

# NCUA LETTER TO FEDERAL CREDIT UNIONS

## NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

**DATE:** April 2011 **LETTER NO.:** 11-FCU-04  
**TO:** All Federal Credit Unions  
**SUBJECT:** Permissible Interest Rate Ceiling

Dear Manager and Board of Directors:

The NCUA Board has extended the current interest-rate ceiling on loans originated by federal credit unions through September 10, 2012.

**This means the maximum allowable Annual Percentage Rate (APR) remains 18% for most loans and 28% for loans made under NCUA's recently approved Short-Term Small Loan program.**

### **18% Ceiling Justified for Most Loans**

Because short-term interest rates remain low by historical standards, the NCUA Board considered lowering the interest-rate ceiling for most loans to 15%. The recent trend in rates, however, is upward. In a rising-rate environment, the NCUA Board determined that lowering the current ceiling could have impaired the safety and soundness of federal credit unions that are making some loans at 15% to 18% APR.

Even more important, maintaining the current ceiling will preserve access to credit for borrowers with low incomes and/or low credit scores. Nearly 20% of federal credit unions with some outstanding loans at 15% to 18% APR are formally designated as low-income credit unions. Loans in the 15% to 18% range are typically unsecured and risk-priced based on each borrower's credit score. The lower the credit score, the higher the risk – and the higher the rate.

Loans available for borrowers with low incomes and low credit scores are typically much less expensive at credit unions than at other lenders. NCUA encourages credit unions to price each loan at an affordable rate given each borrower's level of risk and collateral.

### **28% Ceiling Available for Short-Term Small Loans**

To charge up to 28% APR, federal credit unions can offer Short-Term Small Loans under the following conditions:

- Principal Amount: \$200-\$1,000
- Term: 1-6 Months
- Application Fee: \$0-\$20 (based on actual costs)
- Eligibility: Member for at least 1 Month
- Amortization: Fully Amortized (no balloon payments)
- Rollovers: Prohibited

NCUA designed the Short-Term Small Loan program to allow federal credit unions greater flexibility in providing alternatives to payday loans.

For more information about the Short-Term Small Loan program, refer to the October 2010 NCUA Regulatory Alert (10-RA-13, Final Rule - Part 701, Short-Term, Small Amount Loans, at <http://www.ncua.gov/Legal/Pages/RA2010-13.aspx>).

### **Interest-Rate Review**

In light of the potential for interest-rate volatility over the next 18 months, the NCUA is closely monitoring credit markets and will reconsider the interest-rate ceiling before September 2012 should conditions warrant.

Please do not hesitate to contact your regional office with questions.

Sincerely,

/s/

Debbie Matz  
Chairman