



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

Re: PALs II Payday Loan Alternative Proposed Rule to Part 701

Dear Mr. Poliquin:

On behalf of the Board and 172 members of the Louisiana Credit Union League (LCUL), I would like to take this opportunity to comment in response to NCUA's Proposed Rule amending Part 701 of the NCUA Rules and Regulations to provide a second "payday loan" alternative for federal credit unions in addition to the current authorized PALs program.

Sometimes referred to as PALs II, this proposed rule is an improvement over the current PALs program and seems to be a recognition by the NCUA Board that unnecessary restrictions on such a program being offered by federal credit unions only serves to drive members to alternative payday lenders and check cashing outlets that do not offer the same level of financial counseling, expanded service alternatives and lower fees as do not-for-profit, member-owned credit unions.

We support this proposed rule and hope that it is another step toward enabling credit unions to be able to expand their payday loan programs to more members and to bring them into the financial mainstream in the process. We are particularly pleased that the NCUA Board has chosen to seek comment on additional provisions for future consideration related to interest rates, maximum loan amounts, loan terms and application fees. All of these areas warrant further analysis by the agency if the PALs programs are to be meaningful to credit unions and their members in a significant and ongoing manner.

Regarding the provisions in the proposed rule for PALs II, we offer the following comments.

- (1) We support the increase in the maximum loan amount to \$2000. This is an improvement from current restrictions; however, we continue to question why NCUA would not simply allow each credit union participating in the PALs program to establish its own policy and maximum loan limits that can then be reviewed through the supervisory process to ensure that the policy and loan limits are safe and sound for that particular federal credit union.

While we therefore support the increase in the maximum loan amount to \$2000 if it is indeed the agency's intention that there must be a one-size-fits-all regulatory prescriptive cap, we would like to voice our support under the "additional comments" request that the NCUA Board seriously consider allowing any participating federal credit union to set its own policy and maximum loan limits subject to supervisory review for safety and soundness under the NCUA examination process.

- (2) The maximum loan term of 12 months is responsible and a good provision. We believe that this would be the maximum term most credit unions would choose to apply by policy to a payday loan. However, again, we question whether a regulatory prescription is required on the maximum loan term any more than whether it is necessary for a maximum loan amount.

Again, we recommend that NCUA allow each participating federal credit union operating a PALs program – subject to supervisory examination for safety and soundness - to establish its own policy regarding maximum loan terms and amounts.

- (3) The removal of the minimal length of time for credit union membership in order for a member to apply for a PALs loan is entirely appropriate, and we support it wholeheartedly. There should be no eligibility requirement to apply for a PALs loan beyond being a member in good standing at the federal credit union.

Approval of these loans should be an underwriting and risk management question from the credit union's perspective, not a test of the date a member joined. The pejorative inference that a shorter length of time as a credit union member somehow makes the individual a greater risk seems overly restrictive to place into regulation. We re-emphasize that the underwriting and risk management aspect of the application should be determinative, not the length of time the individual has been a member of the credit union.

- (4) We support the provision that there should be no limit on the number of loans a federal credit union can make to an individual borrower in any calendar period. Again, in our view this is an underwriting and risk management decision for the credit union. Provided the member only has one outstanding PALs loan at a time and the loan is performing and well underwritten, we see no reason for the regulation to specify the number of additions, extensions or other considerations as long as they are within the credit union's PALs policy and general parameters of safety and soundness.

This does, once again, lead us to support a future proposal – or amendments to include such a provision in the final PALs II rule – that would enable federal credit unions to establish their own policies within the broad parameters of the PALs regulation that



would establish maximum loan amounts, terms, interest rates and application fees. In doing so NCUA would maintain its supervisory authority to review those policies for non-discrimination, disparate impact and safety and soundness. The fewer provisions mandated in regulation and the more flexibility allowed the federal credit union in structuring its PALs program, the better served the members will be and the more aligned with the credit union's underwriting and risk tolerance standards the loans in the PALs portfolio will be.

Any steps that the NCUA Board can take to make payday lending alternative programs more workable in federal credit unions is encouraged, and this proposal is certainly a step in the right direction. While we have offered alternative suggestions in this letter that we hope the NCUA Board will consider for either the final PALs II rule or a future payday lending rule, we think it is important to state again in closing that it is not good public policy to impose any restrictions that create a practical inability for federal credit unions to offer viable payday loans at lower costs as an alternative to the non-traditional payday lenders that entrap individuals into what is often a lifetime of rolling loans at rates and terms that can almost never be repaid.

Credit unions are a part of the answer to the payday lending challenges facing many in this country. To that end, we strongly encourage the NCUA Board to be more empowering and less restrictive in enabling credit unions to offer that answer to more Americans in need of a workable financial alternative when they run out of income before they run out of month. No issue better signifies the credit union differentiator in the marketplace than a lower cost payday lending alternative that brings members into the financial mainstream through a federally-insured, regulated and traditional financial institution – particularly one that is not-for-profit, member-owned and not driven by the margin as much as the mission in meeting the needs of persons of modest means.

We very much appreciate the opportunity to comment on this proposed rule which we feel is very important to our credit union and the credit union industry. Please do not hesitate to contact us if we can provide additional information or perspective on this matter.

Sincerely,

Bob Gallman
President/CEO
Louisiana Credit Union League