

### Regulatory Flexibility Act

It has been determined that the Regulatory Flexibility Act is not applicable because CCC is not required by law to publish a notice of proposed rule making with respect to the matter of this rule.

### Unfunded Mandates Reform Act of 1995

This rule contains no Federal mandates under the regulatory provisions of Title II of the Unfunded Mandates Reform Act of 1995 (UMRA) for State, local, and tribal governments or the private sector. Thus, this rule is not subject to the requirements of sections 202 and 205 of UMRA.

### Federal Assistance Program

The title and number of the Federal assistance program, as found in the Catalogue of Federal Domestic Assistance, to which this rule applies is as follows:

10.051—Commodity Loans and Purchases

### Executive Order 12372

This program is not subject to the provisions of Executive Order 12372, which requires intergovernmental consultation with State and local officials. See the Notice related to 7 CFR part 3015, subpart v, published at 48 FR 29115 (June 24, 1983).

### Paperwork Reduction Act

The information collections associated with the Dairy Recourse Loan Program are no longer required.

### Discussion of the Final Rule

Section 772 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2002 (Pub. L. 107-76) repealed section 142 of the Federal Agriculture Improvement and Reform Act of 1996 (7 U.S.C. 7252) (the 1996 Act), which authorized the Dairy Recourse Loan Program. This rule removes the program regulations at 7 CFR 1430, subpart C.

The Dairy Recourse Loan Program was intended to help processors manage inventories of certain dairy products and stabilize prices in the dairy industry in the absence of a price support program. Because a dairy price support program has been in operation each year since the 1996 Act was enacted, the Dairy Recourse Loan Program was never in operation. Therefore, the removal of its regulations will have no retroactive effect.

Section 161(d) of the 1996 Act provides that regulations necessary to implement Title I of the 1996 Act shall

be issued without regard to the notice and comment provisions of 5 U.S.C. 553. This rule removes regulations because the program's authorizing legislation was repealed. Therefore, it is being issued as a final rule. In addition, because this rule implements a statutory mandate, delay of this rule for rule-making, or for purposes of 5 U.S.C. 801, is unnecessary and would be contrary to the public interest.

### List of Subjects in 7 CFR Part 1430, Subpart C

Appeal procedures, Butter, Cheddar cheese, Electronic loan process, Forfeitures, Nonfat dry milk, Packaging and containers, Recourse loans, Reporting and Record keeping requirements.

Accordingly, 7 CFR part 1430 is amended as follows:

### PART 1430—DAIRY PRODUCTS

1. The authority citation for part 1430 continues to read as follows:

**Authority:** 7 U.S.C. 7252; and 15 U.S.C. 714b and 714c.

2. In part 1430, by removing and reserving subpart C.

### Subpart C—[Removed and Reserved]

Signed in Washington, DC, on February 10, 2002.

**James R. Little,**

*Executive Vice President, Commodity Credit Corporation.*

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### NATIONAL CREDIT UNION ADMINISTRATION

### 12 CFR Part 701

### Loan Interest Rates

**AGENCY:** National Credit Union Administration.

**ACTION:** Final rule.

**SUMMARY:** The current 18 percent per year federal credit union loan rate is scheduled to revert to 15 percent on March 8, 2002, unless otherwise provided by the NCUA Board (Board). A 15 percent ceiling would restrict certain categories of credit and adversely affect the financial condition of a number of federal credit unions. At the same time prevailing market rates and economic conditions do not justify a rate higher than the current 18 percent ceiling. Accordingly, the Board hereby continues an 18 percent federal credit union loan rate ceiling for the period

March 8, 2002 through September 8, 2003. Loans and lines of credit balances existing prior to May 18, 1987, may continue to bear their contractual rate of interest, not to exceed 21 percent. The Board is prepared to reconsider the 18 percent ceiling at any time should changes in economic conditions warrant.

**DATES:** Effective March 8, 2002.

**FOR FURTHER INFORMATION CONTACT:** Daniel Gordon, Senior Investment Officer, telephone 703-518-6620.

### SUPPLEMENTARY INFORMATION:

### Background

Public Law 96-221, enacted in 1980, raised the loan interest rate ceiling for federal credit unions from one percent per month (12 percent per year) to 15 percent per year. It also authorized the Board to set a higher limit, after consulting with Congress, the Department of Treasury and other federal financial agencies, for a period not to exceed 18 months, if the Board determined that: (1) Money market interest rates have risen over the preceding six months; and (2) prevailing interest rate levels threaten the safety and soundness of individual credit unions as evidenced by adverse trends in growth, liquidity, capital, and earnings.

On December 3, 1980, the Board determined that the foregoing conditions had been met. Accordingly, the Board raised the loan ceiling for nine months to 21 percent. In the unstable environment of the first half of the 1980s, the Board lowered the loan rate ceiling from 21 percent to 18 percent, effective May 18, 1987. This action was taken in an environment of falling market interest rates from 1980 to early 1987. The ceiling has remained at 18 percent to the present.

The Board believes that the 18 percent ceiling will permit credit unions to continue to meet their current lending programs and permit flexibility so that credit unions can react to any adverse economic developments.

The Board would prefer not to set loan interest rate ceilings for federal credit unions. Credit unions are cooperatives and balance loan and share rates consistent with the needs of their members and prevailing market interest rates. The Board supports free lending markets and the ability of federal credit union boards of directors to establish loan rates that reflect current market conditions and the interests of their members. Congress has, however, imposed loan rate ceilings since 1934. In 1979, Congress set the ceiling at 15 percent but authorized the Board to set

a ceiling in excess of 15 percent, if conditions warrant. The following analysis justifies a ceiling above 15 percent, but at the same time does not support a ceiling above the current 18 percent. The Board is prepared to reconsider this action at any time should changes in economic conditions warrant.

### Money Market Interest Rates

Table 1 below shows that interest rates rose between January 11 and February 5 as the nation continues to recover from the combination of the recession and the September 11 terrorist attack.

TABLE 1.—YIELDS ON U.S. GOVERNMENT SECURITIES  
[Percent]

Maturity	Jan. 11	Feb. 5	Change
3 month	1.55	1.75	.20
6 month	1.62	1.85	.23
2 year ....	2.72	2.98	.26
5 year ....	4.09	4.20	.11
10 year ..	4.86	4.89	.03

Table 2 shows that interest rates on maturities of five years and longer have increased since September 13.

TABLE 2.—YIELDS ON LONGER TERM U.S. GOVERNMENT SECURITIES  
[Percent]

Maturity	Sept. 13	Feb. 5	Change
5 year ....	3.95	4.20	.25
10 year ..	4.62	4.89	.27

There is also evidence in financial markets to suggest that rates are likely to rise in the months ahead. A consensus forecast of economists anticipates higher interest rates this year. In addition, the implied forward curve for U.S. Government securities, a sign of market expectations, indicates that the yields on Treasury securities will be higher in the upcoming year.

There are also indications the economy is improving. For example, Federal Reserve Chairman Greenspan recently said, “(t)here have been signs recently that some of the forces that have been restraining the economy over the past year are starting to diminish and that activity is beginning to firm.” The Federal Reserve’s Open Market Committee, supporting this view, chose to retain the target fed funds rate rather than lowering it again. Gross Domestic Product showed a 0.2 percent increase in the last quarter of 2001. The Conference Board’s index of consumer sentiment increased to 97.3 in January

from 94.6 in December. This represents a 5-month high. Rising consumer confidence typically results in more discretionary consumer expenditures. Thus improved consumer confidence is another positive sign for the economy. Typically, as the economy improves interest rates increase. Therefore, there are signs in the economy as a whole, and in the financial markets in particular, to suggest interest rates will be higher in the future.

### Financial Implications for Credit Unions

For at least 712 credit unions, representing 11.5<sup>1</sup> percent of reporting federal credit unions, the most common rate on unsecured loans was above 15 percent. While the bulk of credit union lending is below 15 percent, small credit unions and credit unions that have instituted 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 a credit history 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 712 federal credit unions charging over 15 percent for unsecured loans to such members. Many credit unions have “Credit Builder” or “Credit Rebuilder” loans, but only report the “most common rate” on the Call report for unsecured loans. Lowering the interest rate ceiling for federal credit unions would discourage these credit unions from making these loans and many of the affected members would have no alternative but to turn to other lenders who charge much higher rates.

Small credit unions would be particularly affected by lower loan rate ceilings since they tend to have a higher level of unsecured loans, typically with lower loan balances. Table 3 shows the number of credit unions in each asset group where the most common rate is more than 15 percent for unsecured loans.

In addition, credit unions have been actively attempting to increase service to lower-income members and those with marginal credit histories. There has been a significant increase in the number of credit unions engaging in risk-based lending. Imposition of a lower ceiling would substantially constrain these risk-based lending programs.

<sup>1</sup> Of the 6,186 federal credit unions, 3,412 zero balances in the unsecured loan rate categories for the June 2001 reporting period.

In addition, should the interest rate charged on loans be subject to a 15 percent ceiling credit unions, where the majority of members are low-income, will incur significant financial strain. Although the percentage of all low-income designated credit unions reporting loan interest rates greater than 15 percent is comparable to the general federal credit union population (13.9 percent versus 11.9 percent), an analysis of low-income credit unions with assets less than \$10 million reveal a much more significant impact.

TABLE 3.—ACTIVE FEDERAL CREDIT UNIONS WITH MOST COMMON UNSECURED LOAN RATES GREATER THAN 15 PERCENT

[June 2001]

Peer group by asset size	Total all FCUs	Number of FCUs with greater than 15 percent
\$0–2 million .....	1,496	153
\$2–10 million ....	2,044	269
\$10–50 million ..	1,736	189
\$50 million+ .....	910	101
Total .....	6,186	712

Among the 712 credit unions where the most common rate is more than 15 percent for unsecured loans, 105 have 20 percent or more of their assets (Table 4) in this category. For these credit unions, lowering the rates would threaten their liquidity, capital, earnings, and growth.

TABLE 4.—ACTIVE FEDERAL CREDIT UNIONS WITH MOST COMMON UNSECURED LOAN RATES GREATER THAN 15 PERCENT AND MORE THAN 20 PERCENT OF ASSETS IN UNSECURED LOANS

[June 2001]

Peer group by asset size	Number of FCUs with loan rates greater than 15 percent
\$0–2 million .....	51
\$2–10 million .....	42
\$10–50 million .....	57
\$50 million+ .....	32
Total .....	105

Data from June 2001 reveals that of those credit unions reporting loan interest rates in excess of 15 percent:

◆ 49 of the 150 federal credit unions (32.7 percent) with less than \$2 million in assets are low-income;

♦ 79 of the 286 federal credit unions (27.6 percent) with less than \$5 million in assets are low-income, and

♦ 97 of the 416 federal credit unions (23.3 percent) with less than \$10 million in assets are low-income.

These credit unions offset the cost of generating low-balance loans through the increased interest rates charged. They generally do not have the ability to provide credit card loans and instead grant closed 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 that require higher personnel costs and related operational expenses, and do not have economies of scale.

The Board has concluded that conditions exist to retain the federal credit union interest rate ceiling of 18 percent per year for the period March 8, 2002 to September 8, 2003. Loans and line of credit balances existing on or before May 14, 1987, may continue to bear interest at their contractual rate, not to exceed 21 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 prior to the March 8, 2002, 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 one million dollars in assets). This final rule provides added flexibility to all federal credit unions regarding the permissible interest rate that may be used in connection with lending. The NCUA Board has determined and certifies that this rule will not have a significant economic impact on a substantial number of small credit unions.

#### *Paperwork Reduction Act*

NCUA has determined that this rule does not increase paperwork

requirements under the Paperwork Reduction Act of 1995 and regulations of the Office of Management and Budget.

#### *Executive Order 13132*

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their regulatory actions on state and local interest. In adherence to fundamental federalism principles, NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order. This rule applies only to federal credit unions and, thus, will not have substantial direct effects on the states, on the relationship between the national government and the states, nor materially affect state interests. The NCUA has determined that the rule does not constitute a policy that has any federalism implication for purposes of the executive order.

#### *Small Business Regulatory Enforcement Fairness Act*

The Small Business Regulatory Enforcement Fairness Act of 1996 (Pub. L. 104-121) provides generally for congressional review of agency rules. A reporting requirement is triggered in instances where NCUA issues a final rule as defined by Section 551 of the Administrative Procedure Act. 5 U.S.C. 551. The Office of Management and Budget has determined that this is not a major rule.

#### *The Treasury and General Government Appropriations Act, 1999—Assessment of Federal Regulations and Policies on Families*

NCUA has determined that this rule will not affect family well-being within the meaning of Section 654 of the Treasury and General Government Appropriations Act, 1999, Pub. L. 105-277, 112 Stat. 2681 (1998).

#### **List of Subjects in 12 CFR Part 701**

Credit, Credit unions, Loan interest rates.

By the National Credit Union Administration Board on February 7, 2002.

**Becky Baker,**

*Secretary to the Board.*

Accordingly, NCUA amends 12 CFR chapter VII as follows:

### **PART 701—ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS (AMENDED)**

1. The authority citation for Part 701 continues to read as follows:

**Authority:** 12 U.S.C. 1752(5), 1755, 1756, 1757, 1759, 1761a, 1761b, 1766, 1767, 1782, 1784, 1787, and 1789. Section 701.6 is also

authorized by 15 U.S.C. 3717. Section 701.31 is also authorized by 15 U.S.C. 1601 *et seq.*, 42 U.S.C. 1981 and 3601-3610. Section 701.35 is also authorized by 42 U.S.C. 4311-4312.

2. Section 701.21(c)(7)(ii)(C) is revised to read as follows:

#### **§ 701.21 Loans to members and lines of credit to members.**

\* \* \* \* \*

(c) \* \* \*

(7) \* \* \*

(ii) \* \* \*

(C) *Expiration.* After September 8, 2003, or as otherwise ordered by the NCUA Board, the maximum rate on federal credit union extensions of credit to members shall revert to 15 percent per year. Higher rates may, however, be charged, in accordance with paragraph (c)(7)(ii)(A) and (B) of this section, on loans and line of credit balance existing on or before September 8, 2003.

\* \* \* \* \*

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## **DEPARTMENT OF TRANSPORTATION**

### **Federal Aviation Administration**

#### **14 CFR Part 39**

[Docket No. 2001-CE-31-AD; Amendment 39-12645; AD 2002-03-04]

RIN 2120-AA64

#### **Airworthiness Directives; Pilatus Britten-Norman Limited BN-2, BN-2A, BN-2B, BN-2T, and BN2A MK. III Series Airplanes**

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Final rule.

**SUMMARY:** This amendment adopts a new airworthiness directive (AD) that applies to all Pilatus Britten-Norman Limited (Pilatus Britten-Norman) BN-2, BN-2A, BN-2B, BN-2T, and BN2A MK. III series airplanes. This AD requires you to replace the emergency exit window sealant. This AD is the result of mandatory continuing airworthiness information (MCAI) issued by the airworthiness authority for the United Kingdom. The actions specified by this AD are intended to correct the problems with emergency exit windows failing to open. Such failure could lead to the inability to exit the airplane in an emergency.

**DATES:** This AD becomes effective on March 29, 2002.

The Director of the Federal Register approved the incorporation by reference