CDCI

ANNUAL USE OF CAPITAL SURVEY - 2014

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

PRINCE KUHIO FEDERAL CREDIT UNION

Person to be contacted regarding this report:	Debra Nelson-Kelii	RSSD: (For Bank Holding Companies)	
UST Sequence Number:	1422	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	273,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	20187
Date Funded (first funding):	09/24/2010	City:	Honolulu
Date Repaid[1]:	N/A	State:	Hawaii

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☐	Increase lending or reduce lending less than otherwise would have occurred.	
☐	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
☐	Increase securities purchased (ABS, MBS, etc.).	

☒	Make other investments	After receiving the funds, we placed the funds in certificate of deposit accounts.
☐	Increase reserves for non-performing assets	
☐	Reduce borrowings	
☐	Increase charge-offs	
☐	Purchase another financial institution or purchase assets from another financial institution	
☒	Held as non-leveraged increase to total capital	On the opposite side, the funds are used as uninsured secondary capital to help keep our capital ratio above the 7.00% as required by our regulator, National Credit Union Administration (NCUA).

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Because the funds purpose was to increase our capital ratio, we avoided possible "prompt corrective action" (PCA) by NCUA. On a regular basis, each credit union must maintain a capital ratio of 7.00% or better. If a credit union falls below the 7.00%, NCUA will issue a PCA, which would require the credit union to develop a strong plan on how the credit union will increase its' capital ratio. Thereafter, NCUA monitors the credit union 's financial activity every month and weighs the activity against their capitalization plan. NCUA wants to make sure that the credit union will rebound within a reasonable time. If the credit union does not rebound, and if the credit union shows an increase in capital losses, it is possible that NCUA will have that credit union merge out or close all together.

PKFCU was able to maintain our capital above 8.00% up until 2014. From 2010 through 2013, the CDCI funds contributed greatly to achieving some growth. Because we are a small credit union, the mere fact of meeting regulatory requirements puts a great deal of stress on our bottom line. Couple that with other financial requirements that the credit union must comply with, without the CDCI funds, this credit union would have been under a PCA and everything listed in the above paragraph would apply.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

With the CDCI infusion, we were able to increase our lending to individuals that would not qualify for a reasonable rate car loan from other conventional lenders. PKFCU uses a standard rate, based on the term of the loan, for all qualified loan applicants, regardless of the applicant's credit score. This provided a reasonable rate to individuals that would have possible faced interest rates as high as 25% or as low as 18% from other lending sources.

The down side to providing these loans to some of these individuals is that some do default on the loan. This increased our repossessions requiring us to increase our allowance for loan losses. With the increase to the allowance for loan losses, we experienced negative net income, which depletes our capital. The CDCI funds helped us to remain at an acceptable level. Without it, we would have fallen below the 7.00%.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.