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LETTER OF COMMENT PCA—Risk-Based Capital

April 21, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314–3428

Horizon Credit Union appreciates the opportunity to provide comments on the National Credit Union Administration (NCUA) Prompt Corrective Action—Risk-Based Capital proposal.

We support the efforts of NCUA in its demonstrating a willingness to create a modern Risk Based Capital system for credit unions. A final rule that takes into account the comments and concerns of responding credit unions will be viewed positively by this credit union and others.

In following with the NCUA's primary function of ensuring the safety and soundness of federally insured credit unions, the existing PCA rules allow NCUA to effectively ensure this function. This was demonstrated in the last financial crisis where credit unions survived and emerged in better condition than any other type of regulated financial institution. Many of the losses that the NCUSIF recorded could have been significantly reduced by NCUA acting within their already existing powers. Sound management practices already in place at our credit union, and the vast majority of CU's across the country, allowed us to emerge from this financial crisis in a good position.

We have several specific concerns around the current NCUA RBC proposal. Horizon is a growing organization with strong loan demand. We have elected to focus on mortgage and consumer loans rather than MBL at this point. RBC metrics, as proposed, would restrict our ability to expand real estate offerings, which is a core competency. We offer FHA, VA, USDA and conventional secondary market qualifying loans but operate in rural areas of Washington, Idaho and Montana where portfolio loans are often the best solution for our members. Based on the tiered risk weights for real estate loans, our model would likely change to the detriment of consumers in these markets. Real Estate weighting under the RBC rule is heavier than Basel III provides for small banks, even though CU losses have been significantly less. This appears inconsistent and potentially damaging to our business model.

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Loans, including Consumer, Real Estate, and MBL are risk weighted to varying degrees. While current industry modeling shows credit unions having adequate capital to meet proposed standards, the loan to share average for our industry is lower than it has been historically. If it is deemed desirable for CU's to increase loan to share, additional modeling must be considered before concluding that CU's would remain compliant under the new RBC rule. It is likely that most, including Horizon, would see a decline in the RBC ratio with increased loan demand.

Horizon has both participated in CUSO's and wholly owned them in the past. We consider them a strategic option for delivering services to our members as well as a potential revenue source. Under the currently proposed RBC system our first option would be contractual relationships rather than participating in a CUSO. This effectively eliminates a current option for Horizon and, when magnified, is negative for our industry as a whole.

Goodwill is also eliminated from the RBC calculation, which even though consistent with Basel III, will have a negative effect on certain mergers. NCUA typically looks to well capitalized CU's such as Horizon to assume troubled or weak CU's. This is likely to be significantly impacted under this proposal.

Perhaps the most concerning component of this proposal is the Individual Minimum Capital Requirements and 1250% weighting element. This appears highly subjective and has the potential to be far from uniform in application. An unknown variable is always the level of skill sets brought on site by the individual examiner. We would highly recommend striking this element of the proposal.

One of our primary concerns involves the metrics behind the currently proposed RBC rule. At this point we lack an understanding of how these were determined and the historic losses that contributed to each calculation. If empirical data was indeed evaluated we would appreciate the opportunity to review and provide comment. We believe that additional communication is warranted in any event. If enacted as is, the current rule allows for an 18 month transition period. This is insufficient to model and transition balance sheet strategies. Banks were allowed a significantly longer period to make balance sheet adjustments and comply with the Basel III ruling.

Overall, we do not disagree with the general premise of having such a rule. However, we believe the proposed rule combined with current net worth ratio requirements to be considered well capitalized would place credit unions at a significant disadvantage relative to other financial institutions. We would like to reiterate that we support the NCUA's efforts in ensuring a safe and sound credit union industry.

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In conclusion, we agree with the underlying concept of a risk based capital weighting system and believe that a dynamic capital ratio calculation should account for the diverse risks associated with different types of assets. However, significant changes should be made to the proposed rule to avoid unintended negative consequences.

Thank you for your willingness to consider modifications to this proposal for the betterment of our industry.

Sincerely,

Horizon Credit Union

Jeff Adams
CEO

Jeffrey W. Adams

Steve Sharon
Board Chairman

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Mark Lodine
Board Member/Chairman GAC

Mark D. Lodine