



4309 North Front Street Harrisburg, PA 17110 Phone: 800-932-0661 Fax: 717-234-2695

May 27, 2011

Mary Rupp, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: NCUA Proposal Incentive-Based Compensation Arrangements

Dear Ms. Rupp:

The Pennsylvania Credit Union Association (PCUA) is a state-wide advocacy organization that represents a majority of the 538 credit unions located within the Commonwealth of Pennsylvania. PCUA appreciates this opportunity to comment on the National Credit Union Administration's (NCUA) proposed rule concerning incentive-based compensation arrangements.

PCUA enlisted the assistance of its Regulatory Review Committee and State Credit Union Advisory Committee (the Committees) to review the NCUA's proposal and prepare the comments contained in this letter. The Committee members are the chief executive officers of credit unions representing all peer groups based on asset size.

On behalf of Pennsylvania's credit unions we express our commitment to safety and soundness. Credit unions are keenly aware that we work for our members and we desire to maintain that trust and consumer confidence. Accordingly, as part of an overall approach to safety and soundness, we agree that expenses such as salaries, incentives, or bonuses, however structured, must be managed in an appropriate fashion. However, there is nothing unique about salary or bonuses that should heighten their profile or scrutiny in comparison to any other expense on the general ledger. For this reason, in addition to the comments below, we do not support the pending proposal on incentive-based compensation arrangements.

Incentive-Based Compensation Regulatory Scheme

Congress imposed a statutory mandate on the NCUA and other agencies that supervise financial services enterprises to implement section 956(e) of the Dodd-Frank Act, 12 U.S.C. A. § 5641. The proposed regulatory scheme aims to prohibit incentive-based compensation arrangements that NCUA might determine encourages inappropriate risk by providing excessive compensation or that could lead to a material loss. As we understand the history of the Dodd-Frank Act, much of Congress' concern was aimed at large institutions such as investment banks or commercial banks. To the best of our knowledge and belief, there was little or no discussion of credit union compensation practices at the legislative level. Yet, the credit union system finds itself swept up in a legislative and regulatory environment that is, more appropriate for the commercial banking and investment sector.

In addition, we note that the proposal is significant in scope and includes seven agencies. However, nowhere does the background or discussion of the rule demonstrate or cite to material losses or threats to safety and soundness causally linked to incentive-based compensation arrangements. We submit that the record does not make a case for this new layer of regulation.

Existing NCUA Authority

NCUA possesses ample statutory authority to address or correct safety and soundness matters or the possibility of a substantial loss connected to incentive based-compensation arrangements. Enforcement tools such as Letters of Understanding and Agreement or Cease and Desist Orders can be utilized to stop egregious practices. The examination process can probe expenses and compensation. Footnote 7 of the proposed rule includes numerous citations to NCUA's authority to regulate compensation practices. On May 19, 2011, NCUA finalized a new rule regulating the payment of golden parachutes. Appropriate tools are available to address any perceived risk. The policy and reporting requirements of the proposed rule increase the amount of compliance chores conducted by federally insured credit unions. They merely detail information that NCUA or state regulators can inspect in the normal course of business.

The Evasion Provision

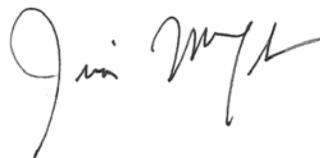
The proposed rule contains a prohibition against "evasion." Such evasion provisions are a disconcerting trend in agency rulemaking. The language of the evasion provision is unclear and will create difficulty in terms of ensuring compliance. It is drawn so broadly that the language creates a risk that normal business activity such as conferring with consultants, tax advisors, attorneys or similar experts and comparing the pros and cons of different approaches to compensation programs could inadvertently be construed as evasion. Inchoate crimes or violations tend to be well defined in order to pass constitutional muster. Should the final rule contain an evasion provision, it should clarify what types of behavior or activity would be deemed to be evasion.

Conclusion

Pennsylvania's credit unions desire to do their part in maintaining safety and soundness and serving consumers well. Traditionally, we support safety and soundness regulations, particularly where we can see a direct benefit to the financial health of credit unions and the financial well-being of consumers. We are compelled to oppose the adoption of the proposed rule on incentive-based compensation arrangements because we do not see a causal connection between credit union compensation practices and threats to safety and soundness. Further, the proposal creates compliance and reporting burdens on a subject matter where the NCUA and state regulators have adequate access to compensation and expense-related data as well as a deep well of enforcement mechanisms to correct deficiencies connected to compensation practices and expense control.

Sincerely,

PENNSYLVANIA CREDIT UNION ASSOCIATION



James J. McCormack
President/CEO

JJM:RTW:llb

cc: Association Board
Regulatory Review Committee
State Credit Union Advisory Committee
M. Dunn