



August 3, 2018

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

Re: RIN 3133-AE84

Dear Mr. Poliquin:

The Pennsylvania Credit Union Association (PCUA) is a state-wide advocacy organization that represents a majority of the credit unions located in the Commonwealth of Pennsylvania. PCUA appreciates this opportunity to comment on the National Credit Union Administration's (NCUA) proposed amendment to the payday alternative loans (PALs) rule.

Pennsylvania's credit unions offer a payday lending alternative known as The Credit Union Better Choice® or Better Choice Loans. These loans are offered on terms consistent with the current Rules and Regulations of NCUA, 12 CFR § 701.21(c)(iii).

Better Choice loans were developed with the Pennsylvania Department of Treasury and the Pennsylvania Department of Banking and Securities in 2006. These state agencies were instrumental in recognizing the need for reasonable alternatives for consumers who need short-term credit. Better Choice loan terms include a \$500 maximum loan, that is repaid in ninety (90) days and include a savings component. The required savings provides the consumer with an account balance and can be a significant first step in developing a savings habit or mainstreaming such a consumer into financial services. The first year the Better Choice loans were offered, 50 Pennsylvania credit unions made 5,706 loans totaling \$2.7 million dollars in volume. Since its inception, the Better Choice program has grown in the number of credit unions offering the loans and in the volume of loans to Pennsylvanians.

Pennsylvania's credit unions utilize the Better Choice program to build a relationship. In the case of an "unbanked" consumer, Better Choice puts that consumer on a path to a mainstream, safe relationship. In addition to Better Choice loans, Pennsylvania credit unions also offer other short-term, small-dollar loans to consumers.

Based on the 5300 call report data, in the first quarter of 2018, Pennsylvania's credit unions reported 4,495 short-term small amount loans outstanding with a value of \$1,906,056. The amount and dollar value of the outstanding loans of this kind appears to remain steady over the years with volumes increasing during the last quarter of each year.

From the reports provided to PCUA from credit unions participating in the Better Choice program, members use the funds from the short-term small amount loans for various needs such as: funeral expenses, gifts, home heating needs, education, car repairs, utility bills, etc. If credit unions were not able to offer these loans for their members, members would be forced to find the money elsewhere – likely at a much higher cost. And when members turn to their credit unions to meet these short-term

needs, credit unions can do more than just write a check. Credit unions can and do try to get their members out of the short-term debt cycle by providing financial education and counseling to their members. Members won't find this at a payday lender.

PALS II

We applaud NCUA's efforts to incorporate more flexibility into PAL loans by proposing the PALs II rule. Increasing the maximum dollar amount of PAL loans to \$2,000 and eliminating the minimum loan amount will provide credit unions with more options to help their members. The ability to amortize the loans for 12 months will also allow credit unions to help more members and keep them away from the predatory payday lenders.

By eliminating the minimum one-month membership requirement, credit unions will be able to respond to an immediate cash need of a member. Being able to fulfill that need can again keep a potential member from turning to a payday lender when they are unable to wait a month to obtain a loan. The proposed rule also eliminates the restriction on the number of times a credit union can lend to the same member in a rolling six-month period providing credit unions with the ability to be responsive to those members who typically pay off their PAL loans quickly and want to borrow more. This is another opportunity for credit unions to not only meet the borrowing needs of their member's, but also to provide financial education and counseling to the member's.

While we believe the addition of the PALs II loans to a credit union's available loan products will be well-received by members and provide additional opportunities for credit unions to help those members who might otherwise be forced to seek out a higher-priced payday loan, we support keeping the PALs I rule unchanged.

By keeping PALs I loans, credit unions will be able to make loans that fit into the safe harbor of the Bureau of Consumer Financial Protection's (Bureau) Payday Loan Rule. The Bureau's Payday Loan Rule passed in November 2017 requires, among other things, lenders to determine if a consumer will have the ability to repay the loan. We advocated strongly to exempt PAL loans from the Bureau's Rule and would be disheartened to see the exemption disappear.

We fully understand and appreciate the Bureau's public policy goal of eliminating a vicious debt cycle that traps many consumers. If credit union short term small dollar loans were to come under the Ability to Repay provisions of the Payday Loan Rule, it could push some credit unions out of the small-dollar lending market, leaving consumers trapped with the less reputable lenders.

Credit union small dollar loans, like the Better Choice loans, are geared to provide necessary credit resources to consumers and enable credit unions to extend such loans at a low cost. The safety for a consumer rests in requirements such as limits on rollovers, limits on the number of loans outstanding and a consumer must be a member of the credit union for at least one month prior to obtaining the loan. Credit union underwriting is generally limited to pulling a credit report. In short, Better Choice loans and PALs I loans are very much like character loans. The limited underwriting is an important aspect of the program in that it reduces costs. Better Choice programs, generally, run on a break-even basis.

If Better Choice loans and other PAL I loans were to fall under the Payday Lending Rule it would be an abusive and unfair practice for a lender to make a covered loan without deciding that the consumer will have the ability to repay the loan. The penalties for abusive and unfair practices are significant. Better Choice loans, for example, do not make up a significant portion of a credit union's loan portfolio. Also, these loans are not a revenue source as they are in the case of for-profit lenders.

We support keeping PAL I loans unchanged and maintaining the exemption from the Payday Lending Rule for those loans and giving credit unions the flexibility they need to meet more members' needs under the PALs II program.

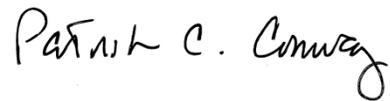
Conclusions

Short term, small dollar loans, such as the Better Choice loans offered by many of our Pennsylvania credit unions, fill an important need in the community. By providing alternatives to predatory payday lenders, credit unions can meet the borrowing needs of their members and provide financial education to a segment of the population that is often underbanked or unbanked. Expanding the options that credit unions have to meet these needs and serve this population is a welcome change.

In response to the potential for a PALs III, we appreciate efforts by NCUA to provide more options to credit unions in serving the needs of their members, especially those that may be forced to turn to a predatory lender to meet their short-term borrowing needs. We look forward to additional proposals in the future.

Sincerely,

PENNSYLVANIA CREDIT UNION ASSOCIATION

A handwritten signature in black ink that reads "Patrick C. Conway". The signature is written in a cursive style with a large, looped "C" at the end.

Patrick C. Conway
President & CEO

cc: Association Board
Government Relations Committee
Regulatory Review Committee
State Credit Union Advisory Committee