



**NCUA**  
National Credit Union Administration

Office of Examination & Insurance  
Division of Credit Markets

# **Federal Credit Union Loan Interest Rate Ceiling**

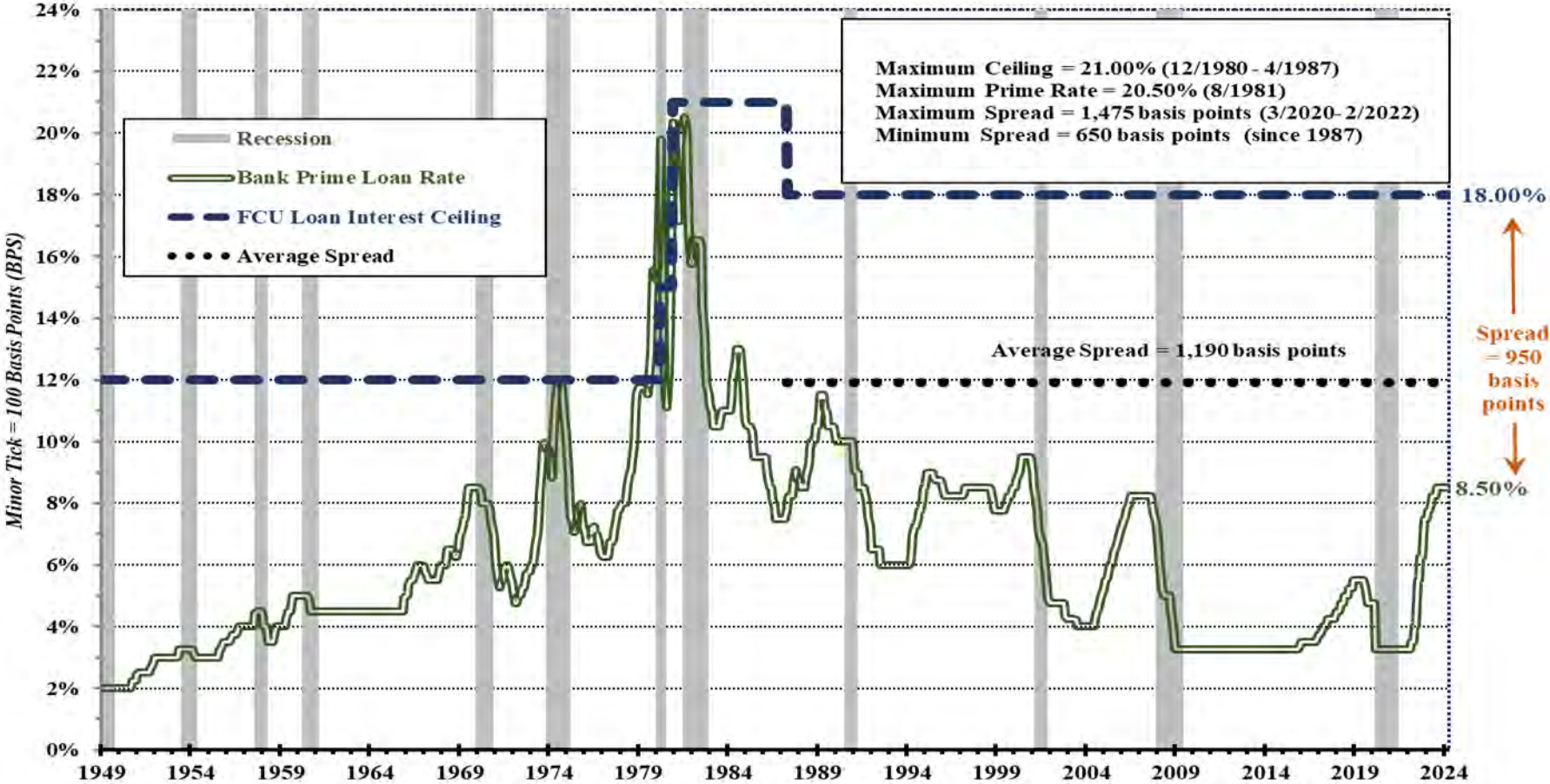
## **July Board Meeting**

# History

- 1934 – Congress set a 12% interest-rate ceiling on Federal Credit Union (FCU) loans
- 1980 – The Depository Institutions Deregulation and Monetary Control Act:
  - Raised the ceiling from 12% to 15% in March
  - Empowered the NCUA Board to authorize a higher ceiling for maximum 18 months at a time
- 1980 – NCUA Board raised the ceiling to 21% in December
  - Until 1987, then set the loan rate ceiling at 21% at or before each expiration
- 1987 – NCUA Board set the current ceiling at 18% in May
  - Since has set the loan rate ceiling at 18% at or before each expiration
- 2023 – NCUA Board last voted in January to set the ceiling at 18% effective from March 11, 2023, to September 10, 2024

# Loan Rate Ceiling History

January 1949 to April 2024  
 Bank Prime Loan Rate (Monthly Average of Daily Rates);  
 Loan Interest Ceiling - Federal Credit Unions (FCUs)



DATA SOURCES: Federal Reserve Bank of St. Louis (FRED) National Bureau of Economic Research

Minor Tick = 1 Year

# Federal Credit Union Act Requirement

**§1757(5)(A)(vi)(I) permits the NCUA Board to establish a rate ceiling other than 15% for periods not to exceed 18 months after:**

1. Consultation with the appropriate committees of Congress, the Department of Treasury, and the Federal financial institution regulatory agencies;
2. Determining that money market interest rates have risen over the preceding six-month period; and
3. Determining 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.

# 1. Consultation Requirement

Consultation requires sending a letter that notifies applicable committees of the Congress, the Department of Treasury, and the Federal financial institution regulatory agencies.

- The letters were sent in April 2024 and stated that the NCUA Board “...will reconsider the issue and establish an appropriate loan rate ceiling to be effective...”.

Recipients of this letter include:

- Secretary of the Treasury
- The Chairmen of the FDIC and FRB
- The Comptroller of the Currency (OCC)
- Chairs and Ranking Members of the:
  - Senate Committee on Banking Housing and Urban Affairs
  - House Committee on Financial Services

## 2. Money Market Rates Have Increased

The movement in selected money market interest rates:

Money Market Rates	Preceding Six-Month Period		
	10/31/2023	4/30/2024	Change
As of:			
Average Money Market Deposits (>10K) <sup>1</sup>	0.59%	0.80%	+21bps
180-day Average Secured Overnight Financing Rate (SOFR) <sup>2</sup>	5.26%	5.39%	+13bps

1. Source from Bloomberg (national monthly average -Bankrate.com).

2. Federal Reserve Bank of New York

<https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index>

### 3. Safety and Soundness

Lowering the rate ceiling below the current temporary 18% maximum would threaten the safety and soundness of individual credit unions due to the anticipated adverse effect upon liquidity, capital, earnings, and growth.

As of 12/31/2023	# of FCUs with Loan Rates >15%	Outstanding Loan Balances with Rates >15%	Share of Total Loans & Leases	Median Asset Size	Average Rate of Loans with Rates >15%
Federal Credit Unions	2,159	\$42.6B	5.4%	\$67.9M	17.31%
Federal Credit Unions with designation of Low Income, Minority Depository Institution, Community Development Financial Institution	1,469	\$7.7B	2.0%	\$64.7M	17.06%
Federal Credit Unions with >10% Assets in Loans with Rates >15%	49	\$26.7B	21.5%	\$4.7M	17.47%

### 3. Safety and Soundness Impact on 2,159 FCUs with Loan Interest Rates > 15%

# of Risk Categories Triggered <sup>1</sup>	# of FCUs	% of FCUs with Rates > 15%	Loan Balance of Loans with Rates > 15% (\$MM)	Loans with Rates >15% to Total Loans <sup>2</sup>	Average Loan Rate of Loans with Rates > 15%
4	6	0%	\$12	1%	16.70%
3	81	4%	\$3,325	5%	17.23%
2	305	14%	\$2,008	2%	16.78%
1	747	35%	\$31,804	9%	17.40%
<b>Total ≥ 1</b>	<b>1,139</b>	<b>53%</b>	<b>\$37,149</b>	<b>7%</b>	<b>17.35%</b>
0	1,020	47%	\$5,474	2%	17.04%
<b>Total</b>	<b>2,159</b>	<b>100%</b>	<b>\$42,623</b>	<b>5%</b>	<b>17.31%</b>

1.Represents liquidity, earnings, capital, and growth risk categories. Based on call report data as of December 31, 2023.

2.Percentage of loan balance with interest rates > 15% to total loan balance of federal credit union in each risk category tier.



# Considerations for Maintaining FCU Loan Rate Ceiling At 18%

- Overall, federal credit unions' performance has remained stable with an aggregate net worth ratio of 11.09%, a net interest margin of 3.17%, and loan-to-share ratio of 84.77% at year-end 2023
- Current spread of 9.50 percentage points is sufficient address threat to liquidity, capital, earnings, and growth
- Balances consumer protection and ability for federal credit unions to appropriately price loans
  - Cost, especially for smaller federal credit unions, to implement a different rate ceiling
  - A different rate may reduce the availability of affordable credit to members

# Additional Consideration

- Credit Availability
  - Potential impact on PALs
    - 1,000 basis points over the temporary federal credit union loan rate ceiling approved by the Board
    - Capped at 15 percent if the federal credit union loan rate ceiling reverts to statutory level

# Recommended Action

- **The Board approve a temporary 18 percent maximum loan interest rate for federal credit unions, effective September 11, 2024, through March 10, 2026.**



# QUESTIONS