

July 24, 2018

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1755 Duke Street
Alexandria, VA 22314-3428
RE: WSECU Comments on Notice of Proposed Rulemaking (PALs II)

Dear Mr. Poliquin,

We respectfully submit our comments on the Administration's Notice of Proposed Rulemaking related to the NCUA PAL program located in 12 CFR part 701.21(c).

In general, we applaud the Board's effort to encourage Federal Credit Unions (FCUs) to offer responsible payday loan alternatives that meet the short-term borrowing needs of their members. It is commonly accepted there is a need for these services, so rather than spend time reiterating the current financial landscape, we wanted to address why the proposed rules will not materially increase adoption. Our recommendations, as outlined herein, solve what we see as the issues in the proposed rule, while still meeting your stated objective, enhancing regulatory certainty, and bringing parity to the short-term lending industry.

It is our belief that payday loan alternative programs, when responsibly marketed, priced, and managed, can meet the short-term borrowing needs of consumers, steer them away from debt traps, and provide for longer-term financial wellness. With that in mind, we respectfully request adequate consideration be given to our recommendations below.

- **The 28% Annual Percentage Rate (APR) is a significant market entry barrier for a number of credit unions and does not align with the CFPB or DOD's high interest rate definition.**
 - The APR limitation of 1,000 basis points above usury does not provide an adequate operating margin for FCUs, leading to low adoption (only 18% of FCUs offer a PAL loan to their membership). A successful loan program must stand on its own and should not be subsidized by the rest of the membership. Credit unions should not be asked to decide between helping their members and maintaining a healthy loan portfolio; they should be allowed to do both. Considering consumers pay significantly more for a traditional payday loan, 36% APR is a fair and highly competitive price, and allows for a positive operating margin.
 - A 36% APR also creates parity with the DOD's Military Lending Act limit of 36% APR, as well as the CFPB Payday Lending Rule's 36% carve-out. If 36% is allowable under the CFPB's rule and is allowable for covered borrowers under the Military Lending Act, then why limit FCUs to 28%? This creates an unintentional, competitive disadvantage for the credit union industry.

- **The current application fee does not cover the full cost of origination – allow up to \$50.**
 - The cost of loan origination can be high for a credit union that is not capable of fully automating the process. To help offset that cost, FCUs should be allowed to charge up to \$50 in the form of an application fee (charged to all applicants).
- **The proposed Loan Term and Loan Amount limits are too restrictive.**
 - FCUs need more flexibility in the design of their programs, to ensure the final product meets consumer needs today and in the future. Longer terms and larger loan amounts will help consumers get out of long-term debt traps and will ensure affordable repayment options exist for larger expenditures. At a minimum, the Board should consider terms of at least 36 months and loan amounts up to \$4,000.
- **Creating a new naming convention creates unnecessary regulatory complexity.**
 - We recommend the NCUA avoid naming its products separately, e.g. PALs I, PALs II, and PALs III and simply maintain one PAL Program that encompasses the available loan options available to FCUs. This reduces confusion and also adds clarity as to whether the entire PAL Program receives the safe harbor and conditional exemption from the new CFPB rules. Less ambiguity in the rules creates for a more clear understanding and consistent application and evaluation of compliance.

Additionally, we support a number of the changes outlined in the PAL II proposal, such as limiting the number of loans at any given time to one, removing the restriction on the number of loans over a specific period, and eliminating the minimum length of membership.

As a state-chartered credit union, it might seem strange that we are submitting comments regarding a rule that only applies to FCUs. However, there are multiple reasons why we wanted to express our thoughts on this topic. First, we have been offering a payday loan alternative for over 15 years and wanted to share our experience with the Board. Second, while we are not bound by the FCU PAL rule, the programs you set forth are typically considered “best practice” by state and federal examiners for all insured credit unions. Third, and most importantly, we believe credit unions can fundamentally change the small dollar loan marketplace – greatly improving affordability and access to financial education for consumers – but only if allowed greater flexibility in program design and pricing.

To reiterate, we would like the Board to consider our recommendations as outlined below:

- APRs up to 36%;
- Loan terms up to 36 months;
- Loan amounts up to \$4,000;
- Application Fee up to \$50; and
- Expand rules under the existing PAL program rather than create two new programs.

We appreciate the opportunity to provide comment on this pending rulemaking and respectfully ask that you give our recommendations due attention and consideration. Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kevin Foster-Keddie". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kevin Foster-Keddie
President & CEO