Credit Union
ASSOCIATION
New York

November 26, 2012

Mary Rupp, Secretary of the board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

On behalf of the Credit Union Association of New York, I would like to take this opportunity to respond to NCUA's Advance Notice of Proposed Rulemaking seeking suggestions about ways to improve Payday Alternative Loan (PAL) regulations for federal credit unions. The use of these programs varies widely depending on the credit union. Examples range from Boulevard FCU in Amherst, New York that developed a comprehensive approach to offering PAL loans to those credit unions for whom the existing program is adequate but whose members have not expressed a need for these types of products. Given the diversity of credit unions and their members, NCUA could improve the effectiveness of the PAL regulations by giving credit unions greater flexibility when offering PAL loans so that each credit union could model the program after its own unique circumstances.

Payday loans are short-term lending products most attractive to those individuals in need of quick cash. To ensure that credit unions can provide viable alternatives to these lending products they must also be given the ability to quickly provide PAL loans. Currently, NCUA regulations mandate that persons must be a member of a credit union for at least one month before becoming eligible for a PAL loan. This requirement should be eliminated. A person considering a payday loan most likely can't afford to wait a month to become eligible for an alternative loan offered by a credit union. Anything the industry can do to encourage a potential member to utilize our services as an alternative to the payday lending industry, which at its worst is little more than legalized loansharking, should be encouraged. Credit unions concerned about safety and soundness issues would still have the ability to continue to mandate minimum membership periods before making loans available.

NCUA is considering raising the maximum PAL application fee that can be charged by credit unions. NCUA should not only raise the fee cap, but establish a mechanism to periodically adjust it for inflation. No credit union should have to offer these products at the risk of losing money. Considering that these loans pose a greater risk of delinquency than other financial products and that they entail solid underwriting expertise, a higher application fee would better enable credit unions to account for the costs of these loans.

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1021 WATERVLIET-SHAKER RD., ALBANY, NY 12205 P.O. BOX 15118, ALBANY, NY 12212-5118
MAIN (518) 437-8100 · TOLL-FREE (800) 342-9835 · FAX (518) 437-8500 · WWW.CUANY.ORG

NCUA should also give credit unions the option of providing more than one PAL loan to members at a time. The current restriction is well intended but simply drives members to payday lenders whose products aren't structured as prudently as a PAL loan. Credit unions should have the opportunity to provide multiple loans to a member on a case-by-case basis.

Closely related to the issue of payday loans is the need for greater financial education. In an ideal world, there would be no need for alternatives to payday loans because the vast majority of consumers would understand that taking on such loans is not in their long-term interest. While the Association is against any mandatory member education requirement being imposed on credit unions, the industry should be encouraged to provide financial education as part of the PAL loan process. For example, Boulevard FCU points out in its letter to NCUA that it has staff review a credit report with a new member as part its "fast track" short-term loan program. It also encourages repeat borrowers to take financial education courses on subjects such as budgeting and credit.

As important as the PAL program is, given the financial squeeze many credit unions are in right now, it is difficult to invest in a well-meaning but potentially expensive program. By expediting the member qualification process, authorizing the charging of fees which better reflect the actual cost of the program and encouraging members to gain financial literacy, NCUA would further its goal of ensuring that the industry has a viable alternative to the payday lending industry.

Sincerely,

William J. Mellin
President/CEO