



Submitted via email to: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

June 24, 2019

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

Re: Advance Notice of Proposed Rulemaking  
Compensation in Connection with Loans to Members and Lines of Credit to Members  
RIN 3133-AE97

Dear Mr. Poliquin:

The Wisconsin Credit Union League, representing Wisconsin's credit unions® and their more than 3.2 million members, is pleased to comment on the National Credit Union Administration's (NCUA's) advance notice of proposed rulemaking (ANPR) regarding compensation in connection with loans to members and lines of credit to members.

We commend the NCUA for seeking ways to clarify the rules that limit credit union officials' and employees' compensation in connection with loans to members and lines of credit to members. These rules certainly have generated confusion over the years, and we agree with the NCUA that they are "outdated, burdensome, and at odds with industry standards."

Section §701.21(c)(8)(i) of the NCUA's regulations says that "no official or employee of a Federal credit union, or immediate family member of an official or employee of a Federal credit union, may receive, directly or indirectly, any commission, fee, or other compensation in connection with any loan made by the credit union." However, §701.21(c)(8)(iii) carves out four exceptions to this blanket prohibition, including these two:

(B) Payment, by a Federal credit union, of an incentive or bonus to an employee based on the credit union's overall financial performance;

(C) Payment, by a Federal credit union, of an incentive or bonus to an employee, other than a senior management employee, in connection with a loan or loans made by the credit union, provided that the board of directors of the credit union establishes written policies and internal controls in connection with such incentive or bonus and monitors compliance with such policies and controls at least annually.

(It's worth noting that this bar on loan-related compensation and its exceptions do not apply just to FCUs, despite the rule's wording. Under §741.203(a), state-chartered credit unions are also subject to all of §701.21(c)(8) if they are NCUSIF-insured, as all of Wisconsin's state-chartered credit unions are.)

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**The Wisconsin Credit Union League**

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As the NCUA moves forward in the rulemaking process, we urge it to propose definitions or detailed guidance to clarify both of the exceptions quoted above. The meaning of “overall financial performance” in paragraph (B) is far too vague. In addition, it is not at all clear how that exception relates to paragraph (c), which only allows bonuses tied to lending for employees, not senior management. The NCUA’s ANPR is correct when it says: “Credit unions have expressed uncertainty about whether the NCUA permits loan metrics such as aggregate loan growth to be a factor in assessing overall financial performance. They also have asserted that the regulation is subject to varying interpretations and levels of enforcement across the NCUA’s regions.”

One Wisconsin credit union recently wrote to us, to share its experience with examiners questioning its long-standing bonus structure:

We have used a shared scorecard approach for bonuses for many years. Our scorecard evaluates multiple “Key Performance Indicators” (KPIs) and weights them to our strategic focus. For example, in a year where we need liquidity, our deposit KPI might be weighted at 20% where loans might be 10 or 15% together. (We break them out by consumer, mortgage and commercial). The budget in each category sets our targets, and the bonus at the end of the year is a formula based on our weights and our performance to the budget. Each member of the team has their bonus anchored to this number, from the CEO to the loan staff, to the tellers, to the accounting team. It creates a shared vision for the organization and is a critical part of our communication and culture.

The [Wisconsin Department of Financial Institutions] and NCUA have challenged us on having loans as part of the calculation since the senior executive team is also paid off the scorecard. The KPIs simply break out the components of the “credit union’s overall financial performance.” How could we reward on overall financial performance and ignore the single largest earning asset of any financial institution? No one is paid exclusively on loans through this program, but it does carry weight for the organization.

We were not written up for the structure, but were told verbally that it would be evaluated more closely at the next exam. We are now aware that the program has been challenged periodically in the past in other states for the same reason but has always come out acceptable.

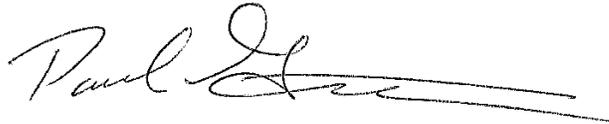
It’s hard to imagine how a well-structured bonus system like this one, which includes loans among the weighted factors in a performance scorecard, could be viewed as being based on anything other than “overall financial performance.” If loan performance cannot be included in a bonus system at all, why did NCUA use the word “overall”? How can credit unions establish workable bonus programs when the rules are not consistently applied, being questioned by some examiners and approved by others? The League finds the uncertainty over the proper interpretation of §701.21(c)(8)(iii) to be frustrating.

As the NCUA moves forward on this ANPR, we urge it to propose either rules with a formal definition or detailed guidance to clarify the phrase “overall financial performance.” In addition, any proposed rules should be drafted to provide as much flexibility as possible with respect to senior management compensation plans that incorporate lending as part of a broad and balanced set of organizational goals and performance measures.

Again, we thank the NCUA for recognizing the ambiguities in these rules and taking steps to start clarifying them. We look forward to providing more detailed input in response to a specific rulemaking proposal.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul E. Guttormsson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Paul E. Guttormsson  
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Wisconsin Credit Union League & Affiliates  
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