Heartland
Credit Union Association

August 3, 2018

Gerard S. Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314
regcomments@ncua.gov

Re: Part 701, Payday Alternative Loans II
(RIN 3133-AE84)

Dear Mr. Poliquin:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the proposed Payday Alternative Loans (PAL) II rule which offers an alternative option for credit unions to offer PALs to their members.

HCUA believes that enhancing the opportunities for credit unions to offer small-dollar, short-term loans in response to consumer demand creates a positive impact on the communities credit unions serve. Credit unions, as non-profit financial cooperatives, are the best solution to satisfy these lending goals. HCUA would prefer an approach that provides credit unions and consumers with flexibility to adapt short-term, small-dollar loans to their needs, without being too narrow or restrictive. For credit unions to better serve this market and meet the consumer demands for this particular consumer credit, this holistic approach would provide flexibility to meet these demands without being overly restrictive.

The proposed 28% ceiling is conservative, as the Bureau of Consumer Financial Protection (BCFP) small dollar payday lending rule and the Department of Defense Military Lending Act (MLA) permit a 36% annual percentage rate (APR). The overly conservative 28% ceiling would continue to impede market participation and advancement of products within specific regulatory parameters.

One open PAL loan at any given time should be sufficient, as credit unions are not seeking to make payday loans their primary business. The low-income designated or CDFI credit unions should not be subject to the 20% net worth limit, as this exception would echo the Member Business Lending (MBL) rule application and we believe this would be appropriately applied here as well.

HCUA has concerns that the maximum loan value of $2,000 is inadequate considering the actual costs of unexpected expenses incurred by consumers that seek short-term, small-dollar loans. We believe that the appropriate limit would be $4,000 with longer loan maturities (up to 36 months) and with rates up to 36% APR. This provides consumers with the flexibility to access loans up to $4,000 and potentially deters consumers from seeking high-cost loans at predatory payday lenders to seek more than $2,000.

As it relates to the application fee, credit unions have different approaches when electing to provide small-dollar loans. We believe that the $50 application fee limit would ensure sufficient range for institutions to develop pricing options that would permit new market entrants by supporting the actual costs involved.

Likewise, individual credit unions should determine the ability to repay requirements. Credit unions are better positioned to have access to member information such as direct deposits, employment information, overall credit, revolving loans and/or assets. With access to member information, credit unions should have the discretion to make repay determinations.

In terms of the “overdraft fees/charges,” we do not believe that “overdraft fees/charges” would be appropriate for consideration in the small-dollar lending space. Given the nature of how credit unions operate, this would not be a preferred option.

HCUA remains supportive of a re-proposed rule that would renovate the existing and proposed PAL I and PAL II product lines into a singular PAL program that provides flexible ranges under which credit unions may tailor small-dollar, short-term lending products according to their regional, market, and consumer needs. A cohesive singular PAL program that offers greater flexibility would provide credit unions the enhanced ability to engage this market.

Again, HCUA appreciates the opportunity to address options related to short-term, small-dollar loan needs of credit union members, as we believe credit unions are a solution to offer alternative products in a consumer-friendly and fiscally responsible manner to meet the needs of consumers. We also appreciate NCUA’s interest in expanding opportunities for credit union to provide small-dollar, short-term loans in response to consumer demand. HCUA believes that credit unions are ideally situated to satisfy these lending goals.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

Bradley D. Douglas

Brad Douglas
President/CEO