SECURITY SERVICE
FEDERAL CREDIT UNION

May 26, 2011

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

Subject: Notice of Proposed Rulemaking for Incentive-Based Compensation Arrangements

Dear Ms. Rupp:

We have reviewed the subject rule, and respectfully offer our comments for NCUA consideration. While we find these rules unnecessary for credit unions, given that credit unions are not part of Wall Street's problems, we recognize NCUA's duty to implement certain mandates imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), and we generally support NCUA as the agency moves to assure adherence to the Act. However, we do not support measures in the proposed rule that go beyond that which is specifically required by Dodd-Frank, nor do we support measures that are any different from other regulations imposed on credit union competitors.

In particular, we strongly oppose NCUA's definition of the term "larger covered financial institution," which triggers more stringent reporting requirements on incentive-based compensation programs, as well as imposes incentive-based compensation restrictions. Because NCUA's definition is so much smaller than the trigger proposed by Federal banking agencies and the Securities and Exchange Commission (SEC) for their regulated institutions, credit unions will be at a large competitive disadvantage in the marketplace for executive managers.

"Larger covered financial institutions" for banking agencies and the SEC means total consolidated assets of $50 billion or more, while NCUA has determined that total consolidated assets of $10 billion or more represents "larger covered financial institutions." Consequently, if adopted as proposed, bank employees in institutions with consolidated assets of $10 billion to $50 billion will not see their incentive-based compensation deferred by regulation, while employees of credit unions in the same asset size range will be required by regulation to defer 50% of incentive-based compensation over a period of three years.

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Security Service FCU (SSFCU) has successfully attracted and retained highly-competent and effective executives from various industries, including banks, and we recognize and understand the compensation challenges we face today without the proposed rule. While SSFCU has not yet grown to $10 billion in assets, we know that if the proposed restriction were imposed upon the credit union today, the additional competitive disadvantage would significantly hamper our ability to attract and retain highly-qualified executives to lead this organization, since no such restrictions would be in place for banks of similar size.

As an alternative solution, given that only three credit unions exceed $10 billion in assets today, we respectfully suggest the following regulatory approach:

- Define "larger covered" credit unions as $50 billion in total consolidated assets, on par with the Federal banking agencies and the SEC.
- Develop and employ examination procedures to review and consider the risk/return trade-off related to incentive-based compensation arrangements in each credit union over $10 billion in assets. NCUA currently utilizes an effective and robust examination process that profiles credit union risk is seven areas, thus this approach would be relatively simple to implement.
- If the incentive-based compensation arrangement has, or based on NCUA review, exposes the credit union to excessive risk, use NCUA's regulatory authority regarding safety & soundness by requiring deferral to address identified concerns.
- If a credit union risk profile remains low and/or well-managed, allow executives to receive incentive-based compensation without deferral.

We believe we understand NCUA's rational for proposing the $10 billion trigger, that being the risk $10 billion credit unions pose to the stability of the NCUSIF; however, we respectfully point out that Dodd-Frank is designed to address *systemic* risk to the U.S. financial system and economy; not reasonable and well-managed risks that inherently exist in any particular financial entity, deposit insurance fund, or financial institution charter-type. While now is an opportune time to implement rules that may be "nice to have" in order to manage risk to the NCUSIF, NCUA's proposal does so to the detriment of credit unions, since the rules differ so greatly from banking regulator rules. Consequently, we suggest that NCUA should not leverage their apparent ability under Dodd-Frank to limit incentive-based compensation to protect the NCUSIF, while creating significant competitive disadvantages for credit unions exceeding $10 billion in assets.

Natural-person credit unions were not part of Wall Street's problems; largely do not exhibit excessive risk profiles; and do not pose any material or otherwise significant degree of concern related to the systemic risk of the nation's financial system. The $10 billion trigger is not required by Dodd-Frank, and NCUA currently has robust and effective methods for evaluating risk in each credit union, as well as the ability to address incentive based compensation concerns by requiring deferral during the examination process.

In regards to disclosing incentive-based compensation arrangements to the NCUA within 90 days of issuance of the final rule, we project tasks necessary to identify affected employees; gather, organize, and analyze compensation data; and prepare required narrative descriptions may well exceed 120 hours of staff, management, and Board attention. Consequently, we respectfully request that the 90-day initial disclosure requirement be changed to 180 days to assure accuracy and appropriate coordination between executive management and the SSFCU Board of Directors, as well as avoid disruption of mission-critical ongoing Human Resource and Risk Management departmental responsibilities.

Thank you for considering the comments of Security Service Federal Credit Union. If you have any questions or require clarification, President & CEO David Reynolds or I are available at your convenience at (210) 476-4550.

Sincerely,

ROBERT P. EGGER
Chairman of the Board

cc: Fred Becker, President & CEO, National Association of Federal Credit Unions
Bill Cheney, President & CEO, Credit Union National Association