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NCUA Media Advisory

NCUA Board Approves Payday Loan Alternative

Short-term loan program aims to help small-dollar borrowers

September 16, 2010, Alexandria, Va. –Providing consumers with an alternative to borrowing from potentially predatory payday lenders, the National Credit Union Administration today adopted a new rule – with a strong set of consumer safeguards – to allow federal credit unions to make short-term, small-amount loans and to extend lines of credit to their members.

"This initiative gives consumers a real and practical alternative to predatory lenders," said NCUA Chairman Debbie Matz. "It also gives credit unions the tools to enhance their outreach to consumers – particularly those in low-income communities who need greater access to mainstream financial services. At the same time, this new rule offers a business model that makes sense for credit unions."

"I strongly encourage credit unions to make full use of this new flexibility for the benefit of their members," said Matz. "Moreover, I strongly encourage consumers to look for the kind of fairly priced financial options offered by credit unions."

Under the new regulation, federal credit unions will be allowed to charge an interest rate for a short-term, small amount loan that is higher than the ceiling permitted under Federal Credit Union Act, provided that it is meets certain conditions. The rule imposes limits on the permissible term, amount, and fees associated with such a loan. The new rule also requires federal credit unions to set a cap on the total dollar amount of such loans that they will make, and it requires them to set at least a one-month period in which a would-be borrower must be a member of the credit union.

The ability to make short-term, small amount loans will help federal credit unions fulfill their mission of promoting thrift and meeting the credit needs of consumers, particularly those of modest means. Permitting a higher interest rate for such loans will allow FCUs to make loans cost-effectively, even as the limitations set by the new rule will ensure that such loans meet their purpose as an alternative to predatory credit products. The new rule also includes guidance in the form of "best practices" that federal credit unions should consider incorporating into their short-term, small amount programs.

The new rule enables a federal credit union to make a short-term, small amount loan with:

- An interest rate up to 28%. The current maximum established by the NCUA Board is 18%;

- A principal between $200 and $1000;

- A term of the loan between one month and six months; and

- An application fee that reflects the costs associated with making the loan, not to exceed $20.

Limits on the number of such loans to one member within a six-month period, and loan rollovers, are also established.

The regulation will be effective 30 days after publication in the Federal Register. The new regulation can be found online at: click here.

The National Credit Union Administration is the independent federal agency that regulates, charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, operates and manages the National Credit Union Share Insurance Fund, insuring the deposits of more than 90 million account holders in all federal credit unions and the majority of state-chartered credit unions. NCUA is funded by credit unions, not tax dollars.

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