

Incentive Plans for Credit Unions

Presented by
Rory Rowland
Rowland Consulting
816-478-3249
rory@top100cu.com

Table of Contents

Introduction-----	3
Simple Insurance Incentive-----	5
Pledge of Excellence-----	6
Monthly Production Template-----	7
Base Level of Sales Incentive-----	8
An Incentive for Education-----	8
Team Incentive Plan-----	9
Arbitrary Bonus Plan-----	9
Successful Overall Incentive Plan-----	10
Team Goals (Annual Payout)-----	11
Credit Union Goals-----	12
Pay the Member-----	13
Incentive Tracking Sheet -----	14
Successful Bonus Calculation Worksheet-----	15
Capital Power's Administrative Incentive Program-----	16
Administrative Incentive Program Worksheet-----	18
Bonus Incentive Form-----	19
Capital Power Incentive Plan Procedures-----	22-24
Incentive Plan Worksheet-----	25
Comprehensive Incentive Plan-----	26-35

Credit Unions use a variety of incentive plans in order to get the results that they are looking to achieve.

Over 20 credit unions were interviewed about their incentive plans. Nearly all listed these 3 keys as being critically important to a successful incentive plan.

- 1) Leadership
- 2) Training
- 3) Goal setting

Leadership – the credit union must know what it wants to achieve. More loans, more deposits, more high dollar deposits. The incentive plan has to support the focus of the credit union.

Training--Many managers reported the key is consistent and constant training. Training is the key to success. Employees may need an incentive to focus on the sales process, but to carry out the sales process well; the employees must understand how to sell.

Goal Setting--Credit unions that reported success in their incentive programs had a variety of methods of sharing the goals and the results of the goals with their teams. The constant focus on the goal was one of the important characteristics of success for the credit unions. Credit unions that were successful with using incentives would have a weekly meeting to help the staff focus on the goal and give them an update to how close they were to achieving the group goals.

There are many credit unions that use incentive plans very successfully. And there are credit unions that use incentive plans that don't achieve the results they would like to have.

Introduce the program with an exit plan if it doesn't achieve the results you are looking for and want to attain. The successful credit unions did not introduce the incentive plan as a permanent feature, but they did introduce the idea that this would be their culture, and the incentive plan would be part of the puzzle to support the cultural change.

Successful bonus plans tended to have many of these characteristics:

- a) Must be simple to track. Some have a tracking system on the computer, or they have someone in the credit union that is responsible to track the system. Successful credit unions said "make it easy for the employee."

- b) All the credit unions used some honor system; if an employee reported they sold a product, the credit union would pay them for that sale. Were there abuses at times? Yes, but the credit unions reported that they were willing to accept that risk. The overall goal was to reward people for the results they wanted to achieve.
- c) The program should be simple to understand for the employee. The formula is basically “If I do this, I get that.” If it is not simple to follow, the incentive plans tended not to be successful.
- d) Be careful about fraud. If one person has too much control in one area it could harm the long-term health of the credit union. Have some checks and balances in place.
- e) Measure member satisfaction. If not, employees may seek out only sales opportunities, and not be of service to the members. Credit unions that were successful in their incentive programs tracked member satisfaction on a monthly basis. They created a trend line that had to be followed.
- f) Credit unions that were successful in the world of incentives had weekly staff meeting to inform the staff how they were doing with regard to the goal. One credit union reported that one week they were short of their monthly goal by 650K loans. All the managers met with all the employees to let them know that they were short of the goal. At the end of the week the credit union had a net increase of 950K in loans. This demonstrates the power of focus at work. The management team reported they created excitement around the goal.
- g) The CEO and the management team were unified in what they were trying to accomplish. Plans that failed tended to have management teams that were split on the implementation of the plan or even the need for a plan.
- h) Credit unions that were successful with incentive plans had clear written goals that all the employees understood.
- i) The incentive plan must have annual goals, quarterly goals, weekly meeting and daily activity. One credit union reported, “If you don’t work on it on a daily basis you will not achieve the results you want.”
- j) Team incentive plans against a goal seemed to be ones that employees could get excited about. CEO tended to use team goals first, and then introduced individual goals.
- k) The successful plans were seen as fair to the employees. Gary Hinrich of West Community Credit Union said that when setting up the system “err on the side of the employee.”
- l) Reward the employees often, and make it an event when they receive the reward. Credit unions varied on the time they would give employees the incentive. Some were on a weekly basis, some on a monthly and quarterly basis. Employees tend to prefer monthly or weekly.
- m) When the payouts are made, report the overall results to the entire team.

- n) Credit unions that continually tried to tinker with the current plan had success. A complete revamp every so often tended to have a negative impact on the long-term success of the incentive plans.
- o) Appoint a manager who is responsible for the success of the program.
- p) The plan needs to be more mathematical and not arbitrary. Arbitrary plans that had senior management influence, where managers could decide how much was paid at the end of the time frame, tended to be viewed with skepticism by the employees.
- q) Consistent excitement, enthusiasm, fun, and teamwork were the keys to successful plans. The management team must create an environment where these keys are evident.
- r) An incentive program is not a panacea; it is not a quick fix, it must have these elements:
 - a. Clear leadership from the CEO on down
 - b. Consistent and constant training
 - c. Goals that everyone sees, and that are updated constantly.

There are the fundamentals of a good plan. It is important to put more focus on leadership and training, than on the incentive plan. The incentive plan must support the overall goals of the credit union; the installation of an incentive plan cannot be the goal. But credit unions that created a service selling culture were credit unions that were successful with the plan.

1. Simple insurance incentive plan

Gap insurance \$25.00
 MBI \$25.00

In order to be paid on the Gap and MBI the loan officer had to have a rolling average sales on Credit Disability and Credit Life of 30%. If they did not meet this goal on a rolling average every three months they were not eligible for the gap and MBI bonus.

The credit union CL and CD sales were higher than the national average of approximately 15%, and they were consistently in the 30% range for sales of CL and CD.

Loan officers earned an additional \$1,000 to \$3,000 per year with this plan. Gap insurance and MBI were profitable products for this credit union.

The West Community Pledge of Excellence:

As an employee of West Community, I pledge the following:

To Uphold Integrity

- I will be sincere, honest and forthright in all that I do.
- I will always focus on what is best for the members.
- I will treat others with respect, understanding and support.
- I will give others my full attention.
- I will be responsible and accountable for my actions.

To Take Initiative with a Positive, Enthusiastic Attitude

- I will commit to continuous growth of my knowledge and skills.
- I will create and innovate, looking for smarter alternatives.
- I will challenge the present and openly embrace change.
- I will exceed others' expectations.

To Grow Business

- I will fulfill members' needs through sales.
- I will build meaningful relationships.
- I will identify new opportunities.

Monthly Production

	Point	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun - 03	Jul - 03
<u>New Accounts</u>	<u>Value</u>							
Preferred Checking	10	0	0	0	0	0	0	0
Checking Account	5							
PC Bill Pay	5	0	0	0	0	0	0	0
Certificate of Deposit	10	0	0	0	0	0	0	0
Money Market	10	0	0	0	0	0	0	0
IRA	10	0	0	0	0	0	0	0
New Acct Cross Sell (2.0 or >)	100	0	0	0	0	0	0	0
New accounts points		0	0	0	0	0	0	0
	Point							
	<u>Value</u>							
<u>Loans</u>								
Loan Production (per \$1,000) ¹	1	0	0	0	0	0	0	0
Competitor Buyouts (per \$1,000)	5	0	0	0	0	0	0	0
Mortgage referrals (Per \$10,000) ²	1							
Credit card issued	1	0	0	0	0	0	0	0
Gap policy ³	5	0	0	0	0	0	0	0
Extended warranty ³	5	0	0	0	0	0	0	0
Credit life/disability (per \$10,000)	1	0	0	0	0	0	0	0
Loan points		0	0	0	0	0	0	0
Net closed loan/application ratio	5	0	0	0	0	0	0	0
Total Points		0	0	0	0	0	0	0
Monthly Payout		\$0	\$0	\$0	\$0	\$0	\$0	\$0

Incentive Levels

Monthly Payout

Minimum standard	1 - 499 points	\$ -
Silver	500 - 699 points	\$ 250
Gold	700 - 899 points	\$ 500
Platinum	900 - + points	\$ 900 (unlimited, \$1 = 1 point)

¹ Includes new/used/advances/balance transfers

² If mortgage application is made

³ Group goal - 90% or higher

⁴ Five points per policy up to 5, ten points per policy after 5 or more

2. Base level of sales before the bonus is achieved

This credit union had a minimum sales goal on a monthly basis before the employee was eligible for the incentive. The logic for this plan was the concern by the Board and some senior managers that there has to be a base line for performance. The board of directors said a bonus was to be rewarded for going above and beyond the call of duty. Therefore they paid an incentive above the basic classification for the loans. The loan officer had to hit the threshold before the incentive plan paid out anything to the employee.

With that said, here was the foundation of their plan.

They break it down into three categories.

The MSR had to complete 25 sales per month to qualify for the plan. Once they had completed 25 sales then, they were eligible to qualify for the individual incentives that each product had to offer.

These were first tier products. Here is a summary.

If the MSR sold a checking account they were paid \$2.00

If the MSR sold a Debit card they were paid \$5.00

Second tier products were Credit Life and Credit Disability

They included these as the base rate for quoting the loan. They would keep the rate the same but just extend the payments to pay for the coverage. They said this really helped their insurance sales.

If a back office person cross sold any product they were eligible for the individual incentive right from the start of the plan.

If they employee hits they goals for the minimum 3 months in a row, then they were paid an addition one day's wages.

The manager of the credit union reported that the plan was moderately successful and that they were looking to see if the could modify the plan to improve the plan.

3. An incentive for education

This credit union did not pay any incentive for sales or service. They paid employees to cross train, and then used the levels of cross training for consideration of employee promotions.

They would get a 1% raise for every program that they completed.

This credit union paid employees to get certified in other departments, and learn other employee's jobs. So the employee would have to cross train with another employee and then take a certification test to complete the process.

4. Team incentive plan

This credit union used a team incentive that was successful.

Employees were divided into two teams. They used a "Survivor" theme from the TV show.

The teams competed against the goal and not against each other.

Each team was given three choices for rewards for the team achievement of the goal.

If the team hit 95% of the goal they could receive time off, money or dinner coupons. (The employee's choice.)

This credit union said that when they implemented the plan they had a goal of having a net increase in loans for one month of 750K, and with the incentive plan in place the credit union hit 1.3 million net increases in loans.

Management team reported that weekly meetings were the key to success, and letting everyone know where they were at with the accomplishment of the goal.

5. Arbitrary bonus plan.

Under this plan there are not numbers the credit union has to hit and there are no numbers tied to the bonus.

This plan is simply 20% there is a possibility of 20% of the employee's salary if the CEO deems the credit union did well. There were no numbers set with this plan.

It is not my recommendation to follow a plan like this. The manager reported the credit union employees loved the plan because they got the bonus almost every year, but there were no achievement goals set to the plan.

6. Successful overall incentive plan

Todd Bates, Consumer Loan Manager, of CU of Southern California provided the information for this incentive plan.

This credit union was very happy with their incentive program. It was very successful and they easily attained the results that they wanted to achieve. However, Todd reported that the training, consistency of reporting the results, and the management creating excitement were keys to the long-term success of this plan.

One part of the credit union program is to use a secret shopper program in which, if the employee who was shopped scored a 90% on the scorecard they got a \$10.00 gift certificate. If the employee scored 100% on the secret shopper they got a \$250 bonus. Mr. Bates reported that the majority of the time the credit union paid out only the \$10.00, but they set the bar high, and were going to keep it there.

The credit union uses the following guidelines for the balance of their incentive plan:

Incentive for Gap insurance

1- 5	\$25.00 per plan sold
6-10	\$30.00 per plan sold
11 or more	\$35.00 per plan sold

Mechanical Breakdown Insurance (MBI)

Start at \$25.00 and continue the same as above.

CD/CL the credit union would pay \$5.00 for each one of these sold.

\$25.00 for any referral of any loans that funds. This can be a teller, MSR, or any front line employees.

\$2.00 for every checking account opened.

\$1.00 for every debit card issued.

Employees received \$5.00 for every compliment letter or compliment to a manager on behalf of an employee. Then those “success letters” were read out loud to the employees at the weekly staff meeting.

Individual incentives are paid out on a monthly basis.

This credit union has \$360 million in assets. They have one employee whose full time job is to calculate the bonus for the employees. The employees would track the data and report it to the senior management team.

Group incentives:

Managers are eligible for the group incentives. At this credit union back office employees are not eligible for any of the incentives that are paid out to the employees.

The group is rewarded for asset growth and loan growth.

The typical month they will have \$6,500 dollars divided by roughly 100 employees for asset growth goal. The average pay out for the group bonus was \$65.00

The loans growth goal is set at a net increase of 650 K. If the credit union doesn't meet the goal then nothing is paid out for the credit union.

Nothing will be taken away from the employees if they don't hit the goals, they will not be paid the bonus. Loan growth was the foundation for the entire plan.

The credit union reports this bonus plan has been very successful, and has helped them achieve the goals they have established.

7. Team goals – annual payout

The goals set forth in the incentive plan are overall objectives for the credit union. The goals are as follows:

1. Loan Growth for non-real estate loans to reach \$4.9 million net of pay downs for the year.
2. Expense Control--reduce expenses by \$780,000

3. 1,000 New Members
4. Increase in Assets of \$8 million
5. Return on Assets of 1%
6. Average delinquencies of 1%

The incentive pool is distributed among all credit union employees. Each goal stands on its own merits, so employees will get something even if only one goal is achieved. The credit union holds monthly meetings with employees to give them reports on how they are doing and how much they stand to make as a bonus. The payout occurs at year-end.

8. Credit union goals

This credit union has goals, which benefits all employees when the goals are achieved. It is a relatively small credit union with 24 employees. The manager said, "We think our plan works well. We have just 2 goals, a loan growth goal and a share growth goal. Currently the goal is 2.5% net growth in each per quarter. The total incentive funds available for the year are \$40,000. Incentives are paid on the 15th of the month following the end of each quarter."

Here are the rules:

- Maximum of \$5,000 paid each quarter for each goal. Maximum of \$10,000 total each quarter.
- Includes all employees except President
- Incentive will only be paid if at least 50% of goal is achieved
- Percentage of incentive paid will be the same as percentage of goals achieved
Example: 75% of goal = 75% of funds or \$3,750 per goal
- If growth is more than 2.5% per quarter, the additional will carry forward to next quarter
- If growth is less than 2.5% per quarter, the shortage will not carry forward
- Amount paid to each employee will be based upon each employee's salary as a percent of the total salaries excluding the President's salary. (i.e. if my salary is 5% of all salaries then I would receive 5% of the \$5,000 or \$250).

This type of goal has made all employees aware of how important things like membership growth, membership retention and cross selling are to the credit union's success. The manager reported, "Better yet, we are all focused on the same thing and everything we do should be geared toward increasing shares and loans.

Some quarters the goals just seem to be met without effort. But, on the other hand, we struggle to make the goals some quarters and have had quarters where we don't meet even 50% of the goals and earn nothing.”

This manager said, “Be willing to not pay it out, so it does not become an entitlement.”

9. Pay the member

Heritage Family Credit Union in Rutland, Vermont uses an incentive plan that pays the member. They advertise everywhere that they will pay their member \$5.00 for 5 minutes of their time. If the credit union cannot save the member money then, the credit union pays the member \$25.00

This program is reported to have been very successful. It focuses the employees on saving the members money, and it focuses the member on thinking about using the credit union for a lending source.

INCENTIVE TRACKING SHEET

Employee: _____

Month: _____

#	Name of Member	Account Number	Closed Loans	Credit Life & Disability	Competitor Buy Out	GAP Insurance	MBI	Home Equity	Checking	Direct Deposit	TOTAL AMOUNT					
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
11																
12																
13																
14																
15																
16																
17																
18																
19																
TOTAL AMOUNT																
DOLLAR AMOUNT PAID ON INCENTIVES			<u>Closed Loans</u> \$5 per closed loan <u>Insurance</u> 2% of premium		<u>Competitor Buy Out</u> \$5 per thousand paid off Example: 15000 GMAC P.O.= \$75.00		<u>GAP Insurance</u> \$25 for every policy sold		<u>MBI</u> \$25 per Policy		<u>Home Equity</u> Any H.E. loan sold over \$25K = \$25 incentive		<u>Checking</u> \$5--each checking sold		<u>Direct Deposit</u> \$10--each new net pay	

Employee Signature: _____

Date: _____

Validated by: _____

Success Bonus Calculation 2003

	<u>Percentage</u>	<u>Dollars</u>
Total Points from Measurements worksheet	<u>8</u>	
Return on average assets for year	1.83%	\$ 829,000
Return on assets belonging to PVFCU (*)	<u>1.00%</u>	
Return on assets in excess of 1 percent	0.83%	
Total net income after dividends		\$ 829,000
Net income belonging to PVFCU	54.64%	\$ 453,005
Net income basis for bonus	45.36%	\$ 375,995
Double check formula	100.00%	\$ 829,000
Net income basis for bonus		\$ 375,995
Points from previous page converted to percentage	8.00%	
Total bonus amount		\$ 30,080

(*) One percent return on assets belongs to credit union, amount exceeding one percent is a product of planning, quality employees, member satisfaction and asset liability management.

Allocation of bonus based on gross pay to each employee for the year.
 Payment is based on anticipated continued employment with PVFCU
 Employee may choose to receive bonus in cash, deposit into 401K, or to split it up between both. (Employees may contribute any amount to the 401K, but PVFCU can only match the three percent of the bonus amount.)
 All staff and management participates in the success bonus.

TO: Board of Directors
 FROM:
 RE: Administrative Incentive
 DATE: January 15, 2004

TOPIC: 2004 Administrative Incentive

The recommended Administrative Incentive Program will affect the following positions: CEO, Credit Manager, Accounting Manager, and Business Development Officer.

XYZ's main focus this year is to build capitalization and increase the average total member relationship. We have budgeted for 2004 a net ROA of 0.75 - 1.0%. Growth, increased productivity, staff and member satisfaction are also 2004 goals. The 2004 Administrative Incentive Program was developed to address these essential issues in our Business Plan.

- An ROA of 0.75% - 1.0%
- Asset growth of 10%
- Loan to asset ratio of 80 -85%
- Capital growth to outpace asset growth
- Increased member average total relationship by 3%
- Increase staff productivity and satisfaction
- Member satisfaction

ROA LESS THAN 0.75%.....	1% DEDUCTION FROM INCENTIVE
0.75% - 0.79999.....	1% of salary
0.8% -1.00%.....	3%
1.01% plus.....	5%

ASSET GROWTH WITH CAPITAL GROWTH EQUAL TO OR GREATER THAN

5.0-5.5%.....	1% of salary
6.0 - 7%.....	2%
7.5 - 9%.....	3%
9.5 - 12%.....	4%
12%.....	5%

LOAN / ASSET RATIO:

Less than 70%.....	0% of salary
71% - 75%.....	1% of salary
75% - 80%.....	2% of salary
80% - 85%.....	5% of salary
85% - 90%.....	2% of salary
90% plus.....	0% of salary

MEMBER PROFITABILITY

Increase the average total relationship per member.

3% from \$16,100 to \$16,550.....	1.0% of salary
3.5-5% from \$16,551 to \$16,900.....	2.0% of salary
5.5%-7% from \$16,900 to \$17,225+.....	4.0% of salary

INCREASE STAFF PRODUCTIVITY:

Increase the net ROA to FTE from \$33.2K to \$36.5K per employee.....

2% of salary

IMPROVE MEMBER SATISFACTION:

Increase the member retention rate from 84% to:

86%.....	2% of salary
87%.....	3% of salary
88%.....	4% of salary

Incentive dollars will be based on the then current base salary as of year end 2004 and will be paid in January 2005 after review and approval by the Board of Directors. To be eligible for incentive, personnel must be employed at XYZ as of 12/31/04 and for no less than six months. Fifty percent of the incentive earned in 2004 will be added to the annual base pay as a pay for performance increase effective February 1, 2005.

Initial

Initial

ADMIN INCENTIVE

<u>Return on Assets:</u> ≥1.01% 0.8% - 1.00% 0.75% - 0.7999% <0.75%	5% 3% 1% <1%	Maximum Available 5%	\$ _____
<u>Asset Growth:</u> >12.0% 9.5% - 12.0% 7.5% - 9.0% 6.0 - 7.0% 5.0% - 5.5%	5% 4% 3% 2% 1%	5%	\$ _____
<u>Loan to Asset Ratio:</u> 90% plus 85% - 90% 80% - 85% 75% - 80% 71% - 75% < 70%	0% 1% 5% 2% 1% 0%	5%	\$ _____
<u>Member Profitability:</u> <ul style="list-style-type: none"> • increase to \$16,550 • increase to \$16,551 • increase to \$16,900 	1.0% 2.0% 4%	4%	\$ _____
<u>Productivity:</u> <ul style="list-style-type: none"> • Increase net ROA to FTE to \$36.5K 	2%	2%	\$ _____
<u>Member Satisfaction:</u> <ul style="list-style-type: none"> • Increase retention from 84% to 86% • Increase retention to 87% • Increase retention to 88% 	2% 3% 4%	4%	\$ _____
		25%	\$ _____

Total Earned \$ _____

BONUS INCENTIVE

Employee

Member Service (internal/external)

Excellent: Continual recognition of going beyond what is expected. Receives unsolicited complimentary letters from members for providing outstanding service.....15 pts
Satisfactory: Provides timely service. Professionally accommodates member requests Follows thru in a timely manner..... 0 pts
Unsatisfactory: Is not comfortable and does not provide members with information on how our products or services can benefit them. Does not follow thru on requests.....-10 pts

Comments: _____

Sales/Incentive

Excellent: Exceeded incentive/goals.....15 pts
Satisfactory: Met incentive/goals.....0 pts
Unsatisfactory: Did not meet incentive/goals.....-10 pts

Comments: _____

Perception/Appearance

Excellent: Personal appearance and work station always exceed XYZ's standards.....15 pts
Satisfactory: Personal appearance and work station always meet XYZ's standards..... 0 pts
Unsatisfactory: Has been reminded of XYZ's standards at least once during the quarter.....-10 pts

Comments: _____

Job Knowledge/Problem Solving

Excellent: Keeps resources at hand for problem resolution. Takes responsibility for decisions. Always has solution before requesting supervisor recommendation. Understands and performs all functions of the job and takes initiative and requests additional responsibilities.....15 pts

Satisfactory: Has the knowledge to perform job function. Makes routine decisions. Performs additional duties only when requested..... 0 pts

Unsatisfactory: Does not take initiative to learn additional duties, skills, etc.....-10 pts

Comments: _____

Technical/Quality

Absence of errors for a quarter.....15 pts

One error during the quarter..... 0 pts

Two or more errors in the quarter.....-10 pts

(Error are but not limited to but may cause research and/or an adjustment to an account, or may be defined as not giving good member service - such as the VR being down)

Comments: _____

Organizational Skills/Time Management:

Excellent: Tasks/projects are always completed before due. Makes the most of available resources.....15 pts

Satisfactory: Tasks/projects are completed when due, but seldom before..... 0 pts

Unsatisfactory: Tasks and projects are consistently late. Does not follow up. Does not take initiative to utilize resources.....-10 pts

Team

Attendance.....no unscheduled absences.....5 pts

Punctuality.....no tardiness.....5 pts

Absence of the critical spirit...(Positive Mental Attitude).....15 pts

Bonus Allocation

100 – 115 score	\$100
50 – 99 score	\$50

Sales/Incentive goals: each employee earn at least 5% of their salary. The incentive is calculated on the annual salary but paid quarterly. (i.e. 5% equals 1.25% of the annual salary for each quarter.)

2004 STAFF INCENTIVE

The Incentive Plan is paid at the discretion of management and is subject to available earnings. This incentive plan is designed to work under ordinary operating circumstances. From time to time, it will be necessary for Admin to review the plan to determine if it still meets the needs and requirements of the Credit Union. Admin reserves the right to delete, add, or change any item contained within this program and will notify staff if changes occur.

Intentional manipulations of this Incentive Plan will result in a one-quarter forfeiture of any earned incentive. Subsequent manipulation will result in further disciplinary action.

Procedures for Payment

The immediate manager/supervisor is responsible for gathering and verifying the information and then submitting an itemization of the incentive payment for each employee to the CEO for approval.

Production reports from staff must be given to the manager/supervisor within 3 business days after the end of each quarter. The manager/supervisor must provide them to the CEO by the 10th business day after the end of the quarter.

Incentives will be paid quarterly, in the pay period closest to the 15th of the month immediately following quarter end.

2004 GOALS

- Obtain an ROA of 0.75-1.0%
- Increase assets by 10%
- Increase retention rate from 84% to 86%
- Increase the average total relationship (ATR by 3% from \$16,100 to \$16,550)
- Increase net ROA to FTE to \$36,500

Results need to further our objectives and goals.

We will pay for things that:

- ...add value to the credit union
- ...will increase our profitability and
- ...help achieve important goals

Everyone

- Participation in education programs: After the completion of 3 mandatory courses:
Each course completed with a passing grade.....\$25
Each course passed with 100%.....\$50
- Financial Center referral with appointment.....\$10

Collections

- Net charge off, plus delinquent loans to average assets under:
3%2% of salary
2.5%.....5% of salary
2.0%.....10% of salary
1.5%.....15% of salary

Member Service Reps, Tellers, Receptionist

- Fee Income tiers reached:
on budget.....1% of salary
5% over budget.....2% of salary
10% over budget.....3% of salary
- Each Gap or MBI sold.....\$25
- Electronic Services Set Up:
E statement member converted.....\$5
New home banking pin.....\$5
Direct Deposit or ACH loan payment.....\$5

- Capture a loan from another institution.....\$50
Diamond Day.....\$75
(Loan must be approved and booked to earn incentive.
Minimum of \$5000; D-day is according to the date of
the member application)
- Member Retention:
 >= 89% = 3% of salary
 87% to 88% = 2% of salary
 86% = 1% of salary
- Books of Business: increase the average total relationship per member by:
 3% (\$16,100-\$16,550)1% of salary
 5% (\$16,905).....2% of salary
 7% (\$17,227).....5% of salary

Data Processing:

- Recommend, and with approval, engineer and document solutions that benefit and streamline the credit union processes.....\$200 ea.

- Member Retention:

>= 89%	=	3% of salary
87% to 88%	=	2% of salary
86%	=	1% of salary

Real Estate:

- Processing and booking a real estate loan with points.....30% of pts (point income booked for the CU, net other fees and charges) (this incentive is not included in the total for the annual salary adjustment)
 - 30% split 1/3 -- 2/3 with assisted processing.
1. Incentive is not paid to “Temp” employees
 2. If your position overlaps departments, FTE is calculated on the number of hours (% of time) assigned to the department.
 3. Worksheets must be turned in by the 3rd business day of each quarter -- or payment will be delayed.
 4. 50% of the incentive/sales dollars earned and paid out during the year will be the pay for performance raise added to your salary for the first pay period of February in the following year (EXCEPTION: real estate point income earned and PTO/RSB buy back)
 5. AT THE DISCRETION OF ADMINISTRATION, THE INCENTIVE PROGRAM CAN BE CHANGED AT ANY TIME.

STAFF INCENTIVE

	2004		
<u>Education programs completed</u>	_____	\$25	
	_____	\$50	\$ _____
<u>Financial Referrals</u>	_____	\$10	\$ _____
<u>Sold Gap</u>	_____	\$25	
<u>Sold MBI</u>	_____	\$25	
<u>E Statement Conversions</u>	_____	\$5	\$ _____
<u>New Home banking pins</u>	_____	\$5	
<u>Direct Deposit/ACH loan payments</u>	_____	\$5	
<u>Fee Income tiers reached:</u>			
• on budget	1%		
• 5% over budget	2%		\$ _____
• 10% over budget	3%		
<u>Captured Loans</u>	_____	\$25	
<u>Diamond Day Loans</u>	_____	\$50	\$ _____
<u>Member Retention</u>	>=89%	3% salary	
	87%-88%	2%	
	86%	1%	\$ _____
<u>Books of Business: increase ATR</u>	3%	1% salary	
	5%	2%	
	7%	5%	\$ _____
<u>Net Charge Off, Plus Delinquent Loans to Average Assets</u>	Under 3%	2%	
	Under 2.5%	5%	
	Under 2%	10%	\$ _____
	Under 1.5%	15%	
<u>Recommended, engineered, installed and documented solutions for efficiency</u>	_____	\$200	\$ _____
<u>Real Estate:</u>	\$ _____		
	pts & fees	30%	\$ _____

Employee

Total Earned \$ _____

The XYZ Federal Credit Union
Relationship Achievement Program- September 2003

1. Introduction

The Relationship Achievement Program was developed to help create a sales and service culture so that The XYZ's employees and members can benefit from the overall success of the credit union. Participation in the Relationship Achievement Program provides staff the opportunity to contribute to the credit union's strategic goals. The result of participation in the Relationship Achievement Program should be an informed member who receives quality products and excellent service.

2. Objectives of the Relationship Achievement Program

- Cultivate member awareness of our products and services
- Improve service levels
- Obtain our mission goals
- Generate income for the credit union
- Create an opportunity for staff to increase earnings
- Enhance team building

3. Incentive Products and Services

As the primary point of contact with members, "front line" staff and occasionally "back office" staff are in the most practical position to offer products and services to our membership. Each employee that successfully brings in new business has an opportunity to share in the financial success of the credit union. The products and services covered under the Relationship Achievement Program are:

- **Deposit Products**

Certificates, Individual Retirement Accounts (IRAs), Money Market Accounts, Checking Accounts, Direct Deposit and Club Accounts.

- **Consumer Loan Products**

Consumer Loans, Overdraft Protection, Visa Classic, Visa Gold and Visa Balance Transfers.

- **Real Estate Products**

Home Equity and First Mortgage Products

- **Services**

Investment Services¹, loans converted from coupon billing to an automatic payment option, Visa Check Cards, E-Statements and Online Access-Bill Payer Service.

4. Reporting Process

A point structure has been designed to award points based on the products/service sold to our member. In most cases, the more business derived from a qualified sale, the higher the point structure. The Cross-Sell Tracking Sheet and the Points per Product Listing contain the most current products/services and the related point allotment for each closed sale.

For the most part, tracking for a closed sale(s) can be computer generated for an individual job position. It is encouraged that employees record their referrals and sales efforts on a Cross-Sell Tracking Sheet. When a referral is made to a member, the employee should indicate the product/services referred by placing a “/” in the applicable column(s). If the referral results in an actual sale, the “/” should become an “X” in the appropriate column. The tracking sheet should provide you with a good working record of your attempts, any follow up that was conducted relative to the referral, and a history of all your sales results for the month.

All referrals will remain active for 90 days from the date of referral. Expired referrals will not be eligible for a monetary award unless the employee can prove the business was placed with the credit union as a direct result of the referral. Only products and services outlined in the Program and on the Cross-Sell Tracking Sheet are eligible for monetary awards under this program.

For the most part, sales results can be computer generated for Relationship Achievement Program reporting based on your teller number. Manual tracking must be completed for Visa balance transfers (a copy of the cash advance or transfer form should be attached to your Cross-Sell Tracking Sheet); loans converted to an automatic payment, Visa Check Cards, E-Statements, Bill Payer and new Direct Deposit sales. The corresponding Manager, based on a referral sheet completed by you and forwarded to the appropriate area, will provide reporting for Mortgage and Investment Services products. Please refer to your Tracking sheet instructions for your department for more details.

5. Eligible Employees

All full and part-time employees (exempt and nonexempt) of The XYZ Federal Credit Union and XYZ Credit Union Services, Inc. are eligible to participate in the Relationship Achievement Program upon successful completion of a Product Knowledge Exam and our training program entitled Sales Champions I[®]. Employees who are temporary and paid through The payroll system are also eligible to participate in the Relationship Achievement Program. Interns that are not compensated through The XYZ's payroll system are not eligible for a monetary incentive award. Management is not eligible for incentives under this program.

Employees, who are placed on a Work Performance Improvement program, will continue to be eligible for incentive awards, provided their minimum sales goals are met as outlined in their department and incentive program.

6. Minimum Participation Standards

Each job position, as determined by department management, will have established sales goals and no incentive awards will be paid until the goal has been met. Incentive awards will only be paid on sales exceeding the established goal.

Sales standards are considered part of an employee's performance measurement as outlined in the job objectives set forth for a member contact position. Depending on the individual job objectives established for each position, failure to participate in the Relationship Achievement Program may have an impact on an employee's performance rating.

7. Administrative Issues

New Hires/Transfers/Promotions/Time off the job

New Hires and employees transferred from a non-designated sales position to a designated sales position are eligible for a monthly incentive award from the date of hire or transfer, once the employee successfully passes a Product Knowledge exam and completes Sales Champions I. Management will establish sales goals for the new employee, based on the employee's job position.

Employees who are promoted or transferred into a position that is assigned higher sales goals may also receive a grace period for meeting their minimum monthly sales quotas as approved by their Department Manager/Director or Vice President.

Monthly Sales Goals will be pro-rated for time off the job for a paid or unpaid excused leave if the employee is out of work for at least one scheduled workweek. Pro-rating will be allowed for employees who are assisting other departments for position movements (temporary backfill during the month) for staffing coverage.

Employee Termination

Employees, who leave the credit union on their own accord and provide at least two weeks advance written notice, will be eligible for any earned incentive awards for the month in which they vacate their position.

Employees terminated for cause will not be paid for any incentives earned for the month.

Fraudulent Reporting

Should evidence of fraud exist, The XYZ Federal Credit Union reserves the right to withhold payment for any incentives affected by the alleged fraud or any sales originated after the date of the alleged fraud. "Giving away" points to another employee is a violation of this program and considered cheating. Commission of fraud will be deemed cause for termination. The XYZ Federal Credit Union further reserves the right to refuse to pay any incentives earned when a violation of The XYZ Federal Credit Union's policies and procedures has occurred.

8. Team Goal/Incentive Pay Outs

Each year, the credit union establishes strategic growth goals in order for the credit union to continue to grow and prosper. The Board of Directors approves these goals in December when the budget for the following year is approved. As part of management's continued commitment to offer a truly unique financial package to our members and our employees, we must remain focused on our goals.

The goals established are what we, as an organization, will be striving for. Incentive award payouts will be adjusted upward when we exceed our budgeted goals. The adjustment will be based upon our actual net share and loan growth for the month compared to projected goals. A percentage will be calculated for both factors (share and loans) and weighed equally to determine a team's multiplying factor that will be used in determining your monthly incentive payout. This concept is explained in the following examples:

Employees will be paid monthly based on their sales results times the multiplying factor from the Team Goal. The dollar value assigned to each incentive point will not fall below **\$2.50** regardless of the factor. Rather, the value of an incentive point will be **\$2.50 to \$7.50** depending upon our share and loan growth for the month the incentive is being paid. On a monthly basis, each employee is responsible for completing and tabulating any Cross-Sell Tracking Sheets(s) and a Cross-Sell Tracking Summary sheet. Incentive reporting must be to the Department Manager by the 20th of the month in complete form in order for the employee to receive a monetary award for the previous month.

Example #1:

The growth in share balances for the month of March was 120% of our projected share growth goal. The actual loan growth for the month of March was 150% of our projected loan growth goal. Your individual payout will be based on the [team] efforts and will be reflected in your payout award for the month as follows:

Actual/Goal for Net Share Growth 120%

Actual/Goal for Net Loan Growth 150%

Average Growth: 135%
(120% + 150%)/2

In this example, you would receive a premium bonus on your sales results of 35% because the team successfully exceeded the expected amount of growth for the month.

End Notes

1. All referrals for investment products must be deemed qualified.” An illustration of a qualified investment referral is provided in the three examples listed below:

Example #1

A member who has \$10,000.00 in a savings account is referred to the Investment Services Department. Upon speaking with the member, the Investment Services employee proposes that the member place the funds in a mutual fund. After evaluating the recommendation, the member decides not to invest the funds. In this case, the employee **would** be awarded the incentive points because the funds were determined to be investable.

Example #2

A member who has \$10,000.00 in a savings account is referred to the Investment Services Department. Upon speaking with the member, the Investment Services employee finds out that the \$10,000.00 is going to be used for a down payment on a home. In this case, the employee **would not** be awarded the incentive points because the funds were determined to be non-investable.

Example #3

Members seeking a second opinion on an existing investment should be directed to the Investment Services Department. If at a later date the Investment Services Department determines the member to be qualified, then the employee would get credit for a qualified referral at that time.

Relationship Achievement Program
Points per Product
Effective January 27, 2004

Consumer Loans

- ***Direct Auto Loans**, Recreational Vehicle Loans
- Home Improvement Loans
- Student Loans
- Share Secured, Money Market Secured and Certificate Secured Loans
- Computer Loans
- Consolidation Loans, Personal Loans
- Excludes "Wheels for Work" loans ***and Indirect Auto Loans**

Mortgage Loans

- ***Fixed and Variable Rate Mortgages, including zero closing cost**
- ***Home Equity Loans**
- ***Fixed and Variable Rate Home Equity Loans, including both 100% and 85% LTV**

Certificates

- Including Regular, Youth, Jumbo and IRA

Note: Share points are awarded for new cash only.

½ Point Products/Services

Loans transferred from billing to automatic payment during the repayment period

Visa Check Cards

New Club Accounts (i.e. Holiday, Vacation, Specials Savings, etc.)

Overdraft/LOC limit increases of \$500.00 or more

Visa limit increases of \$500.00 or more

***Online Access - Bill Payer Service**

***E-Statements**

1 Point Products/Services

Certificates of \$500.00 - \$3,499.99

New Direct Deposit or New Payroll Deduction (must be a new service for the member)*

Enhanced Checking Accounts

New Money Market accounts of \$1,500.00 - \$3,499.99 (initial deposit)

IRA Share accounts of \$500.00 - \$3,499.99 (initial deposit or new cash added)

Consumer Loans of \$1,500.00 - ***\$4,999.99**

Lines of Credit (limits of \$500.00 or more)

New VISA Classic Cards (limits of \$500.00 or more)

VISA Classic/Gold Balance Transfers of \$500.00 - \$1,999.99 ***(new cash only)**

Existing VISA Classic converted to a VISA Gold with an increase in the credit limit of \$1,000.00 or more*

Qualified Investment Services Referrals of \$500.00 - \$3,499.99

2 Point Products

Certificates of \$3,500.00 - \$14,999.99

IRA Share Accounts of \$3,500.00 - \$14,999.99

New Money Market Accounts of \$3,500.00 - \$14,999.99

Premium Checking Accounts

Consumer Loans of ***\$5,000.00** - \$7,499.99

New VISA Classic Cards (limits of \$500.00 or more) with a balance transfer

VISA Classic/Gold Balance Transfers of \$2,000.00 or more (excluding Classic to Gold transfers)

Qualified Investment Services Referral of \$3,500.00 - \$14,999.99

***Denotes a change was made to this product or service's point payout structure.**

3 Point Products

Certificates of \$15,000.00 - \$24,999.99

IRA Share of \$15,000.00 - \$24,999.99 or more (initial deposit or new cash added)

New Money Market Accounts of \$15,000.00 - \$24,999.99 (initial deposit)

Consumer Loans of \$7,500.00 - ***\$9,999.99**

Home Equity Loans of ***less than \$10,000.00 (closed-end or open-end)**

First Mortgage Loan of less than \$25,000.00

Qualified Investment Services Referrals of \$15,000.00 - \$24,999.99

New VISA Gold Cards (not formerly a VISA Classic)

4 Point Products

Certificates of \$25,000.00 or more

IRA Shares Accounts for \$25,000.00 or more (initial deposit or new cash)

New Money Market Accounts of \$25,000.00 or more (initial deposit)

Consumer Loans of ***\$10,000.00 - \$19,999.99**

Home Equity Loans of ***\$10,000.00 - \$19,999.99 (closed-end or open-end)**

First Mortgage Loan of \$25,000.00 - \$49,999.99

Qualified Investment Services Referrals of \$25,000.00 or more

5 Point Products

Consumer Loans of ***\$20,000.00 to \$29,999.99**

Home Equity Loans of ***\$20,000.00 - \$39,999.99 (closed-end or open-end)**

First Mortgage Loan of \$50,000.00 - \$74,999.99

6 Point Products

***Consumer Loans of \$30,000.00 to \$39,999.99**

Home Equity Loans of ***\$40,000.00 - \$59,999.99 (closed-end or open-end)**

First Mortgage Loan of \$75,000.00 - \$99,999.99

7 Point Products

***Consumer Loans of \$40,000.00 or more**

Home Equity Loans of ***\$60,000.00 - \$79,999.99 (closed-end or open-end)**

First Mortgage Loan of \$100,000.00 - \$124,999.99

8 Point Products

***Home Equity Loans of \$80,000.00 or more**

First Mortgage Loan of \$125,000.00 - \$149,999.99

9 Point Products

First Mortgage Loan of \$150,000.00 - \$199,999.99

10 Point Products

First Mortgage Loan of \$200,000.00 or more

***Denotes a change was made to this product or service's point payout structure.**

Cross Sell Tracking Summary

Name _____ Month _____
 Teller # _____ Department _____

Sales Results	# of Products Sold	# Points Earned
Loans Converted to Automatic		
Visa Check Card		
Club Accounts		
E-Statements		
Bill Payer		
Certificates		
IRA Share Accounts		
Money Markets		
Checking Accounts		
New Direct Deposits/Payroll		
Consumer Loans		
LOC (Include Increases)		
Visa (Include Balance Transfers and Increases)		
Investments		
SUBTOTAL		
Home Equities		
Mortgages		
TOTAL		

Total Points Earned _____
 Less Minimum Required Points _____
 Total Points Eligible for Incentive _____
 Incentive Pay x Team Factor _____
 Additional Special Incentives (if applicable) _____
 Total Incentive Pay _____

Employee Signature _____ Date _____

