ATTACHMENT 1.
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 20 times to maintain the FCU loan-rate ceiling at 18 percent.

To raise the FCU interest-rate ceiling, the NCUA Board must determine: 1) Money-market interest rates have risen over the preceding six months; and 2) Prevailing interest-rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in growth, liquidity, capital, and earnings. As discussed below, these criteria have been met.

Money Market Interest Rate Changes

Nominal interest rates remain low from a historical perspective, but short-term rates have climbed steadily as a result of the Federal Reserve raising its target federal funds rate 25 basis points in both March and June of 2018. The bank prime rate, for example, currently stands at 5.00 percent – compared with the 1949-2018 average of 6.5 percent and the post-2007-09 recession low 3.25 percent (see **Figure 1**). **Table 1** provides additional insight into the movement in money-market interest rates (Fed Funds, LIBOR, Prime and three month Treasury Bills) over the past six months:

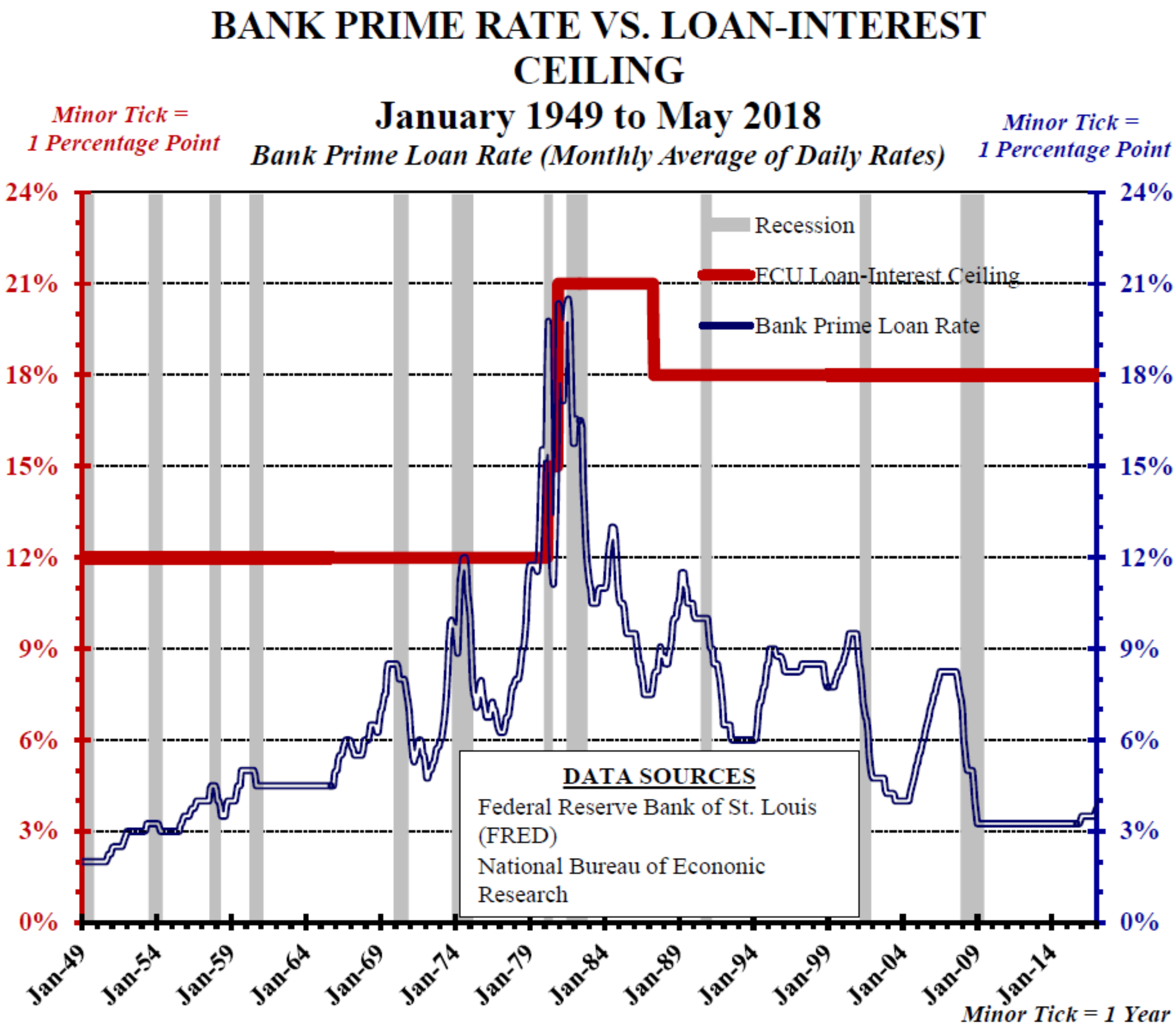
Table 1

Money-Market Rates	Rates[2]		Rate Change
	12/15/17	6/15/18	
Fed Funds Rate	1.41	1.89	**+48 bps**
1 Month LIBOR	1.50	2.08	**+58 bps**
Prime Rate	4.50	5.00	**+50 bps**
3 Month Treasury Bills	1.31	1.92	**+61 bps**

[1] 12 U.S.C. §1757(5)(A)(vi)(I).

[2] Source: Bloomberg, *Key Rate Histories,* June 19, 2018.

Figure 1



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

A reduction in the interest-rate ceiling could adversely affect a large number of federal credit unions and the volume of loans. At the end of the first quarter of 2018, 66.9 percent of FCUs held loans with rates above 15 percent. The average interest rate on such loans was 17.1 percent, and 42.1 percent of those loans carried rates above 17 percent. Moreover, across all FCUs, unsecured loans to total assets – a measure of potential exposure of earnings to a ceiling reduction – averaged 8.3 percent.

A significant number of federal credit unions depend heavily on lending at interest rates above the loan-rate ceiling. As of March 31, 2018, 66 FCUs had over 10 percent of total assets in loans with rates over 15 percent. Moreover, these credit unions have limited opportunity to replace lost earnings by diversifying across geographic regions or product lines because of their relatively small size – median assets for the 66 credit unions was $6.47 million, compared with $25.48 million for all FCUs

A reduction in the interest-rate ceiling could also adversely affect FCU members by limiting low-income borrower access to credit. As of March 31, 2018, 60.0 percent of federal credit unions with loans priced above 15 percent are formally designated as providers of financial services to low-income communities. Of the low-income designated FCUs making loans with interest rates of 15 percent or higher, 44.1 percent charged average rates higher than 17 percent. A reduction in the loan-rate ceiling would adversely affect the safety-and-soundness of these FCUs by reducing both loan yields and volume.

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

The 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. 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. At the end of the first quarter, 496 FCUs offered PALs. Moreover, PAL balances climbed from $13.5 million in March 2011, to $30.2 million in March 2018.

In short, allowing the loan-rate ceiling to revert to 15 percent would interfere with federal credit unions' ability to use risk-based pricing. The likely response is a reduction in PAL lending, which would reduce FCU earnings and drive some FCU members to other payday lenders to meet their short-term borrowing needs.

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

Interest rates on credit cards offer a market-based measure of the cost of unsecured credit. As of June 2018, the national credit-card rate (across all issuers, not just credit unions) averaged 16.81 percent, with the average rate on cards for substandard credit standing at 23.80 percent.[3] While credit-card rates did not fall significantly during the financial crisis of 2008-10, they have risen in lock-step with increases in the Prime lending rate since 2015. Still, the national average credit card rates for Prime borrowers and substandard credit are currently below the NCUA loan and

[3] CreditCards.com 6-20-2018 Rate Survey.

PAL rate caps, respectively. Reversion of the FCU rate-ceiling to 15 percent would force FCUs to price credit cards below market rates and restrict the flow of unsecured credit.

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