



August 2, 2018

Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

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

Dear Mr. Poliquin:

Coastal Credit Union appreciates the opportunity to provide comments to the Board regarding the proposed changes to the Payday Alternative Loans (PALs) rule. Coastal is headquartered in Raleigh, NC with 2.9 billion in assets, has a low-income designation, and serves more than 250,000 members.

The Board has requested input on whether to include some or all the features of PALs II in PALs I, which would eliminate the safe harbor from the CFPB's Payday Loan Rule. At this time, we feel it's beneficial to have both options, with at least one providing a safe harbor.

Coastal would like to see a PALs III option that offers more flexibility to credit unions. As many as 57 million Americans do not have the financial ability to support a \$400 emergency expense. While PAL loans are an ideal program for emergency situations, these types of loans can often become a perpetual dependency for the consumer. In order to break the financial reliance and provide the adequate support to achieve financial independence, a savings component would have significant value and appeal to the consumer. Therefore, a third program which includes a savings component would be beneficial to break the lifecycle.

Including a savings component in a PALs III program and extending the term and loan amount provides a more affordable payment option for the member. For example: If the member borrows \$2,500 for an 18-month term (of which \$500 is allocated to a savings account and held until the loan is paid off) the monthly payment would be approximately \$158.00 at a rate of 17.5%. Keeping the standard PALs II maturities and maximums the payment changes to \$182.00 a month. This new option gives the member and the credit union flexibility with the monthly payment for the consumer, reduces the potentially higher default rate, and would become more affordable to the member.

An open-end product would be more efficient and cost effective for the credit union; however, it would not solve the members perpetual need and cyclical desire for utilizing the loan and achieving financial independence.

Providing more than one loan at a time does not allow the member to achieve financial independence. Other steps should be taken to help the members become financially successful, practices include financial counseling, savings plans even if they are small, in addition to financial education.

Credit Union principles and philosophies, fundamentally at our core, show that we should demonstrate we give back to our members in the form of better interest rates, fees, and higher dividends. Instilling higher rates aligns the PALs I, II, or III, program with payday lenders potentially. Caps on fees should be implemented while allowing certain flexibilities which are sufficient to cover lender expenses, if they should increase while offering this service. In addition to placing a cap on the fees, there should also be a 36% rate cap established for all PALs. A balance needs to be established between the maximum APR and fees charged establishing limitations that would prevent predatory practices.

While PAL loans are a higher-risk loan to the organization, if an overdraft is imposed, it could indicate a larger concern for both the member and the credit union that should be looked into. Fees should be included to offset the potential risk associated with the loan. Therefore, they should not be prohibited, they should be balanced to offset the risks.

In closing, we'd like to thank NCUA for issuing the PALs proposed rule allowing credit unions to provide input on the PALs II rule and seeking input on a potential PALs III option. We feel that providing credit unions with the opportunity to offer multiple PALs options to our membership would be extremely beneficial.

Sincerely,

A handwritten signature in black ink, appearing to read "Martyn Pell". The signature is fluid and cursive, with the first name "Martyn" and last name "Pell" clearly distinguishable.

Martyn Pell

SVP/CLO Coastal Federal Credit Union