From:	Warren Nakamura
To:	_Regulatory Comments
Subject:	risk based capital comments on proposed regulation
Date:	Wednesday, May 21, 2014 7:52:16 PM

Risk Based Capital Comments:

The risk based capital proposal is like the Sheriff of Nottingham in the story Robin Hood. The regulation hurts the poor (credit unions with low current capital) and helps the rich (credit unions with high current capital). Risk Based Capital may reduce the number of credit unions that are willing to take on the risk of merging small credit unions.

The average capital ratio in Hawaii of the 15 largest credit unions is 10.1 percent as of December. Nine credit unions were under the average capital ratio and seven of these credit unions would have the basis points above well capitalized reduced under the proposed regulation. All six of the credit unions with above average capital saw an increase in the basis points above well capitalized (CU Hawaii has 481 basis points above the 7 percent well capitalized level and with the proposed risk based capital would have 975 basis points above the 10.5 percent well capitalized level).

credit union capital	dec	above well capitalized	above well capitalized
CU Hawaii	11.81%	4.81%	9.75%
Maui County	11.58%	4.58%	6.12%
Hawaiian Tel	11.46%	4.46%	4.67%
Hawaii State	11.16%	4.16%	6.76%
Honolulu Federal	10.95%	3.95%	4.14%
HawaiiUSA	10.40%	3.40%	4.65%
HFS	9.95%	2.95%	6.23%
Hawaii Law Enforc	9.89%	2.89%	2.02%
Aloha Pacific	9.82%	2.82%	2.41%
University of Hawaii	9.59%	2.59%	2.48%
Kauai Community	9.52%	2.52%	1.57%
Hawaii Community	9.32%	2.32%	3.97%
Pearl Harbor	9.28%	2.28%	1.22%
Hawaii Central	8.59%	1.59%	-0.83%
Hickam	8.37%	1.37%	1.31%
average	10.11%		

Credit unions below average capital are adversely affected by the new regulation and credit unions with above average capital are positively impacted. This regulation may result in fewer credit unions that are willing to merge smaller credit unions that are seeking mergers (because of reduced margins above well capitalized). Of the six credit unions that are above average capital only three are community charter and only one of the three are located on Oahu (where most of the credit unions are located). NCUA should answer the question “Which is more important? Maintaining are large pool of credit unions willing to merge smaller credit unions or giving above average capital credit unions an even higher capital ratio.”

The proposed risk based capital regulation is not necessary because credit unions have had a historically solid performance under the current 7 percent new worth (or leverage) ratio in order to be considered "well capitalized". Adding to the existing regulation another layer of risk based capital is not necessary. Credit unions over $50 million have already implemented concentration limits and risk mitigation measures as recommended by NCUA. Credit unions are already highly regulated and this additional burden will further dilute management resources.

Credit unions were encouraged to agree to low income designation and with the designation were given an exemption from the 12.25 percent member business lending cap. If NCUA is encouraging business lending, why would they set risk weighting of business loans at a high punitive level? Credit unions with low capital level could decide to restrict loans with high risk weighting and avoid investments with high risk weighting sending them into a downward spiral of lower return on assets and lower capital.

On Oahu the median single family home price is $648,000 and is up 3.7% from April 2013. With equity building in real estate many homeowners choose to finance consumer purchases with real estate loans. Hawaii has a high level of real estate loans to total loans and with the current risk weighting would be adversely affected compared to other states.

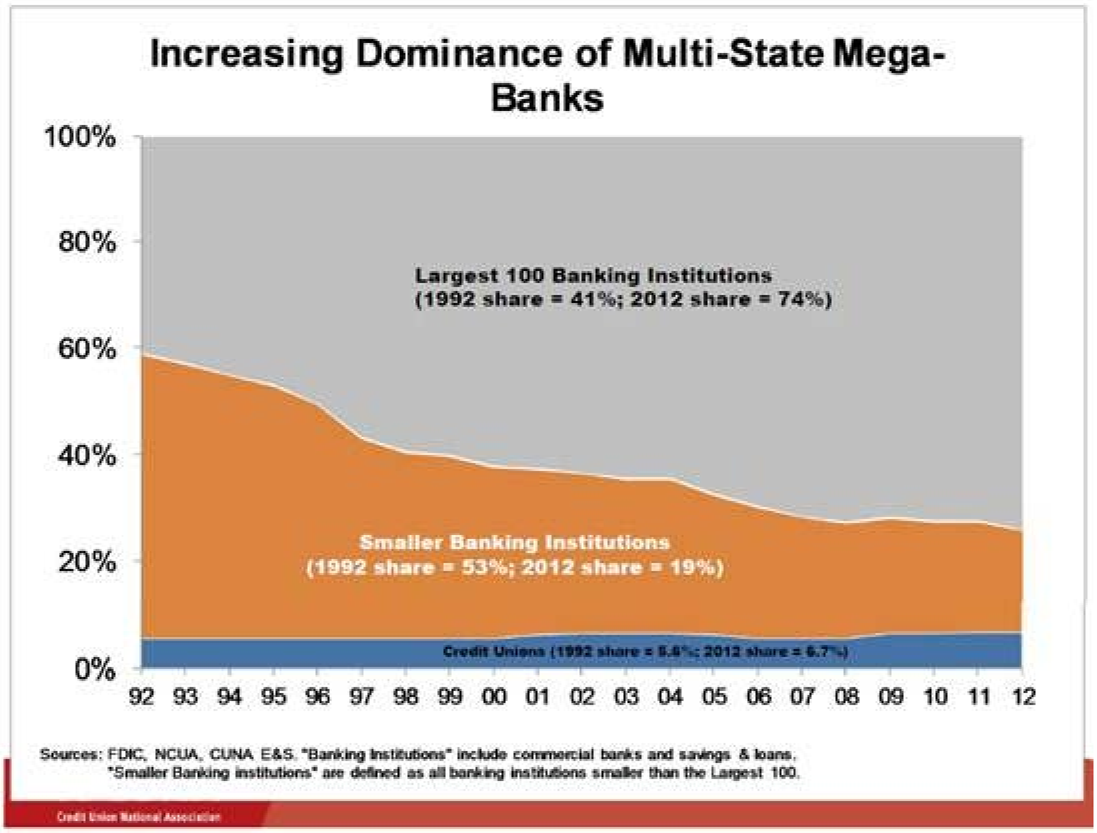
Real Estate Loans/Ln	**%**
Maui County	87.0
Hawaiian Tel	83.9
Hawaii Community	80.9
Aloha Pacific	78.0
Hawaii Central	72.5
University of Hawaii	72.1
Hawaii State	68.4
Hickam	63.6
CU Hawaii	61.9
HawaiiUSA	58.9
Valley Isle Comm	58.5
Honolulu Federal	**56.7**
Pearl Harbor	54.2
HFS	53.3
Kauai Community	52.7
Hawaii Law Enforc	43.5

The risk weighting for mortgage servicing should also be adjusted. We have our mortgage serviced by the Aloha Pacific FCU CUSO. If the risk weighting causes Aloha Pacific FCU to limit servicing we may have to move servicing to a local bank.

The proposed rule allows NCUA to enforce additional case-by-case capital requirements. This provision should be eliminated because it would make it difficult to plan strategically and set long range budgets.

Finally I believe the 18 month implementation period is unreasonable given the longer period of time small banks were given to comply with less stringent standards.

Financial institution consolidation among banks and credit unions will continue to grow. Will this regulation make mergers less likely and increase the number of liquidations of small credit unions?



Sincerely,

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