June 30, 2010

National Credit Union Administration
Attn: Mary Rupp, Secretary of the Board
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comments on Notice of Proposed Rulemaking (Short-term, Small Amount Loans)

Dear Mary,

XtraCash, LLC, would like to applaud NCUA for recognizing the need for short-term, small dollar loans and taking a step in the right direction with this proposed rule. XtraCash works directly with credit unions to provide short-term, small dollar loans to members. Our experience tells us the NCUA proposal is a step in the right direction. However, the changes are not great enough to sustain a viable short-term loan alternative program. XtraCash encourages NCUA to develop a program that best serves the interest of credit unions and their members and would like to offer our experience as a tool for NCUA in building this plan.

XtraCash, LLC, is a short-term lending CUSO. XtraCash was formed in late 2006 as a result of a case study conducted by our owner credit union, Mazuma Credit Union, located in Kansas City, MO. The participants in the case study were comprised of members and non-members who were current or past users of payday loans. The study showed there was great demand for a short-term lending alternative. The participants advised that convenience, easy access, and quick processing are the factors in determining where consumers go to receive a payday loan. They want a loan that does not have numerous forced requirements. Otherwise they will go elsewhere to receive the loan, even if costs are higher.

NCUA's proposal, whether it is 28% APR + $20 application fee or 36% APR, is very similar to FDIC's Small Dollar Loan Program. The FDIC's program initial key goal was to observe and encourage banks to experiment with providing safe, sound, affordable, profitable and scalable small dollar loans.

Recently the FDIC released results from the two year pilot. Over 450 participating bank branches originated 34,457 loans. 16,294 of those loans exceeded the $1,000 maximum loan amount initially prescribed as a primary product feature by FDIC. Of the 18,163 remaining loans that were $1,000 or less (true small dollar loans), each participating bank branch averaged originating only twenty loans each year – not the scale needed for a successful and sustainable short-term loan alternative program.

Just one year into the program, the FDIC altered their initial key goal to observe and report on ways banks can successfully offer affordable small dollar loans. The goal change is likely from the FDIC discovering that the guidelines it established are not conducive to a profitable or scalable small dollar loan program.

Delinquency and charge off rates continue to climb on these FDIC small dollar loans. In the 4th quarter 2009, delinquency was 11% and charge offs were 6.2%.

Even the largest national banks (Wells Fargo, US Bank, etc.) do not follow the FDIC program because it is guaranteed to be a loss leader. They have their own payday lending programs that charge $10 per $100 borrowed. They are advertised to be 30 day loans with an APR of 120%. However, the loan is paid back immediately following any deposit made into the consumer's account, whether it is 1 day or 30 days later. The actual APR on these loans range from 120% to as high as 3,650% depending on how quickly the consumer's deposit hits their account.

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The payday lending industry typically charges off 6% or more of loan volume. FDIC's participating banks had 6.2% charged off in the 4th quarter 2009 and has continually risen over the last year. These types of losses cannot be covered by credit unions charging 28% APR + application fee of $20 or 36% APR, especially when other expenses associated with originating and servicing a loan are included as well.

The 14 states that currently have a usury cap with an average of 24.2% and the Talent Amendment with a 36% APR rate cap for military personnel and their families have effectively eliminated payday lending because any kind of profit at those rates is impossible to achieve. These types of rate caps have historically removed consumer choices, limited a valuable, in-demand source of credit, and have forced consumers to turn to other credit options, which often have higher costs than a typical payday loan.

Consumers will consider many of the other NCUA short-term loan proposals as a hindrance to receiving credit and as a result will inhibit credit unions from producing a viable program that will be accepted by the marketplace. Forcing borrowers to participate in direct deposit or payroll deduction, length of membership requirements, and limiting members to no more than three loans in any rolling six month period will deter consumers from participating. None of these stipulations are typically associated with any other type of credit union loan.

With an average loan amount of $350-$375 in the payday lending industry, the total loan balance is going to pale in comparison to other credit union loan products, such as mortgage and auto loans. Any cap on the total dollar amount, percentage, and/or number of loans FCUs can have outstanding at any given time would be another hindrance to a successful program.

The proposed underwriting standards of only needing to review a member's account records and proof of recurring income (at least 2 recent paystubs), should be met with extreme caution. Credit unions should consider checking with payday lending database companies such as Teletrack or CL Verify to ensure they are not adding to the problem by giving another loan to someone who already has multiple payday loans outstanding or has charged off payday loans elsewhere. Some states, such as Florida, use a statewide database through Veritec that limits consumers to one payday loan at a time anywhere in the state of Florida. The expense for these services is minimal and would definitely assist in lowering the losses.

As the NCUA proposal currently stands, credit unions who follow this model must ultimately be willing to accept a small dollar loan program as a loss leader, and unfortunately taxpayers (through government grants) and the other members of the credit union who don't use this service will be the one's paying by having to subsidize this program in one way or another. This is not fair to members, nor is it a successful business model for credit unions. Statistics prove short-term loans are in demand by our members and potential members, but the credit union industry cannot afford a loss leader product during these times of financial struggle.

XtraCash remains open to assisting NCUA, based on our nearly four year experience as a credit union-owned, short-term lending provider, as you drive forward constructing the final rules of this initiative. Thank you for recognizing the market need and proactively seeking a solution.

Sincerely,

Lon Neofotist
Managing Director
XtraCash, LLC

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