NATIONAL CONSUMER LAW CENTER®

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NCUA Letter Highlights Dangers of False Credit Union Payday Loan "Alternatives"

Some Credit Unions Offer Loans Purportedly at 18% APR but Actually 300-400%. Triple-Digit Loans Cloud Efforts By Other Credit Unions To Offer Truly Affordable Small Loans.

Statement of Lauren Saunders
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The National Credit Union Administration yesterday gave guidance to credit unions on payday loans. The letter demonstrates that, while many credit unions offer responsible small loans, others offer payday loans or sham "alternatives" that differ little or not at all from predatory, destructive traditional payday products. The National Consumer Law Center sent a letter to NCUA in January describing abuses by some credit unions.

Some federal credit unions, which by law have an 18% usury cap, add fees to manipulate the APRs. Kinecta Federal Credit Union in California purports to offer 15% loans but in fact charges fees that bring the loans to 275% on an annual basis. Nevada Federal Credit Union makes it difficult to find its disclosed APR but appears to claim a 0% APR on a $400 14-day loan that actually comes to an annual rate of 455%.

Other federal credit unions in Nevada, Utah and Texas have lent their names to loans offered by credit union service organizations that purport to have an APR of 18% but in fact are in the triple-digits. (See p. 4.of NCLC's letter to NCUA.) Some state credit unions, including Prospera Credit Union's GoodMoney loan, also offer triple-digit payday loans. (See pp. 4-6 of NCLC letter to NCUA.)

True payday loan alternatives – like those highlighted in NCUA's letter – should have:

- *Affordable pricing of 36% APR or less, including fees.* Federal credit unions of course are limited to 18% APR, but they should not add fees that bring the total cost above an annual rate of 36%. State credit unions should limit themselves to 36%.

- *No more than a single, annual nominal fee.* The only fee that is appropriate is a single, small origination fee that bears a direct relationship to origination costs and that covers all renewals throughout the year and does not multiply. The NCUA letter gave the example of a $10 fee that covers 6 months. No other fees, including application, membership or participation fees, should be allowed unless they keep the total cost under 36% APR.

- *A minimum 90-day repayment period or at least 1 month minimum per $100 borrowed.* Renewals and escalating fees occur because of short repayment periods. The NCUA letter highlighted responsible 120-day and 6-month loans.

- *Multiple installment payments.* Balloon payments also lead to rollovers and multiple fees. The loan should be structured to give credit union members a reasonable chance of paying off the loan without renewals.

An automatic savings component and access to financial education are also helpful features. These features of a true payday loan alternative are similar to the FDIC's Small Loan Guidelines.

Several credit unions do offer truly affordable small loans, including Veridian Credit Union in Iowa, Eglin Federal Credit Union in Florida, and Unitus Community Credit Union in Oregon. A number of other credit unions have loans that could be improved with longer repayment periods but are all under 36% with only a single, annual application or participation fee that does not cause rollover problems. These include OnPoint Community Credit Union (Oregon)'s Payday Advantage Loan; Watermark Credit Union (Washington)'s Payday Freedom Loan; Unitus Community Credit Union (Oregon)'s Advance Loan, and St. Mary's Bank MyPay loan. (See pp. 19-20 of NCLC's letter to NCUA for details.)

Hopefully, NCUA will back its letter up with enforcement to ensure that the credit union industry associates itself only with truly affordable small loans, not sham payday loan alternatives. It would be a tragedy if the mantle of payday lending that has been relinquished by banks and thrifts were to be taken up by the credit union industry.