CREDIT UNION
BOARD OF DIRECTORS
DUTIES AND RESPONSIBILITIES

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Learning Objectives

• Review NCUA's R & R 701.4 and Illinois Credit Union Act, Section 30
• Responsibilities of the Board of Directors by position
• Committees – Standing and Special
• Director’s liabilities
• Asking the right questions while providing direction
• Board/CEO relationship
• How to conduct a board self-assessment
What is a credit union?
Not for profit
Not for charity
But for SERVICE
Financial Institution
Cooperative
1. Voluntary Membership
2. Democratic Member Control
3. Members’ Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation Among Cooperatives
7. Concern for Community
NCUA Section 701.4
Board Duties and Responsibilities

• General direction and control
• Duties of directors
• Authority regarding staff and outside consultants
• Reliance
NCUA Section 701.4
General Direction and Control

• The board of directors is responsible for the general **direction and control** of the affairs of each credit union.

• A credit union board of directors may delegate the execution of **operational functions** to credit union personnel.

• The ultimate responsibility of credit union's direction and control is **non-delegable**.
NCUA Section 701.4
Duties of Directors

• Carry out his or her duties as a director in **good faith**, in which it is reasonably believed that the directors are acting in the **best interests** of the membership.

• Administer the affairs of the credit union **fairly and impartially** and without discrimination in favor of or against any particular member.

• Within six months, have at least a working familiarity with **basic finance and accounting practices**.

• Direct management's operations of the credit union in conformity with the **Credit Union Act**, other applicable law, and **sound business practices**.
NCUA Section 701.4
Authority regarding staff and outside consultants

• Each credit union's board of directors and all its committees have authority to outside consultants at the credit union’s expense for credit union related matters

• Any credit union staff providing services to the board of directors or any committee of the board may be required to report directly to the board or such committee

• In performing board or committee duties, a director who does not have knowledge or expertise is entitled to rely on information, opinions, reports or statements prepared or presented by any of the persons specified:
NCUA Section 701.4

Reliance

• One or more officers or employees of the credit union who the director reasonably believes to be reliable and competent in the functions performed or the information, opinions, reports or statements provided;

• Legal counsel, independent public accountants, or other persons retained by the credit union as to matters involving skills or expertise the director reasonably believes are matters:
  – Within the particular person's professional or expert competence, and
  – As to which the particular person merits confidence

• A committee of the board of directors, of which the director is not a member, if the director reasonably believes the committee merits confidence
Illinois Credit Union Act Section 30

Director Duties

• Review actions on membership applications
• Provide adequate fidelity bond coverage
• Determine loan interest rates and maximum amount with or without security
• Declare dividends
• Limit the number of shares which may be owned by a member
Illinois Credit Union Act Section 30
Director Duties (Cont’)

• Review the direction of investments via committee or authorized person
• Hire a person or organization to manage the operations of the credit union
• Borrow or lend money consistent with the bylaws and policies of the credit union
• Designate a depository for credit union and supervise the investment of funds
• Suspend and/or remove any officers, members, committees when in the judgement of the board it is in the best interest of the credit union
Illinois Credit Union Act Section 30
Director Duties (Cont’)

• Appoint any special committees
• Perform such other duties as members may direct.

• Delegate duties to management such as:
  – Interest rates on loans
  – Dividend rates on share accounts
  – Hiring other employees including compensation, that are not chief management
Illinois Credit Union Act Section 30
Director Duties (Cont’)

• Each director shall have a working **familiarity with basic finance and accounting practices** consistent with the size and complexity of the credit union

• Directors have **6 months** to obtain these skills
DUTIES BY BOARD POSITION
Chairperson

- Leads all meeting of the members and all meetings of the board
- Works to ensure all directors are heard and meetings productive
- Perform other duties as assigned by the board consistent with the Act and regulations
- Often, the chair will act as the credit union spokesperson
Vice-Chairperson

• Takes on all duties of the chair in his/her absence.
If the Treasurer also acts as credit union manager, the duties include:

- **Have custody of all funds**, valuable papers and assets of a credit union.
- Provide and maintain **complete records** of all the assets and liabilities of a credit union in accordance with procedures and regulations
- **Ensure that the financial statements show the condition** of the credit union and post in a conspicuous place in the credit union
- Ensure that the financials and other reports, as required, are **prepared and sent to the board**
- **Employ** tellers, clerks, bookkeepers, and other office employees, and have the power to remove these employees.

If the Treasurer is **not the credit union manager**, he/she will act as Chief Financial Officer and may perform **other duties** as prescribed by the board.
Secretary

• The secretary prepares and maintains full and correct records of all meetings of the members and of the board, and prepares same within 7 days after the respective meetings.

• Promptly informs the regulator in writing of any change in the address of the office or the location of the credit union principal records.

• Prepares meeting notices and performs other duties as assigned by the board
SUMMARY OF COMMITTEES
Supervisory Committee

- The supervisory committee acts as a **watchdog** for the members
- The committee has **authority to suspend** any director, board officer or member of the credit committee for cause
- **Monitoring** suspicious activity, closed accounts, charged off loans, cash on hand, bank reconciliations, member loan documents, etc.
- Determine that the secretary maintains full and **correct records of all meetings** of the members and of the board
Supervisory Committee (Cont’)

Required by the Act and regulations:

• Completing, or engaging a professional to complete, **audits** as required by the regulator

• Completing, or engaging a professional to complete **verification of member accounts**

• **Inspecting** the securities, cash and accounts of the credit union

• Scrutinizing the acts of all officers, committees and employees of the credit union to **determine compliance**
Credit Committee

- The credit committee is responsible for the general supervision of all loans consistent with the Act, Rules, bylaws and policy.

- Given that members have come to expect immediate decisions, the credit committee often appoints a loan officer or credit manager who is empowered to approve or disapprove loans and lines of credit under policies adopted by the board.

- The credit committee may review and act upon applications for loans or lines of credit not approved by a loan officer or credit manager.
Other Committees

• **Executive Committee** – a committee (typically officers, and not less than three) to act on behalf of the board as specifically delegated

• **Investment Committee** - an appointed committee typically named to provide investment decisions within limits prescribed by the board

• **Membership Committee** - the Membership Committee (membership officer) generally acts on all applications for membership as received and submits a signed written report of their actions to the board

• A board may establish **committees as needed**. For example, Compensation committee, ALM committee, Building committee, Search committee, Nominating committee, etc.
DIRECTOR LIABILITY
Liability

Serving in a volunteer capacity, as credit union director, is often a satisfying and **rewarding experience**. However, the position of volunteer is not a shield of immunity from **personal liability**. A volunteer bears these duties:

1. **A duty of loyalty**. A director must be focused solely on, and be faithful to, the required duties and responsibilities of fulfilling his or her role as a director. Directors must never engage in self-dealing or self-serving transactions.

2. **The duty of due care**. This is displaying the degree of care, which an ordinarily prudent and diligent person would exercise under similar circumstances. Further, if the credit union is suffering financial problems, directors are required to devote **extra time and effort** to the affairs and activities of the credit union.
Ways to manage liability risk

• **Attend meetings** and participate
• Ensure that **appropriate policies** are in place
• Carry out its responsibility as related to the **CEO**
• Have a **succession plan** in place in the event key management retires or leaves
• Make certain the credit union operates within a written **budget and business plan**
• Be familiar with credit union **laws and regulations**
• Understand that a board of director is responsible for the **general direction** and control of a credit union
Ways to manage liability risk (Cont’)

• Perform duties **objectively** and with fairness
• Protect **member privacy**, and retain confidences at all times
• Review and evaluate credit union **bond coverage**, as well as other coverage, annually
• Avoid any action that may mirror a **conflict of interest**
• Be able to read and understand **financial statement**
• Recognize that a director may rely on information prepared or presented by **employees or consultants**
• Evaluate relationships with **third party vendors**
• Act on regulatory **examination reports**
KEYS TO ASKING THE RIGHT QUESTIONS
Create a CULTURE that embraces questions
How to ask questions

• Create clarity: “Can you explain more about this situation?”

• Construct better working relations: Instead of “Did you make your sales goal?” ask, “How have sales been going?”

• Help people think analytically and critically: “What are the consequences of going this route?”

• Inspire people to reflect and see things in fresh, unpredictable ways: “Why did this work?”

• Challenge assumptions: “Can that be done in any other way?”

• Create ownership of solutions: “Based on your experience, what do you suggest we do here?”
Questions board members should consider

• How will this affect the membership?
• Do we have the proper internal controls?
• Do we have the necessary resources to be successful?
• Have we identified the potential risks?
• Is this accomplishing our objectives and goals?
BOARD/CEO RELATIONSHIP
Successful Relationship

- **Trust**
- An **effective working relationship** between a credit union CEO and its board of directors is paramount to a successful operation
- The Manager/CEO manages under the control and direction of the board
- Each credit union board delegates different functions to their Manager/CEO
Board typically delegates to CEO

- Supervise investment portfolio management activities
- Maintain awareness of the economic and interest rate environment, particularly local economic conditions
- Review asset quality
- Develop the budget while generating variance, rate, and volume analysis reports
- Provide support and oversight to new and existing products and services while ensuring they support the credit union’s strategic plan
- Perform due diligence on business partners and credit union products including pricing
Board typically delegates to CEO (Cont’)

• Provide and maintain **full and complete records** of all the assets and liabilities of the credit union.

• Ensure that a **financial statement showing the condition** of the credit union

• Ensure that financial and other **reports required by NCUA** are prepared and sent.

• **Hire and terminate** credit union employees except those hired or appointed by the board or committees.

• Review the board's **policies periodically** and, when appropriate, suggest changes.

• **Manage the operations** and staff to achieve the goals and objectives set forth by the board.

• Establish operational **procedures** within board policy.
BOARD ASSESSMENT
How to conduct a board assessment

• Find an **assessment tool** that works for your credit union

• **Be honest** with yourself and each other

• Make **no excuses**

• Develop an improvement **action plan** in which the board’s areas of need are determined

• Perform this **annually**
Most Important Takeaway of the Session

What is the main difference between:

a $100K CU and a $1B CU

PLANNING
Resources

- Accomplus
  www.accomplus.net  (888) 415-6145
- National Credit Union Administration (NCUA)
  www.ncua.org       (703) 518-6300
- YouTube – NCUA Channel
- Illinois Department of Financial and Professional Regulation (IDFPR)
  www.idfpr.com      (888) 473-4858
- Credit Union Board of Directors Handbook
  www.cuna.org
- Your ICUL Regional Director
THANK YOU FOR YOUR SERVICE AND VOLUNTEERISM

QUESTIONS?