August 3, 2018

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comment on Notice of Proposed Rulemaking on the Payday Alternative Loan Program
RIN 3133-AE84

Dear Mr. Poliquin,

We are pleased that NCUA is proposing changes to its PAL program. As a leading technology and service provider to regional and community banks and credit unions, we have unique insight into the solutions provided by those financial institutions. We service the transaction accounts of over 25 million consumers and business owners, giving us real insight into what works at banks and credit unions.

For most financial institutions, introducing a traditional small-dollar loan program is a cost-prohibitive process – not only operationally, but also from a staffing standpoint. From the cost of loan officers and underwriters to the overhead of paper and manual processes to additional slowdowns in branch traffic, the reality is that it would take time and resources that many credit unions simply do not have.

But one of our newest solutions, CashPlease[i], is an automated small-dollar, short-term lending platform that allows financial institutions to provide loans that are responsible, compliant and dramatically more efficient than manual solutions. It allows banks and credit unions to provide their account holders with easy access to cash at affordable interest rates while remaining compliant. We have several credit union clients who have been using our small-dollar lending technology through a bundled solution to offer short-term loans for a number of years. We recently introduced CashPlease as a standalone solution to broaden the availability of an efficient, technology-driven small-dollar lending option for financial institutions.

The CashPlease program provides a turnkey white label website and mobile app using the credit union's logo and colors. It is fully automated, so no loan officers are needed. It integrates with a credit union's core system and mobile banking via single sign on (SSO). Loans can be automatically booked to the credit union's core system.

Consumers gain the ability to apply for a loan from their smartphone or computer 24 hours a day, including weekends. There is no traditional credit check, with CashPlease instead relying on proven underwriting based on the account's transaction history. The charge off rate is typically only around 3%, which has been validated over several years of experience. The website and app are easy to use, making this option more convenient than payday lenders. The cash is deposited quickly and directly into consumers' checking accounts, and they can enroll in the "Easy Pay" option that deducts repayment automatically from their account, enabling them to succeed in repaying in installments over generally two to six months, while keeping losses low for providers.

This product is extremely well suited to enabling credit unions to offer small-dollar loans, but most have chosen not to do so yet, because PAL does not provide enough revenue or flexibility to make sense for them. Credit unions are particularly concerned about the revenue piece because they do not have experience in this space, and believe they need greater revenue as a cushion in case the losses from the loans end up being higher than expected.

This lack of interest from credit unions is unfortunate, as some of their members go outside the credit union to borrow on predatory terms from payday lenders and other costly providers. We believe the following changes to PAL will make small-dollar lending significantly more viable for credit unions:

- Pricing flexibility
- Larger maximum loan sizes
- Longer maximum terms
- Express authority that the application fee can cover third-party costs for originating the loans
- Allowing account transaction data, either from the credit union or another financial institution, to be used for underwriting the loan without the paystub requirement
- A line of credit option

Pricing; Loan Sizes and Terms

The Notice of Proposed Rulemaking for PALs II and RFI for PALs III asked about loan pricing. The Pew Charitable Trusts has proposed small-loan pricing for depository institutions of 18 percent interest plus a monthly service fee of 4 percent of the first $500 of the loan amount, capped at $20 per month, with no application or other fees. We have run numbers on this pricing, and we are confident it will provide enough revenue that many more credit unions would begin offering small-dollar loans and provide enough to offset potential losses.

While this structure yields loans that typically cost 5 to 8 times less than nonbank alternatives, credit unions' competitive advantages plus our automated processes can make this pricing work and offer a scalable alternative to high-cost loans. Pew also has recommended in its published standards using a payment-to-income ratio of 5 percent of each gross paycheck or 6 percent of deposits into the account as the amount of each installment payment, with the maximum term essentially capped by limiting loan costs to half of principal. We believe these recommendations would work well, making compliance simple and protecting consumers.

If NCUA does not adopt our favored pricing option of 18 percent interest plus a monthly service fee up to $20, then instead we request that NCUA raise the permissible interest rate from 28 percent to 36 percent and the permissible application fee from $20 to $50. Under this scenario, we would request the maximum loan size be increased to $4,000 and the maximum term to 36 months. Most credit unions will only extend smaller amounts, but this maximum size and term enables flexibility for providers who wish to help members cope with larger needs.

Application Fees

The application fee should be considered non-interest revenue that can be used by credit unions to cover the costs of third parties in operating a small-dollar loan program. We agree that application fees should not be used to cover loan losses, but it is critical that application fees can be used to pay third party service providers and to invest in lending automation and technology.

We encourage the Board to clarify that "costs associated with processing the application" include all costs related to applications, such as investing in technology and automation, ensuring potential applicants are aware of the program, and paying third-party providers that can help lower the costs of application-related lending activities such as underwriting, processing applications and originating loans.

The NCUA Regulatory Alert for the current PAL program contains the following language [emphasis added]:

> The Federal Reserve Board's Regulation Z defines an application fee as the fee necessary to recoup ***actual costs incurred by the lender*** in ***reviewing an application*** …. The ***application process typically involves verification of employment, age, and residence***. Therefore, ***an FCU's application fee can only be the amount needed to recoup the actual costs associated with processing an application***, with a maximum amount of $20. ***If an FCU undertakes a more limited application process with repeat borrowers, there would be no justification for charging the same application fee each time the borrower applied***.

For our solution which automates small-dollar lending, we do not charge the credit union anything for "reviewing an application" – indeed, the benefit of an automated program is that the credit union never has to "review[] an application". The loans are pre-approved on a daily basis and available for consumers to take electronically.

We generally only charge the credit union for loans that are actually authorized to be funded. Of course, our charges also are not to verify "employment, age, and residence" – rather, they are to underwrite a loan based on account activity and offer a convenient way for the borrower to get a loan electronically. We expect that others offering similar services would charge in a similar manner, and the credit union should be able to recoup that cost from the borrower if this product is to be viable for them. The credit union also should be able to use the application fee to offset implementation costs, core software provider customization/integration charges, electronic signature technology, and other costs that are directly attributable to the small-dollar loan solution.

Underwriting

We ask that the Board consider a modification to the language around the requirement for at least two recent paycheck stubs. The cost to the credit union of having its staff review these, combined with the inconvenience to the borrower of providing them, not to mention the delay caused by this requirement, substantially reduces the viability of credit unions providing small loans. We believe there should be clear written authority for using account transaction data, either from the credit union or another financial institution, for underwriting the loan instead of paystubs.

Line of Credit

We also recommend a line of credit option, both because it may be operationally easier for some credit unions to provide, and because we see substantial income and expense fluctuations from month to month in consumers' accounts. A line of credit better aligns with the needs of millions of households who have multiple income sources or high volatility in their financial lives. If NCUA permits a line of credit, we recommend an interest rate up to 36 percent and an annual participation fee up to $50, with a maximum term of 36 months and a maximum size of $4,000. Closed-end loans also should continue to be available.

Other Issues

We strongly support NCUA's proposal to remove the 30-day waiting period before members become eligible for PAL loans.

We also believe NCUA's proposal is reasonable to require that loan payments do not trigger overdraft or NSF fees, so long as overdraft protection programs are not otherwise impacted.

We anticipate all credit unions will report loan repayments to credit bureaus.

We initially were concerned that the CFPB's proposed rule could harm this type of lending, but the final rule does not impede loans with terms of more than 45 days, so we do not see that rulemaking as an obstacle to small installment loans and lines of credit.

We also favor making PAL one loan program rather than three to maximize simplicity for credit unions.

Thank you for your consideration.

Respectfully,

VELOCITY SOLUTIONS, LLC

Christopher J. Leonard
Chief Executive Officer

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[i] http://myvelocity.com/2017/04/velocity-solutions-inc-launches-innovative-new-short-term-small-dollar-loanprogram/