DBF SUP 18-008

DBF GUIDANCE FOR GEORGIA STATE-CHARTERED BANKS, BANK HOLDING COMPANIES, CREDIT UNIONS, AND TRUST COMPANIES

TO:	Supervision Staff
CC:	Georgia State-Chartered Banks and Credit Unions
FROM:	Melissa Sneed Deputy Commissioner for Supervision
SUBJECT:	COMMISSION ON THE SALE OF CREDIT RELATED INSURANCE
DATE:	May 25, 2018

The Department has had a longstanding policy against the direct payment of credit life insurance premiums to officers and employees of a financial institution. Premiums earned from the sale of credit-related insurance should be directly taken into the gross income and all expenses associated with the payment of the bonus would be properly reflected on the books as well. It is presumed that the financial institution is retaining a portion of the commission income to cover overhead and not paying out 100% of the premiums.

The Department will permit incentive plans developed for officers and employees that are based on the success a particular employee has in the sale of credit-related insurance provided that safeguards are in place to prevent indirect abuses, primarily a loan officer writing contracts with credit insurance in an effort to receive commission without regard to ultimate collectability of the related loan contract. Such safeguards built into an incentive plan would include, but not necessarily be limited to, the maintenance of a certain acceptable delinquency ratio on loans carrying credit-related insurance, the maintenance of a certain acceptable ratio of charged-off loans carrying credit-related insurance, a basis for determining the amount of the incentive payment which includes consideration for refunds, rebates, and charge-offs of previously collected premiums, and a periodic review of loans carrying credit-related insurance to eliminate the "churning" of accounts to increase incentive payments. It is also prudent to establish an upper limit for the amount of bonus that can be paid based on premiums from the sale of credit insurance. This upper limit should normally be stated as a percentage of the employee's base salary.

Where commissions resulting from the sale of credit related insurance are received by persons or entities other than the financial institution, in whole or in part, this payment should be fully disclosed, giving the names or recipients and annualized amounts involved, and receive annual approval by the Board of Directors. No persons other than the licensed agent or the financial institution should be allowed to participate in the commissions except through salary compensation or through participation in an employee incentive plan.