



Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428
regcomments@ncua.gov

Re: Comments on Notice of Proposed Rulemaking for Incentive-based Compensation Arrangements;
Regulation Part/Federal Register Notice 12 CFR Parts 741 and 751

Dear Mr. Poliquin:

Thank you for your consideration regarding our comments from the MD|DC Credit Union Association on the National Credit Union Administration's (NCUA) recent proposed rule, 12 CFR Parts 741 and 751 for Incentive-based Compensation Arrangements. We appreciate the opportunity to offer our views and our opposition to the Proposed Rule.

The MD|DC Credit Union Association is a trade organization which represents 140 credit unions and over 2.2 million member-owners in Maryland, the District of Columbia and across the region. Our members represent a range of backgrounds and economic levels who depend on our credit unions for fairly-priced cooperative financial services.

Primary Concerns

In our members' collective view, this regulatory proposal needs to provide significant additional detail before it can be moved forward by the NCUA. The most glaring shortcoming is its lack of a cost/benefit analysis, the absence of which deprives affected entities of the ability to fully assess the impact of the regulation on their respective institutions.

Under terms set forth in Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), the NCUA and other federal regulators are required to jointly promulgate rules pertaining to incentive-based compensation agreements entered into by the institutions they oversee. The re-proposed executive compensation rule (which would replace one originally proposed in 2011) does not contain any information about the potential costs or intended benefits of the regulation, which we find to be both very concerning and a serious impediment to obtaining a full understanding of the potential impact of the regulation as proposed.

A comprehensive assessment of the impact of this rule will enable our members to determine the financial and marketplace effect it will have on their operations. Federal law requires the inclusion of a cost/benefit analysis. The Riegle Community Development and Regulatory Improvement Act of 1994

("Riegle Act") mandates that a rule contain information regarding additional administrative burdens imposed, and possible benefits inherent in the regulation.

This proposal does not meet these statutory requirements, and any further work on the rule should cease until it is amended to reflect this important information. The proposed regulation reflects an apparent awareness of this deficiency. Part V, Section D of the proposal states that "Federal Banking Agencies note that comment on matters covered (by the Riegle Act) has been solicited in other sections of the text." However, the critical information requested does not appear in the proposed rule. This omission can and should be rectified.

Specifically we would request that details concerning: 1.) expenses associated with modifications to existing incentive-based plans; 2.) a complete list of additional administrative requirements that the proposal will entail, and 3.) specific consumer and institutional benefits that will be derived from the proposal's implementation be incorporated into the regulation prior to any further consideration for finalization.

Regulatory Overreach

Our association members consider this potentially far-reaching regulatory proposal to be absolutely unnecessary and a complete over-extension of the mission of the NCUA even including our state chartered credit unions which the NCUA does not directly regulate.

The NCUA's reading of the 'Dodd-Frank Act' to require a rulemaking to address executive compensation is both extremely narrow and inflexible. There is no reason why credit unions should face a proposed regulation regarding executive compensation when agency guidance would be the more appropriate action.

While we appreciate that this regulation is an interagency rule, it is difficult to understand why the NCUA feels compelled to be the first of the federal financial industry regulatory agencies 'out of the box' to put forward a proposal to implement this provision of Dodd-Frank.

This regulation seeks to place a regulator in the position of evaluating whether an executive compensation package is appropriate for that institution. It is the ultimate example of governmental overreach into the daily operations, and decision-making of a credit union.

NCUA already has sufficient supervisory authority through its examination process to address any compensation plans that are resulting in unsafe and unsound practices at a federally insured credit union where no regulation is required. Perhaps guidance could have a purpose in helping those credit unions with capital needs or earnings challenges to know what the examiners will be looking at in their compensation packages.

Additional Concerns

- Boards should have oversight of the CEO only and in turn, CEOs have oversight of other credit union staff. The Definition of "senior executives" should be interpreted to mean the Chief (C)-Suite.

- Authority to subject all credit unions (\$10-\$50B in assets) to Level 1 or Level 2 requirements when complexity of operations or compensation is comparable only to larger credit unions. This section will create uncertainty, based on the subjectivity of each examiner, or because the rules for larger institutions are already burdensome. It is without question, therefore that Tier 3 should be struck from the rule entirely.
- While we support 'grandfathered' plans, we have concerns with a lack of detail to determine what changes to an existing plan would constitute a new plan.
- Competition: Deferral of a portion of incentive compensation would put larger credit unions at a disadvantage against non-regulated financial service providers. The proposed rule has already led some credit unions to begin re-designing compensation programs to inflate base pay and reduce incentive based pay. Inflating base pay negatively impacts efficiency ratios. We also believe that restricting a credit unions' ability to attract and retain senior executives through the adoption of this rule as written is extremely detrimental to our industry.

Recommendations

We do not view this proposal as a solution to any legitimate problem within the industry. Therefore, it prevents us from suggesting improvements to move the proposal forward. We respectfully recommend that the NCUA fully withdraw this proposal. We also strongly recommend that the NCUA Board issue guidance and re-affirm its supervisory authority to address these instances on a case-by-case basis through the examination process.

In addition, given the far-reaching implications of this proposed rule, we believe an extension of the comment period by at least 120 days is critical to afford time for all stakeholders to provide adequate input and gather data to address this proposal.

Thank you for the opportunity to comment on the Proposed Rule. Please do not hesitate to contact me at 443-325-0774 or jbratsakis@mddccua.org should you have any questions.

Sincerely,



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