August 3, 2018

Gerard 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)
RIN 3133-AE84

Dear Mr. Poliquin,

On behalf of CDFI credit unions in Missouri, we would like to take this opportunity to comment on the NCUA's Notice of Proposed Rulemaking for the PAL II program.

Payday lending is pervasive among the communities we serve, and effectively strips the opportunity for wealth accumulation and/or asset building among families. Quite frankly, these entities further strip the neighborhoods in which they locate by not providing for economic reinvestment. They take their profits and run to their corporate headquarters located elsewhere.

Some of the credit unions here in Missouri have been active participants in the effort to combat payday lending by offering alternative products in a consumer-friendly, transparent and fiscally responsible manner.

Of the many financial institutions in Missouri, we represent clearly just a few that are active in the "payday loan alternative" space. All depositories should be part of the solution – both banks and credit unions. However, we believe that because a credit union is a not-for-profit financial cooperative, we are the absolute best solution for serving stressed and distressed communities.

Credit is needed in marginalized communities, and demand will always exist. That's why we need more alternatives to traditional payday lending. What credit unions can provide is the assurance that fairness remains on the supply side because good, affordable credit remains available.

Our mission-oriented reason for existence as a not-for-profit financial cooperative positions credit unions to invest in the community more so than a for-profit entity. However, as you know, while we are not-for-profit, we are also not for loss. Therefore, it is imperative that products, services and pricing are not punitive to our constituency, but allow for good stewardship of the use of ALL of our members' money.

Likewise, our member product offerings must allow for us to be good stewards of their money by being soundly constructed and fairly regulated. Credit unions must maintain their member-oriented nature by offering good products. That is why any rulemaking set forth by the NCUA in short-term credit (e.g. alternatives to payday lending) must allow for credit unions to be a solution. **One of our greatest concerns is that the NCUA focuses so hard on subtle improvements to existing practices, that the restrictive nature of the rulemaking is an unintended deterrent for more credit unions to enter the market with good practices.** As an example, if the PAL I and II rules are too narrow, they will not allow for innovation and creativity in new product development to emerge.

Although we appreciate NCUA's efforts to enhance the PAL program, we would like to recommend how credit unions can safely offer small dollar loans with even greater impact in the communities we serve:

We believe that the existing PAL program needs to be re-imagined to allow credit unions to devise their own products within specific regulatory parameters. For credit unions to enter this market in earnest, the NCUA must allow for flexibility to meet the demands of consumer credit in this space. Allow for products to be cost-effective. Even as a not-for-profit, credit unions must be able to see the ability for return on investment. Without clarity, flexibility and cost-effectiveness, credit unions will be hesitant to enter the market.

Therefore, we ask that the Board view this small-dollar credit issue holistically, creating one unified PAL program to simplify understanding and compliance for credit unions. The program should have three options, encompassing the loans envisioned in PAL I and II, and permitting another option that would enable credit unions to reach their members who most need help and use a new small-credit offering to bring in new members. To do this, we encourage the Board to shift toward designing a program framework of principles under which credit unions can offer sustainable payday alternative loans that provide adequate revenue for providers and flexibility and access to borrowers.

We also believe:

- That the proposed 28% annual percentage rate (APR) cap on PALs in the rule is "overly conservative." Recent Bureau of Consumer Financial Protection and Department of Defense short-term, small-dollar loan rules cap APR at 36%.
- One open PAL loan at any given time should be sufficient.
- Low-income designated or CDFI credit unions should not be subject to the 20% net worth limit; such exception would echo the MBL rule application and we believe would be appropriately applied here as well.
- Although we anticipate that a majority of loans will be for less than $2,000, there are a sizable share of auto title, payday installment, and traditional subprime installment loans that are above $2,000. Based on this information, we believe that the appropriate limit would be $4,000. Giving credit union members the flexibility to access loans up to $4,000 could help keep members from turning to high-cost loans if they seek more than

$2,000. We anticipate that most loans will have terms of 12 months or shorter. We recommend that if the loan amount is increased to $4,000, the Board permit terms up to 36 months.
- The Board should consider allowing an open-end, line-of-credit payday alternative product. A line of credit is helpful in keeping costs down because the credit union only needs to originate once, and then members can draw and pay down the balance as needed. Allowing terms up to 36 months maximizes flexibility for members using lines of credit and keeps costs lower for credit unions originating these lines.
- A $50 application fee limit would ensure sufficient range for institutions to develop pricing options that would permit new market entrants by supporting the actual costs involved.
- Allowing individual credit unions to determine ability-to-repay requirements, because they would be better positioned for access to a member applicant's employment, direct deposits, revolving loans, assets, and/or overall credit, and should have discretion to make their own ability to repay determinations.

CDFI credit unions are the highest capacity financial institutions serving the underserved. In many cases, we are the lender of last resort for consumers. We are the last line of defense that keeps people from opting for a payday loan.

We encourage you to pursue the recommendations outlined above to create the next generation of PALs that both inspires and positions credit unions as the small dollar lender of choice across the country – without sacrificing safety and soundness. Thank you for your consideration.

Respectfully submitted,

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