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April 27, 2015

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

Dear Mr. Poliquin:

Comments on Proposed Rule: Risk-Based Capital (RIN 3133-AD77)

Thank you for the opportunity to comment on NCUA's proposed risk-based capital rule. Hawaii Credit Union League (HCUL) represents 69 federal credit unions in Hawaii and 2 in Guam, 17 of which have total assets exceeding $100 million.

First of all, thank you for substantive improvements to the original risk-based capital proposed rule, including:

- Exempting credit unions with up to $100 million in total assets from the risk-based capital rule;
- Lowering the risk-based capital ratio level required for an affected credit union to be classified as well capitalized from 10.5 percent to 10 percent;
- Lowering the risk weights for several classes of assets;
- Permitting the entire allowance for loan and lease losses to be included in the risk-based capital ratio numerator;
- Removing the interest rate risk components from the risk weights;
- Differentiating commercial loans from member business loans;
- Increasing the delinquency term from 60 days past due to 90 days past due to align with the FDIC rule;
- Reducing multiple concentration risk tiers to a single tier for real estate and commercial loans;
- Removing the "individual minimum capital requirement" provision from the proposed rule; and
- Extending the implementation timeframe from 18 months after adoption to January 1, 2019.

However, HCUL has the following concerns on the revised NCUA risk-based capital proposal:

- The legal authority for NCUA to implement a two-tier risk-based capital structure is questionable. NCUA's legal authority is challenged by Board Member Mark McWatters. Even leaders in Congress at the time the Credit Union Membership Access Act was passed to create the prompt corrective action provisions of the Federal Credit Union Act – such as Newt Gingrich and Barney Frank – have said it was not their intent for NCUA to have a two-tier risk-based capital system.

- Even if NCUA is deemed to have the legal authority to implement a two-tier risk-based capital structure, NCUA's deviation from statutory capital adequacy thresholds established by Congress is also questionable. Existing risk-based net worth provisions – contained in Sections 702.103 through 702.108 of NCUA's rules and regulations – should suffice.

- The risk-weight for current first lien residential real estate loans in excess of 35 percent of the credit union's assets should be lowered from 75 percent to 50 percent. This would align with FDIC's risk-weight for banks and thrift institutions.

- The credit conversion factor for unfunded loan commitments should be lowered to 0 percent if the loan commitment is unconditionally cancellable by the credit union. This would align with FDIC's risk-weight for banks and thrift institutions.

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

Respectfully,

Dennis K. Tanimoto
President