FREEDOM CREDIT UNION

June 18, 2019

Gerard Poliquin, Secretary to the Board
National Credit Union Administration
1775 Duke Street
Alexandria VA 22314

Compensation in Connection with Loans and Lines of Credit to Members
RIN 3133-AE97

Dear Secretary Poliquin:

Freedom Credit Union (Freedom) appreciates this opportunity to comment on the NCUA's advance notice of proposed rulemaking that addresses compensation and incentives related to loans and lines of credit to members. NCUA seeks to improve section 701.21 of its rules and regulations. Freedom is a federally insured, state-chartered credit union, with $888 million in assets and 68,000 members. We structure our incentive programs in-house consistent with our policies, NCUA regulations and the Credit Union Code. We do not retain vendors to develop our incentive or compensation arrangements.

Generally, we believe our compensation plans are competitive with plans offered by other financial institutions. We have attracted and maintained quality talent. We have worked within the NCUA regulations and the Credit Union code and we do not believe we labor under any competitive disadvantage.

NCUA might amend the current rule by clarifying that credit unions are responsible for developing their own incentive criteria and establishing appropriate oversight to ensure incentives do not encourage undue risk. For example, the current rule might be replaced with a broad policy statement based on the Interagency Guidance on Sound Incentive Compensation Policies adopted in 2010 by the Comptroller of the Currency and other regulators. The core of that guidance rests on three principles:

1. Provide employees with incentives that strike an appropriate balance of risk and reward;
2. Incentives should be compatible with effective controls and risk management; and
3. Incentives should be supported by strong corporate governance and effective oversight.

We do not recommend adoption of the 2019 Guidance wholesale. It is aimed at large banking organizations and would not be appropriate for smaller asset sized credit unions. The three core principals enable credit union to adopt incentive programs grounded with risk management and appropriate controls.

Along those lines, a factor-oriented approach to incentives is preferable to a "bright-line" test. Credit unions should develop metrics which could include loan volume, growth, or productivity. The incentive would be balanced by periodic reviews of the plan in comparison to the credit union's financial condition. A plan might include discretionary provisions enabling management to adjust incentives if unintended consequences occur.

In sum, NCUA's review of incentives and compensation related to loans and lines of credit is beneficial. A migration to a principles-based rule that empowers credit unions to develop reasonable incentive packages that enable us to attract quality talent is welcome. The credit union's management can balance the risk by including rational metrics and discretionary measures if unintended results occur, thereby preserving safety and soundness.

We would be happy to discuss our comments at your convenience.

Very truly yours,

John F. King

John F. King
President/CEO