Payday Payoff Loan (PPL) Program

The National Credit Union Administration (NCUA) has open for comment a proposed regulation to expand their Payday Alternative Loans (Re: NCUA 2018-0030-001). One of their suggestions with what they call PAL II and PAL III is to increase the limit from $1,000 to $2,000 and the repayment period from 6 months to 12 months in order for credit unions to consolidate multiple payday loans currently outstanding to traditional payday lenders.

What is suggested in this paper is a “Payday Payoff Loan (PPL)” which is an attempt to expand on NCUA’s idea of helping members who have been caught up in the payday loan “Debt Trap” and have multiple payday loans. Larger loan amounts, with extended terms, would be granted only to pay off outstanding high cost payday type loans that a member has, in an effort to reduce predatory loans outstanding to credit union members.

Additionally, this loan would contain a savings provision that would: 1) help secure a portion of the loan initially, 2) help the member build an emergency fund for the future, 3) help the credit union earn enough income from these loans to afford to continue to make small loans to members and, 4) serve as a collateral for lower cost loans in the future, when life’s emergencies occur.

The Payday Payoff Loan (PPL) provides an affordable installment loan of up to $2,000 with a unique savings component equal to 50 percent of the loan amount. Unlike traditional payday loans, a PPL has a reasonable interest rate, no hidden fees, and has safeguards to prevent borrowers from getting caught in a vicious debt trap. A payday lender’s typical customer is someone who can least afford to pay the high fees associated with these revolving short-term loans, such as working mothers, military families, the elderly, and people living paycheck to paycheck.

Payday lenders prey on desperate families and cost those who are already struggling to make ends meet billions of dollars per year in fees. The Payday Payoff Loan program or what we call ‘PPL’ gives working people a real alternative to borrowing against their next paycheck - with lower costs, extended installment payments, a savings boost, and financial counseling for those who want additional help. The Payday Payoff Loan (PPL) helps families break out of the Debt Trap of payday lending, especially those who have multiple payday loans at multiple payday lenders, without devastating their budgets.

Payday Payoff Loans (PPLs) differ from traditional payday loans in a number of important ways:

- A PPL will be a closed-end, installment loan and must be paid in full before a borrower can take out another PPL loan. This prevents a borrower from getting caught in a never-ending cycle of “rolling over,” or renewing a loan on its due date and paying exorbitant fees for the privilege.

- A PPL borrower will be loaned an additional amount of 50 percent of their loan amount that will be deposited in an interest-bearing savings account in the borrower's name. I.E. $2000 borrowed to payoff multiple payday lenders, $1,000 borrowed and placed into an interest bearing savings account and frozen to prevent withdrawal until the loan is paid in full, and maybe longer. Total maximum loan amount equals $3,000.

- If the member already as a Payday Alternative Loan (PAL) outstanding it MAY be paid off with the proceeds of a Payday Payoff Loan if the member desires to do so, and the loan officer determines it would be in the best interest of the member.

- Financial counseling will be offered to PAL borrowers if they want to improve their financial literacy and help them make smart long-term financial decisions. However, financial counseling is not a requirement to obtain the loan.

- A PAL has no application fee regardless of the size of the loan. Payday lenders commonly charge as much as $15 per $100 borrowed ($75 for a $500, 14-day loan). This is equal to an Annual Percentage Rate (APR) of 391% and many payday lenders charge more than this, as state laws prevail.

- The interest rate charged on a PPL will not exceed 18 percent a year. The typical payday loan is rolled over several times before the borrower can pay the debt creating a debt trap with an effective annual interest rate usually higher than 400 percent a year.

- Both a credit check and a TeleTrack check will be required for all PPL loans. TeleTrack is the same database used by Payday Lenders, Title Pawn Lenders, Rent to Own stores, By Here, Pay Here Used Auto Dealers and other high cost lenders who to not routinely report to traditional credit bureaus. By also conducting a TeleTrack check the credit union will be sure all outstanding obligations are being disclosed and considered in the member's Ability to Pay.

- No collateral is required, except the 50% additional savings component that is part of the PPL loan proceeds. A PPL borrower does not have to provide a postdated check as security for the loan's eventual repayment.

- The loan proceeds will be paid by credit union corporate check directly to each creditor (payday lender). This will help ensure that the loans get paid in full and there is no future high cost borrowing by the credit union member.

- The 24 month repayment term is much more liberal than traditional payday loans, which require payment in full by the next paycheck. For example if a member is consolidating four $500 payday loans the typical payment for those loans would be $75 per loan every 14 days or $600.00 a month for the four loans at the payday lender. A 24 month $3,000 PPL loan at a credit union with an interest rate of 18% APR (with no application fee) would be $149.77 a month or one fourth the amount the member was paying to the typical payday lender charging 391% APR. Note: Payday lenders in many states charge interest rates and payments higher than the example above.

- If the member wants to pay additional payment or payoff their loan early there is no problem as all credit unions loans are calculated using simple interest and there is no pre-payment penalty.

- Smaller, more frequent loan payments can be made each payday (i.e. weekly, bi-weekly, or semimonthly) if those payments would match the member's payday and be more convenient for the member than monthly installments. Payday lenders will not allow borrowers to make installment or partial payments.

- There will be no minimum membership requirement; however the credit union may want to only offer PPL loans to members who have a checking account with direct deposit. This will ensure the member already has a track record with the credit union and has a reoccurring form of deposit. PPL installment payments should come directly from those direct deposit funds, thus keeping the credit unions costs down and collection of past due loans at a minimum. However, the credit union will not overdraft the member's checking account to satisfy loan repayments and overdraft fees will not be charged in conjunction with the PPL loan.

- Using the pledged portion of the proceeds ($1,000) should not be used by the credit union to satisfy loan payments as they come due. This Emergency Fund portion of the loan should only be used to satisfy the balance of the loan in a charge-off situation.

- Once the loan is paid off the member would have built a $1,000 emergency fund that is on deposit in the member's individual savings account. The hold on these funds will remain on the $1,000 accumulated way of the PPL until requested to be released by the member, and approved by a loan officer. The Loan Officer will look at the members entire financial picture and determine if it would be in the best interest of the member to release the funds or if a Share Pledge Loan at a the normal low rate for these loans would be better for the member. Building and maintaining a $1,000 emergency fund should be the goal of every credit union working adult member.

There is clearly a significant demand for Affordable Small-Dollar Loans. Data from the Consumer Financial Protection Bureau (CFPB) clearly shows the annual dollar volume of loans made by payday lenders in 2015 was estimated at approximately $23.6 billion in new loans per year. These cost borrowers a staggering $3.6 billion per year.

Despite their best intentions, payday loan borrowers usually are unable to satisfy their obligation on their next payday. The stories of borrowers paying 10 times the original amount borrowed before they are able to satisfy the debt is of grave concern. These individuals need assistance that ultimately provides them the opportunity break themselves out of the Debt Trap of payday lending such as proposed by the Payday Payoff Loan (PPL).

The savings component of the PPL is particularly attractive. When PPLs are repaid in full, the borrower will have their savings available to them. They can either withdraw those funds when they have a future emergency need or they could use the savings as collateral for a future loan. By leveraging their savings they have the opportunity to obtain an even lower interest rate on future loans. Credit unions usually make loans against savings at an interest rate of 2-3% per year above the rate paid to the consumer on their savings account.

It is sad to think that someone with a $500 payday loan who is unable to pay it for numerous months would pay the equivalent in interest payments of the down payment on a modest home before retiring the debt. That is why the savings component is built into the PPL, to start the asset building process.

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