
Credit Union Board of Directors Handbook

Written by Paul D. Butler

Edited by Diane S. Monaghan
and Jeremiah Cahill

Produced by the Human Resource
Development Department
CUNA & Affiliates
Madison, Wisconsin

Product #761



KENDALL / HUNT PUBLISHING COMPANY
2460 Kerper Boulevard P.O. Box 539 Dubuque, Iowa 52004-0539

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is not, however, intended to be an exhaustive treatment of all issues and questions that may arise. It is sold with the understanding that the publisher, Credit Union National Association, Inc., is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

Copyright © 1990 by Credit Union National Association, Inc.

ISBN 0-8403-6020-7

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyright owner.

Printed in the United States of America

10 9 8 7 6

Contents

Preface	i
Acknowledgements	ii
Chapter One: Who We Are and How We Differ	1
How We Differ	
Credit Union Facts	
Types of Services	
Guiding Principles	
A National Network	
Government Regulation	
Chapter Two: An Organization of People, Not Dollars	13
The Board of Directors	
The Supervisory Committee	
The Credit Committee	
Other Committees	
Staff	
Chapter Three: Board of Directors Profile	25
Director Qualifications	
Community Involvement	
Makeup of the Board	
Becoming an Effective Director	
Legal Considerations	
Insurance Protection	
Conflict of Interest	
Self Improvement	
Self Assessment: Your Knowledge, Experience, and Need for Training	

Chapter Four: Board Duties and Responsibilities	43
General Responsibilities	
Specific Duties	
Executive Officer Duties	
Financial Analysis	
Chapter Five: Board/CEO Relationships	63
Choosing the Right CEO	
What Boards Want in a CEO	
What CEOs Want in a Board	
Working Together	
Terminating the CEO	
Relating to Staff	
Chapter Six: Board Communications	73
Communicating with Management	
Communicating with Members	
Communicating with Committees	
Meetings and Minutes	
Chapter Seven: Board Self Assessments	79
Your Responsibilities to the Members	
Your Responsibilities to the CEO	
Your Responsibilities the Staff	
Your Responsibilities to Committees	
Your Responsibilities to Safety and Soundness	
Your Responsibilities to Each Other	
Your Responsibilities as a Board	
Chapter Eight: Conclusion	85
Bibliography	87

Preface

This handbook is for you—the credit union director. It includes the basic information you need to get started and to succeed in your position. And it is excellent preparation for the more advanced training your credit union or league will provide.

In this handbook you'll find a brief overview of credit union history and philosophy, as well as detailed explanations of your most important duties and responsibilities. You'll also find self assessments to help you identify your board's strengths and weaknesses.

Chapter One introduces the credit union movement and provides a general overview. Chapter Two describes the board's role in relation to other employee groups. Chapter Three profiles credit union boards and includes sections on legal liabilities, conflict of interest, and insurance protection. Chapter Four outlines board duties and responsibilities. Chapter Five explains how to establish and maintain good relationships with your credit union's chief executive officer. Chapter Six offers suggestions on how to improve communication with credit union members, management, and committees. Chapter Seven provides a series of self assessments that reinforce key concepts and help you evaluate how well you and your board are doing. Chapter Eight is the conclusion, followed by a bibliography of resources for board members.

Volunteers, such as you, are essential to the survival of credit unions. More than 200,000 strong,

you are the highly motivated, dedicated, and altruistic members who are involved because you want to use your many talents to serve others.

The usefulness of this handbook depends on you. Read it, review it, make it a part of your work, and keep it for handy reference. Mark sections you need to learn more about. Write questions in the margins. And underline areas you consider most valuable. Learn the policies and procedures required in your credit union. Complete the self assessments in Chapter Seven. Then take advantage of the many additional training opportunities available locally, regionally, and nationally.

Acknowledgments

Special thanks to the following for their review of this manuscript and recommendations: Edward Baranowski, Navy Orlando Federal Credit Union; Alan Cleveland, CUNA Credit Union; Phillip Helmuth, University of Wisconsin Credit Union; and Donald Percy, University of Wisconsin Credit Union.

Who We Are and How We Differ

When people say, “This is *my* credit union,” they mean it. Unlike other financial institutions, a credit union *is* owned and operated by the people it serves. And that is just one of the many features that make your credit union different from any other financial institution.

All credit unions were originally formed by a group of people who decided they wanted to control their own financial destiny. This handful of people—members, not customers—provided the initial capital to start the credit union, pool their money as savings, and make low-cost loans to each other.

Every credit union in the world—including yours—started this way, and the principle of mutual self-help still applies, no matter how large or how small your credit union is now.

How We Differ

Three major characteristics distinguish your credit union from other financial institutions:

1. Your credit union is owned by its members, who democratically control it.
2. Your credit union is a not-for-profit cooperative.
3. Your credit union relies heavily on volunteers for direction.

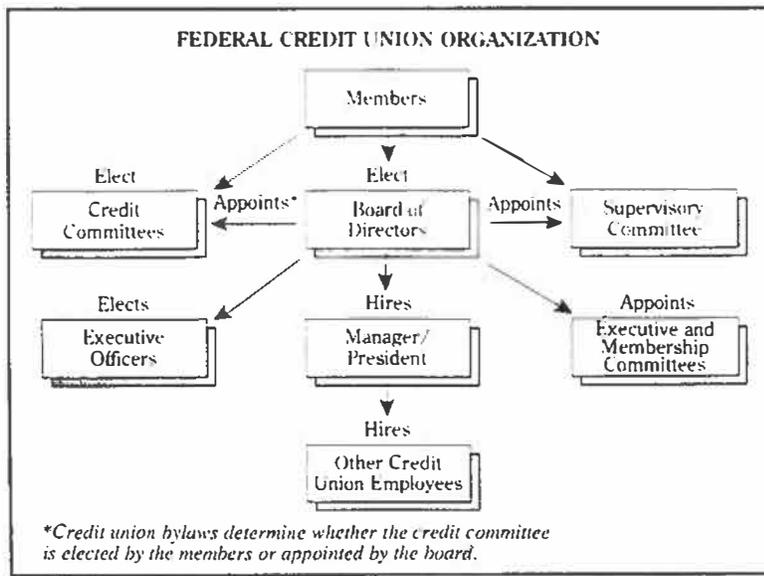
The aspects of member-ownership and democratic control of your credit union are most important. They are apparent when members use mail

ballots to elect directors. And they are apparent at your annual meeting where members meet to hear reports of board and committee members and vote on credit union issues. Each member has one vote—no matter how much or how little money is deposited or borrowed.

Your members also play a key role in setting policy. They elect directors who appoint other volunteers and hire managers to handle day-to-day operations. Figure 1.1 shows a typical credit union organizational chart.

Because it is a member-owned cooperative, your credit union has no inner group of stockholders who benefit personally from its success. After normal operating expenses and allocation to reserves, your credit union's net earnings are distributed to your members as dividends, reduced interest charges,

Figure 1.1 Typical Credit Union Organizational Structure



and/or improved services. This is why credit unions and other cooperatives are described as “not-for-profit.” They are *not*, however, the same as charitable or “nonprofit” organizations.

Your board of directors and committee members volunteer their time to fulfill the expectations of your membership, ensure quality service, and maintain fiscal safety and soundness. These volunteers are unique in the financial world in that they assume tremendous responsibilities and demanding workloads—in most cases *without* monetary compensation.

Credit Union Facts

To the typical consumer, all financial institutions may look alike. But the fundamental differences discussed above—and those shown in Figure 1.2—help make credit unions an appealing alternative to their “for profit” counterparts. In addition, these credit union facts are important:

- Credit unions provide financial services to many persons who could not otherwise obtain or afford them.
- To help their members make wiser financial services decisions, credit unions educate them about issues affecting their financial well-being.
- The United States credit union movement, through the World Council of Credit Unions, is helping people build a better life in 72 developing countries in the Caribbean, Central America, South America, Asia, Africa, and the Pacific.
- Most credit unions offer loan protection insurance and life savings insurance at no direct charge to their members.
- A credit union’s board of directors is made up of volunteers who are elected by the membership and can be replaced when decisions do not reflect the will of the membership.

ire 1.2 How Credit Unions Compare

THE CREDIT UNION AS A FINANCIAL INSTITUTION

	Credit Unions	Banks	Savings and Loan Assn's	Small Loan Companies	Retail Store Charge Accounts
ntation Purpose	Not-for-profit cooperative	Profit	Profit	Profit	Profit
e of organization	Democratically controlled cooperative	State or federally chartered corporation	State or federally chartered corporation	Corporation	Local or national corporation
rce of me	Loans to members and investments	Loans to customers and investments	Loans to customers and investments	Loans to customers	Loans to customers
tribution come	Dividends to members	Dividends to stockholders	Dividends to stockholders	Dividends to corporation investors	Dividends to store's stockholders
'ices red	Savings and lending plans, share drafts, etc.	Business and personal loans, checking accounts, credit cards, IRA's, etc.	Home mortgages, savings accounts, NOW accounts, etc.	Primarily consumer loans	Primarily consumer loans to purchase items in the store

- Money is safe in credit unions. All deposits up to \$100,000 are insured. Historically, the credit union movement has been financially sound, and the credit union system is stronger now than ever.
- Many corporations consider the availability of credit union services an attractive employee benefit, and they often sponsor and support them by providing space and incentives to help start one.
- The credit union movement fosters the establishment of student credit unions to encourage

thrift and consumer education among young people.

- Credit unions are unique not so much in *what* they do, but in *how* and *why* they do it. As member-owned, financial cooperatives, they are unique in the business sector.

Types of Services

Credit unions range in size from less than one million dollars in assets and a few hundred members to billion-dollar institutions providing thousands of members with all types of services shown in Figure 1.3. Which services and how many depend on the size of the credit union and the needs of its members. Generally speaking, credit unions offer the same consumer services as banks and other financial institutions, but terminology may differ. Credit unions, for example, offer “share” accounts, which are similar to savings accounts in other financial institutions. Credit union shares, however, represent the amount of money a person deposits to become a member in a credit union. This amount represents the share of the credit union owned by that member, and the members’ shares pay dividends.

Similarly, credit unions offer “share draft” or “share checking” accounts, which are comparable to checking accounts and often promoted as such. The term “share draft” refers to members drafting from share accounts by using a piece of paper—the share *draft*.

It is imperative that you know *all* the services available to your members and that you help find out what other services they may need.

Keeping up with changes in the financial field and knowing what other credit unions are doing is very important—as is relaying comments by your members on what should be offered as new services or as improvements to existing services.

Guiding Principles

Credit union roots go back to the mid-19th century in Germany where Herman Schulze-Delitzsch, a repre

Figure 1.3 Typical Credit Union Services

- | TYPICAL CREDIT UNION SERVICES | |
|---|---|
| <input type="checkbox"/> Share accounts | <input type="checkbox"/> Savings accounts |
| <input type="checkbox"/> Share drafts | <input type="checkbox"/> Installment loans |
| <input type="checkbox"/> Money market accounts | <input type="checkbox"/> Certificates of deposit |
| <input type="checkbox"/> Variable-rate loans | <input type="checkbox"/> Lines of credit |
| <input type="checkbox"/> Payroll deduction | <input type="checkbox"/> Direct deposit |
| <input type="checkbox"/> Automatic teller machines | <input type="checkbox"/> Deferred compensation |
| <input type="checkbox"/> Debit cards | <input type="checkbox"/> Share insurance |
| <input type="checkbox"/> Money orders | <input type="checkbox"/> Travelers checks |
| <input type="checkbox"/> Credit cards | <input type="checkbox"/> Pay-by-phone service |
| <input type="checkbox"/> Drive-through tellers | <input type="checkbox"/> Safe deposit boxes |
| <input type="checkbox"/> Personal loans | <input type="checkbox"/> Mortgages |
| <input type="checkbox"/> Auto loans | <input type="checkbox"/> Home improvement loans |
| <input type="checkbox"/> Wire transfers | <input type="checkbox"/> Christmas clubs |
| <input type="checkbox"/> Individual retirement accounts | <input type="checkbox"/> Overdraft protection loans |
| <input type="checkbox"/> Home equity loans | <input type="checkbox"/> Telephone transfers, inquiries |
| <input type="checkbox"/> Night depositories | <input type="checkbox"/> Business loans |

sentative to parliament, worked with city people and Friedrich Wilhelm Raiffeisen, a town manager, helped develop the idea of self-help financial services.

Credit unions were started in North America in the early 1900s by a Canadian, Alphonse Desjardins of Levis, Quebec. Desjardins was a legislative reporter who learned of the dreadful effects usury was having on the people of his country and wanted to help. The credit union, his "caisse populaire" (people's bank),

proved to be an ideal way for people to get the loans they needed at affordable interest rates.

The idea soon spread across the border where, with Desjardins' help, the parishioners of St. Mary's Church in Manchester, New Hampshire organized the first credit union in the United States in 1909. With the help of Boston merchant and philanthropist Edward A. Filene and Massachusetts attorney Roy F. Bergengren, the idea spread across the country.

A traditional credit union motto is "not for profit, not for charity, but for service." This motto evolved over the years as people banded together to obtain the financial services they needed, but were unable to get, from established banking systems.

Their guiding principles included *open membership* (any person of good will who falls within the field of membership may join), *democratic control* (all members have an equal say in the operation of the credit union—one member, one vote—regardless of the number of shares owned), *not-for-profit orientation* (after normal operating expenses are paid and funds are set aside for reserves, any net income that remains is returned to the member), and *neutrality* in race, religion, and politics.

The principles that guided these pioneers and still guide your credit union are now known as the *International Credit Union Operating Principles*. They were formally adopted by the World Council of Credit Unions and its national confederations in 1984.

A National Network

Every credit union is linked to the *credit union system*, a national network that will help train and educate your staff and volunteers, offer advice and counsel, support your financial services, and work for your interests in state and federal legislatures. Your most direct link in the system is your state credit union league.

Your state league is a non-profit trade association organized to (a) help you and your credit union with problems; (b) meet your educational and informational needs; (c) work for your legislative interests; and (d) provide a link for your credit union with the rest of the credit union system. Some of the other key components of the system, as shown in Figure 1.4, include the following:

Credit Union National Association, Inc. (CUNA).

A nonprofit trade association that provides those programs and services for leagues and credit unions that are best developed on a national basis. These include educational and training materials, workshops, and schools; magazines and newsletters; research; public relations; legislative support; and new product development.

CUNA Service Group, Inc. (CSG). Jointly owned by CUNA and its member leagues, services include credit and debit card programs; share draft, travelers check, and money order programs; individual retirement account programs; national radio, television, and print advertising; and office supplies, forms, custom printing, and specialty items.

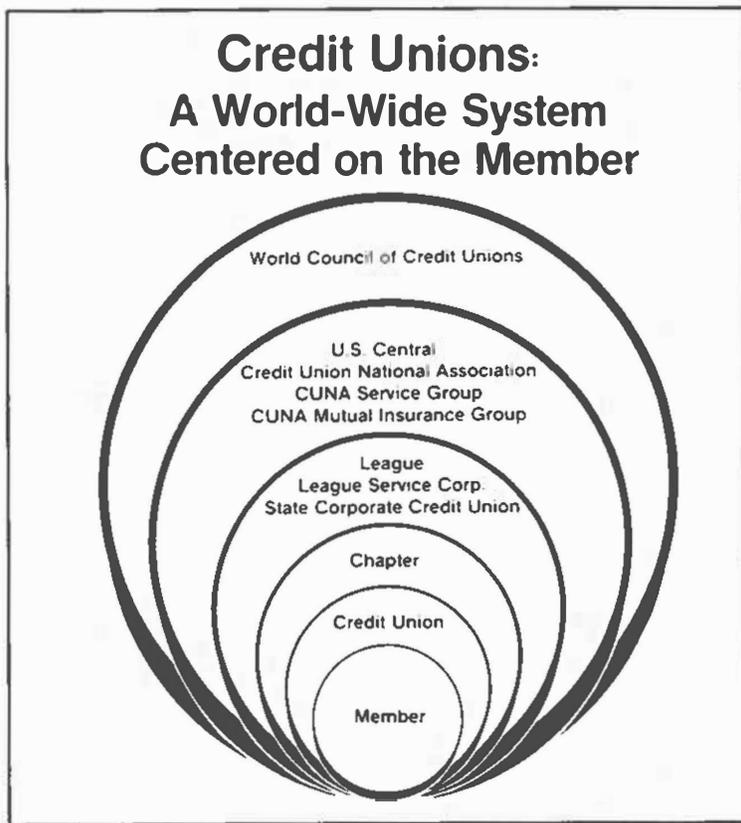
CUNA Mortgage Corporation. Provides affordable home financing for credit union members.

U.S. Central Credit Union. A credit union *for* credit unions, it enables credit unions to take advantage of the economies of scale it can provide to manage credit union funds, rather than investing in or borrowing from non-credit-union institutions. It provides access to efficient financial and payment services on local, regional, and national levels.

CUNA Mutual Insurance Group. A group of eight companies that offer different types of insurance to credit union members throughout the world.

World Council of Credit Unions. The international organization of credit unions and financial cooperatives. Supports the growth of credit unions and cooperative ideals in nearly 80 countries through various technical and development services.

Figure 1.4 Credit Union System



**Government
Regulation**

Credit unions can be chartered by either the state or federal government. All volunteers *must* know all laws—both state and federal—that affect the operations of their credit union, especially because many of these laws deal directly with consumer credit issues.

If your credit union is *state-chartered*, you need to know that most states have state credit union laws that specifically deal with credit union organization and operations. A state agency examines your credit union annually to make sure it is complying with all appropriate laws and regulations, and to make sure it

is being operated in a sound and prudent manner. In addition, your credit union will have to operate under a variety of other federal and state laws. If your state chartered credit union is *federally insured*, it may be subject to certain NCUA regulations as well.

If yours is a *federally chartered* credit union (all federal credit unions have the word “federal” in their names), it is supervised and regulated by the National Credit Union Administration (NCUA). The NCUA has exclusive authority governing certain areas of operation of federally chartered credit unions, particularly in the area of loans and lines of credit. Therefore some state laws covering the same subjects will not apply to federally chartered credit unions. You need to know which of your state laws are *preempted* and which ones continue to apply to your credit union.

Headquartered in Washington, D.C., NCUA has six regional offices located throughout the country. Because NCUA examines every federal credit union every year, it also has hundreds of examiners throughout the country.

All federally chartered credit unions are required to provide insurance on deposits up to \$100,000. All federal and many state-chartered credit unions are insured by the National Credit Union Share Insurance Fund (NCUSIF). Other state-chartered credit unions are insured by various state and regional cooperative share insurers, and most of these insurers provide the same levels of coverage as the NCUSIF.

These powerful governmental agencies do *not* conduct audits. They examine credit unions for safety and soundness.

The first step in learning more about your credit union is knowing how and why it differs from other financial institutions—knowing that (1) your credit union is owned by its members; (2) your credit union’s operation is not-for-profit; and (3) your volunteers play an important role in directing your credit union.

Your credit union is different. Different from any other financial institution. Different from any other credit union. It has a unique history and philosophy—and it is depending on you to carry on the tradition.

For more information on credit union history and philosophy, see the companion handbooks in this series.

An Organization of People, Not Dollars

The board of directors, supervisory committee, credit committee, management, and staff of your credit union all share the same goal: meeting the financial needs of your members.

Credit unions are primarily membership organizations. This means that, except in rare cases, only members may use the credit union's services. And only qualified members may serve on the boards and committees.

A few exceptions to the member-only rule do exist, however, but only to accommodate the member. For example, federal credit unions may issue a credit card to a nonmember who is the spouse of a member, or an automated teller machine (ATM) card to a nonmember who is a joint account holder.

Your members own and control your credit union. But because not everyone can—nor does everyone want to—be involved in the day-to-day operation, certain members from within the group take on that responsibility. These are the elected and appointed volunteers. As the work becomes too extensive for volunteers, staff is hired to carry out the functions.

The volunteers who accept the most responsibility are those who serve as directors.

The Board of Directors

Every credit union has a board consisting of an odd number of directors, usually no fewer than five. Terms of office are staggered so that an approximately equal number of directors is elected each year.

The directors are usually elected by the membership at the annual meeting or by mail ballot. Following the meeting, these directors convene to elect from among themselves the board's officers: the chair (or president), vice-chair (or vice-president), secretary, and treasurer. Or the directors can elect an executive committee—usually three persons—to act on their behalf as needed within the limits of applicable laws and regulations. Chapter Four of this handbook provides job descriptions and lists of executive officer responsibilities.

In general terms, your board has the duty and responsibility to set direction and control the credit union according to the wishes of the membership and in accordance with all pertinent laws and regulations. This means that directors are responsible for ensuring that the credit union is being operated in a sound and prudent manner and that it is fulfilling its purpose of encouraging thrift among the members and meeting their needs for low-cost credit.

To accomplish this, your board sets policies, appoints committees, and hires a chief executive officer (CEO) to carry out those policies. It also decides what programs the credit union will offer and what type of facilities it will use. Figure 2.1 provides a sample job description for a credit union director.

The board meets at least monthly to review the credit union's operation and plan for the future. It reviews your CEO's progress in achieving goals and objectives. And it reports to your membership at the credit union's annual meeting.

Figure 2.1 Sample Job Description

SAMPLE BOARD OF DIRECTORS JOB DESCRIPTION

TITLE: Director

REPORTS TO: Members

SUPERVISES: Manager/Chief Executive Officer/President

PRIMARY FUNCTION:

To set policy, plan the credit union's course, make sure the credit union maintains its sound financial condition, keep communication open to educate members on services, review the chief executive officer's progress in achieving goals and objectives, and report to the members at the annual meeting.

SPECIFIC DUTIES:

1. Work with the chief executive officer and the board to develop objectives and goals for the credit union.
2. Make sure the credit union adheres to pertinent laws, regulations, and sound business practices.
3. Make sure the credit union maintains sound financial conditions and that the credit union's assets are protected against unauthorized or illegal acts. Designate depositories, authorize borrowing and investing, provide for bonding and other security factors, including internal control procedures. Approve interest rates, dividends, and refunds. Approve loan limits and savings minimums.
4. Establish policies, or make sure they are established, and then approve them for all credit union programs and activities.
5. Make sure new products and services are developed as needed.
6. Approve the credit union budget.
7. Hire the chief executive officer, define the scope of the person's job, and review progress in attaining goals and objectives.
8. Attend board meetings, exercise judgment independently from the chief executive officer, and report to the members at the annual meeting.

Source: *Credit Union Magazine*

The Supervisory Committee

The supervisory committee, required by the Federal Credit Union Act and most state laws, is the watchdog of the credit union. It is responsible for making sure that members' funds and interests are protected, as well as the interests of credit union officials. The committee is appointed by the board of directors from among the members of the credit union. It conducts an annual audit and has a continuing responsibility to ensure that the credit union's financial records and operations are in order.

The supervisory committee has exceptional powers in its role of evaluating elected officials and its ability to suspend directors. If the supervisory committee feels that it has sufficient cause, it can suspend a director, executive officer, or member of the credit committee until a special meeting of the membership is called, usually within a matter of days. At that meeting, the members act on the suspension.

Federal and many state laws require the board to appoint members to this committee. In some states the committee members are elected by the membership at the annual meeting. Many supervisory committees use the professional services of certified public accountants. In some credit unions, the supervisory committee role may be assumed in whole or in part by the executive committee and/or audit committee. Figure 2.2 provides a sample job description for a credit union supervisory committee member.

The Credit Committee

The second most common committee in credit unions is the credit committee. Credit committee members are members of the credit union elected by their peers at the annual meeting. A credit union's bylaws may, however, provide for the board of directors to appoint the credit committee. The committee's primary function is to rule on members' loan applications. These decisions are based on the lending policies established by the board of directors and on state or federal law and regulations.

Figure 2.2 Sample Job Description

SAMPLE SUPERVISORY COMMITTEE JOB DESCRIPTION

TITLE: Supervisory Committee Member

REPORTS TO: Members and Board of Directors

SUPERVISES: Clerical and auditing personnel (if any) hired by committee to carry out its audit responsibilities

PRIMARY FUNCTION:

To inspect the credit union's records for accuracy, its assets for security, and its procedures for the proper handling and use of funds.

SPECIFIC DUTIES:

1. Make, or cause to be made, audits as required by government agencies. Also prepare and submit the necessary written forms. Conduct or order supplementary audits as the committee decides is necessary.
2. Inspect the securities, cash, and accounts of the credit union and scrutinize the acts of all offices, committees, and employees of the credit union to determine compliance with board, state, and other regulatory rules and laws.
3. Conduct or order a verification of the loan and share accounts of the members, in accordance with credit union policy and regulatory requirements.
4. Review minutes of the board.
5. Make sure there are internal controls, and that they are being followed.
6. Recalculate the expected interest income from loans and investments and the expected interest paid on member deposits to determine records are reasonable.
7. Suspend any officer of the credit committee or member of the board of directors if necessary, in accordance with state and federal regulations.
8. Prepare and make available an annual report to be read at the annual meeting.

Source: *Credit Union Magazine*

In reaching decisions, the credit committee is strongly influenced by the five Cs of credit: *character* of the borrower, *capacity* to repay, *collateral*, *capital* accumulation, and *circumstances* or economic *conditions*. Of those five, the member's character is always the most important in credit unions.

As a credit union grows, the number of loans requiring approval eventually exceeds the number that can be adequately handled by the credit committee. At that point, the committee may delegate loan-granting authority to loan officers. These are staff people on duty in the credit union office who process loan requests. Questionable loans are referred to the credit committee for final decision. And the credit committee reviews all loans approved or disapproved by loan officers.

Two types of loans on which the credit committee does not rule are loans to other credit unions or other financial institutions, and participation loans—loans made in partnership with other credit unions or financial institutions. In these cases the decision is made by the board of directors, although the board may involve the credit committee when considering participation loans.

Some credit unions use their credit committee as an appeal body only. And some credit unions do not have a credit committee—they leave many decisions to their credit manager and loan officers. In these situations the credit union staff is bound by the lending policies established by the board. Under federal law, federal credit unions may decide whether or not to create a credit committee. If no credit committee exists, the board of directors must be involved in reviewing loan applications not approved by loan officers.

Members of the credit committee may be appointed by the board or elected by the members, depending on the credit union's charter and bylaws. Either way, the committee reports to the membership at the annual meeting. Figure 2.3 provides a sample job description for a credit committee member.

Figure 2.3 Sample Job Description

SAMPLE CREDIT COMMITTEE JOB DESCRIPTION

TITLE: Credit Committee Member

REPORTS TO: Board. Members

SUPERVISES: Loan officers appointed by the committee (if any)

PRIMARY FUNCTION:

To approve or disapprove all loan requests from members, based on the loan policies established by the board of directors. Decisions must not only be fair to the members, but also beneficial to the credit union's health.

SPECIFIC DUTIES:

1. Approve or disapprove all member loan requests. If the size of your credit union dictates that you delegate some of your responsibilities to loan officers, you still must make decisions on any loan denials and on "marginal" risk cases.
2. Be familiar with Equal Credit Opportunity Act and Regulation B; Truth-in-Lending Act and Regulation Z; Fair Credit Billing Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act; and Higher Education Loan Act and all other relevant state and federal laws and regulations affecting lending.
3. Evaluate your own performance annually, including a breakdown of the dollar amounts of loans approved, total number of loans approved, a breakout of the number and percentage of loans by purpose, the total number of borrowers, the average loan size, the ratio of borrowers to members, the ratio of loans to savings, and the number of loans rejected.
4. Prepare and make available an annual report to be read at the annual meeting.

Source: *Credit Union Magazine*

Other Committees

Credit unions use many committees to research problems, develop programs and services, and carry out special programs. Some are permanent or standing committees; others are ad hoc or temporary. Most credit unions do not hesitate to form committees on an as-needed basis.

The more popular standing committees include the education, marketing, membership, collections and delinquency control, investment, and audit committees. These committees are especially popular among smaller credit unions that don't have the staff to perform these functions.

Other types of standing committees include loan policy, funds management, personnel, asset/liability, and planning committees.

Ad hoc committees, on the other hand, are formed on an as-needed basis and may last anywhere from a few days to years. Some of these—building committees, for example—eventually become standing committees.

Larger credit unions with full-time staff often use a mix of employees and volunteers on committees. The advantage is that the employees bring their expertise to the committee and help bridge the gap between theory and practical application in the credit union's daily operation.

In many credit unions, the board of directors, the credit committee, and the investment committee are likely to include a representative staff member.

Staff

As a credit union grows, the day-to-day operation becomes too burdensome for volunteers to handle. The treasurer may hire some part-time or even full-time accounting help, but eventually the board will have to hire a chief executive officer, known as the "CEO." (In some credit unions this person's title is "president;" in other credit unions, it's "manager." In this handbook series we use the three titles interchangeably.)

The board may authorize the hiring of additional personnel, but the actual selection, hiring, and supervision of staff is usually done by the credit union's CEO.

As membership increases and the credit union offers more and more services, staff grows accordingly. No matter where they come from or what skills they bring to the job, it is imperative that new employees learn and understand their credit union's history and philosophy.

Only by knowing how and why their credit union operates the way it does can staff serve the members properly. They must understand that the members own the credit union, that the board and committees volunteer their time for the betterment of the organization and the members, and that the credit union exists only to serve its members.

Employees are members too—and eligible for all the benefits of credit union membership. But they are entitled to no more benefits than any other member. Federal laws prohibit insider dealing and self-serving policies.

Staff functions and reporting requirements vary from credit union to credit union, depending on such things as the management style of the president, the needs of the membership, and the resources available. Generally, credit union staff has three broad classifications: (1) management, (2) mid-management, and (3) clerical.

Management is the CEO, the chief staff person, hired by the board to interpret and apply the policies set by the directors and to be responsible for the operation of the credit union. With board approval, the CEO hires the staff necessary to achieve the required results. For ease of describing the supporting staff here, we'll assume the CEO's title is president and the assistants are vice-presidents.

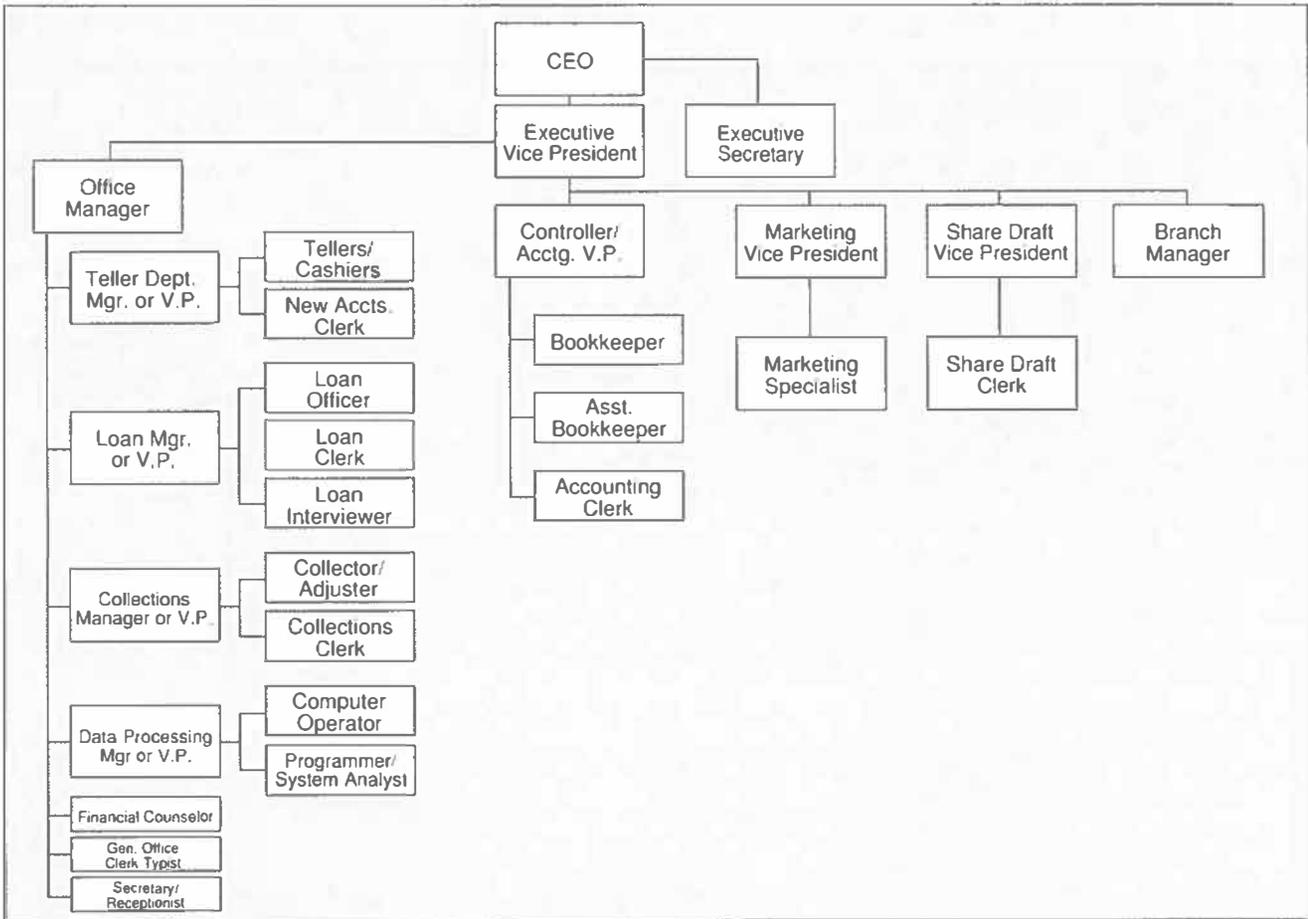
The president reports to the board, and the executive vice-president reports to the president. Vice-

presidents might report to the president or the executive vice-president, depending on the president's management style. Professional support and clerical personnel report to the appropriate vice-president.

Mid-management consists of special assistants and technical professionals. For example, the executive vice-president is the president's number two person and is closely involved in all aspects of the credit union's operation. Another person on the mid-management team might include an office or operations manager who oversees many of the internal operations, such as teller activities, lending and collections, financial counseling, data processing, and general office help.

Other vice-presidents or equivalents on the mid-management team might oversee such functions as accounting, marketing, share draft, teller, lending, collections, and branches. Among the professional support and clerical staff are tellers, bookkeepers, computer operators, secretaries, receptionist, and so on. Figure 2.4 shows a sample credit union staff structure.

Figure 2.4 Credit Union Organization Chart



Board of Directors Profile

How well you and your fellow board members succeed depends on your willingness to learn, grow into the job, and remain flexible. You need to know your legal responsibilities—to the law and to your credit union's charter and bylaws. And you need to understand the relationship between your board and the committees and staff.

State and federal law detail some specifics regarding boards of directors, such as the minimum number of directors and terms of office. But little is said about the qualifications for office. Ideally, your credit union should have written job descriptions to help you. They are just as important for volunteers as they are for staff.

Figure 2.1 provided a sample job description for directors. At a minimum, your job description should explain

- to whom you report—the members
- whom you supervise—the CEO
- primary functions—to set policy, plan, ensure the credit union's sound financial condition, evaluate the CEO, and report to the members at the annual meeting
- specific duties—covered in Chapter Four of this handbook

Much of being a good director comes through on-the-job training. Watch your fellow directors, ask questions, do a lot of reading, and try to meet directors from other credit unions.

**Director
Qualifications**

Directors must, first of all, be members of the credit union. Beyond that they should have

- a willingness to serve the members
- the ability to comprehend and learn basic business concepts and procedures
- the desire to be a team player

In addition, experience has shown that successful directors share the following traits:

- Be an active member of the credit union, and use all of your credit union's services. If you don't use them, how can you expect others to?
- Care about your members' welfare and the credit union's role in achieving that goal.
- Know the credit union's history and philosophy and be loyal to those beliefs.
- Give the time and effort necessary to perform the duties of director—prepare for, attend, and participate in all board meetings.
- Cooperate with other directors and support majority decisions.
- Be objective, exercise independent judgment, and avoid all conflicts of interest.
- Accept and adapt to change, welcome new ideas, and be imaginative.
- Constantly seek to improve one's self.
- Be enthusiastic about the job and the prospect of serving the members.

A good director also knows and understands, or is willing to learn

- what services the credit union currently offers, what other credit unions are offering, and what additional services the members need or want
- what the competition is doing and the composition of the financial marketplace
- technicalities of delivering financial services to the membership

- business procedures and the ability to read and comprehend a balance sheet
- general skills in management and personnel, planning, data processing, and budgeting
- local, national, and international economic and social environments and their effects on the credit union
- the credit union system structure

Fortunately, there are many opportunities for directors to learn new skills and strengthen weak areas. Meeting other credit union directors and personnel at chapter and league meetings is one popular way. There are also formal programs such workshops, seminars, and schools at the league and national levels. And there are many periodicals, correspondence courses, certification programs, and print and audio-visual materials available. Contact your league for details.

One of the most important qualities a new director brings to the position is the personal commitment to do the best job possible for the membership, the board, and the staff. Saint John's Federal Credit Union in Santa Monica, California, feels so strongly about directors' commitment that it developed the Board of Directors Terms of Agreement shown in Figure 3.1.

Community Involvement

Some credit unions place a high value on the community involvement of their directors—so high that it is required by policy. The involvement can take many forms. Directors and staff are encouraged to join such service clubs as the Lions, Kiwanis, or Rotary, volunteer at a hospital, serve in city government, or get involved in church committees, school groups, or other community volunteer agencies.

The reason for this requirement is threefold:

1. It helps the directors and staff in their personal development. By getting involved, directors and staff improve themselves personally by broad-

Figure 3.1 Sample Agreement

BOARD OF DIRECTORS TERMS OF AGREEMENT

I fully understand, and do hereby agree, that to serve on the board of directors, I will conform to and abide by the following:

1. Attend all regular and special meetings of the board when notified, unless prevented by circumstances beyond my control.
2. Attend the credit union annual planning seminar.
3. Continually seek to learn more about the credit union organization and its services and about my individual responsibilities as a board member by fulfilling the educational requirements established by the board.
4. Consider the business of the credit union and its members to be confidential in nature.
5. Should I ever find myself under obligation to any other group or organization that is in conflict with the credit union, I shall disclose the conflict to the board and refrain from voting on issues related to the conflict.
6. Participate to the best of my ability in determination of policy and other matters coming before the board, give full attention to problems of the credit union, and vote on all issues submitted or proposed for board action.
7. Give all assistance possible to my fellow board members, appointed officers, and employees of the credit union in the discharge of the duties of their offices.

Signature

Date

Source: *Saint John's Federal Credit Union, Santa Monica, California*

ening their social contacts, gaining new knowledge, and improving their interpersonal skills.

2. It helps the community in which the members live. Credit unions draw their membership, their volunteers, and their staff from the community. So by giving something back to the community, they make it a better place to live.
3. It increases the visibility of the credit union. As directors and staff get involved and are identified with the credit union, it creates a favorable image for all credit unions. This is helpful in gaining the respect of influential leaders within the community and the legislature, and in attracting potential members.

Makeup of the Board

A few laws deal specifically with the term of directors—usually three years—but most allow the credit union to decide. As previously stated, the election is held by the members at the annual meeting or by mail ballot, and terms of office are carefully staggered. This ensures continuity on the board and protects the credit union from losing a large body of knowledge and experience at one time.

Five is the minimum number of directors set by the Federal Credit Union Act; therefore, most bylaws require credit unions to have a minimum of five directors, but some have as high a minimum as eleven. The national average is seven, but it varies considerably by asset size. Smaller credit unions usually have fewer than seven; larger credit unions usually have more than seven. The odd number is important because it helps avoid tie votes.

Removal from the Board

In unusual situations, directors may be suspended or removed from the board before their terms expire. The supervisory committee, if it feels it has sufficient cause, can suspend a director until a special meeting of the membership is called, usually within seven to twenty-one days. At that meeting, the director has a chance to defend himself or herself and the members will act on the suspension.

Some reasons for director suspension include

- failure to attend meetings
- failure to perform other duties as required
- conviction of a felony

The regulatory agency governing the credit union also has the power to remove directors if sufficient cause exists. Typical causes include

- violating a law, rule, or regulation
- engaging or participating in any unsafe or unsound practice in the credit union
- committing or engaging in any act, omission, or practice that constitutes a breach of fiduciary duty

Becoming an Effective Director

It isn't easy being a director. Credit union operations are complex. Laws and regulations must be understood and compliance must be exact. Economic and social forces over which you have no control exert tremendous pressures on your credit union. Here are some steps you can take that will help to make you an effective director:

- Know your credit union's history, its charter, and the bylaws.
- Review the written policies and the minutes of your board and committee meetings over the past few years.
- Study your credit union's financial reports: the financial statement, the budget, and the latest comprehensive audit. If you don't understand something, ask questions until you do understand.
- Prepare yourself for meetings. Read the reports you receive from your chair and from management.
- Make sure management keeps you fully informed about the credit union's operations. Know what's going well and why, what isn't

going well and why, and where problems might develop.

- Visit the credit union office. Get to know management and the functions they perform.
- Avoid procrastination. When action is necessary, get all the facts, and act. Know that delays can be costly in money, staff morale, and the members' good will.
- Avoid letting personalities get in your way. They can cloud your judgment and prompt a wrong decision. Stick to facts and push for consensus.
- Avoid being too embarrassed to ask for help. No one is an expert in everything, so when expertise is needed, get it, even if you have to pay for it.
- Know where you can get help, especially within the credit union structure. Familiarize yourself with all of the services your state league, its service corporation, and CUNA can offer you.
- Identify areas in which you are weak and find out how you can strengthen them.
- Read trade magazines and periodicals to improve yourself and be aware of current events in the credit union world.
- Attend league and national conferences. Network with directors from other credit unions.
- Know your role and that of your credit union's staff. Know that your role is to set policy; staff's is to carry it out. You determine what is to be done; staff does it.
- Hire the best management you can afford because effective management is one of your credit union's best assets. Establish good performance standards and compensate the person adequately.
- Don't let the president/manager "run" the board. You are not a rubber stamp for management's suggestions; the ultimate legal and

ethical responsibility for the credit union's success is yours.

Legal Considerations

Being a director carries definite legal liabilities. Imprudent actions—or sometimes the lack of action—can expose you to lawsuits. Courts have held that a lack of compensation does not relieve you of the high degree of care imposed on you by law. Neither does a lack of experience. You are potentially liable to members, third parties, the credit union, your fellow directors, and your share insurer. Such suits can come from within the membership, from the staff, from third parties, from your fellow directors, from the share insurer, or from the credit union itself.

Boards have been sued for low dividend payments or the lack of them, dismissing the CEO, freezing shares, and rigging elections.

Some years ago the Federal Deposit Insurance Corporation, the federal agency that insures bank deposits, reported the ten most common reasons for suits or regulatory action against bank directors. Figure 3.2 lists these reasons.

It's one thing for a director to be misled or fed incorrect information, but it's quite another thing to act from ignorance or inattention. Figure 3.3 provides a checklist to protect yourself from a liability claim. In addition, here are other important precautions:

- Know your duties and responsibilities thoroughly.
- Know the laws and regulations under which your credit union operates.
- Avoid all conflicts of interest and appearances of conflict of interest.
- Act objectively and fairly in your deliberations.
- Know the consequences of your actions.
- Act on issues only if you thoroughly understand them.

- Act always in the best interests of your members.
- Know when to seek legal counsel.

Insurance Protection

Your credit union carries insurance to protect itself against certain risks and may carry insurance to protect you. The credit union's bond, for example, protects it against direct losses from, among other

Figure 3.2 Bank Director Litigation

TEN MOST COMMON REASONS FOR BANK DIRECTOR LITIGATION

1. Approving self-serving, improvident, or excessive loans
2. Failing to comply with regulatory directives
3. Failing to supervise employees properly
4. Failing to authorize and conduct periodic audits
5. Failing to implement internal control procedures
6. Authorizing improper dividend payments
7. Improperly monitoring and maintaining liquidity reserve requirements
8. Failing to attend board meetings on a regular basis
9. Extending too much investment in a limited area
10. Failing to exercise independent judgement from that of the CEO

Federal Deposit Insurance Corporation

things, fraud or dishonesty on the part of directors or employees.

An important endorsement to the bond deals with directors' and officers' liability. This endorsement covers directors for their personal exposure to legal defense costs, court costs, and judgments arising from any claims made against them solely by reason of their acting as directors of the credit union. This includes suits alleging breach of duty, negligence, error, misleading statements, or other wrongful acts.

Conflict of Interest

In accepting your position in the credit union, you assume an obligation that goes beyond complying with laws and regulations. You must put the interests of the credit union and the members ahead of your own personal interests. This means that you will not use your position for personal profit or advantage.

As the NCUA states in its directives, volunteers and staff are fiduciaries who owe it to the credit union to act in good faith in the performance of their duties. NCUA's *Rules and Regulations* clearly list the areas of potential conflict of interest and warn against certain actions. It's in the best interests of every volunteer and employee—including those in state-chartered credit unions—to know them:

- A federal credit union may not make any loan or extend any line of credit if, either directly or indirectly, any commission, fee, or other compensation is to be received by an official, senior management employee, loan officer, or any immediate family member of such individual in connection with underwriting, insuring, servicing, or collecting the loan or line of credit.
—Section 701.21(c)(8)
- In any federal credit union, an official, immediate family member or other person having a common ownership, investment, or other financial interest in a business enterprise with an official or immediate family member

Figure 3.3 Liability Prevention

DIRECTOR LIABILITY PREVENTION CHECKLIST

Regularly attend meetings. Being absent from a meeting doesn't necessarily protect you from liability for an action or decision that results in a claim.

Obtain and review financial information about your credit union regularly. Make sure you receive all financial information prior to the board meeting with ample time to review it.

Establish a written policy manual. Policies define your manager's authority, as well as guidelines for lending, operations, personnel, and investments.

Regularly review the activities of your credit committee or loan officers.

Regularly review and/or recommend actions on delinquent accounts. Establish general policies to address typical situations. Review exceptional cases and spot-check compliance with established policies.

Periodically review charged-off loans to tell you what your credit union did wrong and whether it has to take corrective action.

Review and act on regulatory examination reports. Assign management, a committee, or the chair the responsibility of answering any questions.

Ensure that the supervisory committee conducts a periodic audit and member-account verification. Examine the results.

Periodically review salary scales, employee benefits, and personnel policies.

Periodically review your credit union's insurance coverage. Review your limits of liability, types of insurance, and whether you have appreciated assets that may not be covered.

Source: *Director's Newsletter*

may not obtain a loan or line of credit with preferential rates, terms, or conditions, or act as guarantor or endorser thereon.

—Section 701.21(d)(5)

- A federal credit union may not make member business loans to the following non-volunteer senior management employees or to any associated member or immediate family member of such employees: (a) any member of the board of directors compensated as such; (b) CEO (typically president or treasurer/manager); (c) any assistant chief executive officer (e.g., assistant president, vice-president, or assistant treasurer/manager); or (d) chief financial officer (comptroller).

—Section 701.21(h)(3)

- When a federal credit union invests in or makes loans to a credit union service organization, the credit union's officials, senior management employees, or their immediate family members may not receive any salary, commission, investment income, or other compensation from the organization either directly or indirectly, or from any person being served through the organization. An official or senior management employee may assist in operating the organization if the individual is not compensated; the organization may, however, reimburse the credit union for services provided by the individual.

—Section 701.27(d)(6)

- A federal credit union may not buy or lease premises (with the exception of an informal lease maturing in less than a year) from any of the following without the prior written approval of NCUA: (a) a director, member of the supervisory or credit committee, senior management employee, or immediate family member of any such person; (b) a corporation in which any director, member of the supervisory or credit committee, senior management employee, or

immediate family members of such person has a stock interest of 10 percent or more; and (c) a partnership in which any director, member of the supervisory or credit committee, senior management employee, or immediate family member of any such person is a general partner or a limited partner with an interest of 10 percent or more.

—Section 701.36(e)

- A federal credit union's directors, officers, committee members, senior management, or their immediate family members may not receive any pecuniary consideration in connection with the making of an investment or deposit.

—Section 703.4(e)

- A federal credit union's directors, officers, committee members, senior management, or their immediate family members may not receive any direct or indirect compensation or benefit in connection with the credit union's insurance or group purchasing activities.

—Section 721.2(c)

NCUA regulations on conflicts of interest (Sec. 701.21) only apply to federal credit unions. However, the regulations governing requirements for NCUSIF insurance (Part 741) contain general requirements for financial condition and policies and fitness of management. Therefore, it is fair to assume that state-chartered credit unions that follow the conflict of interest rules of Sec. 701.21 will have fulfilled at least some of NCUA's criteria for providing insurance.

Finally, the NCUA has issued an *Interpretive Rulings and Policy Statement (IRPS 87-1)* that contains guidelines encouraging insured credit unions to adopt codes of conduct to conform to the requirements of the Bank Bribery Act. These guidelines are not mandatory, but conforming to the Bank Bribery Act is necessary. The guidelines offer a checklist of ways in which a credit union may comply.

Essentially, you must avoid any actions that would provide personal gain from the business of the credit union. And you must avoid the appearance of any action such as this.

**Self
Improvement**

To help you identify your strengths and weaknesses as a director and what additional training you should seek, complete the following self assessment. Pay special attention any questions you answered with a one or a two under Knowledge/Experience and any you answered with a four or a five under Need for Training. List goals and deadlines for yourself in the space provided. Then check with your CEO or state credit union league on how to obtain the information you need.

SELF ASSESSMENT

Your Knowledge, Experience, and Need for Training

DIRECTIONS: Use this assessment to evaluate (a) your knowledge and experience and (b) your need for training in the areas listed.

Circle the number that most closely identifies your situation on a scale of 1 to 5, with 1 meaning very limited and 5 meaning extensive.

Knowledge/Experience
 Very limited Extensive
 1 2 3 4 5

Need for Training
 Very limited Extensive
 1 2 3 4 5

Your credit union's culture

	Knowledge Experience	Need for Training
1. Its history and philosophy	1 2 3 4 5	1 2 3 4 5
2. Its charter	1 2 3 4 5	1 2 3 4 5
3. Its bylaws	1 2 3 4 5	1 2 3 4 5
4. The law and regulations under which it operates	1 2 3 4 5	1 2 3 4 5
5. Its policies	1 2 3 4 5	1 2 3 4 5
6. Minutes of board meetings over the past few years	1 2 3 4 5	1 2 3 4 5

Services to members

7. All services you offer	1 2 3 4 5	1 2 3 4 5
8. All services other credit unions offer that you don't	1 2 3 4 5	1 2 3 4 5
9. Technicalities of delivering services to your members	1 2 3 4 5	1 2 3 4 5

General skills

10. Budgeting	1 2 3 4 5	1 2 3 4 5
11. Planning	1 2 3 4 5	1 2 3 4 5
12. Data processing	1 2 3 4 5	1 2 3 4 5
13. Board/management relations	1 2 3 4 5	1 2 3 4 5
14. Board/staff relations	1 2 3 4 5	1 2 3 4 5

Board how-to	Knowledge Experience	Need for Training
15. Establish loan classes, rates, and terms	1 2 3 4 5	1 2 3 4 5
16. Establish share classes, rates, and terms	1 2 3 4 5	1 2 3 4 5
17. Declare dividend payments	1 2 3 4 5	1 2 3 4 5
18. Determine interest refunds on loans	1 2 3 4 5	1 2 3 4 5
19. Fulfill reserve requirements	1 2 3 4 5	1 2 3 4 5
20. Establish a permanent capital base	1 2 3 4 5	1 2 3 4 5
21. Determine quality of investments	1 2 3 4 5	1 2 3 4 5
22. Amend bylaws and charter	1 2 3 4 5	1 2 3 4 5
23. Fix employee compensation	1 2 3 4 5	1 2 3 4 5
Your credit union's reports		
24. Budget	1 2 3 4 5	1 2 3 4 5
25. Balance sheet	1 2 3 4 5	1 2 3 4 5
26. Operating statement	1 2 3 4 5	1 2 3 4 5
27. Annual audit	1 2 3 4 5	1 2 3 4 5
28. Regulator's annual examination	1 2 3 4 5	1 2 3 4 5
29. Key ratios	1 2 3 4 5	1 2 3 4 5
How your credit union operates		
30. Duties and responsibilities of the board	1 2 3 4 5	1 2 3 4 5
31. Duties and responsibilities of the supervisory committee	1 2 3 4 5	1 2 3 4 5
32. Duties and responsibilities of the credit committee	1 2 3 4 5	1 2 3 4 5
33. Duties and responsibilities of all other committees	1 2 3 4 5	1 2 3 4 5
34. Duties and responsibilities of staff	1 2 3 4 5	1 2 3 4 5
35. Security procedures and safeguards	1 2 3 4 5	1 2 3 4 5
36. Delinquency control and collection procedures	1 2 3 4 5	1 2 3 4 5
37. Insurance coverage required by law	1 2 3 4 5	1 2 3 4 5
38. Other insurance coverage for your members	1 2 3 4 5	1 2 3 4 5
39. ...for staff	1 2 3 4 5	1 2 3 4 5
40. ...for volunteers	1 2 3 4 5	1 2 3 4 5

	Knowledge Experience	Need for Training
The financial environment		
41. Financial and credit union terminology	1 2 3 4 5	1 2 3 4 5
42. Composition of the financial marketplace	1 2 3 4 5	1 2 3 4 5
43. Effects on your credit union of local, national, and international economic and social environments	1 2 3 4 5	1 2 3 4 5
44. What the competition is doing in rates and services offered	1 2 3 4 5	1 2 3 4 5
The Credit Union System		
45. Services offered by your chapter	1 2 3 4 5	1 2 3 4 5
46. Services offered by your league and its service corporation	1 2 3 4 5	1 2 3 4 5
47. Services offered by CUNA & Affiliates	1 2 3 4 5	1 2 3 4 5
48. Services offered by the CUNA Mutual Insurance Group	1 2 3 4 5	1 2 3 4 5
49. Services offered by U.S. Central	1 2 3 4 5	1 2 3 4 5
50. Programs of the World Council of Credit Unions	1 2 3 4 5	1 2 3 4 5

GOALS

DEADLINES

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

Board Duties and Responsibilities

The board of directors is responsible for directing and controlling the affairs of the credit union. It is ultimately responsible for making sure the credit union is

- complying with all applicable laws and regulations
- operating on sound business practices
- achieving the membership goals stated in its charter
- fulfilling its purpose of making low-cost loans and encouraging thrift
- ensuring that adequate financial reserves to cover delinquent loans and other losses exist
- ensuring protection against unauthorized or illegal acts through bonding programs and sound operational rules and procedures
- being capably managed by a knowledgeable president/manager and an experienced staff

To carry out these functions, the board sets policy, establishes programs, hires a CEO, and appoints committees.

General Responsibilities

Board responsibilities are generally grouped into four major areas: *formulating policy, communicating, serving as trustees, and ensuring the continuity and development of the credit union.*

1. **Formulating policies.** The board functions as the central control point for coordinating the entire credit union operation. It establishes objectives, formulates policy, and approves goals and programs.
2. **Communicating.** The board informs the members at the annual meeting about the general activities of its committees, of the status of special projects of the board, of items requiring change, and of the general condition of the credit union. These items may include electing new board members and changing the bylaws. The board also advises management of the policies it adopts so that they can be carried out effectively by staff.
3. **Serving as trustees.** The board protects the members' funds through proper control of the assets of the credit union. This involves continual evaluation of all financial affairs and management practices. This complements the supervisory committee's checks on financial soundness.
4. **Ensuring continuity.** The board provides continuity in three ways:
 - It selects a capable CEO and provides that person with adequate guidance and training.
 - It continually reviews the services and activities of the credit union to ensure the soundness and effectiveness of its operations.
 - And it perpetuates itself by recruiting well-qualified candidates to serve as directors. The board also must set its own standards of performance and maintain these standards by providing continuing education and training to directors.

An additional challenge directors have is serving as a symbol of the credit union. Directors are seen as leaders and representatives by the members, the staff, the public, and the business and financial

world. Being on the board is a respected position and directors must conduct themselves accordingly.

In addition to these core responsibilities, directors are required to do the following:

- Accept or reject new members.
- Educate members on credit union services and benefits, financial management strategies, and consumer news through monthly newsletters, direct-mail programs, and regularly scheduled seminars.
- Search for ways to improve existing programs and add new programs for the membership. For instance, if you already have a credit card program is it time to add ATM and debit card programs? If you already have a financial counseling program, do you need a consumer library? How about adding financial planning to help members make better use of their resources?
- Report to the members periodically on the condition and progress of the credit union. Although this is done at the annual meeting, interim reports to the membership are also valuable. They not only keep the credit union's name in front of the members, but they also remind the members of their responsibilities of ownership. These reports can be made a part of the monthly newsletter, sent along with monthly or quarterly statements, or be the subject of special mailings.
- Ensure the confidentiality of each member's dealings with the credit union. The importance of confidentiality must be stressed to all new directors, committee members, and staff. Members' financial affairs are their own business. Any breach of confidentiality could ruin the credit union's reputation and the faith of the members in the credit union as an institution.

- Develop strategic plans to ensure the credit union's safety and growth in the short and long term. Realizing that change is constantly occurring, the board must be ready for any contingency so that it can act decisively instead of merely reacting. What are the trends in the local, state, and national economy? Where are rates headed? What is the competition doing? Are your facilities keeping pace with the increases in membership and the growth of new services?
- Ensure the safety of the members' funds. Are the credit union's lending policies sound? Is delinquency within reasonable bounds and adequate collection practices in place? Are security measures adequate to protect the credit union from robbery and burglary, and staff and members from harm? Are reserves being carefully maintained? Is your insurance coverage adequate?
- Plan the credit union's course and the goals it is seeking. Determine what is to be done by setting objectives; when it will be done by setting deadlines; and who will do it by assigning responsibility to appropriate staff or committees.

Planning is a continual process that requires constant evaluation as plans are being implemented. Directors should know whether the plans are on course, and if not, why not. Sometimes mid-course corrections are needed. If so, better decisions are made because the board was involved in the evaluation process.

Planning is probably one of the most difficult functions of the board because it deals with the unknown—the future. The directors have to anticipate potential member needs and demands, technological change, and social and economic conditions. What new services should the board be considering? What are the

costs and what impact will they have on the structure of the credit union? What will be the effect if the services or programs are not implemented?

The key to successful planning is knowing what questions to ask and where to get the information. Fortunately, the board can get the help it needs by looking at its credit union's experiences, the experiences of other credit unions, and the research being done by its state league and CUNA. In most cases, somebody is already carefully researching the future for you. Don't hesitate to ask for help.

- Organize to make plans operational. To do this, the board communicates its intentions to the individuals who are responsible for carrying out the plan. These instructions should clearly explain the goals, who will be doing the work, and over what period of time.

Be specific. Draw up an organizational chart, write job descriptions, define reporting relationships, and coordinate responsibilities.

Delegate responsibility and authority. Once the board has set direction by adopting a policy, it must allow the CEO the freedom to reach that goal. In other words:

- The board decides what is to be done; the CEO gets it done.
- The board determines the budget and personnel policies; the CEO determines how to use them.
- The board delegates the tasks by using complete, clear, and effective instructions; the CEO carries them out.
- The board establishes performance standards and controls; the CEO establishes the means to achieve them.

- The board provides for proper communications among the people involved; the CEO uses these channels to get the job done.
- Coordinate activities of the credit union for one smooth-running operation. The board must be sure that all employees, volunteers, and members understand and appreciate each other's role and the limits of each other's responsibilities and authority.

The board's responsibility is to see that various roles function well together and eliminate any friction as it arises. By carefully orchestrating everyone's efforts, the board will create an efficient operation and achieve maximum growth.

- Control by comparing what was planned with what was actually achieved. Such information helps solve recurring problems, gives feedback to the planning process, helps chart overall progress, allows predictions and trends forecasting, and alerts the board to unauthorized actions within the credit union.

One effective system of controls is using key performance areas. Key performance areas (KPA's) are pre-determined indicators, such as membership, shares, loans, and delinquencies, that need to be closely monitored. The key indicators (KIs) are the measures or standards within the KPA.

The treasurer's monthly financial and statistical report (sometimes called the report of operations) is invaluable in monitoring the credit union. With it you can track monthly and annual relationships and changes in such areas as membership, loans, delinquencies, savings, assets, liabilities, and so on. Additional insight can be gained from management's analysis of these categories and special reports you request or the CEO automatically prepares.

- Re-evaluate by following a continual cycle of planning, organizing, directing, coordinating, and controlling. It's the only efficient way to improve existing programs, create new programs, and move the credit union safely into the future.

Specific Duties

So far we've talked in general terms about the board's responsibilities in planning and safeguarding your members' funds. Here is a list of many of the specific duties you will most likely be expected to perform:

- Act on membership applications or appoint membership officers.
- Set lending policies, including loan rates and terms, to specify loan classes, collateral required, repayment schedules, and so on.
- Determine share classes, such as regular share accounts, certificate accounts, individual retirement accounts (IRAs), split-rate accounts, share drafts.
- Declare dividend payments, which are paid from current earnings after expenses have been paid and funds have been set aside for reserves.
- Determine interest refunds on loans, which return to borrowers a portion of the interest they paid on loans during the year.
- Build and maintain adequate reserves, which protect the credit union against loan losses and other contingencies.
- Establish a permanent capital base, which serves as a buffer against volatile money markets and deregulation of financial depository institutions.
- Authorize investments and borrowing, which assigns responsibility and guides the people responsible for carrying out the board's wishes when investing the credit union's surplus funds and when borrowing working capital if member deposits fall short of needs.

- Meet bonding requirements, to make sure all officers and employees who handle funds or are in charge of credit union property and collateral are covered.
- Ensure adequate insurance coverage, to protect the credit union's assets against fire, natural disaster, and liability.
- Approve certain loans to other directors and committee members (usually loans in excess of \$10,000 plus pledged shares, but check your credit union's bylaws).
- Approve bylaw and charter amendments, which usually requires a two-thirds vote and subsequent approval by your regulator (check your credit union's bylaws).
- Appoint committees as needed, both permanent and ad hoc.
- Plan for the future, both short- and long-term; know where the credit union is going, how it is going to get there, and be able to act decisively when conditions change.
- Call special membership meetings as necessary, such as to consider the removal of a director or committee member, or upon written request by the members themselves.
- Provide for security, by appointing a security officer, establishing procedures for handling and transporting cash, and authorizing the installation of alarm systems, locks, and night lights as necessary.
- Designate a depository, where liquid assets—cash and securities—are deposited.
- Safeguard vital documents, by maintaining duplicate records on premises away from any physical sites of the credit union in order to minimize the loss and confusion that might result from fire or other catastrophes.

- Fix employee compensation, which should be a fair wage, competitive within the community, and commensurate with the employees' duties and responsibilities.
- Approve the credit union's budget.
- Price services, which takes into consideration staff time, materials, and other expenses. Some services are absorbed by the credit union as a cost of doing business. Others can be charged to members using that service.

The fair pricing of services enables the credit union to maintain services it might not otherwise be able to offer because of the high cost or the fact that only a few members use them.

The economics of pricing requires accurate data and research. Once the true costs associated with providing a service are known, a fair price can be established. Then the membership should be told what the service charges will be and the reasons for them.

- Set policies, which cover every aspect of the credit union's operation. These board actions should be compiled separately in a series of policy manuals because they are the guidelines that help committees, the CEO, and staff carry out their duties. They allow the credit union to offer better and more efficient service. The number of subjects policies can cover is virtually limitless. Some of the more common areas that your credit union policies should cover are:
 - Loans
 - Collection and delinquency control
 - Shares and certificates
 - Share drafts
 - Personnel (wages, fringe benefits, etc.)
 - Sponsor relations
 - Board/CEO relations

- Dividends
- Interest refunds
- Reserves
- Investments
- Asset/liability funds management
- Internal controls
- Code of ethics
- Conflicts of interest
- Insurance coverage
- Data processing
- Security
- Education of volunteers and staff
- Member education
- Marketing
- Facilities management and projected needs

Detailed credit union policies *save time, ensure uniformity of service, and clarify ambiguous situations.*

Policies save time. Once the board has set a policy it doesn't have to decide anew the terms each time a member wants to make a loan. The loan officers know which loans they can approve under what terms. The credit committee isn't burdened with having to make routine decisions and can concentrate on exceptions.

Policies ensure uniformity of service. Volunteers and staff are assured that they are treating all members equally by following clearly stated policies. Conversely, members are assured that they are being treated fairly and equally.

Policies clarify ambiguous situations. If borrowers request special favors because of credit history or current situation, the loan officers know by following policy what they may or may not approve. If a situation isn't covered, the loan application is forwarded to the credit committee.

Policies should be examined periodically to see if they are still valid. If too many exceptions exist, the

policy may be outdated and need revision. The introduction of new programs and services will also require a change in existing policies or creation of new policies.

Executive Officer Duties

As previously stated, executive officers of the board are elected by the directors from among their own number at the organizational meeting following the annual meeting of the membership. Executive officers include the chair (or president), the vice-chair (or vice-president), the secretary, and the treasurer. The latter two are sometimes combined as secretary-treasurer.

Figures 4.1 through 4.4 provide sample job descriptions for board officers. And your credit union bylaws will detail the duties of these offices. As shown

Figure 4.1 Sample Job Description

<p>CHAIR BOARD OF DIRECTORS</p> <p>PRIMARY FUNCTION To act as the chief elected official of the credit union. Preside at all meetings of the board and of the members.</p> <p>SPECIFIC DUTIES</p> <ol style="list-style-type: none"> 1. Lead all meetings of the board and of the members. 2. Assign directors to board committees. Initiate the formation of executive committees not required by law. 3. Countersign notes, checks, drafts, and other orders for disbursement of funds in smaller credit union. <p style="text-align: center;"><i>Source: Credit Union Magazine</i></p>

below, they generally follow the Federal Credit Union Bylaws.

The chair's duties typically include

- presiding at all meetings of the members and at all meetings of the board;
- countersigning all disbursements of funds, such as notes, checks, and drafts in small credit unions;
- performing such other duties as are customary to the office of the executive officer or as he/she may be directed to perform by resolution of the board not inconsistent with the state or Federal Credit Union Act and regulations and the credit union's bylaws.

That last phrase is the catch-all, which gives the chair broad authority, but not much guidance. It is generally interpreted to mean that the chair is the credit union's leader in decision making, problem solving, and coordinating the actions of the board with the members and staff.

The chair has a special relationship to the president (or general manager) that the other directors typically do not have. The chair is the director who should be most available to the president and the one on the board to whom the president is closest. The president will seek advice from the chair on how to deal with a particular member or problem when it is not practical to ask the advice of the entire board. Also, the chair is most representative of the membership in the eyes of most presidents. The chair is frequently viewed as at the apex of power within the credit union.

The vice-chair assumes the duties, responsibilities, and powers of the chair if the latter is absent or unable to act.

The treasurer may be entrusted with managing the credit union—with the right to hire and fire

Figure 4.2 Sample Job Description

**VICE-CHAIR
BOARD OF DIRECTORS**

PRIMARY FUNCTION
To exercise all duties of the elected chair when the chair is unable to perform them. (If there is more than one vice-chair, rank should be attached to each title—first vice-chair, and so on).

SPECIFIC DUTIES

1. Exercise the duties of the elected chair when that person is unable to perform them.

Source: Credit Union Magazine

Figure 4.3 Sample Job Description

**SECRETARY
BOARD OF DIRECTORS**

PRIMARY FUNCTION
To oversee the preparation, maintenance, and completion of records of all meetings of the members and of the board.

SPECIFIC DUTIES

1. Prepare and maintain full and complete records of all meetings of members and of the board within seven days of each meeting.
2. Send full and complete copies of all board meetings to the supervisory committee.
3. Prepare and send out notices of meetings to be held.
4. Perform other duties as noted.

Source: Credit Union Magazine

Figure 4.4 Sample Job Description

**TREASURER/FINANCIAL OFFICER
BOARD OF DIRECTORS**

PRIMARY FUNCTION
To act as the chief financial officer of the credit union. Manage the credit union if the board has not hired a full-time chief executive officer.

SPECIFIC DUTIES (may be delegated to the credit union CEO)

1. Have custody of credit union assets; sign notes, drafts, and orders for disbursement of credit union funds; maintain records of the assets and liabilities of the credit union; prepare monthly financial statements, and post them.
2. Prepare and forward to regulatory agencies any required reports.
3. Perform the duties of the chief executive officer if the board has not hired one from outside the board.

Source: Credit Union Magazine

employees—unless the board has appointed a full-time CEO. Even then, unless otherwise delegated by the board, the treasurer usually

- has custody of all funds, securities, valuable papers, and other assets of the credit union;
- signs all notes, checks, drafts, and other orders for disbursement of funds;
- maintains the records of all the assets and liabilities of the credit unions;

- prepares the monthly financial statement showing the condition of the credit union, including a summary of delinquent loans. Federal law requires this statement to be finished within seven days of the end of the month, with copies going to the directors and posted in the credit union itself.
- prepares and forwards to NCUA any financial "and other" reports it may require.

The **secretary's** responsibilities include

- giving proper notice of all meetings of the members.
- preparing and maintaining the records of all meetings of the members and of the board.

The directors may appoint any number of committees. Federal Credit Union Bylaws mention two in particular:

- **An executive committee** of at least three directors to act on behalf of the board with respect to specifically delegated functions
- **An investment committee** to invest the credit union's surplus funds, under rules and procedures established by the board

While the board has tremendous powers within the credit union, its power does not extend to two areas: (1) the board may not employ, prescribe the duties of, or remove any loan officer appointed by the credit committee, and (2) the board may not employ, prescribe the duties of, or remove any clerical and auditing assistance employed by the supervisory committee.

Financial Analysis

As a director, you must understand your credit union's financial statements. At a minimum this means knowing how to use the balance sheet (sometimes called Statement of Financial Condition) and the operating statement (sometimes called Statement of Income) to obtain the basic information you need to make intelli-

gent decisions about the direction of your credit union. If your credit union is on a cash basis of accounting, for example, you should know the following:

- **The balance sheet** shows the credit union's financial condition at a certain period of time, usually the end of the month. It shows the assets (what the credit union owns), liabilities (what the credit union owes), and equity or capital (the difference between the assets and the liabilities). The document is called a balance sheet because of the equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}.$$

The total dollar amount of assets must always equal total liabilities plus equity.

- Assets are cash, loans outstanding and other receivables, investments, prepaid expenses, building and equipment, and so on.
 - Liabilities are accounts and notes payable, accrued interest payable, dividends payable, accrued expenses and dividends, and so on.
 - Equity includes members' funds in shares, share draft accounts, certificates, and so on; reserves set aside to cover operating or loan losses and for other special purposes; and undivided earnings.
- **The operating statement** shows the credit union's income and expenses—gains and losses—for a given period, usually a month. Sources of income are divided into two categories: operating income and unearned income.
- Operating income includes the interest on loans and the fees charged members on the various services they use, investment income, and gains/losses on sale of eligible obligations.

- Unearned income includes gains or losses on investments and deposits in other financial institutions.
- Expenses are the credit union's cost of doing business, including such costs as insurance premiums, salaries, overhead, and interest payments on borrowed funds.

Basic Financial Relationships

To give effective direction to the credit union, it is necessary to understand some of the financial relationships on the credit union balance sheet and operating statement.

- **Savings and Shares.** Member share accounts, such as regular share (savings) accounts, share draft accounts, IRA's, share certificates, money market shares, and other share accounts are classified as equity on a credit union's balance sheets and in its general ledger accounts. Shares are considered contributed capital and classified as equity accounts on the balance sheet.
- **Loans.** Credit union members' funds are used to make loans to members or other credit unions, or placed in other types of investments. By doing this, the credit union has changed a non-earning asset (cash) into an earning asset (loans). The accounting equation stays in balance because one asset has been exchanged for another.
- **Interest.** As the loans earn interest, this money becomes part of the credit union's gross income.
- **Gross income.** The money earned as interest or investment income is used to cover the credit union's operating costs, placed in required reserve accounts, and used for dividends and interest refunds.

- **Net income.** After all expenses are paid, the amount remaining represents the credit union's operating margin or net income.
- **Undivided earnings.** Undivided earnings are accumulated net income after distributions to shareholders and provision for reserves, plus or minus certain other reserves and other authorized credits or charges. Undivided earnings are recorded as an equity account in the credit union's ledgers.

Important Financial Ratios

By relating certain components of the balance sheet, operating statement, and other management reports, directors can determine the health of their credit union, detect potential problem areas, and see where the credit union is headed. Key ratio analysis is a quick, but accurate, way to spot problems within the credit union and an easy way to judge its health and stability.

Certain ratios can be computed monthly, others annually. They can be compared with other credit unions of your size locally and nationally by using statistics available from your state league and CUNA. Be aware, though, that factors such as asset size, field of membership, and method of operation all affect these ratios. Your league can help you determine which ratios are best for you to track and how to interpret them. The more important key ratios include:

- **members/potential members.** This shows what percentage of the field of membership the credit union is actually serving. This is difficult to compare with other credit unions because no set rule for defining potential membership exists. Some use "primary field of membership," which might be the employees of a particular company. A similar credit union may broaden its potential membership figure

by estimating the number of family members who are also eligible.

The “once-a-member, always-a-member” concept can also confuse the issue. A reasonable goal is at least 80 to 90 percent of your primary membership. If you’re below that, check to make sure you are offering all of the services your potential members need, and that your rates and service fees are competitive. Then review and evaluate your marketing program.

- **savings/members.** Check the average savings per member in other financial institutions in your location, for all credit unions in your state, and for all credit unions nationally. If yours is below average, find out why. Look at your rates and how convenient it is for members to save, and evaluate your marketing program.
- **loans/shares.** Again compare yourself locally and nationally. Work toward at least an 85 to 90 percent ratio. But be aware that the ratio can drop dramatically in poor economic times when members work to repay debts and avoid borrowing.
- **delinquent loans/total loans.** The ratio of total loans to loans more than two months delinquent ranges nationally from 2.5 to 4.5 percent. You want to keep this at a minimum, but realize that delinquency is a fact of life in the lending business. If your ratio is too low, you may not be serving your members properly because your loan policies may be too stringent.
- **expenses/gross income or average assets.** This ratio varies considerably according to a credit union’s size and field of membership. Typically, a smaller credit union’s expenses may be running near 50 percent of income, while the larger credit union, because of economies of scale, may be lower than 30 percent.

Community-based credit unions—those with a wide membership base—may have higher expense ratios than credit unions of comparable asset sizes that serve, for example, members who work for one employer in one location. A credit union whose members all have payroll deduction opportunities can usually operate more efficiently than an over-the-counter, community-type credit union.

- **equity/assets.** One of the best indicators of safety and soundness is the reserves to assets (capital adequacy) ratio. Many credit unions have over 6% of assets in reserves. A target for most credit unions is to build to a 10% level.

Board/CEO Relationships

To perform your duties as director effectively, you must maintain good working relationships with members, committees, business leaders in the community, the general public, and the credit union's management and staff. Your board's most important relationship, however, and the key to its success, is the one it has with the credit union's CEO.

Choosing the Right CEO

Some feel that after setting policies, hiring the right person as CEO is the most important task you will face as a director. After all, this person will be in charge of the day-to-day management of the credit union and the members' money. The CEO is responsible for seeing that the credit union is safe and financially sound, that the operation runs smoothly, that the members are being served efficiently, that all the needed services are in place and functioning properly, and that effective plans are in place to ensure a safe and prosperous future for the organization and its members.

Poor management, on the other hand, can lead to financial loss and even insolvency. It can also be a threat to the directors, who are legally responsible for the credit union's operations.

That's a lot of responsibility being assumed by the CEO, so you want to be sure you have the right person, that you give that person proper direction and freedom to act, and that the arrangement is mutually beneficial to the CEO and the credit union so that the person stays. The first step, then, is hiring the right person. If your credit union is in the process of hiring

a CEO, here are some suggestions on how to proceed.

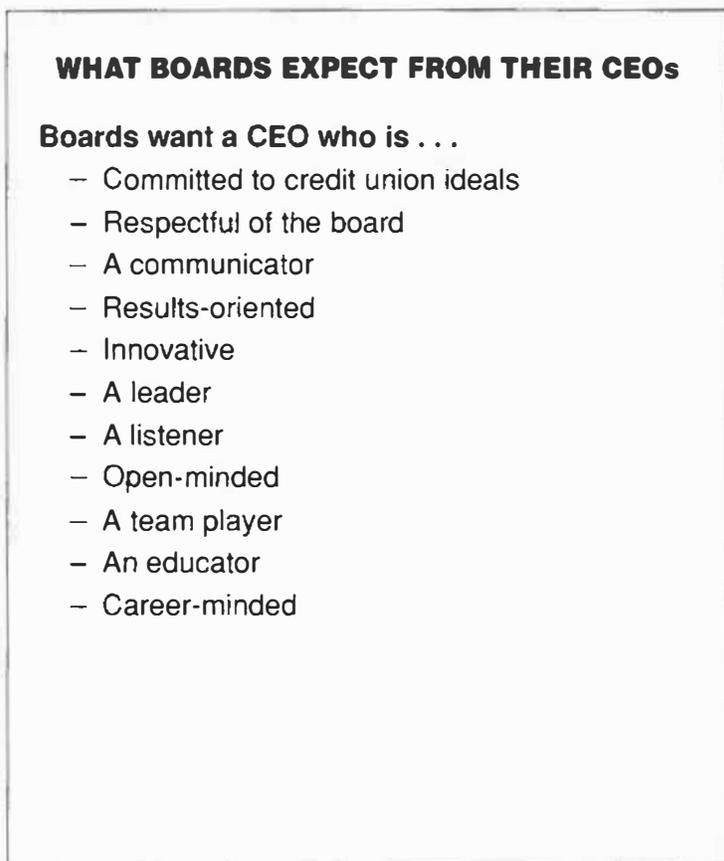
- Don't act hastily. Appoint an interim CEO if necessary while you search for the right person.
- Write a job description if you don't have one, or carefully review the existing document and revise it as necessary.
- List the qualities and skills you expect the right candidate to possess.
- Be sure you've set a fair compensation package, commensurate with the duties being assigned and the qualities you are seeking.
- Appoint a screening committee to reduce the number of applicants the board will have to interview.
- Check with your league to see if it knows of any available candidates.
- Depending on your needs and your size, advertise locally, in your league publication, in national credit union publications, and in national financial publications, or work through a management-locating firm.
- Interview as many candidates as you feel are qualified, and interview them as often as necessary until you have narrowed the field to the one person you know is right.
- Make sure the person is knowledgeable in credit union history, and understands and agrees with the philosophy of credit unions, or is willing to learn and abide by it.

What Boards Want in a CEO

The qualifications most needed in a CEO depend on the size of the credit union, its field of membership, and its goals. Each board has to consider these specifics when selecting and working with its CEO. Several characteristics shown in Figure 5.1, however, are always important. Boards most often want a CEO who is:

- committed to credit union ideals—so that everyone speaks the same language and has the same goals
- respectful of the board—a person who knows the board's role and trusts the directors to do their job properly
- a communicator—one who will keep the board informed of what's going on in the credit union, both good and bad, and who will provide accurate and timely reports, financial statements, and forecasts with clear explanations of problem areas
- results-oriented—one who will work to achieve pre-determined goals
- innovative—one who will interpret the needs of the credit union and present professional recommendations to the board
- a leader—one who has the ability to attract, develop, and retain competent staff
- a listener—one who will accept input from the board
- open-minded—one who is receptive to change and willing to listen to ideas and opinions he/she may not agree with or may not want to hear
- a team player—one who doesn't play favorites among board members or expect the directors to be a rubber-stamp
- an educator—one who will provide training opportunities for staff
- career-minded—one who will continue his/her own professional development

Figure 5.1 Board/CEO Expectations



**What
CEOs
Want in
a Board**

On the other hand, it is important for directors to know what good CEOs expect from their boards. A good CEO knows the board's role, but also knows the role of management and expects the freedom and respect necessary to do the job. As shown in Figure 5.2, here's what your CEO expects you to do:

- Set management goals.
- Give fair and honest periodic evaluations.
- Do your homework: come to meetings prepared.
- Be decisive.
- Support, trust, and respect your CEO.
- Provide the resources (time, funds, staff, equipment) for your CEO and staff to do the job.
- Set firm but clear policies and review them periodically.
- Hold planning sessions that allow management to participate as a full partner.
- Be available when needed.
- Recognize your CEO and staff members for a job well done.
- Visit the credit union office occasionally to see what goes on, meet staff, find out who does what, how they do it, and why.
- Avoid usurping your CEO's role; do not interfere directly with staff.
- Give positive as well as negative feedback.
- Listen to your CEO.
- Avoid being self-serving.
- Avoid hiding your concerns and offering only superficial comments.
- Avoid seeking special favors because of your position.
- Make sure you are qualified and knowledgeable in the basics of a financial organization.
- Be motivated and interested in growing through educational opportunities.
- Be ready to innovate, make decisions, and stand by them.

Figure 5.2 Board/CEO Expectations

WHAT CEOs EXPECT FROM THEIR BOARDS

CEO's want a board that . . .

- Sets management goals
- Gives fair and honest evaluations
- Comes to meetings prepared
- Acts decisively
- Supports, trusts, and respects the CEO
- Provides necessary resources
- Sets firm but clear policies and reviews them periodically
- Holds planning sessions that allow management participation
- Is available
- Recognizes staff for a job well done
- Visits the credit union office
- Avoids usurping the CEO's role
- Gives positive as well as negative feedback
- Listens to the CEO
- Avoids being self-serving
- Avoids hiding gripes
- Avoids seeking special favors
- Is knowledgeable and qualified
- Is motivated and interested in growing
- Is innovative

Working Together

The key to successful board/CEO relations is an open and honest relationship, one that is built on mutual trust and respect. The board should communicate clearly to the CEO what it expects, and what it wants done. The CEO in return should keep the board informed about all phases of the credit union's operations. This mutually beneficial relationship is best developed through:

- well-written job descriptions—so both the board and the CEO know exactly what is expected of each other
- clearly written short- and long-term goals and objectives—so both the board and the CEO know exactly where the credit union is headed
- written policies—so the CEO and the board communicate in all phases of the operation and have clear guidelines to manage and direct
- open lines of written and oral communication between the board and the CEO—so that both sides can be honest with one another and keep each other well informed
- comprehensive and timely reports from management—so the board knows what's going on
- clear and timely response and direction from the board—so the CEO knows whether management is on the right track
- mutual respect—so that directors and the CEO know and understand each other's role and treat each other as professionals
- a willingness to work together toward a common goal—so that board and management cooperate in building an effective partnership to serve the best interests of the membership
- an open relationship—so that directors and the CEO feel free to speak their minds and aren't afraid to bring up problems or disagree with each other

Terminating the CEO

At times, a board may decide that its CEO is not the right person for the job. No matter what reasons the board has for reaching this decision, a number of issues need to be considered.

First of all, the decision should have been reached according to the policies and procedures previously approved by the board. The CEO should have had an opportunity to present his/her defense and should have been given an opportunity to correct the deficiencies the board presented. Once the decision to terminate has been reached, the board should act quickly and decisively. A CEO with an uncertain future can hardly be expected to run the credit union effectively. It is important that the board act professionally by requesting the CEO's resignation in a courteous manner and treating the person fairly. The board must realize: both sides may be equally to blame; the CEO may perform very well with another board in another credit union; and everyone gains by handling this difficult task tactfully.

Relating to Staff

Good working relationships between volunteers and staff depend on their understanding each others' roles and the differences between them. This is where the CEO plays the pivotal role.

The CEO should make sure that staff knows and understands the role of the volunteer, especially how the line of accountability goes upward from staff to management to board of directors. The CEO should also keep the board informed of staff needs and performance.

At a minimum, staff should clearly understand that the board

- gives direction
- sets goals
- establishes policies
- approves long-range plans
- provides for management succession

- encourages the credit union's growth
- At a minimum, staff should also know that the CEO
- implements policies
 - carries out objectives
 - coordinates the credit union's operations
 - helps in forming short- and long-range plans
 - hires and fires staff
 - oversees staff development

The board should know who the various staff members are and what they do, but the board should not interfere with their work. They are accountable to the CEO and that person should be seen as their immediate supervisor.

Board Communications

The key to your board's success is effective communication. As previously stated, you must develop and maintain solid working relationships not only with management, but also with members and with credit union committees.

Communicating With Management

As seen in Chapter Five, communication between board and management is extremely important—and vital to the credit union's success. To help directors and managers avoid common communication problems, Figure 6.1 lists breakdowns that can occur.

Communicating With Members

As elected representatives, you and your fellow directors have a special relationship with your members that carries the obligation to keep those members informed.

Some forms of communicating with members are required by law, but other ways are commonly used too. The credit union board commonly communicates through these channels:

- Annual meeting reports required by law
- Newsletters in which the chair has a regular column or it is rotated among various directors
- Notices of special meetings required by law when requested by a sufficient number of members, the supervisory committee, or the directors themselves

- Special reports included with monthly or quarterly statements
- Special mailings on matters of importance to the membership
- Invitations to members to attend the monthly board meeting
- Personal visits

Members, meanwhile, can and should contact directors as needed. They should know that they can

- write directly to a director or in care of the credit union
- telephone their directors
- talk with their directors anytime they see them

Communicating With Committees

Relationships between the board and the supervisory and credit committees are spelled out by state or federal law. Other committees are appointed by the board. In these cases, the board must clearly communicate the committee's function and goals and follow its progress.

Clearly written directions are critical. They tell committee members exactly what they are to accomplish and ensures that important board requirements are not neglected because of misunderstandings or incomplete instructions.

Your board is responsible for any actions it takes, even those actions based on a committee's recommendations. Therefore, the board must be assured that the committee has done its work responsibly—according to the board's written instructions.

The committees, in turn, have a responsibility to keep the board fully informed of their work. This two-way communication occurs in typical fashion:

- The committee chair can report at the monthly board meeting or special meetings called by the board.

- The board chair can appoint a director to be a member of the committee, serve as board liaison to the committee, or even chair it. This simplifies the reporting process and may make

Figure 6.1 Board/CEO Relationships

COMMON COMMUNICATION PROBLEMS

- The board fails to give management clearly written policies and goals, and/or fails to review and update old goals
- The board fails to establish written policy manuals based on actions taken at its monthly and special meetings
- Management fails to send the appropriate materials and information to directors before meetings
- Not all directors participate in discussions, ask questions, or fully understand what they are voting on
- The board fails to insist on full and accurate progress reports and financial statements from management
- The board fails to evaluate management on a regular basis or conducts superficial examinations
- The board lacks adequate orientation and training programs for directors.

it easier to communicate with the credit union's management. Committee work is a large part of the director's responsibilities.

- The board chair or designated directors can meet with the committee chair as needed.

Meetings and Minutes

Credit union boards meet at least monthly and usually follow a standard agenda. In a successful credit union directors are given—well in advance—copies of the meeting's agenda, financial reports, committee reports, and pertinent information on items to be discussed. This enables the directors to come prepared to discuss issues intelligently. Figure 6.2 shows a typical agenda, which would include the following:

- **Roll call**—Verify that a quorum is present.
- **Reading and approval of minutes of the last meeting**
- **Reports:**
 - Chair
 - Treasurer
 - President/manager
- **Communications**—Letters, messages, and documents received by the secretary since the last meeting and dealing with matters of interest or importance to the board. These communications may come from members, nonmembers, regulatory agencies, or credit union vendors.
- **Committee Reports**—Chairs of the supervisory, credit, delinquency, investment, and other committees report as necessary. Reports sometimes contain recommendations that require board action.
- **Unfinished Business**—All items should be listed and familiar to the directors.

Figure 6.2 Sample Board Meeting Agenda

ABC FEDERAL CREDIT UNION BOARD OF DIRECTORS REGULAR LUNCHEON MEETING MARCH 2, 1990	
TIME	
12:05 pm	1. CALL TO ORDER AND ROLL CALL
12:06 pm	2. OLD AND UNFINISHED BUSINESS
	Advisory Committees
	Services Corporation
	Share Card Program
12:15 pm	Share Account Study
	Building Remodeling and Construction
	Expansion Program
	Community Charter
12:30 pm	3. NEW BUSINESS
	Loan Policies
	Loan Rates
	Student Loan Secondary Market
	Fees and Charges
	Auto for Credit Union
	All-Savers Certificate
	Annual Planning Meeting Date
1:35 pm	4. REPORTS AND CORRESPONDENCE
	Minutes of 2/2/90 Board Meeting
	Chair's Report—Executive Committee
	Treasurer's Report—February
	Balance Sheet
	Operating Statement
	Budget
	ATM Activity
	Investment Portfolio
	Share Draft Report
1:45 pm	Secretary's Report
	Correspondence
	Committee Reports
	Credit Committee
	Delinquent Loan Committee
2:00 pm	President's Report
	Adjournment

- **New Business**—These items have not come before the board before, but directors should have received information about them in their pre-meeting packages.
- **Elections**—This item is on the agenda of the first board meeting after the annual membership meeting and any other time a vacancy must be filled.
- **Other Business**—Anything not covered or discussed previously.
- **Adjournment**

The board's secretary is responsible for the meeting's minutes. Because meeting minutes record all board actions, and because these actions create policy, revise policy, and set the rules by which the credit union operates, accuracy is extremely important.

For this reason directors have an opportunity to correct any misunderstandings or incorrect wordings at the next board meeting.

Board meeting minutes are part of the corporate records of the credit union and show whether the board followed legislative and regulatory requirements in its deliberations. They also record the history of the credit union.

After its monthly meeting, the board should amend any policy manuals affected by its actions. Also, any staff, volunteers, or members affected by these actions should be notified of the changes and why they were made. For instance, if loan rates were changed, your loan officers and the credit committee need to know so that they can make and document loans properly. Your members should know too, so they can make intelligent decisions about their borrowing needs.

Every action you and your fellow directors take affects someone, and that person has to be kept informed. Effective communications is critical in running a successful credit union.

Board Self Assessments

Defining a good board is no easy task. If your credit union is serving its members properly and is being operated in a safe and sound manner, you know you're on the right track. More tangible indicators include your

- annual examination performed by your supervisory agency
- annual audit
- balance sheet and operating statement
- credit union statistics and ratios compared with other credit unions of your size, both locally and nationally

This handbook has given you a general overview of your important duties and responsibilities as a member of your credit union's board of directors. The *self assessments* that follow reinforce key concepts found in the book and help you evaluate how well you're doing. Taking the time to complete each one will help you identify your strengths and formulate a plan of action for improving your weaknesses. As suggested with previous self assessments, pay special attention to all questions answered with no. Discuss them with your fellow board members. List your goals and deadlines in the space provided. Then check with your CEO or state credit union league on how to obtain the resources you need.

Your Responsibilities to the Members

Do you:

YES NO

- Educate members about all of the credit union's services and benefits?
- Communicate on a regular basis?
- Tell the bad news as well as the good because it's in the membership's best interest to know?
- Set lending and savings rates that are fair to the members and competitive with other financial institutions in the community?
- Offer all of the services the members want and need?
- Price your credit union's services fairly?

Your Responsibilities to the CEO

Do you:

YES NO

- Have an up-to-date job description for your president/manager?
- Have clear goals and board expectations in writing?
- Evaluate your CEO regularly, fairly, and honestly?
- Compensate your CEO fairly?
- Communicate freely and openly with one another?
- Receive comprehensive and timely reports from management?
- Give clear responses and direction?
- Share a mutual respect?
- Provide the resources for your CEO to do the job?
- Give your CEO equal voice at planning sessions?
- Give positive as well as negative feedback?
- Let your CEO do his/her job without interference?

Your Responsibilities to Staff

Do you:

YES NO

- Have a wage-and-benefits package that is fair, competitive within the community, and commensurate with the employees' duties and responsibilities?
- Have policies that are clearly stated, in writing, and easily accessible to staff?
- Recognize staff individually and as a whole for jobs well done?
- Invite staff to board meetings?
- Respect staff members for their knowledge and the work they do?

Your Responsibilities to Committees

Do you:

YES NO

- Recruit well-qualified members and staff to serve on committees?
- Clearly specify the purposes for each committee, its goals, and timetable?
- Review committee progress regularly?
- Allow the committee chair access to the board as necessary?
- Provide all the resources necessary for committees to do their jobs?

Your Responsibilities to Safety and Soundness

Have you:

YES NO

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Ensured that adequate financial reserves to cover delinquent loans and other losses exist? |
| <input type="checkbox"/> | <input type="checkbox"/> | Established a permanent capital base? |
| <input type="checkbox"/> | <input type="checkbox"/> | Properly bonded all officers and employees who handle funds or are in charge of credit union property and collateral? |
| <input type="checkbox"/> | <input type="checkbox"/> | Adequately insured the credit union against fire, natural disaster, and liability? |
| <input type="checkbox"/> | <input type="checkbox"/> | Appointed a security officer? |
| <input type="checkbox"/> | <input type="checkbox"/> | Set proper procedures for handling and transporting cash? |
| <input type="checkbox"/> | <input type="checkbox"/> | Had proper alarm systems, locks, night lights, and so on installed? |
| <input type="checkbox"/> | <input type="checkbox"/> | Stored duplicate records off premises? |

Your Responsibilities as a Board

As a board, do you:

YES NO

- Comply with all laws and regulations?
- Have job descriptions for all board positions?
- Have smooth-running board meetings, or meetings that tend to wander from the agenda or break down into petty squabbling among the directors?
- Hold regular planning sessions to review plans in place as well as set new short- and long-range goals to ensure the credit union's safety and growth?
- Have capable management?
- Receive all of the reports you need from management, and in a timely and comprehensive manner?
- Have formal succession plans for your CEO and other key executives?
- Avoid serving as a rubber stamp for management?

GOALS

1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

DEADLINES

- _____
- _____
- _____
- _____
- _____
- _____

Conclusion

This handbook has introduced you to the concepts and skills you will need as a member of your credit union's board of directors. It does not contain everything you need to know and learn. Much of what you need comes from the experiences you will encounter as you serve your members. And additional support comes from fellow board members, their experiences and understanding.

The purpose of this handbook—with its information and self assessments—is to provide you with basic information and emphasize areas of greatest importance. Ultimately, the success you achieve in your job depends on *you*. You're the one whose skills and energy will help perpetuate the credit union and enhance member service. You're the one who must decide, after absorbing all the information this handbook offers, what you will use from it. And you're the one who must demonstrate your commitment to the credit union's philosophy of mutual self help, democratic decision making, and not-for-profit service.

Your job as a board member is never stagnant. Each situation and each meeting presents new opportunities for you to learn and grow. In addition, you can create your own educational opportunities by attending your league's training sessions, participating in other training and certification programs offered by your credit union, and attending classes a

local colleges or universities. The key is being open to such opportunities. If you are, you'll find yourself, as a credit union director, looking forward to what each day brings.

Bibliography

Included here are references used in preparing this manual, as well as publications and articles of general interest to directors. This is by no means a complete list of resources concerning the board of directors. For more information, begin by consulting your credit union league.

Bauschke, Ray P. *The Duties, Responsibilities and Prudent Conduct of Credit Union Directors*. Winnipeg, Canada: Bauschke & Associates Ltd., 1982.

Credit Union Magazine. Credit Union National Association, Inc., Publications Department, Madison, WI.

The Credit Union Newsletter for Directors. Credit Union National Association, Inc., Publications Department, Madison, WI.

Credit Union Newswatch. Credit Union National Association, Inc., Public Relations Department, Madison, WI.

CUNA Mutual in a Nutshell. CUNA Mutual Insurance Society, Madison, WI.

The Director's Book. Office of the Comptroller of the Currency, Washington, D.C., 1987.

Duties and Liabilities of Directors and Officers. Michigan Credit Union League, 1987.

Federal Credit Union Bylaws. National Credit Union Administration, Washington, D.C., 1987.

Federal Credit Union Handbook. National Credit Union Administration, Office of Examination and Insurance, 1988.

Federal Credit Union Standard Bylaw Amendments and Guidelines. National Credit Union Administration, Washington, D.C., 1987.

"Improving board/CEO relationship," *Credit Union Magazine*, 2/88, p.66-67, Credit Union National Association, Inc., Publications Department, Madison, WI.

Jerving, Jim. *Financial Management for Credit Union Managers and Directors*. Kendall/Hunt Publishing Company, Dubuque, IA, 1989.

Operating Manual for Credit Union Boards. Executive Leadership Company, Portland, Oregon.

Pocket Guide for Directors. Federal Deposit Insurance Corporation, 1988.

Responsibilities & Liabilities of Bank Directors. Fidelity and Deposit Company of Maryland, 1985.

For Further Reference

- Americans With Disabilities Act Compliance Guide*. CUNA, Inc., 1991.
- Bankruptcy: A Credit Union Guide to Prevention and Recovery*. CUNA, Inc., 1989.
- Compliance Instructor Library*. Bankers Training and Consulting Company, 1991.
- Computer-Generated Reports for Sound Credit Union Management and Internal Control*. CUNA, Inc., 1991.
- Credit Union Asset-Liability Management*. CUNA, Inc., 1992.
- Credit Union Business Lending Guide*. CUNA, Inc., 1987.
- Credit Union Examinations: The Complete Guide*. CUNA, Inc., 1989.
- Credit Union Investment Guidelines*. CUNA, Inc., 1989.
- Credit Union Planning Seminar Kit*. CUNA, Inc., 1986.
- Credit Union Policy Manual*. CUNA, Inc., 1992.
- Credit Union Strategic Planning Kit*. CUNA, Inc., 1986.
- Currency Transactions: A Credit Union Guide to Compliance*. CUNA, Inc., 1991.
- Disaster Recovery Planning: How to Develop and Write a Plan*. Profit Protection, Inc., 1990.
- Embezzlement: The Thieves Within*. Institute for Financial Crime Prevention, 1989.
- Guide to Employee Handbooks*. Warren, Gorham & Lamont, 1992.
- Introduction to Credit Unions*. CUNA, Inc., 1990.
- Management of Credit Union Finance: Procedures and Controls*. CUNA, Inc., 1991.
- Pricing Credit Union Products and Services*. CUNA, Inc., 1985.
- Risk Management and Insurance*. CUNA, Inc., 1992.

See also various titles in the *Volunteer Achievement Program*.

All of the publications and products listed above are available from CUNA and Affiliates, Human Resource Development Department, Box 431, Madison, Wisconsin 53701-0431. For more information, phone 608/231-4056.

Notes