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22 July 2016

Filed via regcomments@ncua.gov

Mr. Gerald Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Notice of Proposed Rulemaking Regarding Incentive Based Compensation Arrangements

Dear Mr. Metzger:

As the primary association for nearly 300 state and federally chartered credit unions, the Illinois Credit Union League ("ICUL") is pleased to have the opportunity to comment on the National Credit Union Administration's ("NCUA") Notice of Proposed Rulemaking Regarding Incentive Based Compensation Arrangements. For the reasons described below, we would respectfully request changes to the proposed rule, or further consideration before implementing a final rule.

Firstly, we would like to note that, as it pertains to credit unions, this rule is certainly a solution in search of a problem. This rule is promulgated jointly with many regulators, and while we can understand the efficiency in issuing a single rule, it must be noted that there is literally no evidence that a single credit union failed as a result of excessive risk taking based on inappropriate incentive based compensation schemes. The impetus for the issuance of this proposed rule is the Dodd-Frank Act, Section 956, and so we understand that there is a congressional mandate to address this area. However there is not a mandate to lump in credit unions, and indeed all community financial institutions, with large, highly complex, international financial institutions. In fact, it is known and understood by the NCUA that credit unions were not a part of any of the risk taking that contributed to the financial crisis. Chairman Metsger himself stated to CUNA in February of this year, "We know that credit unions were not a culprit in the recent financial crisis…Credit unions did not underwrite the bad loans that sank the housing market."

Given this knowledge of the difference between credit unions and banks, why would we subject credit unions to an additional regulatory burden when it is a known fact that it is extremely unlikely to increase safety and soundness? As admitted in the preamble of the rule, even among banks, almost 90% of bank failures were below the minimum threshold of $1 Billion and so would be totally unaffected by the rule. Of the banks that failed that were over $1 Billion, only 28% were deemed to have excessive risk taking or compensation as even a partial factor. There is no

discussion of a single credit union failure, and one must assume that if there was an example it surely would have been included.

Furthermore, credit unions, even if they exceed the dollar limit thresholds, simply do not have the same business model as banks that could subject themselves to material risks through the activities of individuals. For one, banks generally compensate their employees at much higher levels overall and this inherently presents a greater risk and a stronger incentive towards excessive risk taking. Also, credit unions are generally already prohibited from many if not all of the activities that can even generate material risks to the institution, let alone material risks related to the results of an individual employee. At credit unions with the relevant asset sizes, the dynamics of the business model (relatively smaller consumer based loans resulting in a broadly diversified portfolio as opposed to large commercial loans or complex securities trading activities) substantially limits the ability of an individual to incur a material risk under any circumstances. No individual can set the underwriting criteria for auto loans or home mortgages, and even approving exceptions that may be deemed reckless would only amount to a tiny fraction of the overall portfolio. These differences should be taken into account and the NCUA should consider issuing guidelines appropriate to credit unions instead of adopting a one size fits all rule of hundreds of pages that has little to no applicability to any institution it regulates.

This rule, as proposed, also leaves open the possibility of NCUA examiners unilaterally determining that a credit union with more than $10 Billion in assets is a Level 2 institution and subjecting them to a far more stringent set of regulations. While this is a relatively small number of credit unions, crossing the $10 Billion threshold is significant because that already subjects them to CFPB examination, which is a substantially increased burden in and of itself. The relatively few number of Level 2, or potential Level 2, institutions also poses an issue as it leaves very few comparables in order to determine what is "excessive" compensation, or whether a scheme "appropriately balances risk and financial rewards." This is further evidence that the complicated scheme designed for large banks should not be transplanted in whole onto credit unions.

We do note, and appreciate, that the most significant requirement on the vast majority of credit unions to which this rule applies is appropriate policies and procedures. The credit union's board has ultimate responsibility in determining an appropriate balance for incentive based compensation and it should have documented policies and procedures that can be reviewed for safety and soundness concerns. However, we urge the NCUA to consider adjusting the rules to more accurately reflect the nature and operations of credit unions versus banks and/or issue guidelines which will allow for more flexibility where the rule does not make sense for credit unions. Credit unions already operate in a competitive environment, especially when it comes to attracting and retaining the top talent to keep them thriving and serving their members. Credit unions need common sense flexibility to do this and we ask this keeping in mind what will be best for consumers.

We greatly appreciate the consideration of our views.

Sincerely,

Steven C. Haubner
Assistant General Counsel
Illinois Credit Union League