



National Credit Union Administration

Office of Examination and Insurance

TO: NCUA Board

DATE: January 17, 2023

FROM: Amanda Parkhill, Deputy Director
Office of Examination and Insurance

SUBJECT: Federal Credit Union
Interest Rate Ceiling

ACTION REQUESTED: Board approval to maintain the current temporary 18 percent interest rate ceiling, for loans made by federal credit unions (FCUs), for a new eighteen-month period from March 11, 2023, through September 10, 2024. 12 USC §1757(5)(A)(vi)(I). Notwithstanding this action, nothing in the Federal Credit Union Act precludes the NCUA Board from acting on the 18 percent interest rate ceiling earlier than 18 months.

DATE ACTION REQUESTED: January 26, 2023.

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

VIEWS OF OTHER OFFICES CONSULTED: Concur.

EXTERNAL PARTIES CONSULTED: The Federal Credit Union Act, 12 USC §1757(5)(A)(vi)(I), requires the NCUA to consult with the following external parties before establishing an interest rate ceiling above 15 percent: the appropriate committees of Congress, the Department of the Treasury, and the Federal financial institution regulatory agencies. The agency has received letters from the Senate Committee on Banking, Housing and Urban Affairs and the Department of Treasury in support of maintaining the loan rate ceiling at 18 percent.

SUBMITTED TO INSPECTOR GENERAL FOR REVIEW: Yes.

BUDGET IMPACT, IF ANY: None.

RESPONSIBLE STAFF MEMBERS: Victoria Nahrwold, Associate Director; Tom Fay, Director Capital Markets; and John G. Nilles, Senior Capital Markets Specialist in the Office of Examination and Insurance.

SUMMARY: If the Board does not take action before March 11, 2023, to renew a maximum loan interest rate ceiling of greater than 15 percent, the maximum FCU loan interest rate ceiling will revert to the statutory level of 15 percent, including rates on Payday Alternative Loans.¹

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

Specifically, §1757(5)(A)(vi)(I) provides that:

[T]he 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 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 concludes that the two statutory conditions have been met. Money market rates have risen over the preceding six-month period and lowering the interest rate ceiling below the current temporary 18 percent maximum would threaten the safety and soundness of individual credit unions due to the anticipated adverse effects 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 maximum FCU loan interest rate ceiling at 18 percent.

There are 2,177 FCUs that hold over \$24 billion in loan balances with rates above 15 percent. Of those 2,177 FCUs, 877 FCUs have loan balances of \$21.0 billion with average rates greater than 17 percent. Staff recommends the loan interest rate ceiling be maintained at the current level of 18 percent per annum. More detailed information regarding the results of the analysis is included in the attachment entitled “Supplemental Information and Interest Rate Statistics.”

RECOMMENDED ACTION: The Board approve an 18 percent maximum loan interest rate ceiling for FCUs effective March 11, 2023, through September 10, 2024. Notwithstanding this

¹ “Notwithstanding any other provision of this section, a federal credit union may charge an interest rate that is 1,000 basis points above the maximum interest *rate established by the Board...*” 12 C.F.R. § 701.21(c)(7)(iii)(A). If rates revert to the statutory rate, the maximum rate on Payday Alternative Loans would also revert to 15 percent.

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ATTACHMENT

Supplemental Information and Interest Rate Statistics