

From: [John McKenzie](#)
To: [Regulatory Comments](#)
Subject: Indiana Credit Union League Comments on Notice of Proposed Rulemaking (PALs II)
Date: Wednesday, August 01, 2018 4:22:18 PM

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

Re: Indiana Credit Union League Comments on Notice of Proposed Rulemaking (PALs II)

Dear Mr. Poliquin:

The Indiana Credit Union League (ICUL) appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) Proposed Rulemaking Payday Alternative Loans II (PALs II). The ICUL member credit unions represent 98% of assets and members of Indiana's credit unions, with those memberships totaling more than two million consumers.

The ICUL applauds the proposed creation of PALs II. By keeping these loans closed-end with no roll overs and having the aggregate lending cap, it provides an appropriate level of safety and soundness while still enabling credit unions to serve their membership even better.

We believe that eliminating the minimum finance amount provides needed flexibility for credit unions to better meet member needs compared to payday loan companies. By raising the total amount that can be financed to \$2,000, it will provide federal credit unions greater flexibility to assist members caught up in a payday loan spiral through combining existing payday loans. This promotes the credit union goal of making our members financially better today than they were yesterday. However, we are concerned that the \$2,000 limit may be too low, given the potential nature of the use of the funds (unexpected medical or automobile repair) that would require a higher loan amount. We would encourage NCUA to consider a higher limit, perhaps up to \$3,000.

The proposal also limits the interest rate that can be charged on PALs II to 28%, consistent with PALs I loans. Other agencies (BCFP, FDIC, DOD MLA) regulating financial institutions' small dollar short term loans have utilized a 36% interest rate cap. To maintain consistency across different types of institutions, and provide consistent expectations for the consumer, we would ask that NCUA consider increasing the rate limit to 36% on PAL loans. Consistency with the interest rate cap across various regulatory bodies would also ease the burdens associated with complying with multiple, and at times competing, regulations.

The proposal for PALs II incorporates the maximum application fee of \$20 currently in effect for PALs I loans. We believe that this is too low and may be a hindrance to credit unions offering PAL products. An alternative to a higher interest rate cap would be to allow credit unions to offset a portion of the risk and costs associated with PAL loans through a higher application fee. We believe that a \$50 cap on the application fee would be prudent and allow more credit unions to feel comfortable taking on the added risk associated with the PAL loans.

An additional concern we have is the 12-month term. We believe this may be too short of a term if the full \$2,000 maximum amount is financed. We encourage NCUA to consider extending this term to further enable credit unions to meet the goal of assisting members that are struggling with loans from payday loan companies. Often the payment is what they are struggling with, and we are concerned that a 12-month term may require a higher payment than the member can afford. A 24-month term would allow for a more affordable monthly payment for the member,

We support NCUA not including a minimum membership time requirement with this loan product. As

credit unions strive to increase membership and help their communities in today's "I want it now" environment, this improvement will help members to start saving money immediately.

We understand the desire to minimize risk concentration in PALs by limiting the outstanding loans to 20% of net worth. However, given the nature of their membership, we believe that low income designated or CDFI credit unions should be exempted from this limit.

On behalf of Indiana credit unions, we appreciate the opportunity to comment on the NCUA PALs II proposal. If you have any questions about our letter, I would welcome the opportunity to discuss it. I can be reached at (317) 594-5320.

Sincerely,

A handwritten signature in black ink that reads "John McKenzie". The signature is written in a cursive style with a large, stylized "J" and "M".

John McKenzie
President, Indiana Credit Union League