Supplemental Information and Interest Rate Statistics

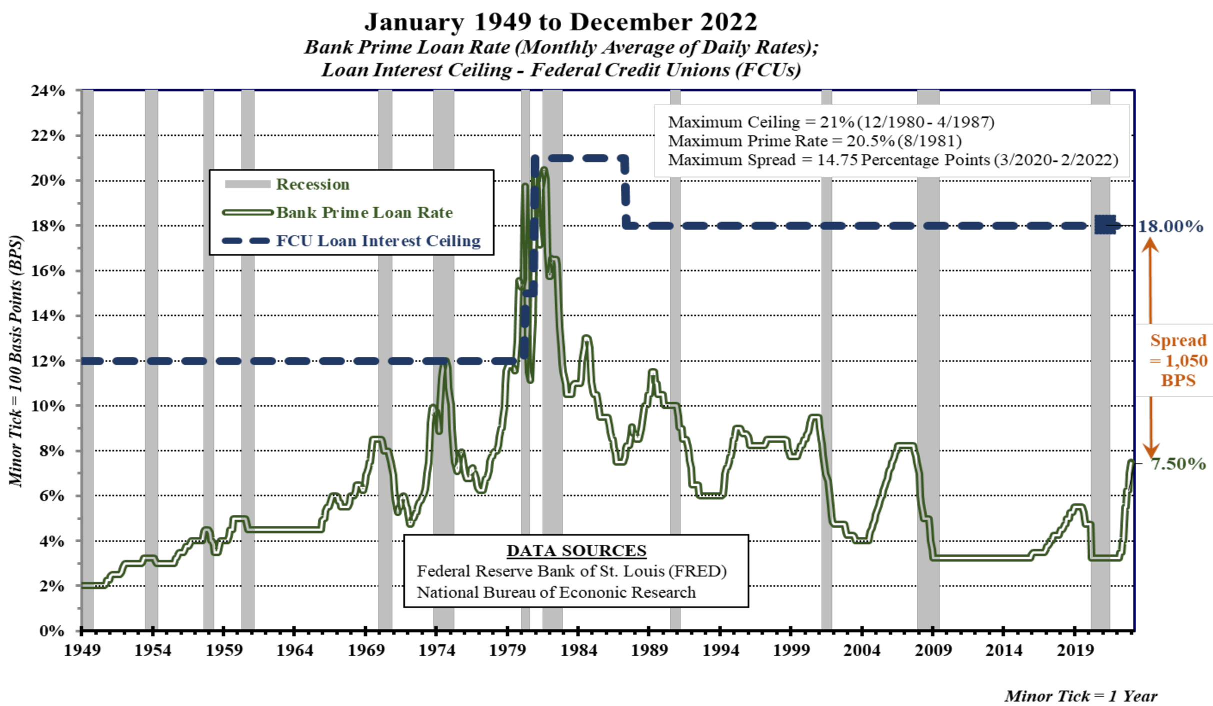
January 2023

Background

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 interest rate ceiling from one percent per month to 15 percent per annum.[1] The law also authorized the NCUA Board to raise the interest rate ceiling, when certain conditions were met, 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 interest rate ceiling to 21 percent. In May 1987, the interest rate ceiling was reduced to the current level of 18 percent. Since then, the NCUA Board has voted 23 times to maintain the FCU interest rate ceiling at 18 percent. Figure 1 below shows the graphical history of the interest rate ceiling and bank prime rates since September of 1949.

Figure 1: Bank Prime Loan Rate vs. FCU Loan Interest Rate Ceiling



[1] 12 U.S.C. §1757(5)(A)(vi)(I).

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Analysis of Money Market Interest Rate Changes

The Federal Credit Union Act establishes two requirements that must be satisfied to raise the FCU interest rate ceiling above 15 percent. One of those requirements is to determine that money market interest rates have risen over the preceding six-month period. As shown in Table 1, money market interest rates have risen over the preceding six-month period (between June 17, 2022, and December 23, 2022) with changes ranging from 258 basis points to 288 basis points for 30- and 90-day commercial paper and 90-day Treasury Bills.

Table 1: Money Market Rate Basis Point Changes

Money Market Rates*	Preceding Six-Month Period		
	6/17/2022	12/23/2022	Change
30 Day Non-Financial Commercial Paper	1.40%	4.28%	+288bps
90 Day Financial Commercial Paper	1.93%	4.55%	+262bps
90 Day T-Bill Discount Rates	1.66%	4.24%	+258bps

**Source: Federal Reserve Board, H.15, Selected Interest Rates December 23, 2022*

FCU Lending Rate Analysis

The second requirement in the Federal Credit Union Act that must be satisfied to raise the FCU interest rate ceiling above 15 percent is a Board determination 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." If the Board took no action on the existing maximum loan rate of 18 percent, the rate would automatically revert to the statutory level of 15 percent (including Payday Alternative Loans).

A reduction in the FCU interest rate ceiling below 18 percent could adversely affect the safety and soundness of a significant number of FCUs. The reversion to a 15 percent interest rate ceiling would constrain an FCU's ability to apply risk-based pricing to higher risk credits and reduce net interest margins in the current rising rate environment. In particular, a reduction in the interest rate ceiling would adversely affect a relatively large number of low-income designated FCUs (LIFCUs) and their members' access to credit. This would result in a reduction in the earnings and capital of affected FCUs.

Table 2 shows the breakdown of FCUs, LIFCUs, and FCUs with more than 10 percent of their assets concentrated in unsecured loans with rates above 15 percent. Table 3 shows the subset above 17 percent.

Table 2: FCUs with Loan Rates Greater Than 15%

			FCUs with Loan Rates > 15%			
		# of FCUs	**Total Loan Balances with Rates >15%**	**Percent of Loans > 15%**	**Median Asset Size**	**Average Rate on Loans >15%**
1.	**FCUs**	2,177	$24.0B	3.41%	$66.0M	17.04%
2.	**LIFCUs**	1,482	$3.5B	1.04%	$60.7M	17.07%
3.	**FCUs with More Than 10% of Assets in Loans with Higher Rates**	29	$17.98B	16.98%	$2.7M	17.05%

**Source: Call Report data as of September 30, 2022*

Table 3: FCUs with Average Loan Rates Greater Than 17%

			FCUs with Average Loan Rates > 17%			
		# of FCUs	**Total Loan Balances with Rates >17%**	**Percent of Loans >17%**	**Median Asset Size**	**Average Rate on Loans >17%**
1.	**FCUs**	877	$20.7B	6.46%	$52.5M	17.11%
2.	**LIFCUs**	638	$1.7B	1.37%	$44.2M	17.59%
3.	**FCUs with More Than 10% of Assets in Loans with Higher Rates**	23	$17.97B	16.98%	$3.8M	17.05%

**Source: Call Report data as of September 30, 2022*

Over two out of three FCUs had loans outstanding with rates greater than 15 percent - 2,177 out of 3,015 FCUs - as of September 2022. The $24 billion in total outstanding loan balances with rates greater than 15 percent increased significantly from $12.7 billion as of March 31, 2021. For the loans with rates greater than 15 percent, the average loan rate is 17.04 percent. Nearly one out of three (877) FCUs had loans with average rates greater than 17 percent.

There are 1,482 LIFCUs (which is 78 percent of all LIFCUs) that had loans outstanding with rates greater than 15 percent, with loan balances totaling $3.5 billion and an average loan rate of 17.07 percent. Of those 1,482 LIFCUs, 638 have loans with average rates greater than 17 percent.

Potential Impact of Reduction in FCU Interest Rate Ceiling on Payday Alternative Loans

The 18 percent loan FCU interest rate ceiling applies to all FCU lending except for originations under the Payday Alternative Loan (PAL) program. The current loan interest rate ceiling on PALs is 28 percent, which is determined by adding 1,000 basis points to the interest rate ceiling set by the NCUA Board.[2] If the FCU loan interest 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 September 30, 2022, 464 FCUs offered PALs, with outstanding balances increasing from $49.2 million as of March 31, 2021, to $91.8 million as of September 30, 2022.

If the Board does not maintain the statutory interest rate ceiling above 15 percent, FCUs using the PALs program would likely no longer be able to offer to their members this important alternative to payday loans.

[2] § 701.21(c)(iii)