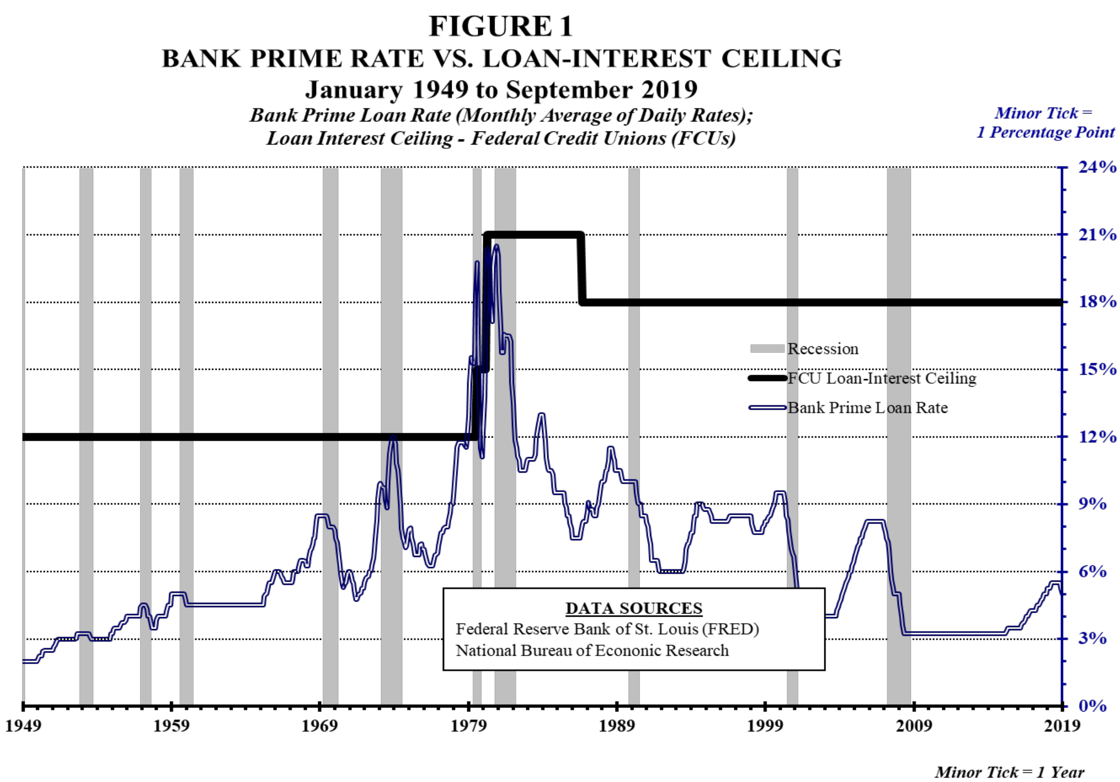
Supplemental Information and Interest Rate Statistics

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 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 21 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:



[1] 12 U.S.C. §1757(5)(A)(vi)(I).

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

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 three and six month constant maturity treasury rates (CMT)[2] during the preceding six month period starting on July 1, 2019 and ending on December 31, 2019:

Table 1

Money Market Rates*	Preceding Six Month Period Dates				Sample Period of Rising Rates		
	7/1/19	12/31/19	Change		11/1/19	12/2/19	Change
3-Month Constant Maturity Treasury	2.21	1.55	-0.66		1.52	1.60	+0.08
6-Month Constant Maturity Treasury	2.10	1.60	-0.50		1.55	1.62	+0.07

**Source: Federal Reserve Board, HR15, January 3, 2020*

While CMT interest rates have, on average, moderated lower over the preceding six month period, there have been a number of occasions within this timeframe when they have risen. For example, during the monthly time period between November 1, 2019 and December 2, 2019, the three and six month constant maturity treasury rates rose by 8 and 7 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.

[2] Constant-Maturity Treasury (CMT) Index represent yields on Treasury securities that are interpolated by the Department of the Treasury from the daily yield curve. This interpolation is based on the closing market bid yields of the actively traded Treasury securities in the over-the-counter market and calculated from the composites of quotations obtained by the Federal Reserve Bank of New York. This interpolation method provides a yield for a particular maturity even if no outstanding security has exactly that fixed maturity.

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 3,321 FCUs as of September 30, 2019, the following have loans with rates greater than 15%:

Table 2

Subset of FCU 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**	**2,275**	**$17.1B**	**$48.9M**	**17.09%**		**962**	**$40.2M**	**17.98%**
2.	**LICUs**	**1,427**	**$3.1B**	**$44.4M**	**17.19%**		**642**	**$36.7M**	**18.10%**
3.	**FCUs with more than 10% of Assets in Loans with Rates > 15%**	**67**	**$11.9B**	**$5.3M**	**17.26%**		**39**	**$5.8M**	**17.72%**

All data sourced from September 2019 Call Reports

Notes to Table 2

1. **FCUs:** Of the total 3,321 FCUs as of September 2019, 2,275 or 68% have loans with rates greater than 15%, averaging 17.09%. The total loan balances with rates greater than 15% was $17.1 billion. Of those FCUs, 962 have loans with rates greater than 17%, with an average loan rate of 17.98%.
2. **Federal LICUs subset:** There are 1,427 federal LICUs that have loans with rates greater than 15%, with loan balances totaling $3.1 billion with an average loan rate of 17.19%. Of those 1,427 LICUs, 642 have loans with rates greater than 17%, averaging 18.10%. 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 67 FCUs that have more than 10% of total assets invested in loans with rates above 15%. These loan balances total $11.9 billion with an average loan rate of 17.26%. Of those 67 FCUs, 60 are designated as LICUs. 39 FCUs out of these 67 FCUs carry loan balances with rates above 17%, with an average loan rate of 17.72%.

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

The current temporary 18 percent interest rate ceiling applies to all FCU lending, excepting 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.[3] 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 September 30, 2019, 493 FCUs offered PALs. PAL balances have increased from $13.5 million in March 2011, to $50.8 million as of September 30, 2019.

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. From March 2018 to September 2019, the percent of unsecured loans to assets for FCUs has risen from 8.3% to 9.2%.

Interest rates on credit cards offer a market-based measure of the cost of unsecured credit. Currently, the national average credit card rate[4] being offered by bank issuers to Prime borrowers is 17.3% which is higher than the statutory rate of 15% that would be imposed in absence of a Board action to set a temporary higher rate. If the current loan ceiling reverts to the statutory level, it may result in a significant reduction in credit card offerings to FCU members.

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[3] §701.21(c)(iii)

[4] Credit Cards.com, 12-24-2019 Rate Survey

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