



May 19, 2014

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

Dear Mr. Poliquin:

On behalf of the Wailuku Federal Credit Union and its 3,900 members, I am writing to express my concerns with the NCUA Proposed Risk-Based Capital Rule.

The components of the proposed RBC Rule that jump out immediately and cause us some major concerns are as follows:

1. Proposed Risk-Weights. The Proposed Risk-Weight for Junior Lien Real Estate Loans starts at 100% for a Threshold of 0 to 10% of assets. The Proposed Risk-Weight for Consumer Loan Types are 75% for all unsecured loans and all auto loans. The Proposed Risk-Weight for Corporate CU perpetual capital is 200%. Does it make sense for a secured loan like a Junior Lien Real Estate Loan to have a higher weighting than unsecured consumer loans? The loan-to-value of all Junior Lien Real Estate Loans may be at 50% which are substantially less risky but will have a higher weighting. The proposal does not consider loan-to-values (LTV) or collateral which should be a key factor in the weighting. Corporate CU perpetual capital weighting is twice as much as Junior Lien Real Estate loans and almost 3x Consumer Loans. The Corporate CUs are already subject to much stricter capital requirements and operating requirements. Does the Corporate CU perpetual capital weighting seem reasonable? Overall, the risk-weighting seems to be inconsistent with the associated risk (LTVs, variable vs fixed interest rates, etc).

Cash on hand and FDIC issued Guaranteed Notes carry a 0% risk-weight. However, cash on deposit at a FDIC/NCUA insured financial institution carries a 20% risk-weight. Both Accrued interest on loans and Accrued interest on investments carry a 100% risk-weight. Is the NCUA saying that the collectability on loan interest from a member with a 575 credit score is the same as investment interest from a FDIC/NCUA insured financial institution?

We have a significant amount of low LTV Real Estate loans and will be impacted by the Proposed Risk-Weights. Because the weighting does not consider LTVs, it may

unnecessarily affect the way we do business and service our members in need of Real Estate loans.

2. Individual Minimum Capital Requirements. There is a provision that says “NCUA may require a higher minimum risk-based capital ratio for an individual CU where the circumstances indicate that a higher minimum risk-based capital requirement is appropriate”. I’m not sure the NCUA wants to go there and allow their individual examiners to make that subjective call. The “circumstances” are not defined or measurable and this provision seems unnecessary given the higher minimum levels of capital already required with the proposed rule.

Although we may meet the Individual Minimum Capital Requirements, our NCUA examiner could still determine a higher capital requirement is appropriate. This is a very subjective determination and will lead to many inconsistencies.

3. Prompt Corrective Action (PCA) for Undercapitalized CUs. The CU must increase net worth either in the current quarter or on average over the current and three preceding quarters – by at least 0.1% of total assets until it is well capitalized. But the CU is restricted from increasing its total assets, unless the NCUA Board has approved a NWRP which provides for an increase in total assets and the CU is implementing steps to increase net worth. The CU is also restricted from increasing its volume of member business loans. NCUA may also take discretionary actions to require prior approval for acquisitions, branching, new lines of business; restrict transactions with a CUSO; restrict payment of dividends; prohibit or reduce asset growth; alter, reduce or terminate any activity deemed to pose excessive risk to the CU; prohibit nonmember deposits; dismiss any director or senior executive officer; employ a qualified senior executive officer who is subject to NCUA approval; and other actions determined by the NCUA Board. It would seem almost impossible to increase net worth as required while complying with all of the aforementioned restrictions. If your spouse told you that you need to make more money but you cannot find another job, borrow money from a financial institution or friends or relatives, purchase any equipment or software, work with a partner or start another business, would you be able to make more money?

If our CU ever became undercapitalized, it would be very difficult to increase net worth because most of the ways we would go about increasing our net worth are restricted. CU’s are allowed to apply for a waiver from these restrictions, however, to increase net worth in the required timeframe would require swift and immediate action. I am not convinced that swift and immediate action could be accomplished.

4. Ignores Liability side of the balance sheet. It seems odd that the liability side of the balance sheet is not addressed. Was this an oversight?
5. Insufficient implementation time and inconsistent with Basel III implementation. Banks have had several years of phased in implementation to adjust to Basel III. The proposed

rule's short implementation time is inconsistent with the banks and would make it extremely difficult to adjust a balance sheet.

In conclusion, I believe there is enough concern in the proposed RBC rule to reject it in its current form. Furthermore, I think the current standard calculation of the Risk-Based Net Worth Requirement to address capital is sufficient. There are already tools in place to address the major types of risks.

Thank you for the opportunity to comment on the proposed regulation and considering our views on RBC requirements. If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "C. A. Kinoshita".

Craig Kinoshita
CEO