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June 24, 2019

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

VIA ELECTRONIC DELIVERY

RE: Compensation Related to Lending (RIN 3133-AE97)

Dear Mr. Poliquin:

On behalf of Truliant Federal Credit Union (Truliant), I am writing regarding the National Credit Union Administration's (NCUA) proposed rulemaking requesting public comment on modernizing the NCUA's regulation on compensation related to loans and lines of credit to members. Truliant has approximately 250,000 member-owners and $2.5 billion in assets. Over the years, we have grown to provide our members with the services and tools necessary to improve their financial outlook, in part by adopting sound business practices which maintained the integrity of our business plans. Loans are one of the primary ways that we improve members' lives.

The purpose of this letter is to urge the NCUA to continue to adopt a flexible regulatory framework with respect to credit union employees' compensation plans and to provide feedback on how we recommend the NCUA can provide flexibility with respect to senior management compensation plans that incorporate lending as part of a broad and balanced set of organizational goals and performance measures. Ultimately, we hope the NCUA will partner with credit unions to allow us to incentivize our employees to strengthen the overall financial performance of the credit union and enable us to achieve our mission to improve the lives of our members.

Regulatory Framework:

We agree that the current regulations on compensation connected to loans to members and lines of credit are outdated and vague. NCUA regulations have generally prohibited federally-insured officials and employees, or their immediate family members, from receiving, "*directly or indirectly, any commission, fee, or other compensation in connection with any loan made by the credit union*" (emphasis added)[1]. However, a carve-out in the regulations provides that credit unions may pay an incentive or bonus to an *employee* in connection with an incentive based on the credit union's *overall financial performance*, or where the board of directors establishes written policies and internal controls in connection with such incentives or bonus and monitors compliance with such policies and controls at least annually (emphasis added).[2] We realize that the definition of "employee" in this Section does not

[1] 12 C.F.R. § 701.21(c)(8)
[2] 12 C.F.R. § 701.21(c)(8)(iii)(B) and (C)

include senior management employees, but interpretation of “overall financial performance” language is vague at best and we applaud the NCUA’s effort to eliminate this confusion in the regulation.

Impact of Loan Growth on Overall Performance:

In my over 30 years of financial industry experience, I have found that the integrity of a financial institution’s loan portfolio has a positive correlation to its overall financial performance. However, for Truliant, **our profitability is a better measure that enables us to ensure that decisions are not based on factors that are as easily manipulated such as loan growth**. Loan growth can be adjusted by simply lowering rates. While this may grow loans, it may not add to profitability. Focusing on one variable, like loan growth, can easily work against the overall well-being of the credit union. As we consider profitability, loan growth is only one unit of the measure that is considered when designing a compensation plan. We also consider savings growth, operating expenses and member satisfaction as additional units of measurement and find that the combined calculated output to be the best measure of our success as a financial institution. In addition, when profitability increases, we are able to better hedge risk in lending to underserved, higher-risk borrowers with their own financial goals and dreams; something which our credit union strives to do every day. Serving multiple segments and income levels is consistent with credit union philosophy and embodies the catch phrase of “people helping people.” Therefore, to the extent that loan volume is important to the overall financial performance, credit unions should be allowed to adopt sound and reasonable practices to balance growth against net income when considering compensation plans.

One key to successful management of financial performance is to not place undue pressure to grow on key senior management. When Section 701.21(c)(8) was adopted, it was included to help prevent and deter predatory lending practices because there was a belief that growth incentives encourage predatory lending practices. However, in my experience I have seen quite the opposite effect. Properly structured credit union incentives and bonus pay reduce the burden of pressure to grow because there is greater emphasis on developing the infrastructure to book and service good loans that will perform and enhance the lives of our members over time. Hence, senior management carries the responsibility to make decisions that mitigate risks and ensure long-range, solid financial performance while positively impacting the future success of a credit union and its members. Managing risk in this manner warrants appropriate reward, because as those loans perform over time the credit union grows and provides more value to the membership. Having managed different sectors of the credit market over my career (e.g. business, mortgage, consumer); I believe we should also be able to incent loan growth more specifically within credit sectors with the same provisos as indicated above.

Not all credit unions use profitability as a gatekeeper to their incentive and bonus programs. Regulatory flexibility allows credit unions to tailor compensation plans based on their size, complexity, net worth level, risk tolerance and strategy. Well-designed incentive and bonus programs enable the industry to attract and retain top talent. The dedication of our employees and senior management who oversee that we accomplish our mission each day while also following safe and sound lending practices has enabled the long-term vitality of the credit union. Senior management, with their many years of experience in the industry, help ensure that our loan portfolio not only continues to grow, but in such a way that effectively manages risk and adds to our overall profitability. Thus, credit unions would benefit from the authority to make certain loan goals transparent in the recruiting process. It would enable credit unions to attract talent that will better meet the current and future needs of the credit union.

Recommendations:

First, I would note that we have found value in our Board’s leadership in setting realistic, attainable goals, yet leaving us the room to grow in our ability to serve our communities. Any compensation plan must begin with the Board’s tolerance for certain risks on both the deposit and lending side. At Truliant, we find that our leaders are unlikely to take imprudent risks because of their commitment to our shared vision with the Board for success in achieving our overall mission. With the Board's oversight, our senior management team is focused on overall performance and cannot afford the distraction of focusing only on any one indicator, such as loan growth. A broad focus with multiple metrics reduces pressure to make imprudent business decisions and creates a stronger incentive plan. We recommend empowering credit union Boards with oversight responsibility in developing compensation plans that give the flexibility to ensure that its leaders conform to the credit union's vision based on its size, complexity and strategy.

Second, we've determined, in our case, that incentives should not be granted when profitability does not provide the additional earnings to warrant them. We believe that credit unions, with the leadership of their Boards, should be given the latitude to institute incentive plans that use profitability as a gatekeeper, that may include a broad set of metrics like operating expense, savings growth, member satisfaction and loan growth in order to encourage the growth of the credit union and to further the overall mission.

Conclusion

Again, we applaud the NCUA's initiative to provide flexibility in how senior management compensation plans are structured based on a broad and balanced set of organizational goals and performance measures. In the past, we have noted and the NCUA has agreed that compensation can be impacted by overall financial performance of the credit union including loan growth. I'm hopeful that the NCUA will continue to listen to the industry input and afford credit unions the flexibility in how they factor loan growth and other measures into their compensation plans for senior management and employees.

Thank you for the opportunity to comment. If you have any questions or concerns, then please do not hesitate to contact me at (336) 293-2013.

Respectfully Submitted,

Todd Hall

Todd Hall
President
Truliant Federal Credit Union