Federal Credit Union Loan
Interest Rate Ceiling

April Board Meeting
• Legal opinion on a floating loan interest rate ceiling
• Loan interest rate ceiling background
• Federal credit union unsecured lending trends
• Economic outlook
• Safety and soundness impact on individual federal credit unions of a 15% interest rate ceiling
LEGAL OPINION ON A FLOWING LOAN INTEREST RATE CEILING
LOAN INTEREST RATE CEILING BACKGROUND
Loan Interest Rate Ceiling Background

• Congress set a 12% interest-rate ceiling on federal credit union loans in 1934 that was in place through both up and down interest rate cycles.

• The Depository Institutions Deregulation and Monetary Control Act (1980) raised the ceiling to 15% and empowered the NCUA Board to authorize a higher ceiling for a period not to exceed 18 months if it determines that:
  – Money market interest rates have risen over the preceding six-month period, and
  – Prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth
Loan Interest Rate Ceiling Background

• The NCUA Board raised the ceiling to 21% in December 1980.
• The NCUA Board lowered the ceiling to 18% in May 1987, where it has remained since.
• The latest loan rate increase was approved at the January 2023 Board meeting for 18%, effective from March 11, 2023, through September 10, 2024.
FEDERAL CREDIT UNION
UNSECURED LENDING TRENDS
Federal Credit Union Unsecured Lending Trends

<table>
<thead>
<tr>
<th>($ in millions)</th>
<th>12/31/2011</th>
<th>12/31/2021</th>
<th>9/30/2022</th>
<th>12/31/2022</th>
<th>Quarter to Quarter Growth</th>
<th>Year over Year Growth</th>
<th>Period Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Card</td>
<td>$23,702</td>
<td>$42,346</td>
<td>$46,119</td>
<td>$49,306</td>
<td>7%</td>
<td>16%</td>
<td>108%</td>
</tr>
<tr>
<td>Private Student Lending&lt;sup&gt;1&lt;/sup&gt;</td>
<td>$802</td>
<td>$4,814</td>
<td>$5,607</td>
<td>$5,622</td>
<td>0.3%</td>
<td>17%</td>
<td>601%</td>
</tr>
<tr>
<td>Payday Alternative Loans&lt;sup&gt;2&lt;/sup&gt;</td>
<td>$19</td>
<td>$74</td>
<td>$92</td>
<td>$105</td>
<td>15%</td>
<td>41%</td>
<td>462%</td>
</tr>
<tr>
<td>All Other Unsecured Loans</td>
<td>$16,142</td>
<td>$30,714</td>
<td>$35,790</td>
<td>$37,211</td>
<td>4%</td>
<td>21%</td>
<td>131%</td>
</tr>
<tr>
<td>Total Unsecured Loans</td>
<td>$40,665</td>
<td>$77,949</td>
<td>$87,609</td>
<td>$92,244</td>
<td>5%</td>
<td>18%</td>
<td>127%</td>
</tr>
<tr>
<td>Total Loans and Leases</td>
<td>$308,845</td>
<td>$632,100</td>
<td>$724,070</td>
<td>$749,200</td>
<td>3%</td>
<td>19%</td>
<td>143%</td>
</tr>
</tbody>
</table>

<sup>1</sup> Private Student Lending was added to the Call Report as of March 31, 2011

<sup>2</sup> Payday Alternative Loans were added to the Call Report as of December 31, 2010
Federal Credit Unions with Loan Rates > 15%

<table>
<thead>
<tr>
<th>Peer Group by Asset size (Balance in millions)</th>
<th>Federal Credit Unions</th>
<th>Low-Income Credit Unions/Community Development Financial Institutions/Minority Depository Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># of FCU</td>
<td>Loan Balance</td>
</tr>
<tr>
<td>$0-2 million</td>
<td>58</td>
<td>$4</td>
</tr>
<tr>
<td>$2-10 million</td>
<td>244</td>
<td>$35</td>
</tr>
<tr>
<td>$10-50 million</td>
<td>644</td>
<td>$186</td>
</tr>
<tr>
<td>$50-100 million</td>
<td>346</td>
<td>$250</td>
</tr>
<tr>
<td>$100-500 million</td>
<td>575</td>
<td>$995</td>
</tr>
<tr>
<td>$0.5-1 billion</td>
<td>130</td>
<td>$598</td>
</tr>
<tr>
<td>$1-15 billion</td>
<td>163</td>
<td>$3,920</td>
</tr>
<tr>
<td>$15 billion +</td>
<td>7</td>
<td>$22,799</td>
</tr>
<tr>
<td>Total</td>
<td>2,167</td>
<td>$28,787</td>
</tr>
</tbody>
</table>

- Close to three in four federal credit unions with loan rates greater than 15% have either Low Income or Minority Depository Institution designations or are certified as Community Development Financial Institutions.
- A reduction in the loan rate ceiling to 15% would have a greater impact on low-income credit unions, community development financial institutions, and minority depository institutions.
Recent Federal Credit Union Performance Trends

- Prime Rate
- Fed Fund
- Loan Growth Ratio (RHS)
- Asset Growth Ratio (RHS)
- Share Growth Ratio (RHS)

Federal Credit Union Loan Interest Rate Ceiling
Recent Federal Credit Union Performance Trends

Prime Rate
Avg. Loan Yield
Avg. Investment Yield
Net Interest Margin
Cost of Funds
DLQ (RHS)
Charge off (RHS)

Federal Credit Union Loan Interest Rate Ceiling
Economic Outlook

- Federal Funds Rate reached a range of 4.75%-5.00%, the highest level since October 2007
- The Prime Lending Rate stands at 7.75% currently
- The spread between 10-year and 3-month rates turned negative in October 2022 and is currently around -120 basis points
- The latest policymaker forecast suggests that the Federal Fund Rates will peak at 5.1% in 2023, and the rate cuts could follow in 2024
- The negative spread between long-term and short-term interest rates is unlikely to turn positive again during the 2023-2024 forecast period
- A negative term spread will lead to continuing compression on federal credit unions’ net interest margin
SAFETY AND SOUNDNESS IMPACT ON INDIVIDUAL FEDERAL CREDIT UNIONS OF A 15% INTEREST RATE CEILING
Safety and Soundness Impact on Individual Federal Credit Unions

- Reverting the federal credit union loan rate ceiling to 15% would have a safety and soundness impact on individual federal credit unions
  - With a high concentration of loans above 15% rate (>10% of assets)
  - With net operating losses
  - With weak liquidity positions
Safety and Soundness Impact on Individual Federal Credit Unions

- Federal credit unions with a concentration of loans above 15% rates with >10% of assets
  - 33 with a concentration of unsecured loans with average rates of 17.29%
- Federal credit unions with net operating losses
  - 299 with net losses, with a concentration of $200 million in unsecured loans with average rates of 17.3%
Safety and Soundness Impact on Federal Credit Unions

- Federal credit unions with weak liquidity positions
  - CAMELS 3/4/5
    - 37 with cash and short-term liquidity ratio less than 6%
  - CAMELS 1 or 2
    - 247 with cash and short-term liquidity ratio less than 6%
QUESTIONS