

REGISTER-GUARD FEDERAL CREDIT UNION

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July 2, 2010

Ms. Mary F. Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22313-3428

RE: Comments on Proposed Rule for 12 CFR Part 701

Dear Ms. Rupp:

The Register-Guard Federal Credit Union (RGFCU) appreciates the opportunity to share our comments with you and the entire NCUA Board regarding the proposed rule for 12CFR Part 701, Short-Term, Small Amount Loans (STS) that is currently under consideration.

The Register-Guard FCU was one of the first credit unions in the State of Oregon to offer a true alternative to a pay day loan for our members. In October 2004, after much discussion, the Board of Directors approved our Pay Day Alternative Loan for our members and launched the program that has become one of our most popular and well used programs. Our Pay Day Alternative Loan is as follows:

- Interest Rate: 18.0%
- Fees: NONE
- Loan Amount:
 - Maximum \$500 or up to 50% of a member's gross monthly income, the lesser of the two.
 - Minimum: \$25
- Repayment: 1 Pay note due in 30 days for principal and interest. Should the member be unable to pay the loan in full in 30 days, they are allowed to pay \$10 that is applied to the loan as a principal and interest payment and roll the loan for another 30 days. There is no fee to roll the loan.
- Members may have only one pay day loan at a time. Once the loan is paid in full, the member immediately is eligible for another loan.
- Member must be employed for 90 days.
- With each advance, a current pay stub or verification of wages via direct deposit is required.
- With each Pay Day Alternative Loan, loan officers counsel members on their financial choices. We assist members to look for ways to improve their budget skills or may be meet their financial needs in another way.
- If a member begins to use the program routinely (more than 5-6 times), we begin to reduce the amount by \$25 with each subsequent advance and again provide financial counseling with each loan.

When the Pay Day Alternative Loan program was developed, it was not to create loan income. We recognized that earning \$7.00 - \$8.00 on a 30-day one pay note for \$500 was not covering our costs. However, we knew it was the right thing to do for our members! We did not want to charge fees or set extraordinary high limits that did not fit our member's profile. We were purposeful and focused on providing a viable alternative to the high interest rate, high fee pay day loan in the market.

The RGFCU recognizes that we do not want to keep members in the vicious cycle that can accompany pay day loans. If we do, we are no better than any other pay day lender, except we don't charge the fees. Our job is to assist members in improving their financial position not just providing a "band-aid" to give them a temporary fix.

The Credit Union routinely funds 30-50 loans per month with an average of \$300 for each loan. We have not experienced any significantly delinquency and in the almost 6 years we have provided this project have suffered losses under \$1,500. We believe that this product fits our member profile and provides a fantastic alternative to any local providers of pay day loans, regardless of the name of the product.

Given our experience, we strong oppose the proposed rule that would allow setting of interest rates of higher than 18% and allow the charging of fees for this type of loan program. We also believe that setting the maximum at \$1,000 is too high and will create higher potential losses for credit unions. The majority of members, in our experience, who utilize the Pay Day Alternative Loan, would not be successful in repayment if they were given \$1,000. In many cases, this is more than some of our members make in a month. The real value to a Pay Day program is to provide a simple, easy, low loan amount with minimal costs, short-term loan for members. Balances of \$1,000 with six month repayment are simply a signature loan that allows for the collection of fees and higher interest rates. We also strongly oppose the setting of \$200 as a minimum! There is nothing wrong with providing a short-term, easy loan for less than \$200 as a Pay Day product. This minimum would definitely not allow me to serve my members. Or, it would force us to fund a loan for \$200 only to put the money directly back on the loan; now that's a waste of time.

Another criterion you have mentioned is to require direct deposit or payroll deduction for STS loans. We would request that you not include these criteria as these are elected services and they can stop at any point in time. We certainly encourage direct deposit and payroll deduction for all members but it would discriminate for members whose employer does not offer such services.

Finally, the RGFCU is concerned that this type of program is being considerate at all. Credit Unions should be allowed to develop their own programs that fit the individual needs of their membership. If there is a concern about costs and fees, than credit unions should take that into account when creating a pay day alternative program. We do not believe it is in our credit unions best interest for the STS program to move forward. We serve members who others, including credit unions, do not serve and yet we have great success with our program.

We appreciate the opportunity to share our comments. The Register-Guard FCU opposes the STS loan program and do not feel that it is in the best interest of credit unions members.

Sincerely,

Carolyn J. Smith, CEO
Register-Guard FCU
Charter #09877
\$19.2 million assets / 2,200 members

cc: Credit Union Association of Oregon