



August 3, 2018

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

Via email to: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Re: Cornerstone Comments on Notice of Proposed Rulemaking (PALs II)

Dear Mr. Poliquin:

Cornerstone Credit Union League (Cornerstone) appreciates the opportunity to submit comments concerning the National Credit Union Administration's (NCUA) proposed changes to part 701 of its rules concerning payday alternative loans. Cornerstone represents over 500 federally and state chartered credit unions in Texas, Oklahoma, and Arkansas, which in turn serve over 8.1 million members.

Cornerstone supports the proposed revisions to Part 701, the proposed Payday Alternative Loan II (PALs II) rule. Once PALs II is adopted, we urge NCUA to consider additional flexibility, as discussed in detail below.

#### Background

Cornerstone appreciates NCUA's interest in providing additional flexibility in the area of short term, small dollar loans. As not-for-profit financial cooperatives owned by their members, credit unions exist to serve their members...not to raise profits for shareholders. Credit unions provide communities with a safe place to save and borrow money at reasonable rates.

The credit union community is greatly disturbed by the practices of the average "payday lender" and therefore, we seek to offer more affordable alternatives to our members. Providing payday alternative loan programs isn't seen as a big money maker for credit unions; it's a service we provide to the community to provide alternatives to more costly options.

PAL programs do require credit union time and resources, so they need to be structured in a manner that works for each credit union. Currently, it is estimated that only about 9% of credit unions are using the existing PAL program, likely because the compliance and entrance costs can outweigh the potential benefits to consumers. As every credit union is unique in membership and complexity, providing greater flexibility in the area will permit more options for consumers (our members).

## PALs II

Cornerstone supports adoption of the proposed PALs II program. The increased flexibility in the areas of the loan amount, membership requirement, loan terms, and number of loans allowed will encourage more credit unions to offer such programs. The additional flexibility will increase consumer choice for lower cost payday loan alternatives without sacrificing consumer protection or safety and soundness of credit unions.

## Future PALs II Suggestions

We strongly urge NCUA to keep payday alternative loans on the agenda for additional improvements in the near future.

In discussions with our member credit unions, the consensus is that one PAL loan at a time is sufficient. Credit unions seek to provide financial literacy assistance and counseling to members to assist them in avoiding dependency on PAL loans. Additionally, the credit union movement does *not* advocate for rollovers of PAL loans nor for charging overdraft fees for PAL loan payments drawn against a member's account.

Cornerstone encourages NCUA to consider a principals based approach to PALs III that would provide credit unions with flexibility to tailor short-term, small dollar loans to their needs without being overly prescriptive. Such an approach would encourage:

- 1) All products, disclosures, and practices to comply with applicable laws and regulations;
- 2) Underwriting or qualifying criteria based on proof or recurring income or employment;
- 3) Encourages the use of saving features or financial planning/counseling; and
- 4) Reporting of borrower's repayment history to credit bureaus.

Cornerstone recommends increasing the permissible loan amount up to \$4,000. A higher limit would permit credit unions in assisting members in need due to unexpected medical or vehicle expenses that can often amount to more than the currently proposed limit of \$2,000. With an increased loan amount, it makes sense to also extend the loan term to permit the borrower adequate time for repayment. In relation, we suggest permitting loan terms to extend up to 36 months.

Cornerstone recommends increasing the permissible application fee from \$20 to \$50. The higher amount provides credit unions with greater flexibility in covering staff and technology costs related to processing applications. The fee should be set with a plan to increase overtime with inflation.

Cornerstone recommends raising the interest rate ceiling from 28% APR to 36% APR (or 1,800 basis points above the maximum interest rate allowed by NCUA) to coincide with similar programs authorized by the Bureau of Consumer Financial Protection, the Federal Deposit Insurance Corporation, and the Department of Defense Military

Lending Act. Some credit unions have expressed that the current rate of 28% does not yield sufficient revenue for credit unions to invest in the automation and outreach necessary to promote and maintain a competitive and sustainable PAL program.

The CFPB's "ability to repay" determination was based on very high-cost loans with great risk to consumers. Credit union PAL loans are lower risk due to more reasonable pricing. Imposing CFPB type ability to repay requirements would negatively impact credit union pricing, ultimately hurting the borrower. Therefore, we recommend against imposing such requirements. Credit unions would continue to implement underwriting guidelines. We suggest that the use of paystubs be necessarily only for new members or for members who lack regular deposits into credit union accounts.

Cornerstone recommends exempting low-income designated credit unions and Community Development Financial Institutions (CDFIs) credit unions from the 20% net worth limit.

Thank you for the opportunity to provide comments on the PALs II proposal. Should you have any questions about Cornerstone's comments, please feel free to contact me at (512) 853-8516.

Sincerely,



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