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National Credit Union Administration  
Office of Examination and Insurance

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**TO:** NCUA Board **DATE:** January 22, 2020  
**FROM:** Larry Fazio – Director **SUBJECT:** Continuation of Federal Credit  
Office of Examination and Insurance Union Loan Interest Rate Ceiling

**ACTION REQUESTED:** Board approval to maintain the current temporary 18 percent interest rate ceiling for loans made by federal credit unions for a new eighteen-month period from March 11, 2020, through September 10, 2021. 12 USC §1757(5)(A)(vi)(I).

**DATE ACTION REQUESTED:** January 23, 2020.

**OTHER OFFICES CONSULTED:** Office of General Counsel, Office of Chief Economist, and the Office of Consumer Financial Protection.

**VIEWS OF OTHER OFFICES CONSULTED:** Concur

**EXTERNAL PARTIES CONSULTED:** §1757(5)(A)(vi)(I) requires the following external parties to be given notice in writing to advise them of the Board's plans to deliberate on the matter: Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Department of the Treasury, House Committee on Financial Services and the Senate Committee on Banking, Housing and Urban Affairs. The agency has received no comments from these parties.

**REVIEWING BY THE INSPECTOR GENERAL:** Yes

**BUDGET IMPACT, IF ANY:** None

**RESPONSIBLE STAFF MEMBERS:** J. Owen Cole, E&I Associate Director; Tom Fay, Director Capital Markets.

**SUMMARY:** The Board must take action before March 11, 2020 to change/reaffirm the current temporary maximum loan rate of 18 percent (28% for PALs) or the maximum loan rate will revert to the lower statutory level of 15 percent, including PALs.

In accordance with the requirements set forth in 12 U.S.C. §1757(5)(A)(vi)(I), staff has conducted analyses of recent market and financial conditions to advise the Board whether it should continue to establish a maximum rate of interest for loans made by federal credit unions that exceeds the 15 percent annual limit established in the Federal Credit Union Act.

Specifically, §1757(5)(A)(vi)(I) provides that, “the rate of interest may not exceed 15 per centum per annum on the unpaid balance inclusive of all finance charges, except that the Board may establish, after consultation with the appropriate committees of the Congress, the Department of Treasury, and the Federal financial institution regulatory agencies, an interest rate ceiling exceeding such 15 per centum per annum rate, for periods not to exceed 18 months, if it determines that money market interest rates have risen over the preceding six-month period and that the prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in liquidity, capital, earnings and growth.”

Staff analysis concludes that: 1) money market rates have risen over the preceding six-month period; and 2) lowering the rate ceiling below the current temporary 18 percent maximum would threaten the safety and soundness of individual credit unions due to the anticipated adverse effect upon liquidity, capital, earnings and growth.

Staff has determined that a significant number of FCUs would be adversely affected absent a Board action to sustain a temporary maximum loan rate at 18%. There are 2,275 FCUs that hold over \$17 billion in loan balances with rates above 15% with an average loan rate of 17.09%. Of those 2,275 FCUs, 962 FCUs have loans with rates greater than 17%, with an average loan rate of 17.98%. Additionally, there are 67 FCUs that have more than 10% of their total assets in loans with rates above 15%. These loan balances total \$11.9 billion with an average loan rate of 17.26%.

Staff recommends the rate be maintained at the current temporary level of 18 percent per annum. The results of the analysis are included in the Board Action Memorandum Attachment entitled “Supplemental Information and Interest Rate Statistics”.

**RECOMMENDED ACTION:** The Board approve a temporary 18 percent maximum loan interest rate for federal credit unions, effective March 11, 2020 through September 10, 2021.

## **ATTACHMENTS**

1. Supplemental Information and Interest Rate Statistics

S:\Archived OCM Files as of 08-19-2011\CM DIVISION\PROJECTS\Interest Rate Ceiling\January 2020\Final docs\ BAM Loan Rate Ceiling 1-22-2020.doc