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Docket No. NCUA-2018-0030-0001

Aug. 3, 2016

Gerard S. Poliquin
Secretary of the Board
National Credit Union Administration 1775 Duke Street
Alexandria, VA 22314
Via email: regcomments@ncua.gov

RE: Notice of Proposed Rulemaking, Part 701, Payday Alternative Loans II (RIN 3133-AE84)

Dear Mr. Poliquin:

The R Street Institute appreciates the opportunity to comment on the proposed Payday Alternative Loans (PAL) II rule. The R Street Institute is a nonprofit, nonpartisan, public-policy-research organization. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government.

We appreciate the NCUA's desire to qualify additional alternatives for small-dollar loans in a PAL II program. We believe adjusting the applicable rules for these loans in ways that encourage participation by more than the 9 percent of credit unions who currently do is both a positive development and a welcome response to consumer demand. In particular, we applaud the proposal in PAL II to allow credit unions to eliminate the 30-day waiting period to facilitate better service to their members who find themselves in emergency situations.

The proposed rules also complement some recent efforts by state financial services regulators. Just last month, Ohio enacted landmark legislation that seeks to encourage short-term lenders to make responsible and affordable products available to lower-income residents. Ohio's Fairness in Lending Act (House Bill 123) offers many additional consumer protections, along with a mandatory point-of-sale notice to consumers to inform them that well-regulated financial institutions may offer comparable products at lower cost.

However, there are some changes to the proposed PAL rules that we believe would enhance credit unions' ability to better serve the small-dollar-loan market. For example, we would urge symmetry with the U.S. Defense Department's Military Lending Act program, the Bureau of Consumer Financial Protection rules and the Federal Deposit Insurance Corp.'s small-dollar pilot loan program, all of which have settled on a 36 percent annual percentage rate ceiling for

small-dollar loan instruments. Given compliance and entry costs, we believe this rate, and not the NCUA's proposed 28 percent, would better allow credit unions to maximize their ability to serve this market.

To grant credit unions needed flexibility to construct and pricing small-dollar-loan programs, we also believe the maximum application fee should be increased to $50. Moreover, the $2,000 loan limit would only partially satisfy common situations in which credit union members might need emergency short-term loans, such as vehicle breakdowns and emergency medical expenses. We would propose the rules be adjusted to permit higher dollar thresholds and longer maturities.

Finally, we reiterate the need for harmony and alignment among the federal lending regulators. NCUA monitoring of credit unions' lending programs should remain exempt from duplicative oversight by the Bureau of Consumer Financial Protection and other agencies that might seeking to regulate nonbank loans. Specifically, we believe the safe harbor exemption for credit unions that make loans in compliance with 12 CFR 701.21(c)(7)(iii), should be extended to PAL II programs.

We appreciate this opportunity to comment on the proposed rule to offer more options in the PAL program and express hope that this effort will generate an important line of business for credit unions as they provide financial services to serve a wider range of members.

Respectfully,

R.J. Lehmann
Director of Finance, Insurance and Trade Policy
R Street Institute

Alan Smith
Midwest Director and Senior Fellow
R Street Institute