FEDERAL CREDIT UNION LOAN INTEREST RATE CEILING SUPPLEMENTAL INFORMATION AND ANALYSIS

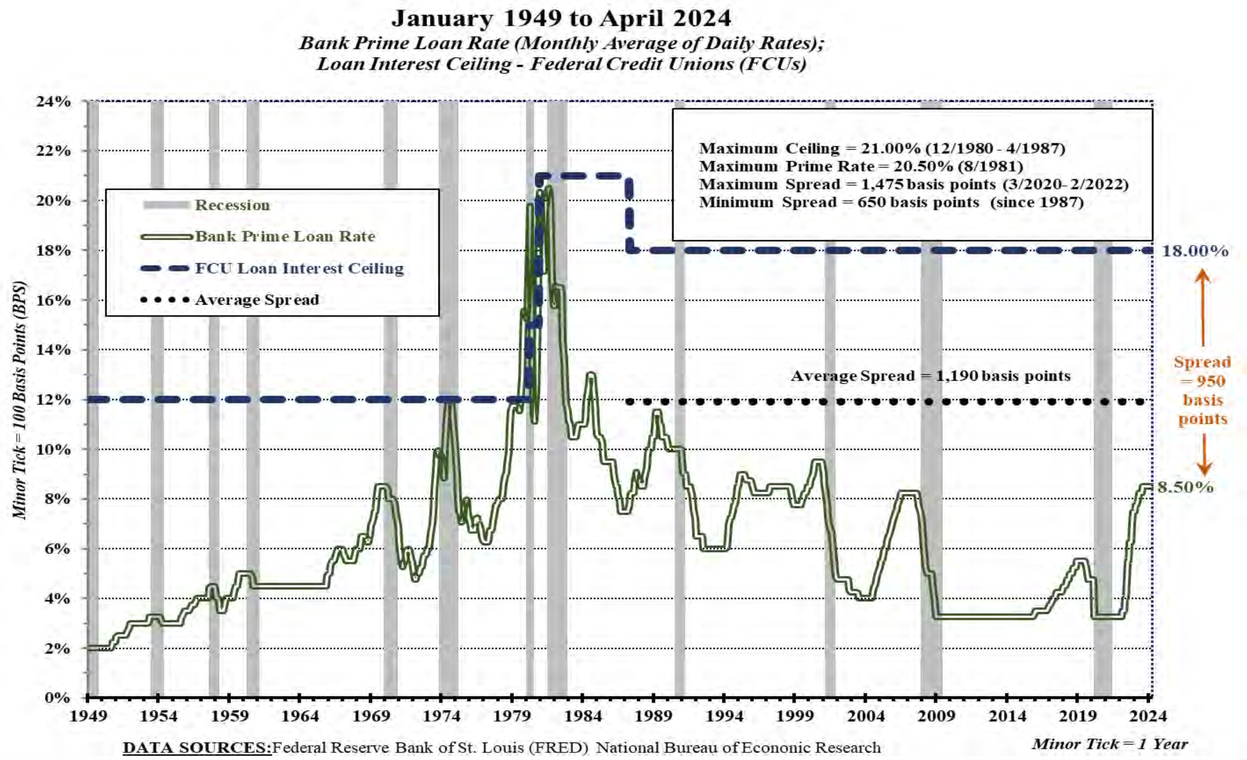
July 2024

INTRODUCTION

In 1934, Congress established a 1 percent per month (12 percent per year) loan interest rate ceiling for loans made by federal credit unions (FCUs). Public Law 96-221, enacted in 1980, raised the FCU loan interest rate ceiling from 12 percent to 15 percent per year.[1] The law also authorized the NCUA Board to raise the loan interest rate ceiling, when certain conditions were met, for up to 18 months at a time.

In December 1980, the NCUA Board voted to raise the loan interest rate ceiling to 21 percent. In May 1987, the loan 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 loan interest rate ceiling at 18 percent.[2] Figure 1 shows the graphical history of the loan interest rate ceiling since January 1949.

Figure 1: Bank Prime Rate vs. Federal Credit Union Loan Interest Rate Ceiling



[1] 12 U.S.C. §1757(5)(A)(vi)(I).

[2] The NCUA Board last approved the 18-percent loan interest rate ceiling at its January 2023 board meeting for a term beginning March 11, 2023, through September 10, 2024.

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STATUTORY CRITERIA

In addition to a consultation requirement, the Federal Credit Union Act (FCUA) includes the following two requirements that must be satisfied for the NCUA Board to raise the FCU loan interest rate ceiling above 15 percent.

1. Money Market Interest Rates

The FCUA requires that money market interest rates must have risen over the preceding 6 months. As shown in Table 1, money market interest rates increased between October 31, 2023, and April 30, 2024. Changes vary from 13 to 21 basis points for selected money market rates.

Table 1. Money Market Rate Changes

MONEY MARKET RATES	PRECEDING SIX-MONTH PERIOD		
	10/31/2023	4/30/2024	CHANGE
Average Money Market Deposits (>10k)[3]	0.59%	0.80%	+21bps
180-day Average SOFR[4]	5.26%	5.39%	+13bps

2. Federal Credit Union Safety and Soundness

The FCUA also mandates that the NCUA determine 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."

As of December 31, 2023, there are 2,159 (75 percent) FCUs that issued loans with rates above 15 percent. Loan balances with rates above 15 percent totaled $42.6 billion, and these loans carry an average loan rate of 17.31 percent. Table 2 summarizes this information and shows the breakdown of these FCUs that:

- have a low-income (LI) designation, Minority Depository Institution (MDI) designation, or are certified as a Community Development Financial institution (CDFI).
- offer loans under the Payday Alternative Loans (PALs) program.
- have more than 10 percent of their assets concentrated in loans with rates above 15 percent.

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[3] Sourced from Bloomberg (national monthly average – Bankrate.com).

[4] Federal Reserve Bank of New York https://www.newyorkfed.org/markets/reference-rates/sofr-averages-and-index

Table 2. FCUs with Loan Rates Greater Than 15%

	FCUs With Loans With Rates > 15%[5]				
	# OF FCUs	**TOTAL LOAN BALANCES WITH RATES >15%**	**LOANS WITH RATES >15% TO TOTAL LOANS**	**MEDIAN ASSET SIZE OF FCU**	**AVERAGE RATE ON LOANS WITH RATES >15%**
FCUs with loan rate >15%	2,159	$42.6B	5.4%	$68M	17.31%
LI/MDI/CDFI FCUs	1,469	$7.7B	2.0%	$65M	17.06%
FCUs with >10% of assets in loans with rates >15%	49	$26.7B	21.5%	$5M	17.47%
FCUs with PALs	443[6]	$4.0B[7]	3.0%	$54M	23.10%[8]

A 15-percent FCU loan interest rate ceiling would adversely affect the safety and soundness of a significant number of federal credit unions. Given prevailing interest rates, staff estimates that reversion to the statutory loan interest rate ceiling would threaten the safety and soundness of as many as 1,139 federal credit unions given the impact to one or more areas of performance in liquidity, capital, earnings, and growth (risk categories). Pursuant to the safety and soundness analysis, an FCU with loans with rates greater than 15 percent is assigned to one or more of the four risk categories based on the following:

- *Liquidity*: Low liquidity level, or below average liquidity level and significant recent decline.

- *Capital*: Low net worth level, or below average net worth level and significant recent decline.

- *Earnings*: Negative earnings, below average earnings and significant recent decline, a low net interest margin, or a below average net interest margin and significant recent decline.

- *Growth*: Significant recent decline in membership or unsecured loan volume.

[5] Sourced from NCUA 5300 Call Report data as of December 31, 2023.
[6] There are 467 FCUs that report offering loans under the PALs program, but 24 of them report no loans with interest rates above 15 percent.
[7] PALs program balances total $121 million.
[8] The current loan interest rate ceiling on PALs is 28 percent, which is determined by adding 1,000 basis points to the loan interest rate ceiling set by the NCUA Board. § 701.21(c)(7)(iii) & (iv).

Table 3. Safety and Soundness Impact - FCUs with Loan Rates Greater Than 15%

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

For FCUs making loans with an interest rate greater than 15 percent, adverse impacts of the interest rate ceiling reverting to 15 percent would be particularly pronounced for the 273 FCUs already struggling with negative earnings, the 37 FCUs with low net worth ratios, and the 49 FCUs with greater than 10 percent of their assets in loans with rates greater than 15 percent.

Reverting to a 15 percent loan interest rate ceiling would also constrain the ability of FCUs with loans with rates greater than 15 percent to continue to safely make loans to a broader range of members in the current interest rate environment. This includes the impact on 443 FCUs offering loans under the PALs program with interest rates greater than 15 percent. If the FCU loan interest rate ceiling reverts to 15 percent, the maximum allowable PAL rate would also fall to 15 percent.[9]

[9] § 701.21(c)(7)(ii): "Except when the Board establishes a higher maximum rate, federal credit unions may not extend credit to members at rates exceeding 15 percent per year on the unpaid balance inclusive of all finance charges."