



June 20, 2019

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

Re: Compensation in Connection with Loans to Members and Lines of Credit to Members

Dear Mr. Poliquin:

On behalf of the Board and Management of Coastal Federal Credit Union, I would like to take this opportunity to formally comment on NCUA's Advance Notice of Proposed Rulemaking (ANPR) seeking formal comment regarding Compensation in Connection with Loans to Members and Lines of Credit to Members.

Coastal Federal Credit Union is supportive of the efforts of NCUA to review the current regulations regarding compensation in connection with loans and welcomes any opportunity that could result in revisions to a final rule that would bring about improved clarity and flexibility in this area, while maintaining the overall parameters of safety and soundness. To that end, we are pleased to provide our comments and observations to the following questions presented in the ANPR.

*Is the current structure of 701.21(c)(8), namely broad prohibition with specific exceptions, the best format for regulating this area?*

We believe the current structure of 701.21 (c) (8) is unnecessarily restrictive and essentially provides a one-size fits all approach to credit unions and fails to take into account the unique characteristics of individual credit unions and their personnel.

A better approach in our opinion would be to broadly authorize incentive compensation arrangements in connection with loans provided that such arrangements 1) do not adversely affect safety and soundness; 2) appropriately balance risk and financial results; 3) incorporate appropriate best practices generally recognized in the financial services industry; and 4) are subject to proper oversight and governance by the Board and management of the credit union. In such a structure, it would be appropriate in our view, to include any specific exceptions of prohibitions of activities that the agency would deem on its face as unsafe or in violation of applicable law or regulation.

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*To what extent should the NCUA permit loan metrics, such as loan volume, to be a part of compensation plans?*

Coastal Federal Credit Union believes the use of loan metrics in conjunction with incentive compensation arrangements are helpful and should be strongly encouraged. Properly structured with the appropriate level of oversight balanced by safety and soundness, such metrics can be a highly effective tool for measuring organizational objectives in such areas as member service and reaching the underserved.

*What limitations, if any, are necessary to prevent individuals from being incentivized to take inappropriate risks that endanger their credit unions?*

We agree that it is appropriate to establish certain limitations in incentive plans to help mitigate the possibility of inappropriate risk. To that end, we believe it is wise to retain the current prohibition relative to compensation to a senior executive in relation to any individual loan. Further, we recommend that senior executive lending incentive compensation plans be required to be structured in such a way that includes as a part of the incentive compensation key performance measures to the overall strategic goals and objectives of the credit union. For example, such plans should include charge-off and delinquency targets whenever loan production/growth goals are included.

In the case of individual loan officer plans, we believe it is appropriate to include provisions in the incentive compensation arrangement that clearly denotes that earned incentive payments may be reduced or forfeited in the event a loan is closed without full compliance of the policies and procedures of the credit union and any applicable laws and regulations.

*Should NCUA refine its definition of “overall financial performance” as it relates to lending compensation?*

Although effort should be taken to avoid the implementation of a one-size fits all definition of what constitutes “overall financial performance”, we believe to the extent possible NCUA should take appropriate steps to clarify what factors and components should be considered in meeting this definition. In doing so, we would urge NCUA to avoid narrowly defining the term and rather choose to apply a broad standard that properly takes into account the capacity of individual credit unions to monitor and support their own organizational performance measures within the confines of safety and soundness.

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In closing, we would like to once again thank you for the opportunity to comment on this ANPR which we feel is very important to Coastal Federal Credit Union and the credit union industry as a whole. Please do not hesitate to contact us if we can provide additional information or perspective on this matter.

Sincerely,

A handwritten signature in black ink that reads "CHUCK PURVIS". The letters are in all caps and have a casual, slightly slanted appearance.

Chuck Purvis  
President/CEO  
Coastal Federal Credit Union