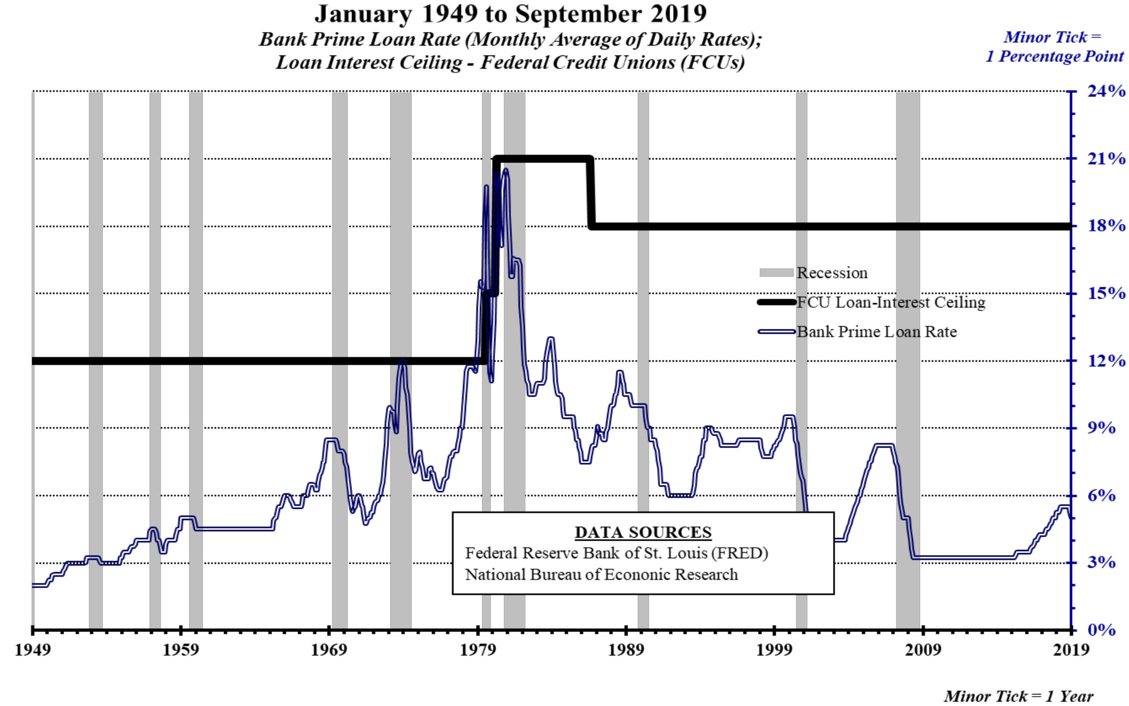
Supplemental Information and Interest Rate Statistics

<u>Background</u>

In 1934, Congress established a 12 percent interest-rate ceiling for loans made by federal credit unions (FCUs). Public Law 96-221, enacted in 1980, raised the FCU loan-rate ceiling from one percent per month (12 percent per year) to 15 percent per annum.[1] The law also authorized the NCUA Board to raise the ceiling for up to 18 months after consulting with Congress, the Department of Treasury, and other federal financial agencies.

In December 1980, the NCUA Board voted to raise the ceiling to 21 percent. In May 1987, the ceiling was reduced to the current level of 18 percent. Since then, the NCUA board has voted 22 times to maintain the FCU loan-rate ceiling at 18 percent. Figure 1 below shows the graphical history of the loan rate ceiling since September of 1949:

FIGURE 1
BANK PRIME RATE VS. LOAN-INTEREST CEILING
January 1949 to September 2019
Bank Prime Loan Rate (Monthly Average of Daily Rates);
Loan Interest Ceiling - Federal Credit Unions (FCUs)



---

[1] 12 U.S.C. §1757(5)(A)(vi)(I).

There are the three statutory requirements to raise the FCU interest-rate ceiling above the statutory level of 15%:

1. Consult with the appropriate committees of the Congress, the Department of Treasury, and the federal financial institution regulatory agencies;
2. Determine money-market interest rates have risen over the preceding six months; and
3. Determine whether prevailing interest-rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in growth, liquidity, capital, and earnings.

Money Market Interest Rate Changes

Table 1 below illustrates the fluctuations in money-market interest rates as evidenced by changes in the 1- and 2-month non-financial commercial paper yields during the preceding six-month period starting on October 1, 2020 and ending on March 31, 2021:

Table 1

Money Market Rates*	Preceding Six-Month Period Dates				Sample Period of Rising Rates		
	10/1/20	3/31/21	Change		11/25/20	12/14/20	Change
2-MO Non-Financial Commercial Paper	0.11%	0.06%	-0.05		0.09%	0.13%	+0.04
3-MO Financial Commercial Paper	0.14%	0.15%	+0.01		0.12%	0.22%	+0.10

**Source: Federal Reserve Board, H.15, Selected Interest Rates, June 3, 2021*

While most money market interest rates have, on average, moderated lower over the preceding six-month period, there have been several occasions within this timeframe when rates have risen. For example, during the monthly period between November 25, 2020 and December 14, 2020, selected two-month and three-month commercial paper yields rose 4 and 10 basis points, respectively.

Potential Impact of a Reduction in the Loan-Rate Ceiling on FCU Condition

If the Board took no action to change or reaffirm the existing temporary maximum loan rate of 18 percent, the rate would automatically revert to the statutory level of 15 percent. A reduction in the interest rate below 18 percent could adversely affect a significant number of federal credit unions.

Table 2 shows a breakdown of FCUs, LICUs, and FCUs with more than 10% of their assets concentrated in unsecured loans with rates above 15 percent (and the subset above 17 percent).

Out of the total 3,167 FCUs as of March 31,2021, the following have loans with rates greater than 15%:

Table 2

Subsets of FCUs with loans rates > than 15%		FCUs with Loan Rate > 15%				FCUs with Loan Rates > 17%		
		Number of FCUs	**Loan Balances with Rates>15%**	**Median Total FCU Asset Size**	**Average Rate on Loans >15%**	**Number of FCUs**	**Median Total FCU Asset Size**	**Average Rate on Loans >17%**
1.	**FCUs**	**2,176**	**$12.7B**	**$63.9M**	**17.09%**	**898**	**$50.6M**	**18.05%**
2.	**LICUs**	**1,422**	**$2.7B**	**$57.7M**	**17.19%**	**627**	**$46.3M**	**18.16%**
3.	**FCUs with more than 10% of assets in loans with rates > 15%**	**21**	**$48.6M**	**$3.3M**	**17.48%**	**15**	**$35.6M**	**17.81%**

Sourced from Call Report data as of March 31, 2021.

Notes to Table 2

1. **FCUs:** Of the total 3,167 FCUs as of March 2021, there are 2,176 FCUs that have loans with rates greater than 15% and carry an average loan coupon rate of 17.09%. Loan balances with rates greater than 15% total $12.7 billion. Of those FCUs, 898 have loans with rates greater than 17%, with an average loan rate of 18.05%.

2. **Federal LICUs subset:** There are 1,422 federal LICUs that have loans with rates greater than 15%, with loan balances totaling $2.7 billion with an average loan rate of 17.19%. Of those 1,422 LICUs, 627 have loans with rates greater than 17%, averaging 18.16%. A reduction in the interest-rate ceiling could adversely affect LICU federal credit union borrowers' access to credit.

3. **FCUs with more than 10% of Assets in Loans with Rates >15% subset:** There are 21 FCUs that have more than 10% of total assets invested in loans with rates above 15%. These loan balances total $48.6 million with an average loan rate of 17.26%. 15 out of these 21 FCUs carry loan balances with rates above 17%, with an average loan rate of 17.81%.

<u>Potential Impact of Reduction in FCU Loan-Rate Ceiling on Payday Alternative Loans</u>

The current temporary 18 percent interest rate ceiling applies to all FCU lending, except originations under the Payday Alternative Loan (PAL) program. The current rate ceiling on

PALs is 28 percent – determined by adding 1,000 basis points to the interest-rate ceiling set by the NCUA Board.[2] If the FCU rate ceiling reverts to the 15 percent limit specified by the Federal Credit Union Act, the maximum allowable PAL rate would also fall to 15 percent. As of March 31, 2021, 462 FCUs offered PALs. PAL balances have increased from $13.5 million in March 2011, to $49.17 million as of March 31, 2021.

In short, allowing the loan-rate ceiling to revert to 15 percent may unduly constrain a federal credit unions' ability to apply risk-based pricing. The likely result would be a reduction in PAL lending, a reduction in FCU earnings and some FCU members being driven to payday lenders to meet their short-term borrowing needs.

Potential Impact of a Reduction in FCU Loan-Rate Ceiling on Credit Cards

Unsecured loans, such as credit cards or personal lines of credit, are typically the loan type most frequently subject to a change in the loan interest rate ceiling. Interest rates on credit cards offer a market-based measure of the cost of unsecured credit. Currently, the national average of all credit cards being offered by bank issuers to borrowers is 16.12%, which is higher than the statutory rate of 15% that would be imposed absent a Board action to set a temporary higher rate[3]. If the current loan ceiling reverts to the statutory level, it may result in a significant reduction in credit card offerings to FCU members.

[2] §701.21(c)(iii)
[3] Credit Cards.com, 3/24/21 Rate Survey

S:\Archived OCM Files as of 08-19-2011\CM DIVISION\PROJECTS\Interest Rate Ceiling\June 2021\ Interest Rate Ceiling BAM Attachment_web version - Supplemental Information and Interest Rate Statistics_6-24-21.docx