HIWAY
FEDERAL CREDIT UNION
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April 23, 2014

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

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

Dear Mr. Poliquin:

Hiway Federal Credit Union (Hiway FCU) is a federally chartered credit union in St. Paul, Minnesota providing various financial services to consumers and small businesses. At December 31, 2013, we had $927 million of assets and over 60,000 members. We thank you for the opportunity to comment on the proposed risk based capital regulation and agree that the intent of any regulation is to create a stronger industry.

The proposed regulation outlined in the Federal Register on February 27, 2014 with respect to 12 CFR Parts 700, 701, 702, 703, 713, 723, and 747, indicates the National Credit Union Association (NCUA) would like to replace the agency's current risk-based net worth requirements with new risk-based capital requirements for federally insured "natural person" credit unions.

Hiway FCU generally agrees with NCUA that the existing regulations need to be replaced with a more robust model to measure balance sheet risk. However, the proposed approach will lead to unintended consequences that undermine the very goals these changes set out to achieve. Below are specific attributes of the proposal to which we object. We believe the NCUA should change these attributes to create a better regulation and, in turn, a stronger credit union industry.

NCUA Goals for the Proposed Rule

The NCUA set forth two primary goals when developing the rule. First, that the proposed risk-based capital requirements be more consistent with NCUA's risk-based capital measure for corporate credit unions. Second, the regulation should be more closely aligned with regulatory risk-based capital measures used by the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve, and Office of the Comptroller of Currency (Other Federal Banking Regulatory Agencies).

Hiway FCU does not believe the proposed rule is an appropriate measurement to understand such a broad range of risks. There are numerous risks attempting to be included in one ratio. Unfortunately, this makes the ratio less useful than it could be if multiple ways to measure risk were used. The use of risk weights on both interest rate and credit risk is inconsistent and the attempt to do so undermines the goals of the rule by making it incomparable to Basel III and other banking regulatory agencies. NCUA is requiring more capital of credit unions by using higher risk weights on items that have more meaningful contributions to a financial institution.

Maximum Reduction for Allowance for Loan and Lease Losses (ALLL)

The proposal includes an ALLL maximum inclusion limit of 1.25% of total risk-weighted assets in the numerator. Limiting an account's inclusion where its sole purpose is to mitigate risk to capital, when used by any regulatory agency, is working against the intentions of capital conservation and risk measurement. In addition, while the risk weights on delinquent loans is 100%-150%, this restriction does not recognize the actual reserve amount on that same loan. Hiway FCU believes the entire ALLL should be counted in the numerator, especially given the future ALLL accounting changes that provide additional capital cushions that are not considered in the existing or proposed net worth ratios.

Investment Risk Weights / Interest Rate Risk

Hiway FCU agrees with NCUA's inclusion of risk weights on investments. However, we believe risk weights should be determined by credit risk standards and eliminate interest rate risk based weightings. The proposal's attempt to capture a broader range of risk is a material difference compared to requirements at other regulatory agencies. Therefore, the weightings undermine one of the proposal's primary goals of consistent regulation.

Using weighted average life as a risk weight on investments and not on loans creates an inconsistent approach to interest rate risk. For example, if our credit union originated a 30 year mortgage we have the option to hold or sell it. If we hold it, and add interest rate and credit risk, the risk weighting is 50%. However, if we sell it, which removes the credit risk, and then purchase it in the form of a mortgage backed security, the risk weight is 150%, or three times the amount even though we removed a significant risk.

Another example of inconsistency within the proposal is the treatment of general obligation municipal bonds. Under the proposal, an AAA rated general obligation bond with a weighted average life of seven years would receive a risk weight of 150%. That is the same risk weight that is assigned to a delinquent unsecured credit card loan. Obviously, the delinquent unsecured loan has a higher credit loss probability than the municipal bond yet we need to hold the same level of capital for both of them.

In addition, while all treasury bonds are weighted 0%, federal government agencies are weighted up to 200%. It appears some investments are being weighted by credit risk while others by interest rate risk. Again, this is inconsistent.

Finally, and possibly most importantly, to propose that interest rate risk is measured solely on the asset side of the balance sheet without any consideration of liabilities is confusing. Unfortunately, this concept has not been introduced within the proposed regulation. Credit unions commit significant resources to manage interest rate risk and NCUA commits significant resources to regulate interest rate risk. The fact that the liability side of interest rate risk was ignored should be enough of a reason to remove any interest rate risk measurement from the proposed framework.

Therefore, we believe investment risk weights should be determined by credit risk standards only and be consistent with Basel III.

Loan Risk Weights

The loan risk weights are not consistent with requirements at other regulatory agencies and, therefore, require higher capital requirements of credit unions than of banks. For credit unions that use capital requirements in loan pricing, this creates a competitive disadvantage. There are no reasons provided in the proposal for the misalignment with Basel III weightings. Hiway FCU believes the loan risk weights should be the same as the Basel III weightings.

Concentration Risk

While there is concentration risk in financial institution balance sheets, capital cannot be lost or gained because of concentration risk. It is the underlying risks, such as credit or interest rate, which cause capital gains or losses. Including concentration risks as part of the rule introduces a risk weight that has nothing to do with the capital risk in the balance sheet. The loan portfolios of two credit unions could have the same real estate concentration levels, yet have completely different credit risk profiles. Concentration risk does not measure the actual risk within a portfolio. Since capital is not gained or lost because of concentration risk, Hiway FCU believes using concentration risk in a risk-based capital measurement is not appropriate and its role should be minimized or eliminated in the calculation.

Asset Backed Capital Requirements – Category 10

Hiway FCU supports the idea that all credit unions should fully understand what is included on its balance sheet. However, we believe assigning a risk weight based on an examiners understanding of the credit union's knowledge is inappropriate. This judgment is arbitrary and influenced by the examiner's own experience with the asset in question. In addition, examiners have other tools to require change at any credit union. While we would hope this risk weighting would be used sporadically, we still don't believe it can be applied consistently or fairly across examination teams. Therefore, we recommend that category ten be removed from the proposal as its benefit does not offset its likely, and possibly material, misapplication.

Deduction of National Credit Union Share Insurance Fund (NCUSIF)

Deducting the NCUSIF deposit suggests the deposit is worthless. The deposit is not worthless, as it could be returned at par in the event of a conversion. Hiway FCU believes the NCUSIF should be included in both the numerator and denominator.

Federal Reserve Bank Cash (FRB)

Cash at the Federal Reserve Bank is weighted at 20%. We recommend reducing the risk weight to 0% given the risk profile of the FRB.

Credit Union Service Organization (CUSO) Risk Weights

The blanket CUSO risk weighting of 250% is excessive. The capital at risk as a result of a CUSO should be based on the performance of the CUSO and its materiality on the credit union. CUSOs can be an effective way for credit unions to pool resources to create efficiency and stronger performance. The proposed risk weight creates a disincentive for credit unions to invest in CUSOs. However, if a blanket risk weight is to be used, Hiway FCU recommends reducing the risk weight to 100%.

Summary

Hiway FCU agrees with the NCUA's efforts to improve its measurement of regulatory capital. However, the proposed approach will lead to unintended consequences that undermine the very goals these changes set out to achieve. We believe in an attempt to quantify a broad range of risks in a singular ratio, the primary goals of setting a measurement system of risk as well as aligning risk metrics with other banking agencies creates a flawed system. The NCUA's proposed regulation should be modified and strive for more consistency with Basel III.

Again, thank you for your efforts to improve the existing risk based net worth calculation. With the recommendations above, we believe the credit union system will become stronger. Hiway FCU thanks you for the opportunity to comment on this proposal. If you have any questions or would like additional information, please contact Aaron Kastner at 651-259-6450.

Sincerely,

Aaron Kastner	Dave Boden	Pam Tschida
Chief Financial Officer	Chief Executive Officer	Board Chair