PALMETTO HEALTH
CREDIT UNION

JUN22'10 AM11:54 BOARD

June 18, 2010

Ms. Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Ms. Rupp,

We appreciate the opportunity to comment on the proposal to permit the offering of short-term, small amount loans (STS loans). The proposed changes would amend §701.21 to permit STS loans as an alternative to payday loans. As proposed the STS loan would be a closed end loan with the following terms and conditions:

1. An interest rate of 1000 basis points above the maximum interest rate established by the NCUA Board (currently 28%);
2. Principal amount between $200 to $1000;
3. Term of 1month to a maximum of 6 months;
4. A limit of three STS loans per borrower in a rolling 6 month period;
5. STS loans may not be rolled over;
6. A maximum application fee of $20 may be charge to all STS loan applicants;
7. The credit union's written policy must include a limit on the aggregate number of loans and the dollar amount of loans made under this section.

The proposed regulation offers guidance and best practices for the STS loan program. These include:

1. The suggestion of program features such as a savings component, financial education or the reporting of STS loans to credit reporting agencies;
2. The development of minimum underwriting standards that address proof of employment and at least two recent paycheck stubs;
3. The suggestions for risk avoidance measures that include imposing a length of membership requirement and requiring payroll deductions or direct deposit.

The first issue of note is the 28% interest rate. The Supplementary Information of the proposal explained the NCUA position that the FCU Act permits the NCUA Board to set a rate higher than the maximum 15% for periods of 18 months. It is this authority that permits the establishment of the 28% rate for this specific loan. The proposed rule states the rate for this type of loan is to be 1000 basis points above the general interest rate ceiling. It is our opinion the NCUA position is appropriate.

The discussion of application fees included the recommendation that a fee be established to recoup the cost of processing the STS loan. The proposed maximum fee is $20. This fee is to be charged all applicants whether or not credit is actually extended in order to exclude this fee from the finance charge per Regulation Z. The proposed maximum application fee is considered to be sufficient.

The proposed limit of no more than three STS loans to a member in a rolling 6 month period brings up another issue. It would be possible for a member to have as many as 6 of these loans in a 12 month period under the proposed requirement. The proposed rule calls for the credit union's policy to include the limit of

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the aggregate number and amount of STS loans. A point of internal discussion will be whether the potential for 6 STS loans per year is acceptable or if a maximum of a less number is preferred. To that end, it may be necessary to establish a limit by policy on the maximum number and aggregate amount of STS loans to any one member in a 12 month period.

The STS loan approval is to be based on the member's creditworthiness with the primary criteria being the proof of recurring income. It is anticipated that a credit report would not be used. The proposed rule does not discuss late fees, but the NCUA cautions about their use. The concern is that late fees could worsen the member's financial condition. Additional and on-going credit union deliberation will be necessary to balance the benefit of late fees with the concern for the members' financial condition.

The request for comments includes any information on currently offered small amount loan programs. Currently the efforts of this credit union to offer a small loan program is to set the minimum loan amount in policy at $200.00. However no separate small loan program has been established. The payday loan alternative programs of other credit unions have been reviewed for possible implementation. The proposed rule will result in a program for consideration that should be effective and feasible.

There was also a request for comments on whether the rule should require amortization and prohibit balloon payments. Whether or not the rule requires amortization and prohibits balloon payments, it is the general consensus of this credit union that loans of this type will be amortized and not include balloon payments.

Comments are also sought on whether the final rule should set a 36% APR ceiling inclusive of all fees. This is the result of concerns that loans under the proposed rule may be difficult to make to military members in light of the DOD requirements. Our opinion is the proposed rule is adequate and the APR should remain as proposed with the maximum application fee of $20. This would result in loan terms that are clear and concise and less of a marketing challenge.

Consideration has been given to the request for comment on the payroll deductions requirement. Payroll deduction for loan repayment is beneficial to the member and credit union. In many situations it may not be feasible to make payroll deductions a requirement. Payroll deduction is not available to employees of all select employee groups. This is occurs most often at small employee groups; the employees of which are often the ones most in need of this type of loan. As result it is our opinion that payroll deductions should remain a valued option instead of becoming a requirement for loan approval.

The proposed rule is favorable to the credit union interested in providing a service alternative to payday loans. While the proposed rule establishes reasonable requirements, it also permits enough flexibility to enable credit unions to meet the unique needs of their members. We feel the recommendations made above will further enable the credit union to meet members' specific needs. The NCUA's consideration of these comments and recommendations is appreciated.

Sincerely,

Harry L. Metz, Jr.

Harry L. Metz, Jr., CLE, NCCO
Compliance Manager