

May 31, 2011

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Subject: Northwest Credit Union Association Comments Regarding Notice of Proposed Rule, Incentive-Based Compensation Arrangements; 12 CFR Parts 741 and 751, RIN 3133-AD88

Ms. Rupp:

The Northwest Credit Union Association is grateful for the opportunity to weigh in on this proposed rule. Representing Oregon and Washington's 193 credit unions with 4.2 million members and \$46.3 billion in collective assets, we believe this proposal was developed to remedy a problem which was not perpetuated by the actions of credit unions. While we understand this provision is required under the Dodd-Frank Act, we believe there are several ways this proposal should be augmented to provide meaningful reform while taking as much care as possible to avoid unnecessarily increasing the regulatory and compliance burden on credit unions.

General Comments

Broadly, this proposed rule continues the trend we have seen which puts NCUA and regulators more and more into the business of regulating the practices and internal workings of credit unions. Controlling the way in which employees are compensated has been, and should continue to be, the role of the board and executives of the credit union. While it is true that some executives in high-finance were guilty of providing huge incentives to those who took risks on behalf of the institution, this was not the case with credit unions. Yet, once again, credit unions are swept into the overarching and overreaching crack-down on financial institutions.

The Association understands that the Dodd-Frank Act has set out many requirements for regulations which must be implemented for credit unions. However, we believe there are ways to interpret and implement these requirements which would have a far less burdensome impact on credit unions, staff, and their bottom line while maintaining the requirements outlined in the Dodd-Frank Act.

Create consistent asset threshold

The Administration is urged to adopt the same asset size requirements for credit unions as those imposed on banks. Requiring credit unions with assets of \$10 billion or more to abide by the same requirements as “larger covered institutions” of \$50 billion or more on the banking side is not equitable and both should be held to the same standard. As they are not mandated by Dodd-Frank we would recommend that the definitions be revised so they are comparable across the industries when requiring special terms.

Narrow pool of applicable employees

The definition of “covered person” refers to “executive officers, employees, directors, or principal shareholders.” This definition is far too broad and brings the potential for excessive compliance to all impacted credit unions. This should be narrowed to more clearly define those employees who potentially expose the credit union to inappropriate risk. The current broad definition would create a regulatory burden beyond what appears to be the intended scope of the proposed rule.

Credit unions are often small institutions with a limited number of employees. Taken to the extreme this proposal could reach beyond the intended audience causing compliance confusion around what should and should not be reported. Tellers who receive incentives for opening accounts, winners of internal contests, or even recipients of nominal commissions which come about through everyday business practices could potentially be impacted.

The definition of a covered person should “executive officers, directors, principal shareholders, or employees who could expose the institution to inappropriate risk.”

Ensure confidentiality of required information

Of major concern is the privacy of information provided. The proposal has made clear that only the structure of the pay plans would be reported through a description of components, a description of policies and procedures, reporting of material changes to the policies and procedures and supporting reasons for compliance with the regulation. Yet, for the NCUA to determine what is and is not considered to be within allowed limits it will have to know the specific levels of compensation. It is paramount to credit unions, and their employees that specific compensation information is kept private.

Included in this proposal should be a plan for the manner in which this information will be handled so that it will remain confidential and not available for public review at any time.

Allow feedback on reporting requirements

Credit unions will be required to use an NCUA-generated format to submit their report annually. However, this report format has not been published. In developing an entirely new area of compliance and reporting it is essential that credit unions have the opportunity to review and comment on that format. Draft model forms are one of the most helpful aspects of proposed rules when appropriate. These help to give the credit union a real sense of what they will be facing and an opportunity to raise any red flags that may emerge. Please publish a draft model form or report format for comment before finalizing these rules.

Conclusion

As always, we are pleased to be able to present our comments and appreciate the thoughtfulness with which they are considered. In relation to this proposal on incentive-

based compensation we believe there are some simple fixes which would help provide equity, increase clarity, ensure privacy, and ease compliance.

We would be happy to answer any questions you may have.

Very Truly Yours,

Jaycee Winn
Director of Regulatory Advocacy
Northwest Credit Union Association