HawaiiUSA
FEDERAL CREDIT UNION

Life matters.

May 13, 2014

To: regcomments@ncua.gov

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:

HawaiiUSA Federal Credit Union appreciates the opportunity to comment on the National Credit Union Administration (NCUA) Board's proposal to revise and replace NCUA's Prompt Corrective Action (PCA) rules. Although HawaiiUSA would remain well-capitalized under the proposed system, we believe this proposal could detrimentally impact the Credit Union Industry's ability to compete with other financial institutions and effectively service our members with progressive products and services. Furthermore, if implemented as written, risk-based capital ratios can be very volatile, resulting in rapid swings in capitalization classifications. To that end, this letter presents several comments for the NCUA Board's consideration in reviewing, and developing a final version of the Proposed Rule,

General Comments

1. **Total Risk-Weighted Assets**

   According to NCUA's interpretation of Section 216(d)(2) of the FCUA, the adequately capitalized net worth ratio does not provide for adequate protection from a variety of "material" risks, including credit risk, concentration risk, market risk, interest rate risk, operational risk, and liquidity risk. Therefore, the NCUA has devised a standardized risk-based capital framework capable of adequately and appropriately addressing these risks.

   Contrary to the NCUA's framework, neither Basel III nor the FDIC Interim Final Rule attempt to captures risks outside of credit risk in its risk weightings. Instead, both systems anticipate that banking regulatory authorities would employ other mechanisms to measure and control risks outside of credit risk.

   The NCUA's attempt to capture this broader range of risks places Credit Unions at a competitive pricing disadvantage in a highly competitive marketplace. HawaiiUSA urges the NCUA to adopt the following changes in the Final Rule:

Cash held at the Federal Reserve Bank

The Proposed Rule improperly assigns a 20% risk-weight to deposits held at the Federal Reserve Bank. More specifically, the Proposed Rule fails to distinguish credit union deposits in Federal Reserve Banks from deposits in commercial banks and other financial institutions. Unlike commercial banks and other financial institutions, it is incontrovertible that the US Government and Board of Governors of the Federal Reserve System would not permit any Federal Reserve Bank to fail or default on its obligations, including deposit obligations. HawaiiUSA recommends adopting a zero percent risk weight for deposits held at the Federal Reserve Bank.

Investments

The new investment risk-weights are substantially more punitive than the standardized risk-weight measures for investments under Basel III. Two examples of this argument are enclosed below:

Example #1: Under the Proposed Rule, a GSE Pass–through security with a weighted average life of seven years has an assigned risk-weight of 150%. However, by contrast, an individual 30-year mortgage would receive a risk-rate of 50%. Even if the loan became delinquent, it would receive a risk-weight of 100%, still below the GSE investment. The implied assumption is that the GSE investment represents a much greater risk to capital than the non-guaranteed, single-obligor 30-year mortgage. As opposed to Basel III which assigns a 20% risk-weight to the GSE Pass-through.

Example #2: Under the Proposed Rule, a 30-Year Treasury Bond has an assigned risk-weight of zero percent. In contrast, a well structured GSE Pass-through CMO with a seven year weighted average life and minimal extension risk has a risk-weight of 150%. Are risks associated with both investments being appropriately identified, measured, and controlled?

HawaiiUSA recommends the NCUA adopt investment guidelines that are more consistent with the risk-weight guidelines established by Basel III.

Member Business Loans

Under the Proposed Rule, member business loans, which are already limited by regulation to 12.5% of total assets, are assigned new and increased concentration parameters ranging from 100% to 200%. In contrast, Basel III does not assign concentration limits and establishes a 100% risk-weight for commercial real estate loans (excludes high volatility commercial real estate loans). Further compounding the inequity between the Proposed Rule and Basel III is the Credit Union industry's lower charge off ratio compared to the banking industry. HawaiiUSA recommends the NCUA adopt guidelines that are more consistent with the risk-weight guidelines established by BASEL III.

2. **Individual Minimum Capital Requirements**
HawaiiUSA is concerned about the proposed IMCR provision that increases NCUA's authority to impose higher capital requirements, even if the capitalization ratios indicate the credit union is well-capitalized. We believe this highly subjective provision could lead to unfair and inconsistent application of the agency's standardized framework. HawaiiUSA strongly recommends the elimination of individual minimum capital requirements from the final version of the Rule.

3. **Supplementary Capital**
In addition to the aforementioned recommendations, HawaiiUSA strongly recommends that supplementary capital access be granted to all credit unions. This action will allow the Credit Union Industry to meet the heightened capital requirements, while enhancing products and services to meet the ever-changing demands of our membership.

Thank you for the opportunity to comment on the Proposed Rule. Please let me know if you have any questions or comments regarding this letter, or need additional information to clarify our position on the Proposed Rule.

Sincerely,

Gregory Chang

Gregory C. Chang
Senior Vice President & Chief Financial Officer