From:	_Regulatory Comments
To:	Jordan, Sheron Y
Subject:	FW: Comments on proposed payday loan guidelines - NCUA
Date:	Thursday, June 03, 2010 2:16:20 PM

From: Lois Kitsch
Sent: Tuesday, June 01, 2010 3:47 PM
To: Bosack, Steve
Cc: William Myers; Jeff Purvis; Mary Dunn; Ryan Donovan
Subject: Comments on proposed payday loan guidelines - NCUA

I would like to add to the discussion around the proposed NCUA guidelines on payday loans issued by credit unions. Overall, I think the guidelines will allow credit unions to offer products that meet the short term loan needs of credit unions members in a way that is good for the member and mostly break even for the credit union.

The proposed interest rate is 10% above the established FCU rate of 18%. Credit unions that lend at 28% with an application fee should be able to at least break even when offering loans to existing credit union members. However, I believe that loans to members new to the credit union (and without a defined waiting period) have much higher risk. For those members this may not be a break even proposition. I am not recommending a higher rate - just making the observation that many credit unions will be reluctant to offer a product without a waiting period using these guidelines. Credit unions should also be encouraged to offer ancillary products such as money orders, check cashing services and prepaid cards desired by families known to frequent payday loan stores and check cashing outlets.

The loans will have a $20 maximum application fee. Credit unions that wish to charge an application fee for each advance must use a closed end loan form. Some of the most successful programs today (such as Ohio's Stretch Pay) operate so efficiently because they use an open ended line of credit. They only charge an annual application so they should still be okay. A few of the credit unions will have to lower their fee from $25 to $20 which is not a huge problem.

Most of the cost of providing small and short term loans is in the application processing. SECU North Carolina has been so successful with their SALO loan because they use electronic applications which minimize expenses rather that maximizing income. NCUA may wish to make that recommendation to credit unions.

The loan term is one to six months. I favor loan terms above 14 days and I think 30 to 90 days are the best. Payday borrowers are repeat users. If the term is set for too long they often times go out and find a second loan when an unexpected expense such as car repairs, doctor bills etc hit. I am favor of credit unions providing small installment loans (from my perspective not payday loan alternatives) for 91 days to 365 days. These loans are also important but a "different animal". Also important to note - loans with a six month maximum term for $1000 will have monthly payments (at 28%) of $180. This is steep for many families. The limit of six loans per year will also cause challenges for many families that borrow using a one month term.

Rollovers - Those who really understand payday loans know the problems that arise due to rollovers - I agree. However, the guidelines create unanticipated problems. Some members will need to restructure their payments. By regulation, the loans will have to continue in delinquency until repaid. This will create late fees and a poor reflection on their credit report. Rolling members who have difficulty in repayment to a longer term amortizing loan may be more appropriate.

The limit to one loan per member - one loan makes good sense. However, difficult to enforce. It is easy for the borrower to use multiple lenders. NCUA may wish to suggest that Credit Union's join the state payday registration programs where possible. There are also credit reporting agencies - CL Verify or TeleTrack - they can use to look for loan duplications.

Proof of Sufficient Income - Two pay stubs - This is too specific and not always the best way to verify income.

I am very encouraged by the proposed guidelines and NCUA's willingness to encourage credit unions to offer these short term loan products.

Lois Kitsch, National Program Director

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