



March 7, 2023

The Honorable Todd M. Harper
National Credit Union Administration
1175 Duke Street
Alexandria, VA 22314

Re: Federal Credit Union Interest Rate Ceiling

Dear Chairman Harper:

Inclusiv appreciates the NCUA Board's decision to maintain the federal credit union interest rate ceiling at 18% at its January meeting. Although interest rates have been rising since the spring of 2022, they are still far below historic peaks experienced since May of 1987 when the NCUA Board last adjusted the interest rate ceiling. In fact, the NCUA's analysis shows that the maximum spread between the prime rate and the interest rate ceiling, 14.75 percentage points, occurred in March 2020 and was maintained until February 2022 without the NCUA lowering the rate ceiling back to the statutory 15%. Returning to 15% would have been legally defensible and a rational way to help credit unions' members during a sustained trough in interest rates 18 months ago and at other times in recent years.¹

The spread between the prime rate and the interest rate ceiling was still more than 10 percentage points as of February 2023, which is larger than gaps experienced during previous inflationary periods. Given this robust spread and the fact that the low- and moderate-income people that credit unions serve have been facing rising prices for food, energy and housing and have little financial cushion to afford higher loan rates, we urge the Board to maintain the 18% interest rate ceiling for the foreseeable future.

Some credit union trade associations are calling for a 21% interest rate ceiling or a floating ceiling of the prime rate plus 15 percentage points. These proposals are antithetical to the principles of the credit union movement and the credit union system's mission to support the saving and credit needs of all Americans, especially people of modest means. The floating rate proposal would guarantee credit unions a spread that exceeds the historical maximum spread of 14.75 percentage points, which is unconscionable given the long-term success of credit unions operating under the 18% rate ceiling. Such a proposal implies that Congress envisioned a prime rate of 0% when establishing the 15% interest rate ceiling in the Federal Credit Union Act. Since lowering the rate ceiling once it has been raised is challenging for both the NCUA and credit unions and raising the rate ceiling would increase the cost of living for the people who can least afford payment shocks, the NCUA should not act on these requests.

The call to raise the interest rate ceiling has been wrapped in a veneer of increasing access to credit for people with very low credit scores. But people with low credit scores often cannot afford high-cost loans

¹ <https://ncua.gov/files/agenda-items/supplemental-information-interest-rate-statistics-20230126.pdf>



and are precisely the people credit unions should be reaching with affordable loan products and financial coaching to help them achieve financial well-being. The fact that only 3.41% of all FCU loans and only 1.04% of the loans made by low-income FCUs exceed 15% is evidence that there is plenty of room for FCUs to lend within the 18% ceiling without limiting access to credit.

Inclusiv's member credit unions prove that credit unions can and do lend successfully to people with low credit scores at interest rates below the current interest rate ceiling. Just a few examples of many include:

- River City FCU, based in San Antonio, Texas, makes used auto loans to people with low credit scores. The maximum interest rate they currently charge is 12.75% for E tier scores. People with D and C tier scores are offered lower rates of 9.95% and 6.75%, respectively. In fact, River City recently lowered its used auto loan rates for these credit tiers to ensure they can continue to lend deeply in underserved communities.
- Greylock FCU, based in Western Massachusetts, offers Safety Net loans to its members that are underwritten without the use of credit scores at all. Members can borrow up to \$3,500 for emergency needs at rates between 7.99% and 9.99%. These loans are not only affordably priced but also come with financial coaching to help members build savings for future emergencies. Greylock also offers affordable subprime auto loans to their members. These loans are offered at 14.99% but the rate decreases by .25% for each quarter of on-time payments.
- Self-Help FCU, which serves four states, made more than 1,300 vehicle and unsecured loans to borrowers with credit scores below 680 (one common threshold for "subprime") in 2022. The average rate on those loans was 13.5% with a maximum rate of 16.0%, even as the Fed increased short-term rates by 4.25% during the year.

We would be happy to set up a meeting with you or your staff to discuss this issue further. Thank you for your work to ensure that credit unions continue to provide fair and affordable products and services to low- and moderate-income people. Please contact Alexis Iwanisziw, SVP Policy and Communications, at aiwanisziw@inclusiv.org with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Cathie Mahon". The signature is fluid and cursive.

Cathie Mahon
President/CEO Inclusiv