From:	Bruce Rosen
To:	_Regulatory Comments
Subject:	Prompt Corrective Action Risk-Based Capital Comment Letter
Date:	Wednesday, March 12, 2014 4:00:07 PM

Dear Secretary of the Board Poliquin,

I am writing on behalf of Hawaii Central Federal Credit Union, which serves Oahu, Hawaii. We have 14,800 Members and $186 million in assets. Hawaii Central Federal Credit Union appreciates the opportunity to provide comments to the National Credit Union Administration (NCUA) on its proposed rule, Prompt Corrective Action - Risk-Based Capital.

How would your credit union be affected by the proposal?

Despite being very profitable for the past 3 years, paying some of the highest dividends in Hawaii, having extremely low DQ ratios and charge-offs despite having over $80 million in real estate loans, and being rated "Well Capitalized" by the current net worth calculation by over 150 bps, we would be forced to do the following which are not beneficial to the membership because under the risk-based capital formula we would be rated only "Adequately Capitalized" and would have to take actions to bring us back to "Well Capitalized":

1) Reduce dividend rates.
2) Curtail accepting deposits.
3) Discontinue offering real estate loans.
4) Restructure the balance sheet to sell of long-term loans and investments.
5) Increasing fees to members to build up capital.

Do you agree this new proposal is necessary?

A change is necessary, but not to this degree.

Do you agree NCUA should be able to impose higher capital requirements on credit unions on a case by case basis? Yes.

Do you agree with the risk weightings for:
- MBLs
- Mortgage Loans
- Longer-term investments
- Consumer loans
- CUSOs Investments and Loans
- Others (Please identify)

We agree with some of the risk weightings, e.g. MBLs and consumer loans, but we disagree with the weightings on mortgage loans (why penalize for loans with terms 5 years or less or variable rate loans?), investments (why penalize a long-term investment backed by the federal government or by FDIC insurance?), and CUSOs (why is the investment riskier than a loan to a CUSO?).

Should the NCSUIF deposit be excluded from the calculation of RBC ratios?

No. Excluding it from the denominator penalizes more than excluding from the numerator.

Should goodwill be excluded from the calculation of the RBC numerator?

No.

Do you agree NCUA should be able to restrict dividend payments as the proposal would provide?

We need to remember why credit unions were established -- to help their members, especially in the current economic times when we need to put more money in their pockets.

Do you agree with NCUA's implementation time line? If not, how much more time should credit unions be provided?

Credit unions should have at one year to implement so that they can make rational changes to their balance sheet in order to comply. It took the credit union about 3 years to get our income to its current level; to ask us to change over a short period seems fairly drastic.

Do you have other concerns with the proposal? Please explain.

Summary of your position:

Our credit union has profitably grown in the past 3 years using the following strategies:

1) Offering real estate loans, primarily those with terms of less than 5 years or variable rate loans, all underwritten to very strict guidelines,

2) Offering a variety of consumer loans,

3) Minimizing the fees charged to members, and

4) Merging with smaller credit unions that are unable to survive by themselves in this economic environment.

As a result of our profitability, we are able to pay dividends to members that are among the highest in the State of Hawaii. We have managed our balance sheet such that we have ample liquidity, minimal credit risk, and our interest rate risk is minimal. Despite having a significant concentration in real estate loans, we are well within guidelines on the IRR and NEV shock tests. We have had no document of resolution items in our last two NCUA examinations.

This proposal would force us to curtail accepting deposits, which could cause a run on the credit union, discontinue offering real estate loans, sell some of our high-yielding loans and investments, reduce dividend rates, and raise fees to get the risk-based capital ratio to the “Well Capitalized” category.
Our members, the very ones we are here to serve, would be the ones who suffer from these actions.

Thank you for the opportunity to comment on this proposed rule and for considering our views on risk based capital requirements.

Sincerely,

Bruce Rosen
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