UNIVERSITY OF HAWAI'I
FEDERAL CREDIT UNION
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April 22, 2015

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

Re: Comments on Proposed Rule: PCA – Risk-Based Capital

Dear Mr. Poliquin:

We do support risk based capital (RBC). However, like its predecessor, RBC2 would use asset size to determine the complexity of a credit union. Using a credit union's asset size does not adequately determine whether or not a credit union is complex. Size should not be the only determinant for whether RBC requirements apply. Raising the asset size from $50 million to $100 million does improve a flawed definition simply by impacting fewer credit unions. While we agree that the $50 million level was far too low for the rule's threshold, $100 million is not the appropriate cut-off for application of the rule either. Additionally, with the exception of the corporate credit union failures, how many of the credit union failures were in credit unions under $100 million in assets? Recent data on credit union failures clearly contradict any claim that there is less risk in credit unions under $100 million in assets.

NCUA should provide a better-tailored definition of "complex" to ensure that the only credit unions covered are those with activities that pose extraordinary risk, beyond routine loans and investments, for which their adequately-capitalized-level net worth does not provide adequate protection.

Since the NCUA introduced RBC2, there have been several "legal" opinions provided by those in favor and those opposed to RBC. Therefore, we are concerned that NCUA may not have the legal authority to implement a two-tiered approach in RBC2. NCUA made improvements by lowering the threshold for a well-capitalized complex credit union from RBC1's proposed 10.5% to 10%. This remains well above the proposed 8% requirement for an adequately capitalized credit union. While this treatment is preferable to RBC1, we still have concerns that the new approach is inconsistent with the FCU Act.

RBC2 makes a number of positive changes to RBC1's proposed risk weightings. However, RBC2's risk weights remain too high in key areas. I would be interested to know how NCUA arrived at these risk weights. Did NCUA analyze the propensity for loss within certain loans and investments, etc., or were the risk weights copied from the federal bank regulators? Many banks have much higher business loan portfolios. Many banks have higher commercial loan portfolios. Therefore, higher risk weightings may be appropriate.

NCUA should allow the use of supplemental capital for any complex federally insured credit union to meet its RBC requirements. NCUA has the authority to permit supplemental capital for RBC purposes, and we believe NCUA should include such a provision if a final RBC2 rule is approved.

I don't believe it is effective for NCUA to issue a RBC rule, only to issue a separate interest rate risk (IRR) standard to account for IRR at credit unions at a later date. Shouldn't all "risks" that may require additional capital be included in one risk based capital rule? Over the last several years, NCUA has issued numerous rules and letters addressing the issue of IRR, which we believe provide sufficient guidance. Therefore, NCUA should either issue a comprehensive RBC rule, including all elements of risk, or rely on the IRR guidance previously issued to credit unions.

Thank you for the opportunity to comment on the proposed regulation. If you have any questions, please do not hesitate to contact me. Thank you for your attention to this important matter.

Sincerely,

Jeanine M. Morse
President/CEO