



Credit Union National Association

601 Pennsylvania Ave., NW | South Building, Suite 600 | Washington, DC 20004-2601 | PHONE: 202-638-5777

cuna.org



August 1, 2013

Federal Docket Management System
4800 Mark Center Drive
Alexandria, VA 22350

Re: Limitations on Terms of Consumer Credit Extended to Service Members and Dependents; Docket ID: DoD–2013–OS–0133

To Whom It May Concern:

The Credit Union National Association (CUNA) and the Defense Credit Union Council (DCUC) appreciate the opportunity to submit comments on the Department of Defense's (DoD) advanced notice of proposed rulemaking (ANPR) regarding enhancement of the protections that apply to consumer credit extended to members of the armed forces and their dependents. By way of background, CUNA is the nation's largest credit union trade organization, representing our nation's state and federal credit unions, which serve nearly 97 million members. DCUC represents 210 military affiliated credit unions, the vast majority of whom operate on military bases worldwide and all of whom support the military and civilian personnel of DoD.

CUNA and DCUC Support DoD's Efforts to Protect Service Members and their Families

CUNA and DCUC have respectively supported and continue to support DoD's efforts to protect service members and their families from unscrupulous and predatory lenders. In that regard, we urge DoD to continue its targeted approach against abusive lending practices, which can harm the financial readiness of our troops and their families, and encourage the DoD to avoid unintended consequences for credit unions and some others that provide quality financial products and services at reasonable rates.

As DoD continues its review of existing safeguards for our military personnel and their families, we ask that you bear in mind and recognize the unique nature of credit unions, including the 85 years of direct support provided by our on-base credit unions to DoD. A support built on trust and confidence; a support that has never waned ... either in peace or war; in good economic times or not. Credit unions—as not-for-profit, member-owned financial cooperatives—continue to work hard every day to offer favorably priced financial services to the military community and DoD establishment.



OFFICES: | WASHINGTON, D.C. | MADISON, WISCONSIN

DoD's Existing Rule Is Effective

CUNA and DCUC and their member credit unions have supported the existing DoD rule on consumer credit for service members and their dependents since issued in 2007, and we firmly believe the rule in great part has been an effective tool in protecting military consumers and curbing predatory lending. Further, we believe the rule is properly focused on practices that are abusive to those who serve in our Armed Forces, and as such should not be altered, as it will likely create unintended consequences and could jeopardize the extension of consumer credit to our troops and their families.

The existing DoD rule applies to “consumer credit” that is closed-end credit in the form of payday loans, vehicle title loans, and tax refund anticipation loans, as specifically defined in the rule. DoD should not change the 91 day definition for payday loans nor the 181 day definition for vehicle title loans in the existing rule. In addition, DoD should not revise the definition of “consumer credit,” including by expanding the definition, which would decrease the availability of financial services and credit to service members and their families.

While we understand that DoD has issued this ANPR in light of the Conference Report accompanying the “National Defense Authorization Act for Fiscal Year 2013,” we request that DoD limit any additional regulatory changes and restrictions to those lenders that seek to take unfair advantage of military members and their families.

We understand DoD may be concerned with other types of lenders, which offer predatory and abusive products that are not scrutinized by financial regulatory agencies. As such, we strongly support the imposition of firm enforcement actions on predatory and abusive entities, but urge DoD to ensure regulated financial institutions, including credit unions, are not negatively impacted by future changes.

Credit Unions' Continue to Provide Consumer Friendly Products and Services

Among the inventory of financial products and services credit unions offer to our troops are checking and savings accounts, consumer credit, short-term loan alternatives to payday lending, mortgages, and retirement planning. Many credit union products and services—provided on and off military installations—are specifically designed for military personnel and have been developed to address the challenges associated with active deployments, military relocations, government shutdowns, furloughs, and other unique circumstances. In addition to these products and services, our member credit unions have supported DoD's Financial Readiness Campaign since its inception in 2003 and have worked at all levels of leadership to enhance the financial preparedness and quality of life of the men and women who serve our Country. The Consumer Federation of America's Military Saves initiative, the Better Business Bureau (BBB) Military Line's financial education efforts, the Small Business Administration's Patriot Express business loan program, and other similar initiatives, have all been extremely effective and served our service members and their families well.

The historic mission of credit unions has been to offer products that are consumer-friendly and that serve the needs of credit union members and their communities. Through a combination of credit union initiatives and regulatory actions from the National Credit Union Administration (NCUA), this is precisely what has been occurring in a number of communities and DoD installations worldwide, through payday loan alternatives. These products address a real need for small-dollar, short-term credit by military consumers, while often discouraging over-dependence on such credit and helping members to move toward financial stability.

The rule adopted by the NCUA in October 2010 requires federal credit unions to adhere to important limitations in providing payday loan-alternatives. The rule seeks to facilitate a fair balance among factors such as safety and soundness, reasonable terms for the borrower, and flexibility for participating credit unions. In November 2012, the agency also sought comments on ways to enhance such lending by credit unions.

Under NCUA's rule, federal credit union payday-alternative loans are subject to an interest rate cap that is currently 28% for these loans, and they may not charge an application fee of more than \$20. Rollover balances are prohibited, and loans must be fully amortizing. Also, a borrower may not have more than one such loan outstanding at a time and no more than three such loans for a rolling six-month period from his or her credit union. The maturity of these loans is minimally one month, no longer than six months, and the principal amount cannot exceed \$1,000.

Credit unions must maintain written loan policies that provide that no more than 20% of the credit union's net worth will be concentrated in these loans. NCUA has advised federal credit unions that they can only make such loans available to members if the institution can afford to make these loans. Also, credit unions may develop other programs to meet members' short term borrowing needs as long as the loans fully comport with all legal requirements and address safety and soundness concerns.

Some examples of alternative programs that are designed specifically to assist service members are outlined on the attached appendix.

Efforts to Empower and Educate Service Members

From our perspective, in lieu of modifying the existing rules, we believe additional emphasis must be placed on financial education. In that regard, we request DoD re-energize their financial readiness campaign, of which DCUC is a chartered member, and collaborate with their partners, including the Consumer Financial Protection Bureau, on empowering and educating our servicemembers and their families. In so doing, military personnel and their families will be better served in terms of financial capability, as they will have the skills and knowledge to make informed consumer finance decisions and avoid predatory lenders.

In that respect, credit unions are committed to ensuring military service members and their families, and all their members, receive proper disclosures and substantial financial education. As you know, credit unions have consistently provided financial education to help their members, and in the case of our on-base credit unions, they have always been prepared to provide free financial education to their respective Commands and our troops—and in fact have delivered, when asked. Therein lies the issue, “when asked.” Given on-going deployments, time is a valued commodity, but given the grave concerns of the DoD, vis-à-vis predatory lending, we must dedicate some time to educate and empower—both at the field and national levels.

DCUC and CUNA provide educational resources and offer their support at the national level and last year alone, DCUC, collaborating with Lightbulb Press, distributed its “Veterans Handbook,” an educational booklet to service members transitioning to civilian life. They also worked with and were the major sponsors of the Kiplinger-BBB Military Line’s Financial Field Manual, a personal finance guide that was distributed to DOD installations worldwide. Over 800,000 copies of this guide were distributed. Additionally, CUNA and a number of other sponsors, to include DCUC, provide a weekly program, Home and Family Finance Radio Show, focused on financial education that airs overseas to our troops, via the Armed Forces Radio and Television Service (AFRTS).

Providing financial education, in combination with providing disclosures and responsible lending products, has allowed credit unions and their members to largely escape much of the direct impact of the recent recession.

In closing, CUNA and DCUC welcome the opportunity to work with DoD over the coming months as they prepare their report to the Committees on Armed Services of the Senate and House, due by January 2, 2014.

Thank you for the opportunity to express our views on DoD’s ANPR on enhancement of the protections that apply to consumer credit extended to service members and their families. If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,



Mary Mitchell Dunn
CUNA Deputy General Counsel



Roland A. Arteaga
DCUC President and CEO

Appendix

Examples of Small Dollar Alternative Products Offered by Credit Unions Operating on DOD Installations Worldwide

1st Advantage Federal Credit Union: Payday Advance provides a low cost alternative to using payday lenders and includes a savings component as well. 5% of the loan is deposited into a special savings account. Loan amounts available up to \$500 with terms up to 31 days. Member must be currently employed and not in bankruptcy. This alternative provides for free Consumer Credit Counseling Services.

Air Force Federal Credit Union: offers the Payday Alternative Loan (PAL) as a small dollar loan product. No prepayment penalty for early payment; reasonable payment plans that coincide with payday; a built-in savings component; an 18% APR—a rate that is much less than the average effective rate charged by the payday lenders; and loans from \$100 to \$1,000. Additionally, Air Force FCU has a relationship with Consumer Credit Counseling Service of San Antonio, who provides free counseling to assist the member.

Alaska USA Federal Credit Union: offers Payday Credit Line, which was designed to help military personnel and their families obtain extra funds when needed. It is an affordable line of credit available during active duty that can be accessed conveniently and paid off in a reasonable amount of time. The Alaska USA Payday Credit Line is superior to most other payday lending options, with an affordable interest rate, no application or transaction fees, and a credit limit maximum that can be paid off reasonably in six months or less. Interest rate of 18% APR; will be imposed only on the declining balance of the loan.

AmeriCU Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

America's Credit Union: offers Military Visa loans for soldiers without credit; automatic \$500 dollars; regular payment terms. Work with members having financial issues, teaching them basic budgeting and cash flow management and as needed, provides a personal loan priced at 12% to resolve a payday lending issue. Typically (and depending on the amount financed), this is a contract from 6 months to 1 year.

Andrews Federal Credit Union: offers Cash To Go, a payday loan alternative product. Members can borrow \$250-500 at 18% APR, depending on the members' income. Two repayment options: 1) payment in full the following payday or 2) an installment payment schedule over 120 days. No checking account or credit check is required. Additionally, AFCU offers a wide variety of financial literacy workshops and online access to debt counseling.

AllSouth Federal Credit Union: offers a standard unsecured loan product that can either be closed-end (24 month repayment plan) or open-end line of credit (minimum payment \$25 or 2% of outstanding balance). Loan amounts start as low as \$300 and go up to a maximum \$10,000. Interest rates range from 9.9% to 18%. Interest rates and approval depend on creditworthiness. If member does not qualify due to very bad credit, offer an alternative product. The minimum loan amount is \$200 and the maximum is \$300. There is a \$20 application fee and the interest rate is 28%. Members have up to 6 months to repay the loan and they cannot have more than 3 loans in a 6-month period.

Belvoir Federal Credit Union: In addition to the small loans and credit rebuilder loans offered, Belvoir FCU also offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

ENT Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Fort Bragg Federal Credit Union: offers military members with no credit a VISA credit card with a \$500 limit. Small balances with payments reviewed by CU staff so “on-time” payments help build good credit. Also offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one month. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Fort Dix Federal Credit Union: offers smaller dollar loans at lower interest rates at various times of the year, especially holidays and summer. Has provided loans at other critical times as well, e.g., a sequestration loan is in place to help those affected. Provides counseling regarding the consequences of payday loans and assist members in paying off the payday loan.

Fort Gordon and Community Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Fort Lee Federal Credit Union: aside from their personal loans and “Getting Settled Loans,” both at reasonable rates, Fort Lee FCU recently started a new loan that is offered twice a year—the Black Friday loan in November and Summer Loan in May; loan amount \$500; no credit check; \$25 application fee; loan runs for two days only; 18% APR.

Fort Sill Federal Credit Union: payday loan alternative product permits member to borrow up to \$1,000 at 18%; paid back within 6 months. There is no credit check or debt ratio calculated on these loans. When the loan is disbursed, one-half (½) of the proceeds is deposited into the members savings account. Funds are frozen until the loan is paid in full. Once the loan is paid in full, member has a savings account to keep them out of the payday lending line.

GeoVista Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Keesler Federal Credit Union: The First Flight program is designed specifically for first term active duty military and is intended to establish and build credit. They offer a low rate credit card that features a manageable credit limit of up to \$1000 and is available to E-2 and above with a minimum of 6 months served.

Kirtland Federal Credit Union: makes small unsecured loans (have no minimum dollar amount) at very attractive rates to members (ranging from 6 to 12% APR). Also offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending.

Miramar Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Navy Federal Credit Union: offers \$250 signature loan with a six-month minimum term and an Active Duty Line of Credit (ADLOC). The ADLOC is only available at the accession points (Great Lakes for Navy, Parris Island for Marine Corps.).

Pacific Marine Credit Union: offers military members a “Ready Cash” line of credit, with a maximum limit of \$500. The rate on Ready Cash is 24%, with a possible rate adjustment to 18% to members that open a Military Savers Certificate with \$100 or more and an automatic transfer of \$10 monthly to the certificate. PMCU does not realize a profit on this product, but offers it as an alternative to the predatory payday lenders.

Pearl Harbor Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Pentagon Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Quest Credit Union: provides loans at very reasonable rates to members and military members in need of assistance. Offer a 6.75% credit card that is not risk rated to satisfy smaller credit needs and also offers small dollar loans as low as \$300 to \$500 to help until payday but does not encourage the members to rely on this type loan. Prefer working with and educating members on the consequences of payday loans as opposed to offering a similar product.

Randolph Brooks Federal Credit Union: RBFCU has always offered payday loan alternatives; they just do not market them that way. They are standard signature loan, line of credit and credit card products. Rates are always better than what consumers are being charged with payday loans.

R.I.A. Federal Credit Union: standard unsecured loan with terms from 6 months and loan amount of \$300, to 60 months and \$20,000. Risk based for loan rate. Also offer Konstant Kash – a line of credit with a 36-month review term; minimum credit line is \$300, maximum of \$20,000. Risk based loan rate. In situations such as the on-going furlough, R.I.A. offers a Payroll Impaired loan—loan up to \$3,500 @ 3.99% for up to 18 months for those affected by government furlough, with up to 60 days to first payment.

R-G Federal Credit Union: no alternative loan per se, but assist servicemembers with signature type loans to pay off their current payday loans and help them end that cycle. Provides financial education to assist servicemembers in making good spending decisions and works with service members to establish savings habits.

SAC Federal Credit Union: offers 1) Rainy Day loan which is a low cost alternative up to \$750 with a payback period of 3 months, 2) a line of credit or an increase to an existing line of credit to assist the member during financial difficulty, 3) a small personal loan with a monthly payback of up to 12 months or if necessary, the payback could be of a single pay nature set up 60 to 90 days from the date of the advance, and 4) skip pays to assist a short term financial crisis or the furlough skip pay at no cost to the member. Also offers ARK (Asset Recovery Kit), an interest-free, short-term advance.

San Diego Medical Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Schofield Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in 30 days. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan.

Sea Air Federal Credit Union: recently started Loan 360, a payday loan alternative program. The maximum amount is \$300 at 12% amortized for six months. The loan must be paid in full before another advance is provided. There is no credit report and income verification needed. The member must be in good standing and have direct deposit.

Security Service Federal Credit Union: offers Military Emergency Loan products as follows to any member or spouse...1) Pre-approved up to \$500 for 12 months at 3.99%. All requested extensions granted if the member or spouse is deployed. All fees reversed during deployment. 2) Qualifying up to \$2,500 for 24 months at 3.99%. This product is designed for furloughed personnel but can be used by deployed personnel also. Again, all fees reversed during time of sequestration or deployment and all requested extensions granted during said timeframe. And 3) Unsecured up to \$20,000 for up to 60 months at 5.99%. Fees and extensions the same as above during sequestration time or deployment.

Service Credit Union: offers an Early Pay Loan to meet members immediate expense needs. Maximum loan amounts are 60% of net income or \$750 maximum for members with direct deposit to Service CU; max of \$250 for a direct deposit not to exceed 100% of monthly net income. Minimum loan is \$150. Payoff is within 92 days of advance; no fees; no prepayment penalty. Interest/APR is between 8.64% to 17.89% depending on credit score and direct deposit relationship. Ten (10) percent of loan amount placed in a special designated savings account. Financial Education opportunities offered at each advance.

Tinker Federal Credit Union: offers PAL (personal access loan) at 12.00% APR for Military personnel. Member of TFCU for at least 30 days before you apply for the loan. No more than 8 PALs within past 12 months. \$100 minimum loan, \$500 maximum loan. Amount borrowed cannot exceed 25% of net monthly income (after taxes). Ability to repay the loan in full within the 30, 60 or 90-day term allotted.

Tyndall Federal Credit Union: offers ARK (Asset Recovery Kit), a low-cost alternative to predatory lending. ARK is an interest-free, short-term advance; borrowers pay only a \$5 fee; no interest for immediate cash advances of up to \$500 (or 80% of net pay); payable in one to six months. The service member can receive three advances in a six-month period. After first loan, service member is required to receive financial counseling before each subsequent loan:

Windward Community Credit Union: offer small dollar loans (as low as \$300) to Marines and Sailors who need a small loan for emergencies or unexpected situations. Terms of the loan match the financial situation of the borrower but are usually 3 – 12 month range. Windward's small loan program was recognized in 2008 by Hawaii's Senator Akaka. Windward also offers the ARK (Asset Recovery Kit) program for Marines and Sailors whose credit is extremely poor.