Incentive Compensation Overview & Frequently Asked Questions (FAQ’s)

Payment Protection Products

*Designing Performance-Based Incentive, Reward, and Recognition Programs to Achieve Strategic Lending Goals*
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Introduction

This paper provides an overview of compliance requirements for credit union Compensation Programs ("Program") that are developed in connection with loan transactions. This paper focuses on Programs that are specifically established in connection with the sale of credit insurance and debt protection products 1.

Programs may be subject to state and federal credit union laws, state insurance laws and Federal Guidelines. These laws can sometimes be confusing and complex. This document is based on current laws and regulations that apply to loan-related incentives. These may change over time and may substantially change the content of and opinions expressed in this paper. A credit union should consult its attorney prior to developing and implementing any Program.

NCUA rules require all federally insured credit unions to establish written policies and internal controls in connection with loan-related Programs. Compliance with these policies and controls must be monitored at least annually. Some state chartered credit unions may be subject to more restrictive rules. 2

State insurance laws may come into play when a Program is tied directly to the sale of credit insurance. In these cases, individual loan offers must generally be licensed by the state insurance department before receiving any compensation based on the sale of credit insurance.

Note: State insurance licensing requirements do not apply to loan officers enrolling members into a debt cancellation program such as Debt Protection (DP) or Guaranteed Asset Protection (GAP) since debt cancellation is not insurance under state law.

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1 Credit life and credit disability insurance products are available through CMFG Life Insurance Company. Debt Protection products are available through your credit union.

2 State Chartered credit unions in CA, MA, MN, & WI are prohibited from offering a payment of compensation to staff that is tied directly to the sale of insurance.

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Overview

Rewarding credit union employees for their performance in selling lending products is a deceptively simple idea. In reality, designing an Incentive Program (“Program”) that supports the organization’s strategic goals requires extraordinary care and an ongoing commitment.

Oversight to monitor the impact of the Program on staff morale and the credit union’s bottom line must be considered in development. In addition, the Program must be reviewed and updated regularly to ensure continued compliance with the regulations and industry guidance as well as to maintain employee enthusiasm and reflect current marketing efforts and economic realities.

Sales Programs can and do incorporate many forms of recognition, rewards, and cash incentives. When designing your Program you should consider all of these forms. It is possible, even advisable, to design a Program that starts small and then steadily expands the type and size of incentives, rewards, and recognition you offer employees for selling lending products.

What successful Programs have in common are measurable results that support credit union growth as specified in the strategic plan.

This paper offers an overview on designing Programs for credit union employees, with an emphasis on the need to understand applicable laws, regulations, and industry guidance, and boosting the sale of lending products that support strategic goals. We begin with a brief introduction defining recognition, rewards, and cash incentives and their use in credit unions and then explore the advantages and potential pitfalls of these Programs.

Additionally, we will provide a general overview on the laws, regulations, and industry guidance that are key to understanding prior to developing a Program along with nine other key steps. Finally, you will be provided simple answers to some of the most Frequently Asked Questions on Programs we have seen along with a checklist that you can use as you design and implement a Program at your credit union.
What Are Incentive Programs?

Incentives Program (“Program”) is a term used generally to describe predetermined arrangements to recognize and reward employees for their performance in member service and sales. Programs can help:

- Drive incremental performance
- Demonstrate the credit union’s commitment to its sales initiative
- Direct compensation to the employees who contribute the most
- Share good performance with employee stakeholders

Programs may include recognition, rewards, and cash incentives.

What are cash incentives? Cash incentives, or simply incentives, refer specifically to cash awards to employees who achieve sales goals on an individual, team, or organizational level. The use of cash incentives by credit unions closely followed the introduction of and emphasis on sales as a key method of sustaining high-quality member service and expanding member relationships. Incentives can be scaled with increasing levels of cash for targeted goals or the payment can be tied to annual performance goals and paid as a bonus.

What are rewards? Rewards are non-cash awards presented to employees for meeting or exceeding sales goals. These rewards may be made in addition to or instead of cash incentives. They may be made available to all employees or reserved to recognize top performers. Examples include gift certificates, credits toward purchases of credit union logo shirts at the “company store,” free meals, and time off. Unlike incentives, rewards do not entail direct cash compensation to employees, but they typically amount to some expense for the credit union.

What is recognition? Recognition is an essential component of any Program. In recognizing and encouraging employees’ efforts to meet sales goals, managers fulfill their leadership responsibilities. Recognition begins with managers on the frontlines of member service, but it must also carry through to the top executive levels of the credit union. A simple personal note from the CEO congratulating an employee for exceeding his or her sales goals is an example of the type of recognition at the foundation of a successful Program. Other examples include traveling plaques or trophies, certificates, and awards presented at employee banquets. Cash incentives and rewards motivate some employees; recognition works for all.
The Advantages and Potential Pitfalls of Incentives Programs ("Program")

There are a number of advantages of Programs including:

- The credit union only pays if employees perform.
- Incentive pay is a variable, not a fixed cost, and is directly based on revenue production.
- Rewards and recognition Programs demonstrate the credit union’s commitment to achieving its goals by building its sales culture.
- Cash incentives motivate sales-minded employees.

However, credit union managers must navigate several potential pitfalls to realize the benefits of incentives. Among those possible problems:

- Regulatory scrutiny
- Without careful design and Program oversight, incentives may result in unintended, sometimes even troublesome, results.
- A Program requires careful planning, administration, and evaluation. Without that commitment, many organizations that pay incentives get the same performance from their employees. In the end, incentive pay becomes an entitlement.
- Many organizations that pay incentives might get the same level of performance simply by managing their employees better.
- No Program will make all employees happy.
- The Program must comply with Federal & State regulations.
- The Program must comply with any loan or ancillary loan product requirements.

An effective Program is derived directly from the credit union’s strategic plan. The credit union must commit to careful planning and design of its incentives from the very beginning. Frequent updates and “freshening up” must be scheduled regularly to keep the Program inspiring for employees and on track with credit union goals. However, major changes in the Program too frequently can decrease its effectiveness.

Finally, as we begin to consider Program design, keep in mind the goals of the Program should start small and grow. This is especially important if your sales culture is a relatively recent phenomenon.
Ten Steps to Success: Designing and Monitoring a Credit Union Incentive Program ("Program")

1. Understand the laws, regulations, and industry guidance.
Your credit union’s Program must comply with all applicable National Credit Union Administration regulations, other state and local regulations, as well as state laws governing insurance sales (when incentives are awarded for sales of credit insurance). Be aware that NCUA rules on loan-related incentives apply to both federal chartered and state chartered credit unions that are federally insured.

For Program’s relating to loan transactions, the NCUA requires credit union boards to establish written policies and internal controls governing their Program and to monitor compliance with such policies and controls at least annually. NCUA does not allow third parties to pay incentives directly to credit union employees for loan-related activities performed on behalf of the credit union (e.g., for enrolling borrowers into the credit union’s credit insurance plan). However, this prohibition against direct payments by third parties does not extend to recognition or other non-monetary items that are of nominal value.

The Consumer Financial Protection Bureau (“CFPB”) recognizes that properly implemented and monitored Programs can benefit the financial marketplace. However, they also caution against risks to consumers if these Programs encourage overly aggressive marketing, sales, servicing, or collection tactics. The CFPB has provided guidance to the marketplace that employee Programs tied to the sale and marketing of payment protection or other credit union products/services require adherence to institution-specific Program guidelines and should not create incentives for employees to provide inaccurate information about the products/services. Plan design should avoid creating potential conflicts of interest between credit union employees and members. Programs should always keep the best interest of the member in mind. Employees need to ensure the sale is suitable for the member, regardless of the Program results.

Additionally, the CFPB has stressed the importance of a compliance management system (CMS) to help a financial institution detect and prevent violations of consumer protection laws. The Bureau has found that effective CMS’s typically include:

- Board of Directors and Management oversight;
- Compliance program, which includes:
  - Policies and procedures;
  - Training; and
  - Monitoring and corrective action;
- Consumer complaint management program; and
- Independent compliance audit.

In addition to credit union regulations and industry guidance, the design of your lending Program should also consider state insurance licensing requirements if you plan to compensate employees for selling credit insurance or mechanical repair coverage. Licensing requirements vary by state, but generally, paying commissions to unlicensed employees for placing insurance with members is not permissible and will subject the credit union to legal penalties. State insurance laws typically assess what is and what isn’t a commission based on these factors:

**Whether the incentives are directly tied to insurance sales.** For example, credit unions that provide incentives to frontline employees for every member they enroll for credit insurance might face licensing requirements, whereas incentives based on increasing loan volume wouldn’t fall under those regulations. Keep in mind; however, that most states require employees to be licensed if they are proactively selling credit insurance.

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3 State Chartered credit unions in CA, MA, MN, & WI are prohibited from offering a payment of compensation to staff that is tied directly to the sale of insurance.
4 Generally awards of “nominal value” will include items such as recognition awards and other non-monetary incentives, (e.g. certificates of achievement, plaques, coffee mugs, and special parking privileges).
5 Refer to CFPB Bulletins 2012-06 and 2016-03
The types of incentives awarded. Recognition awards and non-monetary incentives, such as certificates of achievement, plaques, coffee mugs, and special parking privileges, may not be considered commissions because each is of “nominal value,” whereas a $50 gift certificate might result in scrutiny.

Whether the incentives are awarded to individuals, teams, or the whole credit union. Rewarding a branch with a pizza party for posting higher credit insurance enrollments than any other team may not trigger licensing concerns, but providing cash incentives, even to a group of employees, may.

The criteria used for referral programs. An unlicensed loan officer at a credit union may refer a customer or potential customer to a licensee provided the loan officer does not discuss specific terms and conditions of a policy or give opinions or advice regarding insurance. With this type of limited activity, the loan officer may be compensated for the referral by the credit union as long as the compensation is nominal, on a one-time basis, fixed in amount, is not dependent on whether the customer purchases the insurance, and is not contingent on the volume of insurance transacted.

These rules of thumb define boundaries for the credit union’s compliance team to take into account. They do not necessarily rule out the use of incentives to encourage selling loans and related products, but they do point out the need to test your Program design against these considerations.

Other legal and regulatory issues to take into account as you design your Program include:

- Taxable income and withholding requirements enforced by the Internal Revenue Service and state income tax authorities. For example, you must determine whether gift certificates, credits toward purchases of credit union logo shirts, and other low-cost rewards constitute taxable income under state and federal laws.

- Possible limitations on rewards of time off under union contracts. These agreements typically specify the number of personal and vacation days and paid holidays; they may restrict the credit union’s authority to grant time off to certain employees as a reward for attaining sales goals.

- The definitions of “exempt” and “nonexempt” as they apply to overtime pay under the Fair Labor Standards Act (FLSA). For example, the credit union may be required to pay overtime to nonexempt lending officers and member service reps that put in extra hours to attain sales and service goals. The FLSA requires overtime be paid at one and a half times employees' “regular hourly rate.” That normal rate may be affected by cash incentives.

- Be aware that debt cancellation products including Debt Protection and Guaranteed Asset Protection (GAP) administered by CUNA Mutual Insurance Agency are not insurance so state insurance licensing requirements do not apply to debt protection programs.

All the foregoing discussion of laws and regulations reinforces the need to involve your legal advisors in the design and review of your Program.

2. Analyze your sales culture.

No Program that emphasizes cross-selling or consultative sales can succeed at a credit union that does not prepare its employees for the implementation of a sales culture. Your credit union must have all the elements of an effective sales and service culture in place before implementing a Program.

In a sales culture, employees are trained to view every encounter with a member as an opportunity to expand the relationship by matching the member’s financial needs to credit union products and services. Training of both managers and their employees are integral components of the sales culture, as are incentives that motivate staff members to make sales that move the credit union toward its strategic goals. A successful sales culture should encourage all staff members to be self-starting, well-rounded, creative problem solvers.

In short, your sales culture analysis should assess the current credit union environment, set goals that support the credit union’s strategic vision and member needs, determine what activities and resources are needed to
achieve those goals, determine what type of CMS is necessary to support the goals, and ensure that management is committed to achieve those goals.

3. Decide whom to include in the Program.
Will incentives be offered only to employees who have direct contact with members or only those in a certain department, such as lending or the call center? Or will other employees—even the entire staff—have the opportunity to earn recognition, rewards, and cash incentives? The answer to these questions will determine to a great extent what type of incentives to offer and how the Program will be administered and evaluated.

4. Design the Program.
A critical early task in this step is to appoint a Program Administrator to coordinate the design, launch, management, staff communications, evaluations, and recognition and rewards of the Program. Throughout the design process, the Program Administrator and/or team designing the Program must keep the credit union’s strategic goals and objectives at the center of the process. Without the strategic plan as a touchstone, incentives can too easily go off on a tangent and, in some cases, reward the wrong behavior.

To design an effective Program, the administrator and/or team must complete the following tasks.

- **Data collection** – Determine what data is needed to examine historical and future sales performance. You can use this data to help establish sound business goals, determine training and education needs, and set attainable objectives.
- **Program eligibility** - Determine if the credit union will reward performance at the individual, team, organizational level or a combination?
- **Goals/performance levels and measurement system** - Goals should be set at the credit union and branch level and for each manager and employee involved in the Program. Establishing performance levels and a measurement system may require substantial infrastructure and procedural changes. Consider if your personnel performance reviews can be expanded to include regular updates on progress toward achieving individual sales goals.
- **Sales skills support** - A critical component of any Program is to equip employees with the skills and knowledge they need to identify the member’s needs in order to make the sale. Your credit union’s sales culture should encompass regular training on strategically important products and services, the benefits to members of those services, and special offers and promotions. Managers should reinforce those skills with their employees and offer individual coaching to support attainment of sales goals.
- **Program budget** - Create a budget for your Program. Ideally, a Program should pay for itself out of profits generated by increased sales. Many companies report that they spend about ten percent of incremental sales on the Program itself. In addition to cash and non-cash incentives, the Program budget must cover training, expenses related to launching the Program, costs to communicate Program results to employees, systems to track results and share progress with individuals and teams, and celebrations of the Program’s success.

At this point in the planning phase, you should take a step back to review your Program design. You should have a written, detailed description of the Program that covers Program dates, eligibility, Program objectives, rule structure, performance measures, measurement frequency, awards, CMS, and the Program Administrators’ information.

5. Test the Program.
Testing your Program on a small scale can help identify any major gaps or flaws in Program design. Testing also helps fine-tune the Program before launching it to a wider audience. To test your Program:
Keep the test small, manageable, and separate. Credit unions with multiple branches might select one or two branches to test the Program. You might ask for volunteers among branch managers to ensure participating employees look at the test as a reward, not extra work.

6. Present the final Program to the board.
As previously noted, the NCUA requires any Program must be governed by written policies and internal controls established by the board before implementation. A good time to present the Program to the board is soon after you have launched the test. You can present the Program basics and then follow up with the test results to provide board members with the information they’ll need before signing off on implementation.

The board will need these facts:
- How the Program will help the credit union achieve its strategic goals cost effectively.
- Whether the Program will award incentives on an individual, team or organizational level or some combination and who will be eligible to earn bonuses.
- How the Program will be regularly monitored to comply with NCUA regulations and CFPB guidance. Include details on how the program be overseen and what type of CMS is in place (e.g. Policies and procedures; training; and monitoring and corrective action, consumer complaint management program; and any independent compliance auditing process.)
- How the Program will comply with the credit unions overall human resources and compensation strategies.
- How all legal aspects have been addressed.

7. Launch the Program.
Open communications is the key to launching a Program successfully. Staff trainings on sale culture are good opportunities to discuss the goals and design of the Program. The information you provide to employees focus on how achieving Program goals will benefit employees, the credit union, and members. This message will help dispel any lingering concerns that emphasizing sales impairs the credit union’s ability to serve members. Invite employees to ask questions and share concerns, and make sure they understand the Program can and will be adjusted if problems arise during implementation.

8. Give the employees the training and tools they need to succeed.
No matter how carefully you plan and test your Program, you may need to make adjustments as the Program proceeds. Do employees understand what they need to do to achieve individual and group goals? Are performance levels challenging, yet attainable? Is the impact of the Program noticeable in overall credit union performance? Are measurement systems gathering the information needed to assess performance and award recognition and incentives? What further training is needed to help employees achieve the credit union’s strategic vision? In short, is the Program succeeding, and how do you know that?

Also, build into your Program regular board reports so directors can monitor the Program to make sure it is achieving the stated goals in support of the credit union’s strategic objectives.

9. Pay out the incentives and communicate with employees.
Incentives may be provided to individuals on a monthly, quarterly, or annual basis. In addition to those payouts, you can maintain enthusiasm by sharing success stories on a regular basis. Special recognition awards to individuals and teams (e.g. fun events such as pizza parties and banquets) can keep the Program fresh and fun.

Communications with employees should emphasize not only Program basics but also progress toward organizational goals and the positive impact the Program is having on member service. Continue to invite employees’ feedback on the Program.
10. Keep the incentives fresh.

Some Program components are established for a finite period, say a two-month Program or semiannual campaign. Others may be annual goals that are updated every year during strategic planning, while still others may run for just a few days. However long a Program component extends, you should wrap it up with a final report and celebration when employees achieve their goals. Use that success to launch the next Program.

Always be on the lookout for ways to improve your Program. Invite suggestions from employees, and ask colleagues at other credit unions to share their success stories. When a Program works, figure out why and apply those successful ideas in new ways in future campaigns. When a Program falls short of its goals, it is equally important to find out why and come up with some ways to correct those shortcomings in the future. Collect success stories and constructive feedback at the same time.
Frequently Asked Questions

Can a Credit Union pay loan officers incentives tied to loan transactions?

Yes, if proper due diligence is taken. Under NCUA rules, a federally insured credit union may implement an incentive Program, for its non-senior management employees, that is directly tied to loan transactions provided the credit union board has adopted written policies and internal controls in connection with the Program. The credit union must also monitor compliance with the policies and controls at least annually. For example, a CU may establish a Program that rewards staff for number of loans closed or members signed up for a credit card.

Can a Credit Union pay loan officers incentives tied to the sale of debt cancellation products including debt protection and/or Guaranteed Asset Protection?

In most instances, if proper due diligence is taken, a federally insured credit union may implement an Incentive Program for its non-senior management employees that is directly tied to the sale of debt cancellation products. In this case, again, the credit union board must first establish written policies and internal controls in connection with the Program and must monitor compliance with these policies and controls at least annually. Since debt cancellation products, including Debt Protection and GAP are not insurance products no licensing is required to receive them.

Can a Credit Union pay loan officers incentives tied to the sale of credit insurance?

In most instances, if proper due diligence is taken, a federally insured credit union may implement an Incentive Program for its non-senior management employees that is directly tied to the sale of credit insurance products. In this case, again, the credit union board must first establish written policies and internal controls in connection with the Program and must monitor compliance with these policies and controls at least annually. Since these rewards are tied to the sale of credit insurance, loan officers must usually be licensed under state insurance law to receive them.

A credit union may also implement an Incentive Program, for its non-senior management employees, that is based in part on the sale of credit insurance. Again, the requirements regarding written policies, internal controls and monitoring apply. Under these types of Programs, incentives are distributed based on an extensive number of factors only one of which is the sale of credit insurance. If the rewards are still directly linked with the sale of credit insurance, loan officers must usually be licensed under state insurance law to receive them.

Can my Credit Union pay loan officers incentives tied to the credit union’s overall financial performance?

In most instances, if proper due diligence is taken; a credit union may pay incentives to employees based on the credit union’s overall financial performance. Such overall performance may include the financial contributions of a credit insurance or debt protection program.

Are there any states with greater restrictions on paying incentives to loan officers for the sale of insurance products?

Yes. State Chartered Credit Unions in California, Massachusetts, Minnesota and Wisconsin are prohibited from paying incentives to lending staff that is directly tied to the sale of insurance, even if the employees are licensed.
Are there any states with greater restrictions on paying incentives to loan officers for the sale of debt cancellation products, such as GAP or Debt Protection?

At this time, we are not aware of any states that have direct regulations that restrict a credit union from paying incentives to loan officers for the sale of debt cancellation products. Although we are not aware of any examples at this time, it is possible that a state could deem the incentive payments to constitute an unfair trade practice.

However, some State Chartered Credit Unions may be required to request parity from their regulator prior to offering debt cancellation products. In some instances a state regulator may grant a credit union the ability to offer debt cancellation but also restrict them from performing certain related activities such as, paying incentives to lending staff that is directly tied to the sale of debt cancellation products.

Additionally, the Massachusetts Division of Banks amended the administrative rules governing state credit unions’ parity with federal credit unions in August 2016. Under the rules, a Massachusetts State Chartered Credit Union must notify the Division prior to compensating a member service representative for the sale of debt cancellation or debt suspension agreements. Any compensation would have to be at a nominal level. The Credit Union would be required to establish written policies and internal controls in connection with the incentive program and monitor compliance with such policies and controls at least annually.

Can my credit union pay an unlicensed loan officer a referral fee for a credit insurance referral?

Generally, no. However, an unlicensed loan officer at a credit union may refer a customer or potential customer to a licensee provided the unlicensed loan officer does not discuss specific terms and conditions of an insurance policy or give opinions or advice regarding insurance. With this type of limited activity, the loan officer may be compensated for the referral by the credit union as long as the compensation is nominal, on a one-time basis, fixed in amount, is not dependent on whether the customer purchases the insurance, and is not contingent on the volume of insurance transacted.

Can a third party, such as, CUNA Mutual Group pay credit union employees incentives?

No, NCUA rules prohibit the employee of any federally insured credit union from receiving any direct payments from a third party; i.e. CUNA Mutual Group, for any credit union loan-related service or activity, including for the enrollment of borrowers into the credit union’s credit insurance or debt protection program.

This prohibition does not apply when the rewards are nominal in value. Generally awards of “nominal value” will include items such as recognition awards and other non-monetary incentives, (e.g. certificates of achievement, plaques, coffee mugs, and special parking privileges). As a best practice, delivery of third party rewards should be used sparingly and made by credit union staff.

Is payment of incentives a factor that is used to determine if the recipient needs to be licensed?

Yes, while incentives (i.e. compensation or commission) are not the only factor used to determine licensing needs, it is a necessary consideration. Payments that are directly tied to individual or aggregate insurance sales or increased participation are considered to be commissions. Typically, under state insurance laws, only licensed persons and licensed business entities may receive commissions tied to insurance. Note also that under state law, “compensation” can be broadly defined to include commissions, service fees, expense reimbursement, gifts, merchandise, travel vacations rewards, bonuses, trading stamps, equipment, goods or services, advertising, supplies, or any valuable consideration whatsoever. Therefore, depending on how some Programs are structured, awards may be viewed as “commissions” and require recipients to hold a license.
Who can a credit union contact if they have questions about the licensing implications related to paying incentives to credit union employees for the sale of credit insurance?

CUNA Mutual Group’s Credit Insurance Licensing team provides credit unions with the forms and instructions needed to complete licensing to make it as easy as possible for the credit union to fulfill the licensing requirements. They are able to assist your credit union in determining the specific licensing needs for both your credit union and your employees. To speak with a member of our Licensing team, please call 800.798.4768.

How does the Mortgage Loan Compensation Rule impact the design of an Incentive Program for mortgage loan originators?

On January 20, 2013, the Consumer Financial Protection Bureau (CFPB) issued its final rule regarding mortgage loan originator compensation and qualification requirements under the Truth in Lending Act (TILA), as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The CFPB issued clarification to its Mortgage Loan Compensation Rule. The Rule applies to almost all closed-end consumer credit transactions secured by a dwelling including structures that contain 1-4 units and condominiums. The Rule does not apply to open-end credit plans, including HELOCs and time shares.

The Rule regulates how compensation is paid to a loan originator for most closed-end mortgage transactions. In general, the rule (1) Prohibits a loan originator’s compensation from being based on the terms of the transaction or a proxy for a transaction term; (2) Permits certain methods of compensating loan originators using bonuses, retirement plans, and other compensation plans that are based on mortgage-related profits; and (3) Prohibits loan originators in a transaction from being compensated by both the consumer and another person, such as a creditor.

As such, generally, compensation that is not based on transaction terms or conditions can include the following:

- Originator’s overall loan volume (i.e. total dollar amount of credit extended or total number of loans)
- Long-term loan performance
- A payment amount that is fixed in advance for loans arranged by originator
- Quality/condition of originator’s loan files
- Percentage of applications resulting in closed loans

**IMPORTANT NOTE:** Due to the additional complexity, it is recommended that credit unions involve their legal advisors in the planning, design and review when creating any type of incentive program for mortgage loan originators.

What other legal or regulatory issues does a credit union need to take into account when designing an Incentive Program for their loan officers?

Credit Union Incentive Programs must comply with all applicable NCUA regulations as well as state laws governing insurance sales, employment laws, and other state and local regulations. Credit unions should carefully structure their Programs to meet these requirements and implement a process to review their Programs often to ensure continued compliance.

In addition to the compensation requirements set by the NCUA and the state licensing regulations tied to the sale of insurance products, credit unions also must take into account how taxable income and withholding requirements enforced by the Internal Revenue Service and state income authorities would be impacted by the Program. Additionally, employment contracts, differences in overtime pay under the Fair Labor Standard Act for exempt and nonexempt must all be considered. **IMPORTANT NOTE:** For these reasons, it is recommended that credit unions involve their legal advisors in the design and review of their incentive programs.
Incentives Program Design & Implementation Checklists

As you work to create your credit union’s Program, review your plans to introduce incentives by comparing your proposed Program with these guidelines.

Do the incentives, rewards, and recognition outlined in your Program:

- Comply with state and federal laws?
- Establish clearly written rules and quantifiable standards?
- Recognize individual and team performance to inspire all employees?
- Recognize a variety of achievements so that the same people don’t always win (like “great saves,” “home runs,” and “most improved,” for example)?
- Detail specific and timely goals?
- Provide lasting recognition, such as dinners, event tickets, and time off?
- Involve sales support staff and sales staff, and reward team efforts?
- Reward managers for providing leadership and coaching for sales efforts?
- Offer some incentives based on individual employee preferences?
- Make member service and sales a fun and positive experience?
- Involve recognition from senior executives, who might call a high-performing employee or write a note, for example?

Prior to implementation of your Program, ensure the following steps have been completed:

- The Program has been reviewed and approved by your credit union’s legal counsel
- The Program has been reviewed and approved by your credit union’s board of directors
- You have validated the Program complies with state and federal laws
- A process has been established to review the Program at least annually and report your findings to your credit union’s board of directors.
- A Compliance Management System has been put in place to oversee the Program and ensure it is operating as intended.
CUNA Mutual Group was founded in 1935 by credit union pioneers and our commitment to their vision continues today. We offer insurance and protection for credit unions, employees and members; lending solutions and marketing programs; TruStage™ branded consumer insurance products; and investment and retirement services to help our customers succeed.

Visit www.cunamutual.com or call 800.356.2644 for more information.