From: _Regulatory Comments
To: Jordan, Sheron Y
Subject: FW: payday lending
Date: Wednesday, May 12, 2010 10:14:06 AM

May 4, 2010

NCUA Board,

I wish to respond to the payday lending proposal issued last week. Several years ago, we launched an alternative product that closely mirrored the payday lending industry product. We let it run for 2 years. The difference with our product was that we offered voluntary financial education and included waiving future fees if they took advantage of it. We priced the product to the max at 18% APR. The results were disastrous. We tracked the portfolio closely and watched the delinquency climb to double digits just one year after start up. Also, no one took advantage of the financial assistance even though we reminded them face-to-face, in statements, and by mail prior to assessing fees.

I have been allowed to address state elected officials while they were gearing up for a vote to eliminate or continue payday lending in Arizona. After hearing of our credit union's experience, their next question would always be, "What would you then offer to *replace* the void left by the payday lenders?" My answer was and is always the same. I believe that the payday lending structure should have never been created. It's bad for the consumer. We already have responsible line of credit loans, credit cards and pre-paid debit cards that can start as low as $100 with reasonable interest rates and fees. Certainly far below the high cost of the payday lenders' product. The challenge is education and culture. The payday lending industry has conditioned the consumer that it's okay to not have to be credit worthy to get a small loan. On the contrary, I feel that sometimes it's necessary to say "no" to a loan request and then educate the individual how to improve his/her credit status, budget, etc. so that responsible borrowing is possible later when necessary – not whenever they blow out their bi-weekly paycheck. Unfortunately many credit unions feel that they need to create a sister product to satisfy this bad consumer behavior that was augmented and escalated by the payday lending industry.

Now, the NCUA is also getting sucked into this arena to satisfy and pacify this craze. The proposal to allow a potential 28% APR small loan for up to $1,000 is disturbing to me. Then, depending on the underwriting standards, is the NCUA prepared for the fallout of the high delinquencies and losses that will surely follow? Take it from me, 28% will not be enough to cover the added risk – again, depending on the underwriting standards.

I understand that the NCUA is required to monitor and regulate the existing alternative payday lending activities going on in hundreds of credit unions and the need to establish benchmarks for regulatory purposes, but I strongly recommend that you stick to your guns and warn credit unions about the dangers of this type of lending equal to, or greater than other high risk products, such as indirect lending. But beyond regulation, philosophically this alternative payday lending product sends the wrong signal to the consumer and it takes credit unions down a road culturally that they've never been down before and it kind of stinks. If the NCUA continues to pander to this demand, be prepared to face off with the consumer advocacy groups that will certainly wonder why you are supporting this kind of product.

Sincerely,

Brian J. Barkdull
President/CEO