They may disagree on how best to meet them. But a deposit advance loan is certainly a valid option.

There are, of course, other less savory needs for short-term cash: a gambling habit, trouble with the law, domestic problems, in-and-out of work, spendthrift lifestyle, etc. That's the underbelly of life. And there's a lot of it around. It's easy to sweep such needs aside, but they are real, too, and are easy for bad actors to exploit.

The latter type of needs may not be a primary market for a bank, but every bank is affected by such needs directly or indirectly. It may come as a surprise to many people that there are many bankers who view their job as a calling. As such, they often do what they can to help out people trapped in a downward spiral.

One of the points made in this month's Compliance Clinic (p. 42), is that if you deny banks the ability to profitably offer short-term loans (or make doing so untenable), all you are doing is pushing the person with the need toward unregulated or less regulated options.

So what should be done? Here are four suggestions—the first three directed toward regulators, and the last toward bankers.

1. Stop the hand-wringing over the fact that "these products can be harmful." Watching TV can be harmful. People have free will. They will use it for good and ill.

2. Rely more on supervision than rules. If evidence suggests a financial institution is abusing customers, act against *that* institution.

3. When rules *are* needed, be sure they reflect the real needs of real people, not someone's opinion of what they need.

4. Circling back to motive, there is a moment when each of us knows why we're doing a certain thing. We can obscure the reason or rationalize it later, but for an instant we know. So ask yourself in regard to any product, 1. "Are we adopting it because it meets a legitimate need?" and 2. "Is the product and how we offer it in the best interests of the customer?"

Any banker who has respect for the industry he or she represents should not have a problem with those questions.

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