Questions to Consider Regarding the STS Loan Program
(NCUA has requested comments on these issues)

1. For STS loans, NCUA is considering a 36% APR limit, inclusive of all fees, either in lieu of or in addition to the proposed APR limit that would also allow for an application fee of up to $20. (Please note that fees for unanticipated late payments, defaults, delinquencies or similar occurrences would still not be included in the APR under the 36% alternative.) Would you prefer this alternative and should it be in lieu of or in addition to the proposed limit?

   Since most of these loans will be very small it will not take long to get to a higher APR so charging an application fee does not seem feasible. We are trying to help these members not take any additional funds they may need. $20 is a lot of money to these members needing help.

2. The proposal would require FCUs to include in their written lending policies a cap on both the total number and total dollar amount of STS loans. NCUA is instead considering imposing a specific cap on the dollar amount, percentage, and/or number of STS loans that an FCU can have outstanding at any one time. Do you agree with this alternative approach? How should such a cap be structured? Should it be as a percentage of assets or what other formula should be used?

   Yes, there should be a cap on the total dollars being put aside for this program based on percent of net worth but not on the total number of loans that can be outstanding at any given time. Each situation will be different – some members may only need $200 and some may need $500. If there is a cap on the number of loans it could be reached very easily if the majority of members needed a very small amount. Perhaps a cap should be placed on the dollar amount given to each borrower but not on the number of loans.

3. Should borrowers of STS loans be required to participate in direct deposit or a payroll deduction program as a condition for receiving an STS loan? Do you agree that this not only helps ensure payments are made, but assists the FCU in verifying the member's employment status and income level as part of the underwriting process and may also be useful for determining the loan term and amount?

   A borrower of an "STS Loan" should be required to participate in direct deposit and/or payroll deduction programs. Payroll deposit would be the preferred method. This is a good means to verify income and to insure the credit union is not being used for only "STS Loans". Credit Counseling prior to disbursing the loan should also be a requirement.

4. Should the rule require FCUs to impose a length of service requirement for members that they must meet in order to be eligible for STS loans or should FCUs decide for themselves whether and to what extent to impose such a requirement, based on their own risk tolerances? The proposal suggests FCUs consider such a requirement but does not impose one.

This should definitely be taken into consideration however I do not feel that a rule should be imposed to make this a requirement. This should be based on each individual credit union and the risk they wish to take on these loan types. Not taking this into consideration as one of the underwriting requirements could possibly lead to many consumers that are not currently members coming into the credit union trying to obtain this type of loan and not do no other business with the credit union. On the flip side we would do not want to ignore helping out new members in a time of need. Credit unions could possibly acquire new and very loyal members due to the credit union helping them out when times were tough.

5. For credit unions currently offering viable small amount loan programs, please describe your experiences in operating a successful program and the specific features that have led to the program's success as a sustainable and responsible alternative to payday lending.

   N/A

6. Should the rule require that STS loans provide for specific amortized payments and prohibit balloon payments? Would requiring borrowers to repay or substantially repay the loan in one payment be feasible or would it exacerbate a borrower's weak financial situation? Would balloon payments cause additional financial problems for borrowers and/or lead them to return to payday lenders?

   Balloon payments could cause additional financial problems however a balloon product could also help a member in a desperate time of need. The member's financial situation should be taken into consideration to determine the best means of repayment whether it be set regular payments or a balloon payment. This is a good example when a Financial Counselor analyzing the situation prior to the loan being granted would be most helpful. Each situation will be unique and having a couple of different options available will allow some flexibility with the different situations.

Other comments?

The terms and conditions should be left up to each credit union choosing to offer this type of product and not included in any of the rules and regulations. Let each credit union choose their own risk level.