Credit Union ASSOCIATION New York

July 6, 2010

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

Dear Ms. Rupp:

On behalf of the Credit Union Association of New York (CUANY), I would like to take this opportunity to comment on NCUA's proposed creation of short-term small amount loans (STS loans) as a means of providing credit unions the opportunity to provide alternatives to payday loans. The concept is an excellent one and the following suggestions are based, in part, on the experience of credit unions encouraging members to avoid the pitfalls of payday loans.

According to the New York State Banking Department, there are an estimated 761,000 New York households (9.8%) that have no bank accounts at all (unbanked) and 1.5 million additional households that have accounts but rely on other providers such as check cashers, to their detriment, to handle their financial services needs.[1] In addition, with the unemployment rate close to 10%, now more than ever there is a need to create alternatives for people who are desperate to find loans no matter how onerous the terms. Predictably, according to the Center for Responsible Lending, a quarter to a half of all payday borrowers default every year[2].

NCUA's program proposal provides an important framework to begin to offer credit unions the opportunity to provide such an alternative. It recognizes that a truly viable short-term loan alternative must allow credit unions to supercede the interest-rate cap while structuring the program to ensure that members cannot get into successively larger amounts of debt. When the final rule is promulgated, for the program to be successful on a large scale, it must be based on the following criteria: 1) underwriting standards must be simple enough so that credit unions can approve such loans within one day; and simple enough so that they don't increase burdens on overworked Compliance Officers 2) there must not be eligibility constraints placed on potential borrowers to inhibit their use of the program; 3) such loans must be cost effective; 4) NCUA should continue to monitor expenses involved with the program and be ready to make adjustments quickly as it implements the program; and 5) NCUA must move quickly to implement this program.

Your typical person in need of a short-term loan needs one quickly. Maybe there is an unexpected car repair, or difficulty paying the month's rent. Consequently, it is important that underwriting standards be straightforward enough so that credit unions can, within a day, make an eligibility determination. In this

[1] See "10 years in: A Review of the Banking Development District Program," New York State Banking Department, Consumer Affairs Division, May 2010.
[2] *The Economist*, June 26th, 2010 Special Report: The Morning After

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regard, it should be noted that the FDIC's pilot program, upon which this proposal is based, is structured to ensure that underwriting decisions can be made within 24 hours. Proof of identity, ongoing employment and an accurate address are appropriate minimum standards which individual credit unions can expand upon to meet their own needs. Anything more than the basic criteria would be counterproductive to the goals of the program. As a result, NCUA is taking the right approach in not prescribing specific underwriting standards beyond these most basic requirements and should reject placing additional program eligibility requirements. In addition, at this time, NCUA should not impose additional restrictions on loan structure beyond which it is already proposing under this program. There may ultimately be a place to restrict loans based on a borrower's ability to repay; however, in implementing the program, it should be made as simple and flexible as possible to enable credit unions to tailor programs to meet the unique needs of their membership.

In order to make this program even more effective NCUA should increase the maximum loan amount in promulgating the final rule should be increased from $1,000 to $2,500. This lending cap will put credit unions on par with the FDIC pilot amount. More importantly it is a more realistic limit, reflecting the needs of borrowers and will make the program more cost effective for credit unions.

NCUA also asks whether there should be minimum membership length for persons seeking to use this program. This is precisely the wrong approach. In talking to credit unions about their short-term lending alternatives, many of the persons most likely to utilize them are the un-or-under-banked. As a result, minimum membership length would inhibit precisely those people most in need of the program from utilizing it. Furthermore, one of the reasons to permit credit unions to cash checks for non-members within their field of membership is the potential to introduce new members to the credit union system. Ideally, today's new member in need of a short-term loan will be tomorrow's first time homebuyer, ready to handle a mortgage provided by the credit union.

This program may need implementation adjustments. For example, at this point, it was premature for many credit unions to determine whether the program would operate better if a larger interest rate included an application fee or if a lower interest rate excluded the application fee. Consequently, as noted above, this program will have to be monitored and adjusted on an ongoing basis. Nevertheless, it is precisely the type of program that credit unions should be allowed to offer. With the FDIC already implementing a pilot program, NCUA should move quickly to make sure that credit unions have the same opportunity.

Sincerely,

William Mellin
President/CEO