



August 3, 2018

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

RE: Payday Alternative Loans II

Dear Mr. Poliquin,

The Credit Union Association of the Dakotas (CUAD) appreciates the opportunity to provide comment to the National Credit Union Administration (NCUA) regarding its proposed rulemaking concerning Payday Alternative Loans II (PAL II). To provide a brief background, the Credit Union Association of the Dakotas represents 62 state and federally chartered credit unions in the states of North Dakota and South Dakota, whose assets total over \$6 billion and who have more than 445,000 members.

CUAD fully supports the NCUA's proposal to provide federal credit unions (FCU) with alternative options for PALs. The alternative PAL option, or PAL II, as the NCUA refers to it in the proposed rule incorporates several of the features of the original PAL program, or PAL I, with several revisions to provide flexibility for FCUs in certain areas.

One of the proposed changes incorporated into the PAL II is the removal of the arbitrary waiting period for new members to obtain a PAL, which furthers the intent of the program. PAL I requires that an FCU must set a minimum length of membership requirement of at least one month before lending to a borrower.

CUAD fully supports removal of the minimum length of membership requirement as it will position this product as a viable alternative for consumers in our communities in lieu of high-cost payday lenders. Under the current PAL provisions, consumers that are in need of a quick liquidity loan may not be able to obtain a PAL from a credit union unless they were an existing member, however, this is not the case for other financial institutions. Depending on the circumstances of the consumer's needs, waiting a month may not be an option, therefore, the consumer may have to turn to a predatory payday or title loan product. CUAD agrees with the NCUA and appreciates the NCUA recognizing that, "allowing FCUs to make loans without a minimum length of



membership requirement will permit FCUs to assess their own risk tolerances and make loans to payday loan borrowers who need access to funds immediately and would otherwise turn to traditional payday lenders to meet that need.” 83 FR 25585

As noted above, the proposed PAL II incorporates several of the features of the original PAL program with several revisions to provide flexibility for FCUs in certain areas. One of the retained provisions is the aggregate lending cap. An FCU making PAL II loans must include in its written lending policies a limit on the aggregate dollar amount of loans made under this program, with a maximum of 20% of net worth, and implement appropriate underwriting guidelines to minimize risk. While CUAD does not believe any credit union would make this their primary loan product, we recommend that credit unions designated low-income or Community Development Financial Institution credit unions be excluded from the 20% net worth limit.

The proposed PAL II regulation also retains the cap on application fees at \$20. CUAD recommends that \$20 be a safe harbor, however, credit unions should be able to impose a fee that represents a reasonable proportion of the total costs incurred by the credit union for this loan product. Credit unions rely on third parties for forms and loan support. \$20 per loan may not be sufficient to cover the costs of obtaining the paperwork for these loans which may be a barrier to credit unions considering offering this new loan product.

CUAD supports the proposed increase to the maximum amount of loan and the removal of the minimum loan amount. PAL I places restrictions on the minimum amount of a loan at \$200 and a maximum at \$1,000. It is proposed that a PAL II not exceed \$2,000. CUAD recommends that the regulation include a provision that this threshold is adjusted annually to keep up with inflation.

CUAD also supports the proposed increase to the maturity term for PAL II up to twelve months. PAL I have a maximum maturity of six months.

Thank you for this opportunity to share our comments.

Respectfully,

A handwritten signature in black ink that reads "Jeffrey Olson".

Jeffrey Olson
CEO/President

A handwritten signature in black ink that reads "Amy Kleinschmit".

Amy Kleinschmit
Chief Compliance Officer