

September 20, 1996

Jack Houseknecht, Senior Vice President
Andrews Federal Credit Union
5711 Allentown Road
Suitland, MD 20746

Re: Questions for CUNA Lending Council Research Paper
(Your August 15, 1996, Letter)

Dear Mr. Houseknecht:

You have asked several questions about the National Credit Union Administration's ("NCUA") revised incentive pay regulation. 12 C.F.R. §701.21(c)(8)(i). Your questions and our responses are set forth below.

1. When did the change to section 701.21(c)(8)(i) become effective? October 4, 1995.
2. When did NCUA issue the proposed rule amending section 701.21(c)(8)(i) and what were the comments? The proposed rule was issued on March 15, 1994 (59 FR 11937), and April 20, 1995 (60 FR 19690). For a discussion of the comments on the proposed rules, see 60 FR 51886, October 4, 1995.
3. How long were the previous restrictions in place, and what were they? NCUA originally issued section 701.21(c)(8) on August 1, 1984 (49 FR 30685). The section prohibited federal credit unions from making a loan if, either directly or indirectly, any compensation was to be received by the credit union's directors, committee members, senior management employees, loan officers, or any immediate family members of such individuals in connection with underwriting, insuring, servicing, or collecting the loan.
4. Who was the author of the revised regulation? The revisions to NCUA's incentive pay rules were drafted by NCUA Staff Attorney Lisa Henderson.
5. Advice to credit unions setting up a Loan Officer Incentive Program? Credit unions should check with their regional office to evaluate any potential safety and soundness concerns associated with their incentive pay programs.

Sincerely,

Richard S. Schulman
Associate General Counsel

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