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May 22, 2019

The Honorable Rodney Hood
The Honorable Todd Harper
The Honorable J. Mark McWatters
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Floating Interest Rate Cap

Dear Chairman Hood, Board Member Harper, and Board Member McWatters:

On behalf of America's credit unions, I am writing to request the National Credit Union Administration (NCUA) Board (Board) examine the idea of a floating interest rate cap for federal credit union (FCU) loans, including the pros and cons of such a cap. The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members.

Floating Interest Rate Cap

We request the NCUA explore the idea of adopting a floating interest rate cap instead of its traditional fixed interest rate, which is currently set at 18%. The NCUA should conduct outreach to the industry—preferably through an advance notice of proposed rulemaking (ANPR)—to gather information on the potential benefits and concerns associated with replacing the existing fixed interest rate cap with a floating cap.

Under the FCU Act, the Board is permitted to increase the interest rate cap above 15% if certain criteria are met. Specifically, after consultation with the appropriate committees of Congress, the Department of Treasury, and the federal financial institutions regulatory agencies, if the Board 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,” the Board may increase the interest rate cap above 15% for a period of no more than 18 months.¹

¹ Federal Credit Union Act, 12 U.S.C. § 1757(5)(A)(vi)(I).

The Board last addressed the interest rate cap at its August 2018 meeting, during which it extended the current interest rate cap of 18% on most FCU loans through March 10, 2020. The Board clearly has flexibility in how it determines the interest rate cap, which has been at 18% since 1987.² In order to continue the current cap, the Board must revisit it prior to its expiration in March 2020. While it is critical that the Board at least maintain the current cap of 18%, we ask the Board to examine the potential benefits associated with a floating interest rate cap, such as the enhanced ability of FCUs to manage interest rate risk.

Conclusion

On behalf of America's credit unions and their 115 million members, thank you for considering our request to examine replacement of the existing fixed interest rate cap on FCU loans with a floating cap. If you have questions about our comments, please do not hesitate to contact me at (202) 508-6743.

Sincerely,

A handwritten signature in blue ink that reads "Luke Martone". The signature is fluid and cursive, with the first name "Luke" and last name "Martone" clearly distinguishable.

Luke Martone
Senior Director of Advocacy & Counsel

² NCUA, Board Extends 18 Percent Interest Rate Cap (Feb. 23, 2017), *available at* <https://www.ncua.gov/newsroom/news/2017/board-extends-18-percent-interest-rate-cap>.