Northwest Credit Union Association
Idaho • Oregon • Washington
www.nwcua.org

August 3, 2018

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Delivered Electronically

Subject: Payday Alternative Loan (PALS II); RIN 3133-AE84

Dear Mr. Poliquin,

On Thursday, May 24, 2018, the National Credit Union Administration (NCUA) board issued a proposal that would expand the Payday Alternative Loans Rules (PALS II). The proposed rule would expand the loan products that credit unions could offer as an alternative to predatory payday loans.

The Northwest Credit Union Association (Association)[1] is pleased to be able to offer comments on the PALS II proposal. The Association also appreciates the NCUA Board and staff support of a regulatory system that allows credit unions to offer products and services that benefit their membership.

General Comments

Payday loans stemmed from a consumer need for quick, short-term access to small dollar loans for various reasons. Due to the small turnaround and risk associated with these loans, traditional payday lenders charge an annual percentage rate (APR) up to 400%[2]. Unfortunately, the nature of these loans generally leads to the customer becoming trapped in a debt cycle as they find themselves unable to afford the large payments. Credit unions are able to offer payday alternative loans to consumers and appreciate that the NCUA is proposing to broaden the scope of the loans that they can offer to help consumers avoid traditional payday loans.

We agree that payday alternative loans should have restrictions on applicable roll overs, fully amortize, and not occur concurrently. Payday alternative loans are not only meant to be a more affordable option to payday loans, but they are also meant to help consumers avoid the

[1] The Northwest Credit Union Association is a regional trade association representing the interests of more than 180 credit unions and their 6.5 million consumer-members; institutions that employ and engage more than 19,000 people and hold more than $90 billion in aggregate assets. The Association is a nonpartisan advocacy organization representing the interests of its member institutions on a variety of systemically important banking issues.

Credit unions affiliated with the Association are principally domiciled in Idaho, Oregon, and Washington, but the Association also has members from the states of Alaska, California and Hawaii. Learn more about the Association at www.nwcua.org.

[2] In 2017, the Consumer Financial Protection Bureau issued a statement indicating that consumers can pay up to 400% APR for loans obtained through traditional payday lenders.

perpetual cycle of debt that often occurs with traditional payday loans. We appreciate the Board's understanding of the need to set parameters that help end the debt cycles that credit unions are trying to move consumers away from.

Specific Suggestions

This proposal provides a second option for credit unions that wish to expand their payday alternative loan program. However, we feel that the proposal could go even further in providing a favorable operating environment for credit unions that wish to expand their payday alternative loan program. We believe that the operating environment can be improved by raising the APR restrictions, as well as raising the dollar amount limit and extending the loan term restrictions.

APR Restrictions

Limiting payday alternative loans to 1,000 basis points above the usury limit doesn't provide an adequate operating margin for federal credit unions to appropriately market and manage their payday alternative lending program. The low margin is a barrier for credit unions and likely contributes to the low adoption rate of the program in federal credit unions. For example, in Idaho, Oregon, and Washington, call reporting data indicates that only a total of 607 payday alternative loans are outstanding as of 03/31/2018, for a total of $271,000[3]. Several federal credit unions have indicated that the ability to increase the profit margin would make the PALS II program more palatable, thus increasing how many credit unions would offer the program.

Additionally, the 28% limitation on payday alternative loans is inconsistent with other regulatory requirements. Both the Consumer Financial Protection Bureau and the Department of Defense have recently promulgated rules that have set APR limitations of 36%. Continuing to keep the APR limitation of payday alternative loans at 28% makes the loans less attractive for federal credit unions as other lenders are able to offer loans up to 36% on a broader basis since the higher profit margin allows them to expand their programs.

Even at 36%, payday alternative loans offered by federal credit unions are still a safer and more consumer-friendly option for consumers seeking access to quick, short-term, small-dollar loans.

Loan Amount Limits and Loan Terms

In addition to the restrictive APR, both the current PAL rule and the proposed PALS II rules impose dollar limits, not to exceed $2,000, on federal credit unions that wish to extend a payday alternative loan to a consumer This dollar amount might be sufficient for some borrowers, but federal credit unions have experienced a demand from consumers for higher borrowing amounts. As the cost of living continues to increase, the small-dollar amount that a consumer will need to borrow also increases.

If federal credit unions wish to serve their members' needs and remain competitive, they must be able to make loans commensurate with other lenders in the market. We recommend raising the loan amount limit to $4,000.

[3] NCUA Call Report Data current as of the March 2018 Call Report.

To ensure loans for a larger amount remain affordable to all consumers, we also recommend that the Board expand the loan term from the 12-month limit in the proposal to 36 months. This expanded term would allow the required loan payments to remain affordable while also allowing them to have the necessary access to emergency funds.

Conclusion

In conclusion, the Association and its member credit unions appreciate the consideration that the Board has put into the PALS II proposal. In issuing the proposal, the Board has demonstrated its continuing commitment to ensuring that federal credit unions can continue to offer products and services that are of true value to consumers.

We appreciate the NCUA's commitment to improving the regulatory landscape for credit unions. Thank you again for the opportunity to comment on this issue. We would be pleased to answer any questions you may have.

Respectfully,

Katie Clark

Katie Clark
Director, Regulatory Compliance and Risk Management
Northwest Credit Union Association