



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

March 8, 1990

Office of General Counsel

GC/MM:sg  
SSIC 3601  
90-0127

Carol L. Fossee, Esq.  
Zweig and Lane, P.C.  
3000 Town Center, Suite 2200  
Southfield, Michigan 48075

Re: Most Favored Lenders (Your January 22, 1990,  
Letter)

Dear Ms. Fossee:

You have asked whether the interest rate which may be adopted by a federally-insured, state-chartered credit union ("FISCU") can be the interest rate of institutions located in the state, which are authorized under Federal, rather than state law, under the "most favored lender" provision of the FCU Act. See response below.

ANALYSIS

Section 205(g)(1) of the FCU Act (12 U.S.C. §1785(g)(1)) states that:

. . . [i]f the applicable rate prescribed in this subsection exceeds the rate an insured credit union would be permitted to charge in the absence of this subsection, such credit union may, notwithstanding any State constitution or statute which is hereby preempted for the purposes of this subsection, take, receive, reserve, and charge on any loan, interest at a rate of not more than 1 per centum in excess of the discount rate on ninety-day commercial paper in effect at the Federal Reserve

FOIA

Vol I. Part C la Federal v. State Law

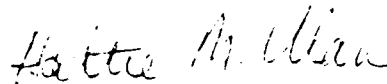
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bank in the Federal Reserve district where such insured credit union is located or at the rate allowed by the laws of the State, territory, or district where such credit union is located, whichever may be greater.

The NCUA has issued two Interpretive Ruling and Policy Statements ("IRPS") on this Section (IRPS 80-11, 45 F.R. 78625, 11/26/80, and IRPS 81-3, 46 F.R. 24153, 4/30/81). According to Section 205(g)(1) and the two IRPS, FISCU's may charge interest at either the 1 per centum in excess of the discount rate on ninety-day commercial paper or the rate allowed for any other lender under state law, if either exceeds the rate FISCU's are allowed to charge under the applicable state law. This means that a FISCU may not adopt the interest rate of institutions authorized by Federal law. We hope this clarifies the issue for you.

Sincerely,



HATTIE M. ULAN  
Associate General Counsel

cc: Michael Fitzgerald