

June 24, 2018

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Pukalani HI, 96768
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Dear Planner:

I am writing regarding the proposal to amend the NCUAs general lending rule to provide Federal Credit Unions (FCUs) with additional options to offer payday alternative loans (PALs). The adjustments for these loans are positive but I believe there is much needed consideration and research needed prior to deciding to add PALs III.

BORROWER STATISTICS

Payday loans are marketed by lenders to remedy for unexpected financial emergencies but the reality is only 16% of borrowers utilize these loans for that purpose. Most of the loans are taken to make up for chronic cash flow shortages and to pay for occurring expenses like food and rent. Approximately 12 million Americans borrow each year and 69% use it for such necessities per finder.com, attached. Per an nbcnews.com article, also attached, a quarter of borrowers are on public assistance or retirement income.

Payday Loan Borrowers

- Makes \$\$22,476 per year and paid \$458 in fees, of those about a quarter paid \$781 or more in repeat usage
- 48 % had 10 transactions
- 14% had more than 20 transactions
- Median borrowing terms were for \$350 for 14 days
- Median fees were \$15 per \$100 which totals an APR of 322%

The state of mind of someone borrowing these types of loan is one of desperation. When experiencing financial hardship, it is difficult to see other options besides payday loans as it is advertised right in their faces as there are more payday loans in America than there are McDonalds.

PALS I & II REQUIREMENTS AND THE INTENDED DEMOGRAPHICS

Payday loan solutions are used because they are immediate and accessible for emergent situations. The difference between loans are that payday loans have smaller dollar amounts and higher costs and personal loans have bigger dollar amounts and lower costs.

Positives of PALS II

- Pals II non-timeframe requirement for FCU membership fits the immediate criteria. This should be taken out of PALs I criteria to make it more accessible.
- The elimination for the minimum loan amount fits better for the needs of the borrowers who typically need less and can afford less than \$200 dollars offered by PALs I.

- Add additional explanation in laymen's terms for Section A-3 (permissible interest rate) when describing 1000 basis points example: "an increase of a 100 basis points means a rise by 1% point, so 1000 would be 10% points" and include comparison of the current payday loan rates that they average 300-500%.

Negative

- The amount raised to \$2000 and extended timeframe for 12 months sounds like there's no distinction between personal loans and PALs besides the higher amounts they can be charged. Per the attached article by pewtrusts.org, Americans say that having more time to repay but still carry 400% APRs is negative, they may also view it for 100%.
- Reconsider the requirement in Section B, Number 1 Loan Amount that states the higher loan amount "may allow" some borrowers to consolidate high-priced traditional payday loan. Make it a requirement that if they the borrower has any outstanding non FCU payday loans, they are required to consolidate. This will get them out of the cycle and reduces chances that they will not pay the FCU loan to satisfy the prior outstanding loans.
- Include the FCUs requirements for projecting the FCUs Payday Loan Rule that requires reasonable determination for the consumers ability to repay a loan according to terms. Having this information, can track if the higher payments are even feasible for applicants.
- Reconsider having a separate program where requirement qualifications are lenient with options for honorary member status for FCUs. Membership requirements differs, some FCUs requiring you to put savings of a certain amount to join. The four FCUs I've joined either had requirements of a State worker relative, district where you live, and military service. If someone doesn't have money for food they will not have money to put in a savings. It's possible that they don't meet other simple criteria to join the FCU.

QUESTION AND ANSWERS FOR SECTION III – REQUEST FOR COMMENT

Q: The Board requests comment on whether to include some or all of the features of PALs II in PALs I.

A: Yes, update PALs I like PALs II. The borrowers that utilize the problem would access it more if the criteria were changed. Once PALS II statistics can be implemented then additional statistics and criteria can be made to then decide if updates to PALs I and PALs II can be made for the better.

Q: Should the Board propose a third alternative PALs rule and why?

A: No, PALs III shouldn't be considered. The focus should stay on bettering PALs I and II, the focus should not be on possibilities of III.

Q: Should the Board permit PALs III to include an open-ended product?

A: Yes, if the ceiling amount is also low and the consideration of possible payback criteria is met. And if the APR is not going to be high.

CONCLUSION

The Background section states that “data on payday lending is incomplete,” the attached articles are a good place to start for additional knowledge. Also take into consideration of how to advertise these FCUs payday loan alternatives to the desired demographic once PALs II is offered. Usually FCUs and banks offer their products on their sites or pamphlets in their locations. Since borrowers usually don’t qualify for regular personal loans, FCUs are unfamiliar territory and we can assume isn’t a place average borrowers frequent. Finder.com states that southern states are more likely to utilize payday loans over northeast, and 73% post in storefront windows. The frequent reminder of this option on a daily basis contributes to the familiarity of the option, conversely not knowing what’s out there can deter from using this program.

Thank you for the opportunity to comment on this topic.

Sincerely,
Tiare del Castillo

Works Cited

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