James F. Quinn
Chairman, Board of Directors

April 19, 2011

BY: E-MAIL/regcomments@ncua.gov

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

SUBJECT: Notice of Proposed Rulemaking (NPRM)-
Incentive-based Compensation Arrangements

Dear Ms. Rupp:

Pentagon Federal Credit Union (PFCU) strongly supports the subject proposal, one that is designed to limit imprudent risk taking by credit union officials as they act to provide financial services to an association's members.

We would note, at the outset, that unlike other types of financial institutions, federally chartered credit unions are exposed to a greatly constrained set of financial risks, which may be taken as contrasted to those that other types of financial institutions may be exposed. As NCUA is aware, this fact derives from the severely curtailed statutory and regulatory programs in which credit unions may participate. Notably, these areas include: operational activities, lending and investing powers.

The foregoing observed, PFCU offers four suggestions for the National Credit Union Administration (NCUA) to evaluate in drafting the final subject rule.

First, the proposed rule at § 751.5(a)(1) prohibits a credit union from establishing or maintaining "...any type of incentive-based compensation arrangement...that encourages inappropriate risks by the credit union by providing a covered person with excessive compensation."

The proposal then extends the latter requirement at § 751.5(b)(3)(i)(A) by obligating credit unions with $10 billion or more in total consolidated assets to defer any annual incentive-based compensation over a stated period.

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Notwithstanding the foregoing we observe that the supplementary information contained in the NPRM at page 21180 of the Federal Register discusses the 'deferral' threshold for "larger covered financial institutions".

More specifically, such entities are defined as "...those with $50 billion or more in total consolidated assets." The proposed NCUA standard deviates from this standard by creating a more onerous deferral standard for credit unions by lowering the level to $10 billion without explanation or rationale. This latter standard is proposed notwithstanding the fact that other prudential regulators have adopted the $50 billion coverage 'floor'.

We believe strongly that the establishment of a deferral standard for credit union executives that contains a lower implementation threshold than those of other types of financial institutions is without merit.

The same forces of human nature that may cause imprudent risk taking by one set of executives are essentially no different from the other. Indeed, risk taking exposures are far diminished within the credit union community as contrasted to other financial institutions covered by the proposed rules.

To require *only* credit union executives at institutions over $10 billion to be subject to withholding provisions is to suggest that we are of less honesty and integrity than our banking brethren. There is no basis in fact for this. Thus, in our view, such a requirement arbitrarily seeks to create a more onerous regulatory burden on credit union executives with absolutely no basis in fact. Such a regulatory burden should not be allowed to exist.

Second, in circumstances where a bonus is subject to a deferral period, consideration should be given to establishing within the rule or the supplementary information accompanying its publication that it is permissible for credit unions to invest the deferred bonus due to an official in a prudent and fiduciarily responsible way as to accommodate the impact of inflation and the lost revenue opportunity to the individual.

The rule should clearly authorize an institution to either directly, or through a third party, invest the deferred bonus in financial assets so as to neutralize the adverse impacts of the two previously described forces.

The unconstrained factors described above are ones that banks and other financial institutions covered by the Dodd-Frank Act are not confronted. In the circumstances where officials of stock companies are involved, officials' bonuses will no doubt be cast in a financial vehicle that involves future stock issuance. In these instances, the impacts of the described forces will be attenuated through the natural cycle of market value driven changes in the underlying equity positions.

Third, NCUA should coordinate the drafting of the subject final rule with the Internal Revenue Service (IRS) to establish how a bonus subject to the deferral rule will be treated for the purposes of individual income tax. Specifically, will bonuses that are deferred pursuant to the proposed rule be treated by the IRS as income that has been constructively received?

The outcome of the latter question is essential for evident reasons. Thus, this issue should be resolved and the answer to it should be made a matter of 'record' within the final rule or its accompanying supplementary information.

Fourth, the rule should address and resolve the issue of a covered individual's termination of employment when the residual amount of deferred compensation has not been fully paid out. Quaere: does such compensation immediately become available to the individual or is it paid out in the future after the person's termination of employment?

We appreciate the opportunity to provide our views concerning the proposed rule. Should you or any member of the NCUA staff wish to discuss our recommendations I would be pleased to do so. I can be reached through my e-mail address at: james.quinn@penfed.org.

Very truly yours,

James F. Quinn

James F. Quinn
Chairman, Board of Directors

JFQ/kld