Credit Union Regulator Must Not Facilitate Predatory Lending, Groups Say in Comment Letter

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WASHINGTON, D.C. – Last Friday, credit unions and advocates registered their strong opposition to a proposal by the National Credit Union Administration (NCUA) that would allow credit union subsidiaries to engage in predatory lending that is explicitly illegal for federal credit unions. The proposal by NCUA, which regulates credit unions across the country, would do significant harm by permitting high-cost lending to credit union members and consumers. The harm may be especially pronounced for communities of color, which are disproportionately impacted by predatory lending.

The Center for Responsible Lending (CRL), Self-Help Credit Union and Self-Help Federal Credit Union (Self-Help), and the National Consumer Law Center (NCLC) joined in the comment.

The NCUA's proposal would expand the allowable activities of credit union service organizations (CUSOs), which are credit union subsidiaries that provide a range of banking services that credit unions out-source. While those activities are currently limited, the NCUA proposes expansions that would facilitate lending with annual interest rates above the cap for federal credit unions, which is set at 18% by the Federal Credit Union Act. Thus, the rule appears to allow federal credit unions to participate in lending that the Federal Credit Union Act specifically prohibits — posing severe reputation risk to federal credit unions as well as legal and compliance risks.

In the past, some credit unions used CUSOs to make high-cost predatory loans with effective interest rates ranging from 138% to 876%. In this high-cost lending, lenders are incentivized to make loans borrowers cannot afford to pay off, creating a cycle of harmful debt from which the lender profits. The NCUA proposal would enable this practice.

Exploitative auto lending would also be facilitated under the proposal, permitting CUSOs to be indirect auto lenders and enabling FCU involvement in subprime auto lending that can reach rates of 30%.

From the comment:

The proposal will do significant harm by permitting more high interest rate lending to credit union members and consumers more broadly:

- Credit unions have historically used CUSOs to engage in predatory payday lending.
- Payday and other high-cost consumer lending inflicts severe harm on financially vulnerable consumers.
- The subprime auto lending market is rife with exploitative practices.
- The proposal will disproportionately harm communities of color and exacerbate financial exclusion, even as the Board elsewhere emphasizes racial equity and financial inclusion.

Find the full comment here.