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June 5, 2015

The Honorable Debbie Matz, Chairman
The Honorable Richard Metsger, Vice Chairman
The Honorable Mark McWatters, Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Chairman Matz, Vice Chairman Metsger, and Board Member McWatters:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents federal credit unions, I am writing to discuss the interest rate ceiling applicable to loans made by federal credit unions. As the agency is aware, the current 18 percent rate ceiling expires on September 10, 2015, and I would encourage the NCUA Board to maintain this rate when it considers the issue in advance of its expiration.

NAFCU believes that lowering the interest rate will be detrimental to the safety and soundness of credit unions as it could potentially result in a loss of capital. Further, it could discourage federal credit unions from making loans or approving credit card applications for higher risk members. This in turn would likely lead to credit union members seeking loans from other lenders at considerably higher rates.

While the *Federal Credit Union Act* (FCUA) generally limits federal credit unions to a 15 percent interest ceiling on loans, it provides NCUA flexibility to establish a higher rate for up to 18 months after considering statutory criteria. 12 U.S.C. § 1757(5)(A)(vi)(I). Specifically, the NCUA Board may increase the rate – or in this case maintain the rate above 15 percent – if it determines interest rates have risen over the preceding six month period and that the prevailing interest rate would threaten the safety and soundness of individual credit unions. Given that the prevailing interest rates have increased over the last six months, NAFCU believes NCUA should keep the current 18 percent rate in effect.

Despite the current low rate environment, the following table shows that there has been an increase in short-term interest rates over the past six months.

Table 1: Selected Monthly Interest Rates

figures in basis points	Oct-14	Apr-15	Difference
1-Month Treasury	2	2	0
3-Month Treasury	2	2	0
6-Month Treasury	5	9	+4
1-Year Treasury	10	23	+13

Source: Federal Reserve Statistical Release H.15

FCUs' "Most Common" Interest Rates – All Unsecured Loans

Loans with rates higher than 15 percent

As of March 31, 2015, 280 of the 3,885 federal credit unions in the U.S. had a most common interest rate[1] above 15 percent for their unsecured loans (unsecured credit card loans and/or other unsecured loans). This means that 7.2 percent of all federal credit unions would be required to change their rate policy if the interest rate ceiling would be lowered to 15 percent, which might discourage many of them to make these kinds of loans going forward. This would not only reduce available credit options to members in an already tight credit market, but would also reduce the competitiveness of credit unions due to the reduced loan portfolio they would be able to offer to their members.

In addition, nearly half (49.3 percent) of the affected federal credit unions would be small credit unions with assets below $10 million. Of the 84 federal credit unions that already have interest rates equal to the rate ceiling of 18 percent, 58.3 percent are small credit unions with assets below $10 million. Their growth potential as well as their liquidity, capital and earnings levels would be negatively affected by a reduction in the interest rate ceiling.

Table 2: FCU Interest Rates on Unsecured Loans

Asset Peer Group	Number of FCUs charging 18%	Percent of FCUs charging 18%
Less than $2M	19	22.6%
$2M to less than $10M	30	35.7%
$10M to less than $50M	14	16.7%
$50M to less than $100M	6	7.1%
$100M to less than $500M	11	13.1%
More than $500M	4	4.8%
Total	84	100.0%

Source: NCUA's March 2015 5300 Call Report

Loans with rates equal or higher than 15 percent

NAFCU also analyzed how lowering the interest rate ceiling would impact credit unions offering loans at rates equal to or higher than 15 percent. Currently, 10.5 percent of all federal credit unions are currently charging 15 percent or more on their unsecured loans and 53.1 percent of those are federal credit unions with assets below $10 million. As the chart below demonstrates, NAFCU's analysis concluded that lowering the current interest rate ceiling would have a detrimental effect on federal credit unions' abilities to compete in today's financial services

[1] The 5300 Call Report only provides the "most common" unsecured interest rate which might not capture higher rates for "credit builder" or "credit rebuilder" type of loans.

market, as well as threaten the availability of credit for the 100 million American credit union members.

Table 3: FCU Interest Rates on Unsecured Loans

Asset Peer Group	Number of FCUs charging 15% or higher	Percent of FCUs charging 15% or higher
Less than $2M	75	18.4%
$2M to $10M	141	34.6%
$10M to $50M	99	24.3%
$50M to $100M	36	8.8%
$100M to $500M	38	9.3%
More than $500M	18	4.4%
Total	407	100.0%

Source: NCUA's March 2015 5300 Call Report

Lowering the current interest rate ceiling would not only force all such credit unions to change their rate policy, but it would also almost certainly force many credit unions to simply stop lending to many individuals who have very few alternatives for credit. In short, lowering the interest rate ceiling will lead to credit unions significantly tightening lending standards which would, in turn, result in less credit availability to American consumers.

I hope this information is helpful, and we thank you for this opportunity to share our views. Should you have any questions or require additional information, please call me, or Alicia Nealon, NAFCU's Director of Regulatory Affairs at (703)-842-2266 or anealon@nafcu.org.

Sincerely,

B. Dan Berger

cc: Mr. Michael McKenna, General Counsel
Mr. Larry Fazio, Director of the Office of Examination and Insurance