

NCUA Proposal on Payday Alternative Loans

The NCUA Board proposes a new loan that would incorporate several requirements of the existing PALs loan while providing certain differences. The Board believes the different features will encourage additional FCUs to offer new PALs loans as an alternative to predatory payday loans; will help FCUs meet the specific demands of certain payday loan borrowers that may not be currently met; and provide borrowers with a safer, less expensive alternative to traditional payday loans.

Brief Comparison of Prior Rule and Proposed Rule:

The proposal does not replace the current PALs rule, rather they are to be read together and incorporated to the greatest extent possible.

Then proposed rule is an alternative with differing terms and conditions:

- Length of Membership Requirement: eliminated
- Number of Loans: no restriction on number of loans in a certain amount of time
- Loan Amounts: no minimum; maximum \$2,000
- Loan Term: minimum one month; maximum 12 months

Proposed Rule:

The proposed rule expands the limit on the aggregate dollar amount under the PALs program to limit the aggregate of PALs loans to a maximum of 20% of net worth.

Length of Membership Requirement: Eliminated

The current PALs loan requires a minimum length of membership of at least one month.

The Board is proposing to impose no minimum length of membership requirement. Allowing FCUs to make loans without a minimum length of membership requirement will permit FCUs to assess their own risk tolerances and make loans to payday loan borrowers who need access to funds immediately and would otherwise turn to traditional payday lenders. All borrowers must be members of the credit union, regardless of a length of membership requirement.

Number of Loans: No Restrictions

The current rule limits the number of loans to no more than three loans in any rolling six-month period to any one borrower and no more than one loan at a time to a borrower.

The Board proposes no requirement limiting the number of PALs loans to a member within a certain amount of time. This difference provides maximum flexibility to FCUs to help meet the demands of borrowers in a safe and sound manner. FCUs would still only be permitted to make one PALs loan at a time to any one borrower but would be able to make additional loans to that borrower with no time restrictions.

Loan Amounts: No Minimum; Maximum \$2,000

The current PALs rule limits the loan amount to not less than \$200 or more than \$1,000.

The Board is proposing to permit the new PALs loans in amounts up to \$2,000 and eliminate the minimum loan amount. A higher loan amount may allow some borrowers to consolidate high-priced, traditional payday loans into one less expensive, consumer friendly loan.

Loan Term: Minimum One Month; Maximum 12 Months

The current PALs rule has a minimum maturity term of one month and a maximum maturity term of six months.

Corresponding to the increase in permissible loan amount, the Board is proposing a maximum loan term of 12 months. This is directly correlated to the requirement that FCUs amortize PALs loans and the proposed new higher PALs loan limit. The new PALs loans would retain the minimum term of one month to ensure borrowers have sufficient time to repay their loans and are not subjected to the typical two-week repayment period imposed by most traditional payday lenders.

Relation to CFPB Payday Loan Rule:

Safe Harbor

Current PALs loans enjoy a safe harbor under the CFPB's Payday Loan Rule. To preserve this status, the Board will maintain the current PALs rule unchanged.

Partial Exemption for Alternative Loans

The Board recognizes that proposed new PALs loans will not qualify for the safe harbor from the CFPB's Payday Loan Rule. However, in the Payday Loan Rule, the CFPB also provided a partial exemption for "alternative loans." The CFPB defines "alternative loans" as those loans that meet all of the requirements of the NCUA's current PALs rule, except that lenders are not required to have a minimum membership requirement or a limit on the number of loans they can provide to any one borrower in a six-month period.

To qualify as an "alternative loan" a new proposed PALs loan must meet all of the requirements of the current PALs loan, except FCUs are not required to have a minimum membership requirement or a restriction on the number of loans provided to a borrower in a six-month period. The Board believes this proposed change will provide FCUs with additional flexibilities while retaining a partial exemption from the CFPB's Payday Loan Rule.

Compliance with Payday Lending Rule:

The Board is also proposing to authorize additional flexibility in the new PALs loan by raising the maximum amount of a permissible loan to \$2,000 and increasing the maximum maturity to 12 months. Such loans that utilize these additional flexibilities, however, will not qualify for either the safe harbor or the exemption for “alternative loans.”

The Board believes these additional flexibilities will allow an FCU to make a business decision in crafting a PALs program that considers the needs of its members and its ability to comply with the CFPB’s Payday Loan Rule.

Additional Request for Comment:

The NCUA also requests for feedback on the possibility of creating a third type of PALs loan which could include different loan features, maturities, loan amounts, and fee structures.

Before proposing any additional alternatives, however, the Board requests comment on the need and demand for additional alternatives.

Modify PALs

The Board requests comment on whether to include some or all of the features of the new PALs loan into the original PALs loan. This option would make the original PALs more flexible, but also would eliminate FCUs’ safe harbor from the CFPB’s Payday Loan Rule.

Create Another PALs

The Board is also considering creating an additional kind of PALs rule which would be even more flexible than the current proposal. Before doing so, the Board requests comment on whether there is demand for such a product, as well as what features and loan structures could be included. The flexibility of additional features would cause another PALs loan to be subject to all aspects of the CFPB’s Payday Loan Rule.

The Board requests input on features such as: permissible interest rate, application fees, loan terms, loan amounts, limit on the aggregate dollar amount, appropriate underwriting guidelines, etc.

Summary Provided in Conjunction with Power Comment.