



Regulatory Comment: NCUA Proposed Rule on Compensation in Connection with Loans and Lines of Credit to Members

THE ISSUE:

On February 25, 2026 the National Credit Union Administration (NCUA) Board issued a [proposed rule](#) to amend its regulation governing compensation tied to loans and lines of credit at federally insured credit unions. The proposal would define “overall financial performance” and clarify that incentive compensation, including for senior management, may incorporate lending metrics as part of a broader set of institutional performance measures. It retains the prohibition on unsafe or unsound compensation practices while aiming to provide clearer and more flexible standards for structuring incentive plans.

IMPACT TO CREDIT UNIONS:

The proposal would clarify that credit unions may include lending metrics as part of employee incentive or bonus compensation when those metrics are tied to the credit union’s overall financial performance. This change would provide greater flexibility in structuring compensation programs while maintaining safeguards against unsafe or unsound lending practices.

KEY POINTS:

- The proposal would amend section 701.21(c)(8), which governs compensation in connection with loans, and would add a definition of “overall financial performance.”
- Credit unions would be expressly permitted to include lending metrics as part of incentive or bonus compensation when those metrics are tied to the credit union’s overall financial performance.

- The NCUA states the change is intended to clarify existing restrictions and reduce confusion while maintaining safeguards against unsafe or unsound lending practices.

ACTION NEEDED: Deadlines and contacts

Please use the comment link below to respond to America’s Credit Unions’ survey. This will help shape the discussion and better address your needs in our comment letters.

- Comments due to America’s Credit Unions: April 10, 2026 — [Submit here](#)
- Comments due to NCUA by April 27, 2026
- Questions? Contact [Luke Martone](#), Regulatory Advocacy Senior Counsel
- Agency contact: Ian Marenga (NCUA Associate General Counsel) 703-518-6540

QUESTIONS TO CONSIDER:

1. The proposal would clarify that lending-related metrics may be considered as part of overall financial performance. Would this clarification provide sufficient certainty for credit unions when designing compensation programs?
2. The proposal adopts a broad, principles-based definition of “overall financial performance” and intentionally does not include examples of specific metrics. Would examples of metrics be helpful in the regulation, or would it be preferable for the NCUA to address potential metrics in supervisory guidance, or not at all?
3. Would the proposed definition provide credit unions with meaningful flexibility to design competitive compensation programs while maintaining appropriate safeguards?
4. Should the NCUA provide additional clarification regarding board oversight, internal controls, or documentation expectations related to compensation plans?

5. Are there aspects of the proposal that could create operational or compliance challenges for credit unions if finalized as written?
6. The proposal would clarify that compensation based on overall financial performance may be provided to senior management employees. Would this clarification be helpful, and are there any considerations the NCUA should address regarding incentive compensation for senior management?
7. Any other comments regarding these regulations.

BACKGROUND:

The NCUA's regulations governing compensation in connection with loans were last updated more than 30 years ago. In April 2019, the Board issued an advance notice of proposed rulemaking (ANPR) seeking comment on whether the regulation should be updated to allow credit unions to offer competitive compensation plans without undermining safety and soundness.

Currently, section 701.21(c)(8) establishes a general prohibition on a credit union official or employee, or their immediate family member, receiving any commission, fee, or other compensation in connection with loans made by the credit union. The regulation includes several exceptions, including:

- Payment of salary to employees;
- Incentive or bonus compensation based on the credit union's overall financial performance;
- Incentive or bonus compensation to non-senior-management employees tied to loans, subject to board-approved policies and internal controls; and
- Compensation received from outside parties for activities performed outside the credit union, provided no referral was made by the credit union or its personnel.

The rule applies directly to federal credit unions and is applied to federally insured state-chartered credit unions through section 741.203(a).

Credit unions have expressed confusion about how to interpret the term “overall financial performance.” In particular, credit unions have questioned whether lending-related metrics, such as aggregate loan growth, may be considered when evaluating overall financial performance. Some credit unions have also reported varying interpretations and levels of enforcement across NCUA regions.

Based on comments received and the agency’s experience administering the rule, the NCUA determined that limitations on compensation tied directly to lending remain appropriate but that the regulation would benefit from greater clarity and flexibility.

SECTION-BY-SECTION ANALYSIS:

The Board proposes to amend section 701.21(c)(8) by adopting a regulatory definition of “overall financial performance.” The definition is intended to provide clarity and additional flexibility for compensation plans, including bonus or incentive payments to employees, including senior management employees, based on the credit union’s overall financial performance.

The proposal defines “overall financial performance” as:

“[A] quantifiable metric or set of metrics, set by a credit union’s board of directors, used to measure a credit union’s achievement of targeted performance goals which may include, but not be limited to, lending-related goals and metrics. No compensation plan may permit any unsafe or unsound practice or any unsafe or unsound reliance on individual metrics. No compensation plan may permit compensation in conflict with other applicable laws.”

Under this framework, credit unions could incorporate lending-related metrics as part of a broader and balanced set of organizational performance measures. For example, credit unions could consider metrics such as aggregate loan growth or loan performance indicators like delinquency or loss rates when evaluating overall financial performance. The Board states that providing this flexibility would allow credit unions to design compensation plans that reflect

their organizational goals and market conditions while still avoiding incentives that encourage inappropriate risks or poor lending practices.

The Board intentionally proposes a principles-based definition, rather than prescribing specific metrics, to give credit unions flexibility in determining how to measure financial performance and structure compensation programs. At the same time, the NCUA emphasizes that credit unions must continue to operate in a safe and sound manner and in compliance with applicable laws. Compensation plans may not permit unsafe or unsound practices or rely excessively on individual metrics, and the agency expects boards to demonstrate that incentive structures do not encourage unsafe or unsound behavior, either individually or in the aggregate.

The proposal would also amend section 701.21(c)(8)(iii)(B) to explicitly clarify that compensation based on overall financial performance may be provided to senior management employees.