

# Credit Union Regulator Expands High-Cost Loan Program Without Needed Safeguards, Say Consumer Groups

**For Immediate Release:** September 19, 2019

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*NCUA votes for changes to Payday Alternative Loan program; while addressing some key concerns of community groups, overall the vote is a step in the wrong direction*

WASHINGTON, D.C. – Today, the National Credit Union Administration (NCUA) voted to approve a final rule governing Payday Alternative Loans, referred to as PAL II. In response, the Center for Responsible Lending (CRL) and the National Consumer Law Center (NCLC) acknowledged improvements over the proposed PAL II rule while critiquing changes that could expose credit union members to more loans with effective annual percentage rates (APRs) above 100% and to larger loans at rates that could be unaffordable.

CRL and NCLC (on behalf of its low-income clients) had submitted a comment letter on the proposed rule. This and a separate letter from more than a hundred organizations, including community, consumer, civil rights, faith, and legal services groups, urged the NCUA to maintain guardrails against predatory lending.

“The mission of Payday Alternative Loans is to help financially distressed credit union members, so strong safeguards are needed to prevent PAL from pulling these economically vulnerable members deep into debt. The NCUA Board today missed an opportunity to buttress its consumer protections and instead weakened them,” **said Mike Calhoun, President of the Center for Responsible Lending.** “Specifically, the NCUA missed the opportunity to explicitly require that credit unions verify that members can repay these loans, considering both income and expenses. Add to this today’s vote to expand the maximum loan size from \$1,000 to \$2,000 for PAL loans – which are already allowed at rates higher than typical credit union loans – and some people may be pushed into a dangerous cycle of re-borrowing substantial amounts of money. In other words, the result of this program change could be piling mountains of debt onto some already indebted, low-income credit union members. NCUA Member Todd Harper commendably opposed this harmful final rule while speaking to the need for reasonable costs and for larger loans taking into consideration borrowers’ ability to repay.” **Calhoun added,** “While the NCUA overall weakened consumer protections, the Board should be applauded for listening to a broad coalition of community groups in improving the initial proposal by maintaining existing limits on the number of PAL loans issued within a short time period.”

**Lauren Saunders, Associate Director of the National Consumer Law Center said,** “Credit unions serve their members with a range of loan products, the vast majority of which are outside the Payday Alternative Loan program and under the statutory interest rate cap of 18% APR. That makes today’s harmful changes especially disappointing, including the elimination of the minimum loan size of \$200 and allowing higher rates on larger loans. But we are gratified that the NCUA did retain the limit on three loans in a six-month period, abandoning the original proposal to allow credit unions to engage in loan-flipping of very short-term loans the way payday lenders do.”

The NCUA provided a summary of the changes and additional information in this document on Payday Alternative Loans.