



Service Specifications

Project Overview

Project	Payday Alternative Loans (PAL)
Cost	\$500.00
Description	<p>NCUA Small Dollar Lending program, Payday Alternative Loans (PAL) serves as a viable option to predatory payday loans for many federal credit union (FCU) members, as well as non-members. The loans give credit unions a chance to transition borrowers to more traditional products offered by credit unions and break the cycle of reliance on payday loans.</p> <p>See NCUA Rules and Regulations Section 701.21 Regulatory Alert 10 RA - 13</p>

Project Details for Stakeholders

Benefits Summary for Your Board	<p>The NCUA's short-term, small-amount loan program permits federal credit unions to charge an interest rate that is a maximum of 10 percentage points above the established usury ceiling at that time. Currently, this amounts to an interest rate ceiling of 28%. Most credit unions offering payday loan alternatives also limit fees, provide member financial counseling and encourage members to open savings accounts.</p>
Management Overview	<p>The NCUA's current PAL regulation allows FCUs to charge an interest rate on PAL loans that is 1,000 basis points higher than the interest rate set for non-PAL products (capped at 28%), to offset the greater.</p> <p>When they examine a credit union's small-dollar and payday-alternative loan programs, NCUA staff said they will look to ensure adequate policies and procedures</p>





and sufficient documentation of loan files. NCUA examiners will also check for verified application fees as well as established and well-monitored lending limits risk involved and higher rate of delinquency and working within the conditions of the program

Project Schedule

Below is a schedule of tasks that we will complete as part of this Just Turn It On project.

	Deadline	Task Description
Step 1		Credit union staff will review the NCUA Rules and Regulations section 701.21 Regulatory Alert 10 RA-13
Step 2		CU*Answers will create a new loan category with supporting GL numbers and loan products
Step 3		The credit union will determine form requirements if any (custom programming of forms is a separate fee)
Step 4		The credit union will be provided with instructions on how to update their loan products, how to create loan samples and provide reports to their provider.
Step 5		Review conditions of PAL program <ul style="list-style-type: none"> • The principal amount of the PAL loan is not less than \$200 and not more than \$1000 • The PAL loan has a minimum maturity term of one month and a maximum maturity term of six months • The FCU does not make more than three PAL loans in any rolling six-month period to any one borrower and makes no more than one PAL loan at a time to a borrower • The FCU does not rollover any PAL loan • The FCU fully amortizes the loan • The FCU sets a minimum length of membership requirement of at least one month • The FCU charges an application fee to all members applying for a new PAL loan that reflects the actual costs associated with processing the application, but in no case may the application fee exceed \$20





- The FCU includes, in its written lending policies, a limit on the aggregate dollar amount of PAL loans made to a maximum of 20% of net worth and implements appropriate underwriting guidelines to minimize risk; for example, requiring a borrower to verify employment by producing at least two recent pay stubs.

Project Manager Information

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