



"We make a Difference in Our Members' Lives"

April 22, 2015

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

Ref: Risk-Based Capital Rule Proposal (revised)

Representing Hickam Federal Credit Union (HFCU), we appreciate the opportunity to express our thoughts to the National Credit Union Administration (NCUA) Board on the Risk-Based Capital (RBC) Rule proposal, as revised.

We, at HFCU are pleased that the NCUA's revised version of the RBC rule proposal for credit unions represents an improvement over the original, and now more closely emulates the regulatory requirements of other financial institutions, as defined in Basel III. Unfortunately, we do have concerns regarding this controversial and important regulatory proposal. There are potential shortcomings of this proposed rule for our credit union and the credit union industry if finalized in its current form; having said that, we would like to provide some comments for consideration.

Definition of Complex

As in the original proposal, NCUA's definition of "complex" is arbitrary in nature, as it is based on the assets size of the credit unions, and not on their [respective] breadth of operation(s); rather, as the "complexity" of the subject credit unions should be predicated on to what extent they engage in relevant risk-related activities, the designation of a credit union as being "complex" would more reasonably be based on how diverse their scope of operations, and not strictly on their size,

Regulatory Burden

With NCUA's emphasis on safety and soundness in today's environment, the costly imposition of the proposed rule if finalized would have an adverse impact on the credit union industry, with questionable value. NCUA's estimate that this proposal will cost credit unions roughly more than \$5 million to read the rulemaking and review it against our current policies adds an expense to all the credit unions already sensitive to maximizing their "bottom lines". NCUA has projected that it will cost close to \$4 million for the Agency to adjust the Call Report(s), update its examination systems, and train internal staff to implement the proposed requirements; and, NCUA's estimates reflect that credit unions would incur an ongoing expense to complete the adjusted Call Report fields of just over \$1 million.

The costs associated with this proposal - given how well capitalized the credit union industry is today - is a wasteful utilization of credit union resources to be concerned with a few credit union outliers. In our opinion, the costs to the industry far outweigh the value of the legislation, and will not serve to make the credit unions stronger.

The National Association of Federal Credit Union's (NAFCU) analysis estimates that credit unions' capital cushions (a practice encouraged by your own NCUA examiners) will suffer a \$490 million hit if NCUA decides to separate the risk-based threshold for well capitalized and adequately capitalized credit unions into a "two-tier" approach. In order to satisfy the proposals "well-capitalized" thresholds, today's credit unions would need to raise an additional \$760 million, while to satisfy the proposal's "adequately capitalized" thresholds, credit unions would need to raise an additional \$270 million. Despite your insistence that only a limited number of credit unions will be impacted, this proposal would force credit unions to hold hundreds of millions of dollars in additional reserves to achieve the same capital cushion levels that they currently maintain. This would place an immense burden on our credit unions; these funds could be better utilized by us doing what we were chartered to do - making loans to members.

Interest Rate Risk and Supplemental Capital

In this revised proposal the Interest Rate Risk component was removed from the risk-based capital framework and instead NCUA is planning to develop alternative methods to measure interest rate risk, including potentially using a standardized interest rate risk measurement. Historically, bank regulators made a conscious decision to avoid such a measurement when they initially adopted interest rate guidelines in 1996. Again in 2010, the regulators issued updated guidance on interest risk management, and again stopped short of recommending the use of standardized regulatory measurements for interest rate risk. The guidance focused more appropriately on procedures for the measurement, monitoring, and control of interest rate risk. We concur with our peers and industry organizations that the existing guidance for Interest Rate Risk continues to be the most appropriate methodology to evaluate and monitor our interest rate risk, especially for the credit unions that would be covered by the new risk-based capital guidelines.

We support the initiative to allow eligible credit unions the authority to raise Supplemental Capital. Currently, a credit union's net worth ratio is determined solely on the basis of retained earnings as a percentage of total assets. Frequently retained earnings is not able to keep pace with asset growth, which can depress a credit union's regulatory capital ratio and trigger non-discretionary supervisory action under Prompt Corrective Action (PCA) rules. With the ability to access supplemental capital, in addition to retained earnings sources, it will ensure healthy credit unions to be able to manage asset growth and continue to serve their member owners more efficiently. With the restrictions brought on by this proposal, it would provide much needed support.

Delegation of Authority

We believe that NCUA's approach in addressing Part 701.36 - FCU Ownership of fixed assets - is a more appropriate means of ensuring safety and soundness for the credit unions, while offering regulatory relief. In proposing to "eliminate the 5% cap existing on fixed assets", NCUA has delegated to [credit union management], the responsibility to implement "a fixed assets management (FAM) program that demonstrates appropriate pre-acquisition analysis to ensure the FCU can afford any impact on earnings and net worth levels"; of course, the FAM would be subject to supervisory scrutiny, as it should be. In this instance, as NCUA has not deviated from its 5% parameter, it provides credit unions the ability to move forward, as long as the impact of the acquisition has been analyzed.

Similarly, under Part 702.102 - Prompt Corrective Action: Statutory net worth categories - credit unions are subject to the net worth requirements under Section 702.103 through 702.108. What is particularly relevant in this Part is Part 702.102(b) - Reclassification based on supervisory criteria other than net worth - in which NCUA retains the authority to "require...[a]... credit union to comply with certain mandatory **discretionary** supervisory actions...." [bold added]

As it pertains to the revised RBC proposal, since NCUA would enhance its 5300 Quarterly Call Report data gathering, it should have the capacity to advise/warn credit unions of any impending threats to their net worth, and delegate to management the responsibility to take the appropriate action to address the threat.

Counter-Proposal

If we could be so bold, please consider a counter-proposal, as follows:

- Designate the RBC proposal from that of regulatory initiative to a supervisory tool for the NCUA examiner staff
- Revise the 5300 Quarterly Call Report as being contemplated, to collect the data that is relevant to the analysis of each credit union's risk-based net worth in calculating the ratio
- Have NCUA examiner staff follow up with the affected credit unions, as may be necessary - if less than 30 credit unions (0.05%) are affected, the task should not be monumental
- At the annual [periodic] examinations, NCUA examiner staff should discuss with the credit unions the various course(s) of action to address any concerns that the Agency may have
- In the meantime, credit unions would be adhering to the provisions of Part 702 of the Rules and Regulations

Conclusion

In our mind, the Risk Based Capital Proposal (revised) while theoretically beneficial in further breaking down - and having the capacity to further analyze the financial condition of our credit unions - represents just another exercise in futility for us, and another regulatory burden; additionally, there would seem to be limited value to the rule, given how well-capitalized our credit unions are. We urge NCUA to withdraw the proposal, and in lieu of that, take into account the comments submitted, to further improve the rule.

We would like to once again, express our gratitude for allowing us to comment on this proposed regulation. We hope NCUA will consider our comments to help us and other credit unions' better serve our members.

Sincerely,



Ray Romero
Chairman of the Board



Gerard Auyong
President/CEO