HIWAY
FEDERAL CREDIT UNION

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April 21, 2015

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 (Second Proposed Rule)

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. 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.

First, Hiway FCU would like to acknowledge NCUA's efforts in addressing the issues in the initial risk-based capital proposal. Thank you for listening to and addressing many of our concerns.

NCUA's goal for creating a new risk based capital system is to prevent losses to the NCUSIF. However, the greatest losses to the NCUSIF have been related to a lack of internal controls, which risk-based capital does not, and could not appropriately, address.

In addition, we believe the NCUA's lack of foresight will reduce market share for credit unions. Credit unions that are strong and have a history of making good risk-reward decisions will be forced to leave good risk-reward decisions on the table. Eventually, these foregone opportunities will have an impact on capital levels. Lower capital levels lead to less reinvestment within the operation of the credit union, which in turn, reduces market share. With reduced market share, the proposal essentially will weaken the credit union system, and in turn, weaken the NCUSIF. While we understand the intent of the proposal is to strengthen the NCUSIF, we believe it does the opposite, and this NCUA decision will eventually make the credit union system weaker.

Since we anticipate that NCUA intends to move forward with risk-based capital in some form, we offer the following additional thoughts regarding the proposed risk based capital regulation.

Comprehensive Written Strategy (Part § 702.101 (b)(2))

The proposal now requires a credit union to maintain a "comprehensive written strategy" for maintaining an appropriate level of capital. If NCUA is confident in its risk based capital rule, we question why NCUA believes each credit union should have a capital strategy plan that employs a different methodology than the rule. If NCUA is confident in its rule, this part should not be necessary. If NCUA is not confident the proposal measures what is needed, the proposal should be rewritten. In addition, the regulation does not explain the expectations for this plan. The regulation should define the components of the comprehensive written strategy. We ask NCUA to provide more description in this area and elaborate on its expectations of credit unions prior to any implementation.

Goodwill

Hiway FCU believes the use of goodwill allows a credit union to absorb a struggling credit union without negatively impacting the NCUSIF, which as an industry we must find a way to continue to incentivize.

Goodwill should not be immediately deducted from the numerator of the risk-based capital ratio. Goodwill arising from both previous and future mergers should continue to be counted without a time limitation, so long as it meets GAAP requirements.

Interest Rate Risk

Hiway FCU thanks you for removing the interest rate risk component from the proposal for the many reasons we stated in our previous letter. However, we do not support the creation of an additional interest rate risk rule. NCUA released new interest rate risk rules just 18 months ago and we believe improving the existing supervisory process would be better than creating new rules. Credit unions that are following these existing rules have an interest rate risk strategy that supports its strategic plan. Credit unions that are not following these rules could benefit from clearer and more descriptive interpretations of the rule. Clarity could be found by utilizing examples of interpretation throughout the rule. In addition, improved examiner understanding of interest rate risk will also help maintain a strong framework of interest rate risk management. We have experienced examiners with little understanding of interest rate risk and rely on just one or two simple ratios rather than a complete balance sheet strategy. This lack of knowledge and understanding, by both credit unions and examiners, of NCUA's existing interest rate rules increases the risk to the NCUSIF. Therefore, we believe the existing rules are sufficient and no additional rule is necessary.

Again, thank you for the significant improvement in the revised risk-based capital proposal, and for listening to the credit union industry's thoughts, ideas, and concerns. If you have any questions or would like additional information, please contact me at 651-259-6450.

Sincerely,

Aaron Kastner
SVP/CFO
Hiway Federal Credit Union
651-259-6450