SCHOOLSFIRST
FEDERAL CREDIT UNION

July 31, 2018

SUBMITTED ELECTRONICALLY AT REGCOMMENTS@NCUA.GOV

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

Re: Comments on Notice of Proposed Rulemaking (PALs II)

Dear Mr. Poliquin:

I am writing on behalf of SchoolsFirst Federal Credit Union (SchoolsFirst FCU),the largest education-based credit union in the U.S. serving school employees in California and their families since 1934. We have more than 825,000 Members and approximately $15 billion in assets. SchoolsFirst FCU appreciates the opportunity to comment on the Proposed Rulemaking addressing an additional option to offer Payday Alternative Loans (PALs II). The Proposed Rulemaking also seeks input on the possibility of creating a third PAL program (PALs III), which could include different fee structures, loan features, maturities, and loan amounts.

SchoolsFirst FCU generally supports amendments to Part 701 to enable federally chartered credit unions the ability to offer affordable short-term loan options to their members. However, in light of the statement by acting director of the Bureau of Consumer Financial Protection (the Bureau), Michael Mulvaney, indicating the Bureau's 2017 Payday, Vehicle Title, and Certain High-Cost Installment Loans Rule (Payday Loan Rule) will be reconsidered and subject to future rulemaking, we urge the NCUA to defer finalizing any PAL adjustments to better determine how these products can align with and be exempt from future Payday Loan Rule amendments.

SchoolsFirst offers an open-end short-term, small dollar "payroll savings loan" (PSL). This loan product has a maximum draw period of 12 months, and includes a savings component whereby 5% of each loan advance is deposited into a secured share account that becomes available at the end of the 12 month loan term. It is designed to support our Members in breaking their cycle of debt and encouraging responsible financial habits. Additionally, the PSL has no application or funding fees and a low interest rate capped at 17.90%.

The PALs II proposal would not enable SchoolsFirst FCU to take advantage of the PAL exemption found in the Bureau's Payday Loan Rule, and thus, we would be forced to abandon our current product. We suggest the PALs II proposal be finalized to include an open-end feature, with a maximum term of 12 months. This would provide SchoolsFirst and other credit unions the ability to serve members with essential and affordable products.

We also offer responses to your specific questions on the proposal to create PALs III:

1. Should the Board propose a third alternative PALs rule and why?

   SchoolsFirst FCU response: If the PALs II proposal is not finalized with a permissible open-end feature, then PALs III should allow for open-end transactions.

2. Should the Board set the permissible interest rate for PALs III loans above that permitted for other PALs loans? If so, why and what legal justification supports a higher interest rate?

   SchoolsFirst FCU response: No, the maximum permissible interest rate should remain consistent at 1,000 basis points above the maximum interest rate as established by the Board, currently 28%.

3. Should the Board increase in PALs III the maximum amount an FCU can charge for an application fee above that permitted for other PALs loans?

   SchoolsFirst FCU response: No, the maximum fee should remain consistent at $20.

4. Should the Board allow FCUs to make more than one kind of PALs loan at a time to a borrower?

   SchoolsFirst FCU response: No, credit unions should be limited to one PAL at a time.

5. Should the Board set in PALs III the limit on the aggregate dollar amount of loans made above that permitted for other PALs loans?

   SchoolsFirst FCU response: No, all PALs should have a consistent limit of 20% of net worth.

6. Should the Board eliminate for PALs III the requirement that FCUs implement appropriate underwriting guidelines?

   SchoolsFirst FCU response: No, all PALs should require appropriate and prudent underwriting guidelines.

7. Should the Board set for PALs III the maximum loan amount above that permitted for other PALs loans?

   SchoolsFirst FCU response: For PALs III, SchoolsFirst recommends a maximum loan amount of $1,000 in order to mitigate risk.

8. Should the maturities for PALs III loans be longer than those permitted for other PALs loans?

   SchoolsFirst FCU response: PALs III should have a maturity of no more than 12 months to be consistent

9. Should the Board permit PALs III to include an open-end loan product?

   SchoolsFirst FCU response: Yes, SchoolsFirst strongly encourages the addition of a permissible open-end feature to PALs II or PALs III. This will enable us to continue to offer our PSL product.

   a. If the Board permits an open-end product, should the Board allow FCUs to charge participation fees, provided the fees are not considered a finance charge under Regulation Z?

      SchoolsFirst FCU response: We see no reason to complicate the product by enabling additional fees to be charged to members.

10. Should the Board require FCUs to conduct an ability to repay determination in PALs III similar to that required by the CFPB's Payday Loan Rule?

    SchoolsFirst FCU response: No, the Bureau's ability to repay requirements are overly complex, burdensome, and will increase costs for credit union members. Appropriate and prudent underwriting guidelines should suffice to ensure repayment ability is assessed and risk is mitigated.

11. Should the Board prohibit FCUs from charging overdraft fees for PALs loan payments drawn against a member's account?

    SchoolsFirst FCU response: No, such a prohibition against overdraft fees would increase operational complexity and increase costs overall.

We thank you for the opportunity to provide comments and hope they will be carefully considered.

Sincerely,

John J. Conine

John J. Conine
Senior Vice President, Consumer Lending
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California & Nevada Credit Union Leagues (CCUL)