



June 24, 2019

Gerald Poliquin
National Credit Union Administration
1775 Duke Street
Alexandria, Va. 22314-3428

SUBMITTED VIA EMAIL: regcomments@ncua.gov

RE: RIN 3313-AE97 – Compensation in Connection with Loans to Members

Dear Mr. Poliquin,

Please accept this response to the National Credit Union Administration's (NCUA) advance notice of proposed rulemaking for compensation in connection with loans to members and lines of credit to members (ANPR). The Minnesota Credit Union Network (MnCUN) represents the interests of Minnesota's 105 credit unions and their more than 1.8 million members.

Thank you for the opportunity to provide feedback on the ANPR. MnCUN strongly supports modernizing the rules governing compensation connected with loans to members. We completely agree with the NCUA, the current rules are "outdated, burdensome, and at odds with industry standards."¹ One of the downfalls of the rules being at odds with industry standards is that they hinder credit unions from being on equal footing with banks and other lending institutions when it comes to compensation packages. Therefore, adding to the challenges credit unions face in trying to attract and retain talented and experienced personnel. Please consider the following suggestions when modernizing these rules.

Move away from a one-size-fits-all approach

Please consider moving away from the one-size-fits-all approach the current rules take. We understand that one of the concerns the NCUA may have with compensating credit union employees and officials is the potential for safety and soundness issues. Particularly issues with asset and liability management. However, not all credit unions are the same and they should not be regulated the same way when it comes to compensation packages that include loans to members as a factor.

Credit unions differ in size, organizational structure and risk profile. In some credit unions, senior management is directly involved in lending decisions. In other credit unions they are only involved at a high and indirect level. Because of these differences, the level of risk that compensation connected to loans poses to safety and soundness differs from credit union to credit union. This is not to say that credit unions where senior management is more involved in the lending process should be prohibited from having compensation packages that include lending performance as an incentive. The point is the NCUA should take a more surgical approach and move away from a blanket prohibition. Because credit unions differ, regulation on compensation tied to lending should be applied with a scalpel - not a sledgehammer.

¹ *Federal Register* (April 23, 2019), Vol. 84, No. 78 at p. 16796

Risks can be mitigated

There are several ways to mitigate risks to safety and soundness as well as the potential for conflicts of interest. This can be done through sound asset and liability management policies and procedures. These risks can also be mitigated through the structure of the compensation packages themselves. Risks can also be mitigated through loan approval policies and procedures. All of these policies can be tailored to a credit union's particular structure and risk profile. Additionally, there is already NCUA, supervisory committee and board oversight on these policies as well as safety and soundness. These are just a few ways in which the risks can be sufficiently mitigated. Since the risks can be sufficiently mitigated, more flexibility should be given.

Remove the blanket prohibition and leave room for flexibility

Currently §701(c)(8)(i) contains a blanket prohibition with some exceptions. To make the rules as flexible and surgical as possible, we ask the NCUA to reverse this structure. The NCUA should give blanket permission with, if necessary, some clearly defined limitations. We encourage the NCUA to be careful about any limitations or parameters it would include in the regulation. Additionally, please make it clear that this permission includes compensation plans for all employees and officers, including specifically senior management and chief lending officers.

We are not suggesting the NCUA create a process by which credit unions must get NCUA approval before implementing a compensation plan that factors in loans to members. Such a process would be unnecessarily burdensome to both the NCUA and credit unions. Additionally, we think the NCUA should be judicious regarding the inclusion of any parameters or limitations on how these compensation plans should be structured. Unnecessary limitations would hinder the flexibility credit unions need to tailor compensation plans to fit their individual structure, risk profile and need. We suggest the NCUA rely upon its oversight on safety and soundness and asset and liability management policies as a way to regulate on this matter. The NCUA could develop a process that field examiners can follow when there are legitimate concerns regarding a credit union's safety and soundness as it relates to the compensation plan. Additionally, we encourage the NCUA to bring clarity to the rule's application to state-chartered credit unions. We suggest revising the language to expressly state that the regulations regarding compensation connected to lending applies to all federally-insured credit unions and not rely upon cross-references to other regulations.

Thank you for the work you are doing to modernize the rules governing compensation in connection with loans to members. We fully support the NCUA's efforts in this area. If you have any questions about our comments, please do not hesitate to contact me at (651) 288-5517.

Sincerely,


Tim Tacheny
General Counsel
Minnesota Credit Union Network