American Bankers Association
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Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314–3428

re: National Credit Union Administration; Short-Term, Small Amount Loans; 12 C.F.R. Part 701; 75 Federal Register 24497, May 5, 2010

Dear Ms. Rupp:

The National Credit Union Administration (NCUA) Board is proposing to amend its general lending rule to enable federal credit unions (FCUs) to offer short-term, small amount loans (STS loans) as a viable alternative to payday loans. The proposed amendment would permit FCUs to charge a higher interest rate for an STS loan than is permitted under the general lending rule, but the proposal will impose limitations on the permissible term, amount, and fees associated with an STS loan.

The American Bankers Association (ABA) represents banks of all sizes and charters and is the voice for the nation's $13 trillion banking industry and its two million employees. The majority of ABA's members are banks with less than $165 million in assets. ABA's extensive resources enhance the success of the nation's banks and strengthen America's economy and communities.

ABA believes this proposed rule points FCUs back toward their basic charter purpose, which many FCUs have largely abandoned. NCUA reported that only 532 FCUs offered micro consumer loans and only 279 FCUs (or 5.9 percent of all FCUs) offered payday loans at the end of 2009. Congress in 1934 created FCUs for the purpose of making "credit for provident and productive purposes more available to people of small means." The intent of Congress when establishing FCUs was for FCUs to be an alternative to nontraditional financial services providers, such as payday lenders, for people of small means.

NCUA needs to have realistic expectations regarding its STS loan program. Banks that have participated in FDIC's Small-Dollar Loan Pilot Program Guidelines have found such loans to be in general unprofitable. According to the FDIC, very few banks after the first year in its pilot program have achieved, or expect to achieve, short-term profitability from the small dollar loan program. Instead the program is viewed by some banks as a way to build a long-term relationship, while others viewed it as a vehicle to build community goodwill. Additionally, the delinquency rate for the small dollar loan program was typically higher than that for other consumer loans, at 7.3 percent of loans outstanding, and the charge-off rate was 3.4 percent of loans originated under the pilot.[1] ABA recommends that the NCUA Board conduct consumer research to determine which features of the

[1] http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/smalldollar.html

product are important to potential payday borrowers and survey FCUs that are currently offering payday loans to determine their experience with respect to STS loans.

In conclusion, ABA believes that NCUA's proposed STS loan program would point FCUs back toward their basic charter purpose of serving people of small means. The Board should conduct consumer research to ensure that its sets realistic expectations regarding this STS Loan program.

Sincerely,

Keith Leggett
Vice President & Senior Economist