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June 24, 2010

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

Sent via email

Re: PCUA Comments Part 721 Short Term Loans

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) is delighted that the National Credit Union Administration (NCUA) proposes to amend Part 721 of the Rules and Regulations to enhance the ability of federal credit unions (FCUs) to offer short-term, small amount loans (STS loans) as viable alternatives to predatory, payday loans.

As a matter of background, the PCUA is a statewide trade association that represents a majority of the approximately 557 credit unions located within the Commonwealth of Pennsylvania. PCUA consulted with its Regulatory Review Committee (the Committee) a group of 12 CEOs who represent credit unions of all asset categories within the Commonwealth.

Pennsylvania credit unions, in conjunction with PCUA, the Pennsylvania Treasury Department (Treasury), and the Department of Banking (Banking), have an outstanding track record when it comes to offering consumer-friendly alternatives to payday lending. In 2006, PCUA, Treasury and Banking incubated a short-term lending solution for Pennsylvania consumers. We named the program, The Credit Union Better Choice™ and launched it in October, 2006.

The terms of a Better Choice loan include:

- Maximum term, 90 days;
- Maximum APR 18%;
- Maximum application fee, \$25
- Lending credit union verifies employment and establishes other underwriting criteria such as duration of membership or similar risk mitigating requirements. Credit reports are not required;
- Mandatory savings component, 10% of the loan amount is deposited into a savings account for the member;
- A member may not have more than one Better Choice loan at a time;
- Better Choice loans may not be rolled over; and

- Credit unions that participate in the Better Choice program agree to offer financial counseling services to the borrower.

These terms are documented in an agreement executed by participating credit unions when they join Better Choice. PCUA administers the program, conducts marketing and submits reports to Treasury. Eighty-two (82) Pennsylvania credit unions, both federally and state chartered, offer Better Choice loans through 215 locations throughout the state. Better Choice has developed a large footprint in the Commonwealth.

Since October of 2006, credit unions extended 28,238 Better Choice loans for a total dollar amount of \$13,319,285.04. The average loan amount is \$471.68. Better Choice saves Pennsylvania consumers \$9,640,798.40 versus products offered by payday lending outlets. A press release from Treasury is attached to this letter explaining the scope of Better Choice in more detail.

Clearly, Pennsylvania's credit unions have demonstrated expertise and a commitment to serving underserved consumers through Better Choice. We plan to continue the momentum and reach more members. NCUA's proposed amendments to Regulation 701.21 can facilitate our efforts.

Application Fee

Section 701.21(iii)(5) proposes an application fee limited to \$20. The Better Choice application fee cannot exceed \$25. Our consultations with participating credit unions lead us to conclude that the \$25 fee is necessary to cover origination costs and support the financial literacy outreach that is a vital component of Better Choice. Accordingly, we urge NCUA to adopt a \$25 application fee or specifically grandfather the Better Choice application fee in the final regulation, to avoid disruption of services to Pennsylvania consumers.

Interest Rate

Section 701.21(iii) offers a maximum interest rate 1,000 basis points over the maximum rate set by the NCUA Board. As such an STS loan could have an APR of 28% at the current time. The Better Choice rate is 18% the current rate ceiling set by the Federal Credit Union Act. Pennsylvania credit unions would certainly appreciate the rate flexibility in order to address credit risk.

Miscellaneous Terms

PCUA supports the proposed criteria outlined in sections 701.21(iii)(1)-(4) that address principal amount, term/maturity, number of loans outstanding to a borrower and roll-overs. These are inherently consistent with the terms of Better Choice loans. Technically, a credit union could offer a loan less than \$200 through Better Choice, but we are not aware of any participants that engage in this practice.

Underwriting

For safety and soundness reasons, NCUA proposes underwriting criteria in sections 701.21(iii)(6) and (B)(2), (3). In designing Better Choice, PCUA and other interested parties developed program criteria with the aim of reaching needy consumers while managing risk. For example, the program prohibits roll-overs and only permits one outstanding STL loan to a member at one time. Further, participating credit unions adopt underwriting criteria such as some length of time as a member and employment verification. Direct deposit or payroll deduction is desirable. However, such forms of repayment should not be

mandatory. Some members might not want payroll deduction. Each credit union should make that determination and adopt safeguards as warranted.

Financial Education

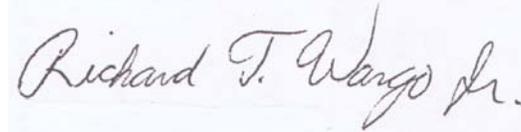
NCUA stresses financial education throughout the STS loan proposal. PCUA agrees and our member credit unions put financial literacy efforts into action. As noted above, Better Choice participants offer one-on-one counseling and similar financial education efforts. The consumer is not required to avail him/herself of the counseling, but we find that most do, particularly as their relationship with the credit union grows. Though counseling is required as part of the program, it is not a condition of loan approval. The consensus among the pilot credit unions was that mandatory counseling might create a barrier to entry, especially for those consumers who might not have great trust for mainstream financial institutions.

Conclusion

PCUA and our member credit unions support NCUA's STS loan proposal. Based on this letter, NCUA can readily recognize that Better Choice is a well-defined and well-executed STS loan program delivering significant benefits to consumers. We would welcome NCUA to use the terms of Better Choice as a model for the final regulation. NCUA should also grandfather or expressly permit the \$25 application fee to ensure continuation of Better Choice. We eagerly look forward to further advancing the financial condition of consumers through STS loans once the rule is finalized.

Very truly yours,

PENNSYLVANIA CREDIT UNION ASSOCIATION



Richard T. Wargo
Executive Vice President/General Counsel

cc: Association Board
J. McCormack
Regulatory Review Committee
M. Wishnow
M. Dunn, CUNA