

ahead. Recent statements by the FRB Chairman Alan Greenspan and other FRB officials suggest they anticipate stronger growth in the remaining months of 2003. This growth also would lead to higher money market interest rates.

These expectations are revealed in the implied forward yield curve for the United States Treasury securities. As of July 11, 2003, the forward yield curve anticipates that: the one-year Treasury yield will rise 51 basis points; the two-year Treasury will rise 63 basis points;

and the five-year Treasury will rise 57 basis points by July 11, 2004. In addition, recently there has been an increase in current interest rates, as follows in Table 1:

TABLE 1.—CHANGE IN U.S. GOVERNMENT YIELDS

June 13, 2003–July 11, 2003

Maturity	Rate 6/13/03 (percent)	Rate 7/11/03 (percent)	Change (percent)
3-month85	.88	.03
6-month94	.94	.10
2-year	1.08	1.33	.25
3-year	1.31	1.66	.35
5-year	1.03	2.52	.49
10-year	3.11	3.67	.57

Lowering the ceiling now, only to revise it upward in several months, would be disruptive to credit unions, as discussed below.

Financial Implications for Credit Unions

For at least 499 federal credit unions, representing 8.5 percent of reporting federal credit unions, the most common rate on unsecured loans was above 15 percent at year-end 2002. While the bulk of credit union lending is below 15 percent, small credit unions and credit unions that have implemented risk-based lending programs require interest rates above 15 percent to maintain liquidity, capital, earnings, and growth. Loans to members who have not yet established credit histories or have weak credit histories have more credit risk. Credit unions must charge rates to cover the potential of higher than usual losses for such loans.

There are undoubtedly more than 499 federal credit unions charging over 15 percent for unsecured loans to such members. Many credit unions have "credit builder" or "credit rebuilder" loans but report only the most common unsecured loan rates on NCUA Call Reports. Lowering the interest rate ceiling for federal credit unions would discourage these credit unions from making certain loans and many of the affected members would have no alternative but to turn to other lenders who charge higher rates.

Small credit unions would be particularly affected by lower loan rate ceilings since they tend to have higher levels of unsecured loans, typically with lower loan balances. Table 2 shows the number of federal credit unions in each asset group where the most common rate is more than 15 percent for unsecured loans.

TABLE 2.—ACTIVE FEDERAL CREDIT UNIONS WITH MOST COMMON UNSECURED LOAN RATES GREATER THAN 15 PERCENT

December 2002

Peer group by asset size (in millions)	Total all FCUs	Number of FCUs with greater than 15 percent
\$0–2	1,271	106
2–10	1,897	204
10–50	1,742	124
50+	990	65
Total	5,900	499

Should the interest rate charged on loans be subject to a 15 percent ceiling, a number of federal credit unions, where the majority of members are low-income, will incur significant financial strain. Approximately 15 percent of federal credit unions with low-income designation report loan interest rates greater than 15 percent. In contrast, only 8.5 percent of all credit unions report rates above 15 percent. Approximately 17 percent of low-income credit unions with assets less than \$10 million would be affected.

These credit unions offset the cost of generating low-balance loans by charging increased interest rates. These credit unions generally are not able to provide credit card loans and, instead, grant closed-ended and open-ended loans with the prerequisite underwriting documentation. Further, these smaller credit unions generally maintain a higher expense ratio, since many are involved with high-transaction accounts requiring higher personnel costs and related operational expenses, and lack economies of scale.

Further, among the 499 federal credit unions where the most common rate is

more than 15 percent for unsecured loans, 83 have 20 percent or more of their assets in this category and all but three credit unions have assets of less than \$10 million. For these credit unions, lowering the rates would threaten their liquidity, capital, earnings, and growth.

The Board has concluded that conditions exist to retain the federal credit union interest rate ceiling of 18 percent per year for the period September 8, 2003 through March 8, 2005. Loans and line of credit balances existing on or before March 8, 2005 may continue to bear interest at their contractual rate, not to exceed 18 percent. Finally, the Board is prepared to reconsider the 18 percent ceiling at any time during the extension period should changes in economic conditions warrant.

Regulatory Procedures

Administrative Procedure Act

The Board has determined that notification and public comment on this rule are impractical and not in the public interest. 5 U.S.C. 553(b)(3)(B). Due to the need for a planning period before the September 9, 2003 expiration date of the current rule, and the threat to the safety and soundness of individual credit unions with insufficient flexibility to determine loan rates, final action on the loan rate ceiling is necessary.

Regulatory Flexibility Act

The Regulatory Flexibility Act requires NCUA to prepare an analysis to describe any significant economic impact a regulation may have on a substantial number of small credit unions (those under ten million dollars in assets). This final rule provides added flexibility to all federal credit