

**Illinois Credit Union League**

P.O. Box 3107  
Naperville, Illinois 60566-7107  
630 983-3400

***VIA E-MAIL TRANSMISSION***  
***regcomments@ncua.gov***

July 6, 2010

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

Re: 12 CFR Part 701 – Short-Term, Small Loan Amounts

Dear Ms. Rupp:

The Illinois Credit Union League (“ICUL”) represents over 100 federally chartered credit unions in Illinois. On their behalf, we are pleased to comment on the National Credit Union Administration’s (“NCUA”) proposed rule on 12 CFR Part 701 – Short-Term Small Loan Amounts (the “Proposed Rule”).

From a conceptual perspective, ICUL supports the ability of federal credit unions to provide an alternative to the costly, and sometimes predatory lending practices associated with payday loans. As stated in the supplementary information to the Proposed Rule, NCUA feels that allowing credit unions to make short-term, small amount loans (“STS loans”), “offers borrowers a way to break the cycle of reliance on payday loans by building credit and converting to traditional, main-stream financial products.” We agree that credit unions are in a unique position to offer a payday loan related product that may facilitate the migration from the “unhealthy dependence” on payday loans towards a more financially stable method of managing credit. As long as they can be executed in a safe and sound manner, ICUL is in support of the expansion of products and services that give credit unions the flexibility to compete with all other financial service institutions.

In reference to the specific changes made in the Proposed Rule, we respectfully note two concerns. Through the supplementary information, NCUA acknowledges the relatively high risk of loss with a payday alternative product. Further, they note the most appropriate method used in counteracting these losses is a higher interest rate than is used with standard loan products. The

supplementary information cites an APR in excess of 400% for payday lenders and 36% under a FDIC pilot program for banks, but NCUA chose a lower APR cap - only 1000 basis points over the current interest rate ceiling of 18% for STS loans. We suggest a more flexible interest rate ceiling so credit unions may adequately protect themselves against a higher risk of loss. With such exorbitant rates charged for alternatives, an allowable rate in excess of 28% would still create a far more reasonable payday product for credit union members.

The Proposed Rule calls for a prohibition on making more than three STS loans to a member during a rolling six-month period. NCUA's predicts this will, "curtail a member's repetitive use and reliance on this type of product." Limiting the number of STS loans a member can receive does not influence a member's financial planning. If a member places himself or herself in a situation where they need such a product, a prohibition on receiving the loan from a credit union will only force them, at a much higher rate, to use another institution. Credit Unions should be allowed to develop a policy reflective of their own determinations and risk analysis. The purpose of the Proposed Rule is to aid members in becoming more financially conscientious by using STS loans to begin an educational process with the credit union. Creating a blanket prohibition on the number of STS loans for one member fails to take into account the various stages of financial responsibility different members may be in. By forcing the use of a payday lender, the loan limit will put certain members back in the very position the Proposed Rule seeks to avoid.

We appreciate the opportunity to respond to NCUA's request for comment on the Proposed Rule, 12 CFR Part 701 – Short-Term, Small Loan Amounts. We will be happy to respond to any questions regarding these comments.

Very truly yours,

ILLINOIS CREDIT UNION LEAGUE

By: Brad R. Bergmooser  
Compliance Counsel