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April 27, 2015

Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke St.
Alezandria, VA 22314-3428

Dear Mr. Poliquin:

Please accept this letter as Horizon Credit Union's ("Horizon") formal comment on NCUA's recent proposed Risk-Based Capital Rule ("Proposed Rule") issued on January 15, 2015. We appreciate the opportunity to share our comments and recommendations regarding the Proposed Rule with the Agency.

Horizon commends the NCUA for reconsidering its initial proposal. The suggested changes to the original proposed regulations are a substantial improvement. However, we believe the Proposed Rule needs further review. In our opinion the Proposed Rule continues to place additional capital requirements on credit unions, and Horizon in particular, that are unnecessary and unwarranted. We have analyzed the effects of the Proposed Rule on our operations and believe they will substantially interfere with our ability to move forward with our business model.

While we have significant concerns regarding the Proposed Rule and the potential effects on our future operations we do appreciate the efforts the Agency has made to improve the risk weights for RBC2. One risk weight of particular concern to Horizon relates to higher concentrations of mortgage loans. Horizon currently serves more than 58,000 members through a network of 20 branches. Many of those branches are located in rural areas within the Inland Northwest. The geographic area we serve encompasses Central and Eastern Washington as well as North Idaho and Western Montana. While we have a relatively high concentration of mortgage loans in our loan portfolio we have experienced strong historical credit risk performance on those loans. This in spite of the fact that the borrowers we finance have more modest incomes than many areas of the country and property values are concomitantly less. Based on this strong historical credit risk performance of our mortgage secured loans we are particularly concerned with the potential for additional risk weighting. Such additional risk weighting will more than likely result in situations for our credit union that limit the availability of financing options heretofore made available to our members.

In addition to the problem we see with increased risk weighting of our mortgage secured loans we are concerned with the risk weighting to be applied to mortgage servicing. It is our opinion the risk weight for mortgage servicing remains too high. Our members' desire competitive priced, long term, fixed rate mortgages.

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We have been and will continue to meet our members' needs through the sale of a portion of our real estate loan portfolio to FNMA. This strategy has enabled our credit union to retain the servicing of our mortgage secured loans while maintaining a strong and direct relationship with our members. Our members appreciate the convenience of having their real estate loan serviced locally rather than through some unknown independent third party. By retaining the servicing of these loans in house it also affords our credit union the opportunity to earn non-interest income. This aspect of our operation is a low risk activity that meets an important expectation of our members.

An integral component of Horizon's business model is our merger and acquisition strategy. That strategy is well defined in our strategic plan. While Horizon has historically participated in supervisory mergers our most recent experience has involved the acquisition and merger of healthy credit unions. Through these mergers and acquisitions Horizon has been able to realize economies of scale which have in turn resulted in significant benefits to our existing members and to members of the merged or acquired credit unions. As part of the merger and acquisition process Horizon has acquired considerable goodwill from the credit unions that have joined the Horizon family. NCUA's proposal to eliminate or greatly reduce the accounting for goodwill will have a significant impact on our capital. Our capital would be affected by the amount of goodwill on our books involving future non-supervisory mergers but also for past successful mergers as well. We feel strongly that healthy, well-capitalized credit unions having sound merger and acquisition strategies should not have their capital denigrated solely because of that strategy. It is our opinion that at the very least goodwill currently on the books of credit unions should be grandfathered and not be affected by the newly proposed rule.

Another matter of concern to Horizon involves risk weighting when applied to accounting for goodwill following mergers or acquisitions. As part of our business plan Horizon is always open to the possibility of merging with other credit unions or acquiring other financial institutions. In fact, our merger and acquisition strategy is well defined in our strategic plan. While we have historically participated in supervisory mergers, over the past ten years we have focused our efforts primarily on merging with other healthy credit unions. These mergers have resulted in significant benefits both to our Horizon members as well as to the members of the merged credit union. Under the Proposed Rule we are particularly concerned how our capital would be affected by the risk weighting to be applied to goodwill. We are uncertain what effect this will have not only on future non-supervisory mergers but also on our past healthy mergers as well. We strongly believe that healthy, well-capitalized credit unions, such as Horizon, having a well thought out merger and acquisition strategy should not be penalized through restrictions on capital because of that strategy. We strongly urge the Agency to allow goodwill currently on the books to be grandfathered in and not subject to the Proposed Rule.

Another area of concern to Horizon is the manner in which participation loans are to be treated under the proposed rule. Many credit unions, including Horizon, may utilize participation loans in balancing ALM strategies, including liquidity and loan concentration. Our credit union has experienced strong loan demand from our members over the past several years. In order to meet that increased demand from

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our members we may utilize participation loans. Participation loans are an essential tool that allows us to offer loan products to our members when loan demand affects our liquidity position. They also enable us to offset certain risks in our balance sheet while at the same time provide a benefit to our participating partners who are experiencing excess liquidity. By increasing capital requirements for participation loans NCUA's proposal could have the effect of reducing the availability of credit to our members in times of increased loan demand and limit a valuable revenue source for those credit unions experiencing excess liquidity. Viable sources of liquidity, concentration risk management, and loan portfolio diversity may be negatively impacted through the increased capital requirements recommended in the proposed rule. In this regard NCUA should fully recognize that certain participation loans are not readily available for sale or purchase in traditional capital markets.

We would also like to encourage NCUA to allow all credit unions access to supplemental capital. As a credit union that continues to experience strong growth we believe that a modification to the capital requirements should contain a provision for access to supplemental capital. Currently, nearly one-third of all credit unions in the Pacific and Inland Northwest are designated low-income and therefore are able to accept additional forms of at-risk capital that may be considered as part of net worth for regulatory purposes. These credit unions have the ability to accept funds that not only enable them to increase lending to borrowers in need, but also protect the NCUSIF by creating a capital buffer to absorb losses. Access to supplementary capital should be to the advantage of both regulatory and credit union stakeholders.

In conclusion, it is our position that the Proposed Rule, as written, could have significant negative capital consequences for Horizon Credit Union. The currently proposed risk-based capital requirements as written will place not only Horizon Credit Union but most, if not all, credit unions at a competitive disadvantage vis-a-vis banks. We strongly encourage NCUA to revisit and revise this proposed rule for the benefit of Horizon Credit Union and all other credit unions.

Thank you for the opportunity to comment on the Proposed Rule and for considering our opinion on the new risk-based capital requirements.

Sincerely,

Steve Sharon Mark D. Lodine Jeff W. Adams

Steve Sharon	Mark Lodine	Jeff Adams
Board Chairman	Committee Chairman	CEO