TO: NCUA Board

DATE: February 8, 2017

FROM: Larry Fazio – Director
Office of Examination and Insurance

SUBJECT: Continuation of Federal Credit Union Loan Interest Rate Ceiling

ACTION REQUESTED: Board approval to maintain the current ceiling for loans made by federal credit unions through September 10, 2018. 12 USC §1757(5)(A)(vi)(I).

DATE ACTION REQUESTED: February 23, 2017

NCUA OFFICES CONSULTED: Office of General Counsel, Office of Chief Economist, Office of Small Credit Union Initiatives, and Office of Public and Congressional Affairs

EXTERNAL PARTIES CONSULTED: Board of Governors of the Federal Reserve System, Department of the Treasury, House Committee on Financial Services, and Federal Deposit Insurance Corporation and Senate Committee on Banking, Housing and Urban Affairs

VIEWS OF OTHER OFFICES CONSULTED: Concur

BUDGET IMPACT, IF ANY: None

SUBMITTED TO THE INSPECTOR GENERAL FOR REVIEW: Yes

RESPONSIBLE STAFF MEMBERS: J. Owen Cole, Director, E&I Division of Capital and Credit Markets (DCCM); John G. Nilles, Senior Capital Markets Specialist, E&I Division of Capital and Credit Markets (DCCM)

BACKGROUND: In accordance with the requirements set forth in 12 U.S.C. §1757(5)(A)(vi)(I), staff has conducted analyses of recent market and financial conditions to advise the Board whether it should continue to establish a maximum rate of interest for loans made by federal credit unions that exceeds the 15 percent annual limit established in the FCU Act.

Specifically, §1757(5)(A)(vi)(I) provides that, "the rate of interest may not exceed 15 per centum per annum on the unpaid balance inclusive of all finance charges, except that the Board may establish, after consultation with the appropriate committees of the Congress, the Department of Treasury, and the Federal financial institution regulatory agencies, an interest rate ceiling exceeding such 15 per centum per annum rate, for periods not to exceed 18 months, if it determines that money market interest rates have risen over the preceding six-month period and 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…"

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Staff analysis concludes that: 1) money market rates have risen over the preceding six-month period and 2) lowering the rate ceiling below the current 18 percent maximum would threaten the safety and soundness of individual credit unions due to the anticipated adverse effect upon liquidity, capital, earnings and growth. Staff recommends the rate should be maintained at the current level of 18 percent per annum. The results of the analysis are included in the Board Action Memorandum Attachment entitled "Supplemental Information and Interest Rate Statistics".

Finally, staff has consulted with the appropriate committees and regulatory agencies listed in §1757(5)(A)(vi)(I) by contacting them in writing to advise them of the Board's plans to deliberate on the matter of maintaining the 18 percent maximum loan interest rate. The agency has received no comments from these parties.

RECOMMENDED ACTION: The Board approve an 18 percent maximum loan interest rate for federal credit unions, effective March 10, 2017 through September 10, 2018.

ATTACHMENTS

1. Supplemental Information and Interest Rate Statistics