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May 27, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
Via email regcomments@ncua.gov

Dear Mr. Poliquin:

Comments on Proposed Rule: PCA – Risk-Based Capital

Thank you for the opportunity to comment on NCUA's proposed risk-based capital rule. Hawaii Credit Union League (HCUL) represents 72 federal credit unions in Hawaii and 2 in Guam, 32 of which have total assets exceeding $50 million.

Here are HCUL's views on the proposed NCUA rule:

- In Section I of the supplementary information (Summary of the Proposed Rule), it states (in pertinent part), "The proposed revisions would include a new method for computing NCUA's risk-based capital measure that is more consistent with the risk-based capital for corporate credit unions and the risk-based capital measures used by the Other Federal Banking Regulatory Agencies." [Emphasis added.]

  However, the risk-weights proposed for credit unions are higher for certain types of assets (i.e., residential mortgage loans guaranteed by FHA or VA, non-delinquent first mortgage loans in excess of 25 percent of total assets, other real estate loans in excess of 10 percent of totals assets, member business loans in excess of 15 percent of total assets, and certain securities with weighted-average life greater than 1 year), as compared to Basel III for comparable-sized banking institutions. Furthermore, the proposed risk-based capital requirement for a credit union to be considered well capitalized, whereas the risk-based capital requirement for institutions under Basel III is 10 percent.

  We feel the risk-weights and risk-based capital requirements should be the same for NCUSIF and FDIC insured institutions for the sake of consistency.

- Section I of the supplementary information also states (in pertinent part), "In general, the revisions would adjust the risk-weights to lower the minimum risk-based capital requirement for credit unions with low risk operations." [Emphasis added.]

  Under the current prompt corrective action provisions of NCUA regulations, a credit union with low risk operation needs to maintain a net worth ratio of 7 percent or above to be considered well capitalized. However, under NCUA's proposed rule, all credit unions with total assets in excess of $50 million are automatically deemed to be complex and must have a net worth ratio of 7 percent or above in addition to a risk-based capital ratio of 10.5 percent or above to be considered well capitalized.

Consequently, under the proposed rule, a credit union would need higher, not lower, capital to be considered well capitalized. We feel the threshold for non-complex credit unions with low risk operations should be less than the proposed 10.5 percent.

- The proposed risk-weights for corporate credit union non-perpetual and perpetual capital are 100 percent and 200 percent, respectively. This is in spite of the fact that corporate credit unions provide essential services to many natural person credit unions and are regularly examined by NCUA.

  We feel the risk-weights for non-perpetual and perpetual capital in corporate credit unions should be reduced significantly from proposed levels.

- The proposed risk-weight for loans to credit union services organizations (CUSOs) is 100 percent and the proposed risk-weight for investments in CUSOs is 200 percent. These risk-weights do not consider profitability and longevity of the CUSOs. For example, CUSOs that have been in business for many years and built-up a high level of retained earnings would be treated the same as newer CUSOs which may not yet be operating profitably.

  We feel the risk-weights for loans to CUSOs and investments in CUSOs should be lowered for those CUSOs which pose little or no threat to credit unions that loan to or own such CUSOs.

- The proposed rule eliminates the NCUSIF capitalization deposit from the risk-based capital ratio by subtracting the amount of that deposit from the risk-based capital ratio numerator as well as the denominator of the ratio computation.

  Due to the refundable nature of the NCUSIF capitalization deposit upon the credit union's liquidation or termination of federal insurance, we feel the NCUSIF capitalization deposit should not be deducted from the risk-based capital ratio numerator, but be deducted only from the total risk-weighted assets (denominator), thus resulting in a higher risk-based capital ratio for all federally-insured credit unions.

- The proposed rule limits allowance for loan and lease losses (ALLL) to 1.25 percent of risk-weighted assets, compared to 1.50 percent under the current prompt corrective action rule.

  We feel the maximum allowable ALLL in the risk-based capital ratio numerator should be the same or higher than currently allowed.

- The proposed risk-weights for real estate loans do not consider the credit union's underwriting guidelines and loan seasoning. For example, a fixed-rate loan with a fully-amortized 15-year term has lower risk than a fixed-rate loan with a fully-amortized 30-year term. Likewise, a loan with a 50 percent loan-to-value ratio has lower risk than a loan with an 80 percent loan-to-value ratio. Similarly, a loan that has been paying satisfactorily for 10 years without a single late payment by a borrower with a 25 percent debt-to-income ratio has lower risk than a loan that was just made to a borrower with a 45 percent debt-to-income ratio.

  We feel risk-weights should consider such underwriting and loan seasoning factors, rather than considering all mortgage loans in a one-size-fits-all format.

- The proposed risk-based capital rule only looks at the asset side of the balance sheet and does not consider liabilities and off-balance sheet items (such as long-term borrowings, interest rate swaps, and other hedging techniques) that help to mitigate interest rate risks.

  We feel a credit union's risk-based capital should be viewed in the totality of circumstances, including liabilities and hedges, which may be used by the credit union to mitigate interest rate, liquidity, and other risks.

- If the factors specified in the two previous bullet points cannot be quantified in computation of the risk-based capital ratio, NCUA should address such factors in its considerations for establishing individual minimum capital requirements.

  We feel the examiners should have the authority to raise a credit union's capital adequacy classification, if justified by subjective factors such as conservative loan underwriting guidelines, seasoned loan portfolio, and risk mitigation techniques employed by well-managed credit unions.

- The final rule on risk-based capital is supposed to go into effect approximately 18 months after its publication in the *Federal Register.*

  We feel this 18-month implementation period is far too short for credit unions to make adjustments to internal systems, balance sheets, and operations. We recommend a five-year implementation period instead.

Again, we appreciate the opportunity to comment on NCUA's proposed risk-based capital rule. We hope the changes reflected above can be incorporated into the final rule.

Respectfully,

Dennis K. Tanimoto
President