UNIVERSITY OF HAWAI'I
FEDERAL CREDIT UNION
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March 17, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
Re: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

On behalf of the University of Hawaii Federal Credit Union and its 29,000 members, I am writing to express my concerns with the NCUA proposed Prompt Corrective Action Risk-Based Capital rule. While I generally support a risk-based capital system for credit unions, I believe the following needs to be addressed before finalizing the regulation:

- **Risk Weightings for Loans** – A number of risk weightings, especially for member business loans and mortgage concentrations, do not appear to be aligned with the actual risk for credit unions. For example, home equity loans would carry a higher risk weight (100% to 150%) than unsecured consumer loans (75%); this does not accurately reflect the risk attributes of home equity loans (e.g. loan-to-value, variable rates, etc.) in relation to unsecured loans.

- **Risk Weightings for Investments** – The proposed rule assigns rigid risk weights to many investments that, when properly examined, represent less risk that the assigned risk weights:
  - The proposed rule uses the risk weights to compensate for interest rate risk with the investment risk weights. There are different proposed risk weights for investments based on the maturity levels of those investments. These risk weights would be static however in the real world, the level of interest rate risk would depend on the interest rate environment.
  - Investments with a maturity over 10 years will have a 200% risk weight. For example, the shares that we hold in Visa USA to support our credit card program would fall in that category. The risk weight does not align with the risk of this investment.
  - Cash on deposit would be assigned a risk weight of 20%. Deposits at the Federal Reserve would be included in this category. I am perplexed as to why there would be a 20% risk weight for cash. One could argue that there is no risk.
  - Investment in Credit Union Service Organization (CUSO) is weighted at 250% while loans to CUSOs are weighted at 100%. This implies that loans to CUSOs are 2.5 times safer than investments in CUSOs. The 250% weight for investment in CUSOs would discourage credit unions from otherwise viable options for services.
  - Allowance for Loan Losses (ALLL) – The ALLL is capped at 1.25% of risk assets. Credit unions could be penalized for being conservative in funding their allowance. Given that the

ALLL must comply with Generally Accepted Accounting Procedures (GAAP), it would seem that a 100% risk weight would be more appropriate for the ALLL.

- NCUSIF Treatment – Under the proposed rule, the NCUSIF 1% deposit would be ignored in the risk-based capital calculation. This is an inappropriate treatment of an asset that would be available in the liquidation of a credit union. Treating the NCUSIF as if its value is impaired is not reasonable given that its value is continuously addressed through assessments on credit unions.

- **Individual Minimum Capital Requirements (IMCR)** – I strongly disagree with the proposed IMCR provision that increases NCUA's authority to impose even higher capital requirements on individual credit unions that could exceed even well-capitalized level requirements. Furthermore, the proposed rule does not establish an upper limitation on these IMCR.

  NCUA's determination of whether a credit union would be subject to an IMCR would of necessity be highly subjective. That subjectivity creates uncertainty for credit unions. The arbitrary and subjective judgment of the examiner can differ from credit union to credit union and examiner to examiner. In addition, a credit union that may want to appeal must do so in writing to the NCUA Ombudsmen, clearly not an independent and unbiased process.

In addition to my specific concerns about the proposed rule, I feel that a supplemental capital proposal should accompany any new rule on risk-based capital. Without a supplemental capital component, credit unions are limited to addressing concerns about capital by quickly increasing profitability (through higher fees, higher loan rates or lower deposit rates) or shrinking assets, both of which are not initiatives that are sustainable or in the best long-term interest of a credit union.

Lastly, the Risk-Based Net Worth calculator, especially for a proposed rule, should not be available to the general public as it is right now on the NCUA website. The results could easily be misinterpreted by consumers, thus exposing credit unions to reputation risk.

In conclusion, unless the risk-based ratios are carefully calibrated, the ratios may incent credit unions to restructure their balance sheets in a way that discourages lending and puts pressure on credit unions to charge more fees and restrict growth. While I support the overall goal of risk-based capital, I am concerned about the abovementioned provisions of the proposed regulation.

Thank you for the opportunity to comment on the proposed regulation. If you have any questions, please do not hesitate to contact me. Thank you for your attention to this important matter.

Sincerely,

Jeanine M. Morse
President/CEO