

January 11, 1994

Edward J. Gvazdinkas  
President  
Springfield Sacred Heart Credit Union  
755 South Grand Avenue West  
Springfield, Illinois 62704

Re: Incentive Program pursuant to Section 741.3 and 701.21(c)(8) (Your December 30, 1993, Letter)

Dear Mr. Gvazdinkas:

You have requested a legal opinion concerning the permissibility of Springfield Sacred Heart Credit Union's (SSHCU's) Revised Management Team Bonus Program. As explained below, the revised program is legally permissible.

SSHCU's original Management Team Bonus Program included incentives based upon SSHCU's ratios of loans to assets and delinquency. As you are aware, this is impermissible pursuant to Section 701.21(c)(8) of NCUA's Rules and Regulations which specifically prohibits federal credit unions from making any loans if, either directly or indirectly, any commission, fee, or other compensation is to be received by the credit union's management employees and loan officers. Although Section 701.21(c)(8) applies directly only to federal credit unions, it is applied to state-chartered federally insured credit unions through Section 741.3(a) of the NCUA Rules and Regulations.

Section 701.21(c)(8) does leave room for some incentive pay. Any employee of the credit union, including senior management employees and loan officers, may receive incentive pay for activities not related to underwriting, insuring, servicing or collecting a loan made by the credit union. A review of the Revised Management Team Bonus Program indicates that bonuses are to be based solely on SSHCU's net return on

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average assets. This does not appear to violate NCUA's Rules and Regulations and, thus, would be within the discretion of SSHCU's board of directors.

I hope that we have been of assistance.

Sincerely,

Richard S. Schulman  
Acting Associate General Counsel

cc: Nicholas Veghts, Region IV Director

GC/MFR:bhs  
SSIC 3501  
94-0102