



July 27, 2018

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1755 Duke Street
Alexandria, VA 22314-3428
RE: WSECU Comments on Notice of Proposed Rulemaking (PALs II)

Dear Mr. Poliquin,

I am submitting this letter to provide feedback on the Administration's Notice of Proposed Rulemaking related to the NCUA PAL program located in 12 CFR part 701.21(c).

I would like to offer an alternative suggestion to the NCUA as a formal comment on the most recent NCUA PAL proposal for Federal Credit Unions. It is my belief that these programs, when responsibly marketed, priced, and managed, can effectively meet the short term borrowing needs of consumers and help steer them away from long term debt traps. My recommendation would bring the NCUA PAL program in line with existing regulatory requirements from the DOD and CFPB, and preserve the exemption the PAL program enjoys under the newly issued CFPB Payday loan rules. I respectfully request consideration be given to the points below.

I agree with the Board's attempt to encourage FCUs to offer responsible payday loan alternatives that meet the short term liquidity needs of their members. The alternatives contemplated to date, however, will not likely increase adoption and are unnecessarily complex. I believe the following recommendations help address what I see as problems in the proposed rule, while still meeting your stated objectives, enhancing regulatory certainty, and bringing parity to the short-term lending industry, at-large.

- **28% APR is a significant barrier to market entrance.** An Annual Percentage Rate limitation of 1000 basis points above usury doesn't provide adequate operating margin for FCUs to enter the short-term small dollar lending space. I believe this is one reason why there is low adoption of the PAL loan program (only 18% of FCUs offer a PAL loan to their membership (<https://vimeo.com/254918153>)). A program must be profitable enough to stand on its own (not subsidized by the membership), while maintaining a competitive pricing position and a non-predatory feature set. I believe an APR of 36% would greatly improve profitability, and therefore increase adoption. Even at 36% APR, these alternative loans remain highly competitive when compared to traditional Payday Loans.

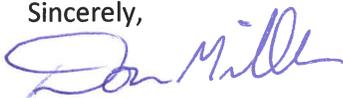
- **28% APR perpetuates regulatory inconsistency.** A 36% APR also levels the playing field and creates parity with the DOD's Military Lending Act limit of 36% APR, as well as the CFPB Payday Lending Rule's 36% carve-out. If 36% is allowable under the CFPB's rule, and is allowable for covered borrowers under the Military Lending Act, then why are FCUs limited to 28%, arguably the most responsible and most consumer-friendly lenders?
- **Creating a new naming convention creates regulatory ambiguity.** I also recommend the NCUA avoid naming its products separately, e.g. PALs I, PALs II, and PALs III and simply maintain one PAL Program that encompasses the available loan options available to Federal Credit Unions. The CFPB's recently enacted Payday, Vehicle Title, and Certain High-Cost Installment Loans final rule explicitly provides legal safe harbor and a conditional exemption from the requirements of those rules for loans made in accordance with PAL standards as they are currently referred. Changing the names makes the application of that standard ambiguous and unclear. The recommendation to maintain the existing naming convention reduces confusion and also adds clarity as to whether the entire PAL Program still receives the safe harbor and conditional exemption from the new CFPB rules. Less ambiguity in the rules creates for a more clear understanding and consistent application and evaluation of compliance.
- **Loan Term and Loan Amount limits are unreasonable.** I believe that the ability to offer longer loan terms and larger loan amounts more effectively serves to off-board consumers from predatory products and into sustainable, lower cost, consumer friendly credit union products. This aids in meeting the program objective of helping consumers get out of debt traps. Additionally, FCUs need more flexibility in the design of their programs, to ensure the final product meets consumer needs today and in the future. At a minimum, the Board should consider longer terms of at least 36 months and loan amounts up to \$4,000. This ensures borrowers can cover large unexpected expenses with an affordable monthly payment.

To reiterate, I would like the Board to consider the recommendations as outlined below:

- Remove market entrance barriers and create regulatory consistency by allowing for APRs up to 36%;
- Reduce regulatory ambiguity by expanding PAL and building new rules under the existing name; and
- Expand loan terms and amounts up to 36 months and \$4,000 to meet consumer demands.

I appreciate the opportunity to comment on this pending rulemaking and respectfully ask that you give the above recommendations due attention and consideration. Thank you.

Sincerely,



Don Miller
President and CEO