July 31, 2018

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

Dear Mr. Poliquin,

On behalf of the Credit Union Association of New York, which has represented State and Federal credit unions for over 100 years, I am writing to comment favorably on NCUA's proposal giving credit unions greater flexibility to offer Payday Alternative Loans. The terms and conditions for credit unions offering non-predatory short-term loans would vary, but the increased flexibility to provide PAL style loans would help credit unions and consumers.

The unfortunate reality is that given the continuing financial struggles faced by millions of Americans, there is a pressing need for responsible, short-term lending options. For example, almost half of the American public would not have enough money to deal with a financial crisis that costs more than $400[1]. Furthermore, traditional payday borrowers "are not, as often assumed, financially illiterate or casual about borrowing under such demanding terms. The reality is that for many of the poor, these loans represent the only access to credit, and they go to them reluctantly.[2]" This trend is not simply limited to poor individuals but is instead an increasingly prominent condition of middle-class existence in America.[3]

Credit unions are well aware of these disturbing developments. Consequently, when the CFPB proposed regulating payday loans so severely that NCUA could no longer have authorized FCUs to make PALs, several credit unions reached out to the Association and expressed the importance of allowing them to continue to offer short-term loan alternatives. Fortunately, the CFPB's final rule did not prohibit PALs. At the same time, it was clear to the Association that credit unions could do even more to help their members if they were given more, not less flexibility.

The overriding goal of any regulatory framework governing short-term loans should be to give consumers as many alternatives to taking out payday loans as possible. Consequently, it never has made sense for NCUA to mandate that PALs should only be made available to persons who are credit union members for at least a month. By giving credit unions that choose to do so the opportunity to provide short-term loans to new members, NCUA is maximizing the chance that persons in need of such emergency financing will have credit unions available as an alternative to traditional payday lenders. After all, a person in need of cash will simply go to a payday lender if

[1] See: Report on the Economic Well-Being of U.S. Households in 2015, https://www.federalreserve.gov/2015-report-economic-well-being-us-households-201605.pdf)

[2] See: How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy by Mehrsa Baradaran

[3] See: The Atlantic, The Secret Shame of Middle-Class Americans, May 2016, https://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/

he or she is not able to get a loan from a credit union, even though he or she qualifies for membership.

For similar reasons, NCUA also correctly proposes to raise the maximum amount of short-term loans from $1,000 to $2,000 for PAL II loans. Again, the person in need of a short-term loan will either get one from a credit union or he will go to a predatory lender. The current PAL loan limit of $1,000 is simply too small an amount for many members in need of fast financial help. For example, a study of Lower East Side Federal Credit Union in New York City showed that the vast majority of its borrowers were low income minorities with little or no credit and no relationship with mainstream financial institutions. Nevertheless, the credit union was able to grow providing loans averaging $1,700. These loans had shorter terms and were designed to meet the needs of a credit union's membership.[4] While this is certainly a step in the right direction, NCUA should also consider raising that cap even further so that loans of up to $5,000 can still be considered PAL II Alternative Loans.

As NCUA notes in the preamble to this proposal, not all of the PAL products being considered by NCUA would qualify for the credit union safe harbor under the CFPB's payday loan regulations. This problem cannot be avoided without additional regulations by the CFPB. Consequently, the NCUA should amend the guidance that accompanies PAL loans to ensure that credit unions making short-term alternative loans which are not PAL I or PAL II Loans, understand that these loans are subject not only to NCUA's regulations but to the CFPB's more restrictive payday loan requirements. In addition, the restrictions imposed on NCUA in offering credit unions the option of providing payday loan alternatives underscores why credit unions and NCUA should jointly advocate to the CFPB to further extend the exemption given to credit unions that offer payday loan alternatives. The American public needs short-term loan options. In the meantime, this proposal gives federal credit unions important new ways to help our members.

Sincerely

President/CEO-New York Credit Union Association

[4] See Pg. 76 of How the Other Half Banks: Exclusion, Exploitation, and the Threat to Democracy by Mehrsa Baradaran