July 1, 2010

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

RE: Proposed Amendments to the National Credit Union Administration's Short-Term, Small Amount loans (12 CFR Part 701, RIN 3133-AD71)

Dear Ms. Rupp:

On behalf of the North Carolina Credit Union League (NCCUL), I am writing in response to the NCUA's recently issued proposal to amend its general lending rule to enable federal credit unions to offer short-term, small amount loans (STS loans) as a viable alternative to predatory payday loans. NCCUL is encouraged by the proposed guidelines and NCUA's willingness to support credit unions that offer these member-demanded STS loan products and value the opportunity to comment.

By way of background, the NCCUL supports 93 North Carolina credit unions which provide financial services to nearly 3.1 million members and hold more than $30 billion in assets. North Carolina has an interesting and long history with payday lenders and is among the minority of states that have banned predatory payday loans.

North Carolina's History with Payday Lending

After a four-year experiment with payday lending, state legislators allowed state laws that permitted payday lending to expire August 31, 2001. Some payday lenders closed their doors following the sunset of the law, while others used a variety of ruses to keep operating such as rent-a-charter with an out-of-state bank, leasing and internet service schemes or just keeping their doors open. Under the dedication of NC's Attorney General, payday lending by all major companies came to a halt in early 2006 after exhaustive legal efforts.

NC law allows licensed consumer finance lenders to charge up to 36 percent on loans under $600. Some payday lenders that were forced to shut down applied for licensure as a consumer finance lender.

Successful STS Loan Program

North Carolina's credit unions are witnesses to the financial hardships of their members and have developed STS loan products to assist members in developing better financial habits while creating a solution between paychecks. While State Employees Credit Union is a state charter and must abide by NC law which places a maximum rate of 16 percent on a $25,000 or less loan, its successful

Salary Advance Loan (SALO) launched in 2001 is worth noting. With the SALO program, loans have a maximum ceiling of $500 and a minimum of $50 with a 12 percent interest rate and no fees. SALOs plus accrued interest must be repaid in full on the borrower's next payday through automatic deduction. To qualify for the loan, applicants must have their paycheck on direct deposit and must not be in bankruptcy. The application and underwriting requirements are minimized to make these loans convenient and accessible.

An innovative feature of the product is a forced savings component, which requires that 5 percent of each advance be placed in a special savings account, "Cash Account" that accumulates interest. Access to the Cash Account is restricted meaning a credit union lending official must approve all withdrawals from the account. The Cash Account is used to partially securitize the loan and encourages the member to save and reduce their reliance on borrowing.

In reports issued in 2006, more than 53,000 State Employees Credit Union members had enrolled in the SALO program, with 40,000 of those members borrowing from the credit union each month. Furthermore, more than $7 million had been saved in the Cash Account.

Conclusions on the Proposed Rule
In relation to the proposed STS loan term, fee and rate structure, NCCUL urges the Board to examine specific credit union responses on profitability and risk assessment. Our member credit unions are best placed to comment on how the newly promulgated rule will affect their business both financially and operationally. Nonetheless, NCCUL is very supportive of the Board's efforts to implement "best practices" for STS loans ensuring that credit unions will maintain the high level of responsible and sound lending practices that exist today.

Estimates of the growing payday loan volume vary between $28 billion and over $40 billion per year[1] and credit unions should see themselves as a response to the escalation of payday lenders. Credit unions could provide a low-cost alternative to borrowing from payday lenders who charge exorbitant rates and fees and could educate these frequent payday borrowers on the benefits of savings, all while improving the economic well-being of their communities.

Thank you for your consideration.

Respectfully Submitted,

Lauren D Whaley

Lauren D. Whaley
Director of Legislative and Regulatory Affairs
North Carolina Credit Union League
323 West Jones Street, Suite 601
Raleigh, NC 27603

1 King, U., L. Parrish, and O. Tanik. 2006. "Financial Quicksand: Payday Lending Sinks Borrowers in Debt with $4.2 Billion in Predatory Fees Every Year." Center for Responsible Lending.