

# BOARD OF DIRECTORS DUTIES AND RESPONSIBILITIES

The background is a solid blue gradient. In the bottom right corner, there are several white lines of varying lengths and thicknesses, all slanted upwards from left to right, creating a dynamic, modern feel.

- ▶ Board Duties and Responsibilities
- ▶ Management Duties and Responsibilities
- ▶ Avoiding Director Liability
- ▶ References

WHAT WE WILL COVER





IS EVERYONE ON BOARD?

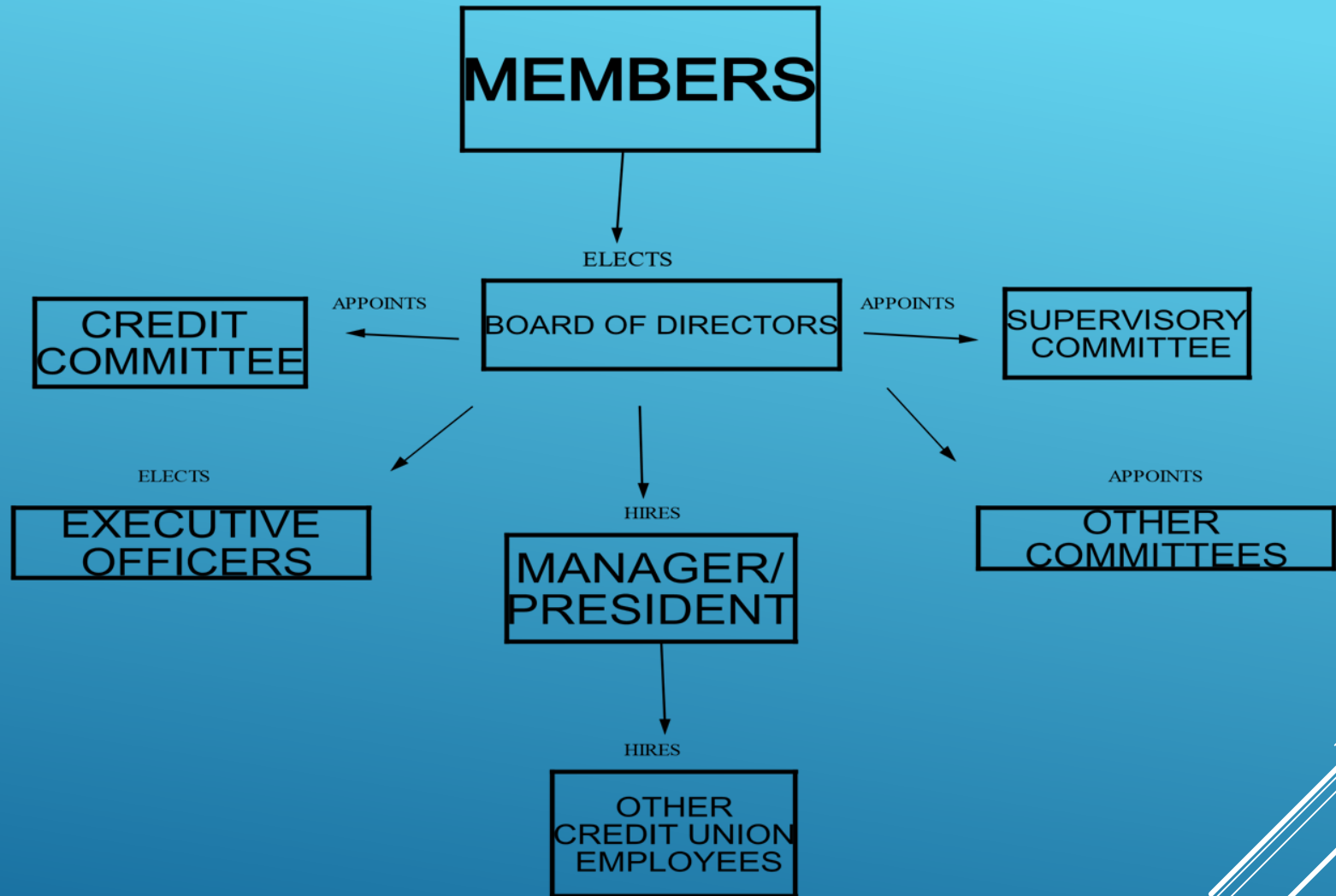
- ▶ Board of Directors
  - ▶ *Elected* by the Membership for a Term
- ▶ Supervisory Committee
  - ▶ *Appointed* by the Board
- ▶ Credit Committee
  - ▶ *Appointed* by the Board
- ▶ Credit Union Manager
  - ▶ *Hired* by the Board to run the day-to-day operations of the credit union

MANAGEMENT – “M”  
COMPONENT OF CAMEL



A 3 rating in management indicates that either operating performance is lacking in some measures, or some other conditions exist such as inadequate strategic planning or inadequate response to NCUA supervision. Management is either characterized by modest talent when above average abilities are needed or is distinctly below average for the type and size of the credit union. Thus, management's responsiveness or ability to correct less than satisfactory conditions is lacking to some degree.

## WHAT A 3 MEANS



- ▶ **You** - the volunteer Board Member - are the head and heart of your credit union!
- ▶ Your service and passion to the mission of your credit union is what makes it strong.



- ❖ To direct
- ❖ Loyalty and due care
- ❖ Financial literacy
- ❖ Good faith
- ❖ Impartiality
- ❖ Reliance
- ❖ Business judgement

## DIRECTOR DUTIES



## DIRECTORS SHOULD

- ❖ Operate independent from management
- ❖ Attend Board meetings regularly
- ❖ Avoid conflicts/self serving action
- ❖ Ensure the credit union serves the needs of the membership

## DIRECTORS SHOULD NOT

- ❖ Blindly follow management's direction or micromanage
- ❖ Seek directorship to suit personal or sectional agenda
- ❖ Lose sight of "big picture"
- ❖ Try to run the credit union

## DUTY TO DIRECT



## DIRECTORS SHOULD

- ❖ Working familiarity with basic accounting/financial concepts
- ❖ Be able to read & understand balance sheet and income statement
- ❖ Ask meaningful questions of management & auditors

## DIRECTORS SHOULD NOT

- ❖ Ignore financial trends
- ❖ Be afraid to ASK!
  - ❖ Questions
  - ❖ For training
  - ❖ For advice

# FINANCIAL LITERACY DUTY

- ▶ What does this line item mean?
- ▶ Why is it important to the credit union?
- ▶ Is the value of the line item changing over time? If so, what does the change (either positive or negative) mean?
- ▶ Is the change important to the credit union?

CAN YOU ANSWER THESE  
QUESTIONS?



- ▶ Identify Key Elements of the Balance Sheet
  - ▶ Loans
  - ▶ Assets
  - ▶ What is **owned** vs. **owed**
- ▶ Identify Elements of the Financial Statement
  - ▶ Assets
  - ▶ Liabilities
  - ▶ Income Expenses
- ▶ Discuss Key Ratios
  - ▶ Net Worth
  - ▶ Delinquency/Net Charge Offs
  - ▶ Return on Assets (ROA)
  - ▶ Capital ratio

# OBJECTIVES – THE MUST KNOWS

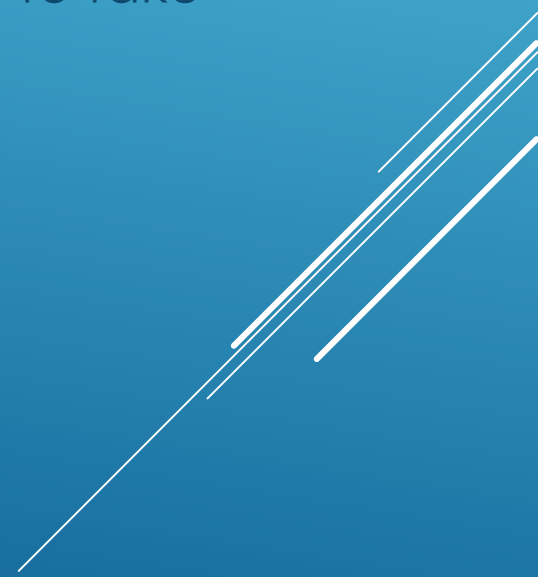
## DIRECTORS SHOULD

- ❖ Research & learn about basic regulations that apply to the board
- ❖ Seek to understand the regulations & why they exist

## DIRECTORS SHOULD NOT

- ❖ Neglect to remain current on changing regulations
- ❖ Attempt to know all applicable laws & regulations
- ❖ Overlook regulations that interfere with actions the board wants to take

## DUTY TO COMPLY



## DIRECTORS SHOULD

- ❖ Carry out duties in good faith
- ❖ Act in the best interest of the membership as a whole
- ❖ Exercise prudence and reasonable inquiry

## DIRECTORS SHOULD NOT

- ❖ Carry out duties in order to affect a particular change
- ❖ Behave as an advocate for a segment of membership to the detriment of another
- ❖ Forego common sense

## GOOD FAITH DUTY



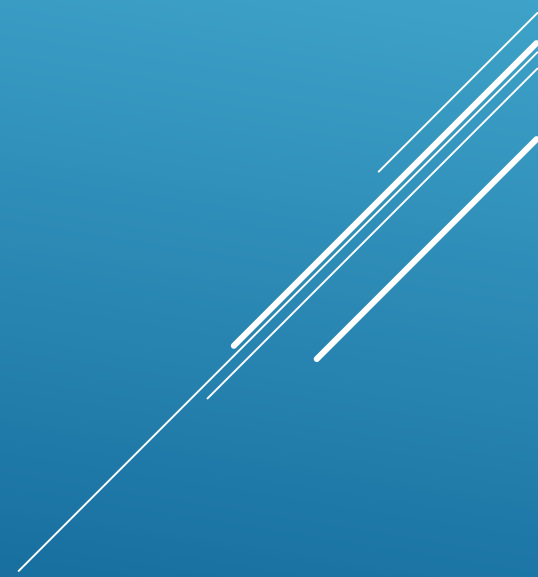
## DIRECTORS SHOULD

- ❖ Act fairly
- ❖ Abstain from actions, votes or debates when impartiality cannot be maintained

## DIRECTORS SHOULD NOT

- ❖ Discriminate against any particular member or membership segment
- ❖ Conceal information that could be construed as a conflict

# IMPARTIALITY DUTY



## DIRECTORS SHOULD

- ❖ Rely on information prepared or presented by employees or consultants that are reasonably believed to be competent

## DIRECTORS SHOULD NOT

- ❖ Exercise undue oversight or “double checking”
- ❖ Hesitate to ask questions sufficient to determine employee or consultant’s reliability

## RELIANCE DUTY





- ▶ Establish direction and control of FCU
- ▶ Carry out duties in good faith
- ▶ Administer affairs fairly and impartially
- ▶ Direct operations in conformity with FCU Act, NCUA Rules and Regulations, other laws and sound business practices
- ▶ Have familiarity with basic financial and accounting practices
- ▶ Ability to read and understand balance sheet and income statements
- ▶ Ability to ask appropriate questions
- ▶ May rely on information prepared by employees and consultants

# NCUA RULES & REGULATIONS

## 701.4

**Principal  
1**

- Board members must be qualified, understand their role and exercise sound judgment about the credit union's affairs.

**Principal  
2**

- Board members approve and oversee the strategic objectives and values that are communicated throughout the credit union.

**Principal  
3**

- Board members set and enforce clear lines of accountability throughout the credit union.

**Principal  
4**

- Board members ensure there is appropriate oversight by senior management consistent with board policy.

# GUIDING PRINCIPLES FOR BOARD GOVERNANCE

Principal  
5

- Board members and senior management must use the work performed by the Supervisory Committee, internal auditors, if applicable, external auditors, and the NCUA.

Principal  
6

- Board members must ensure compensation policies are consistent with the credit union's culture, long term objectives, and environment.

Principal  
7

- Board members must govern the credit union in a transparent manner.

# GUIDING PRINCIPLES FOR BOARD GOVERNANCE

Responsibility  
1

- Select qualified senior management and evaluate management's performance.

Responsibility  
2

- Establish, review, and revise business goals, standards, policies and procedures.

Responsibility  
3

- Review operating results and performance of new and existing products/services.

Responsibility  
4

- Ensure compliance with applicable laws and regulations, as well as the credit union's policies.

# DIRECTOR'S FOUR CORE RESPONSIBILITIES

- ▶ Minutes are the primary source by which examiners evaluate a board and its actions.
- ▶ Minutes should support conclusions reached by the directors.
- ▶ Minutes enable the examiner to evaluate how the directors and management interact and perform their job responsibilities.
- ▶ Minutes help determine the adequacy of management and the effectiveness of policies

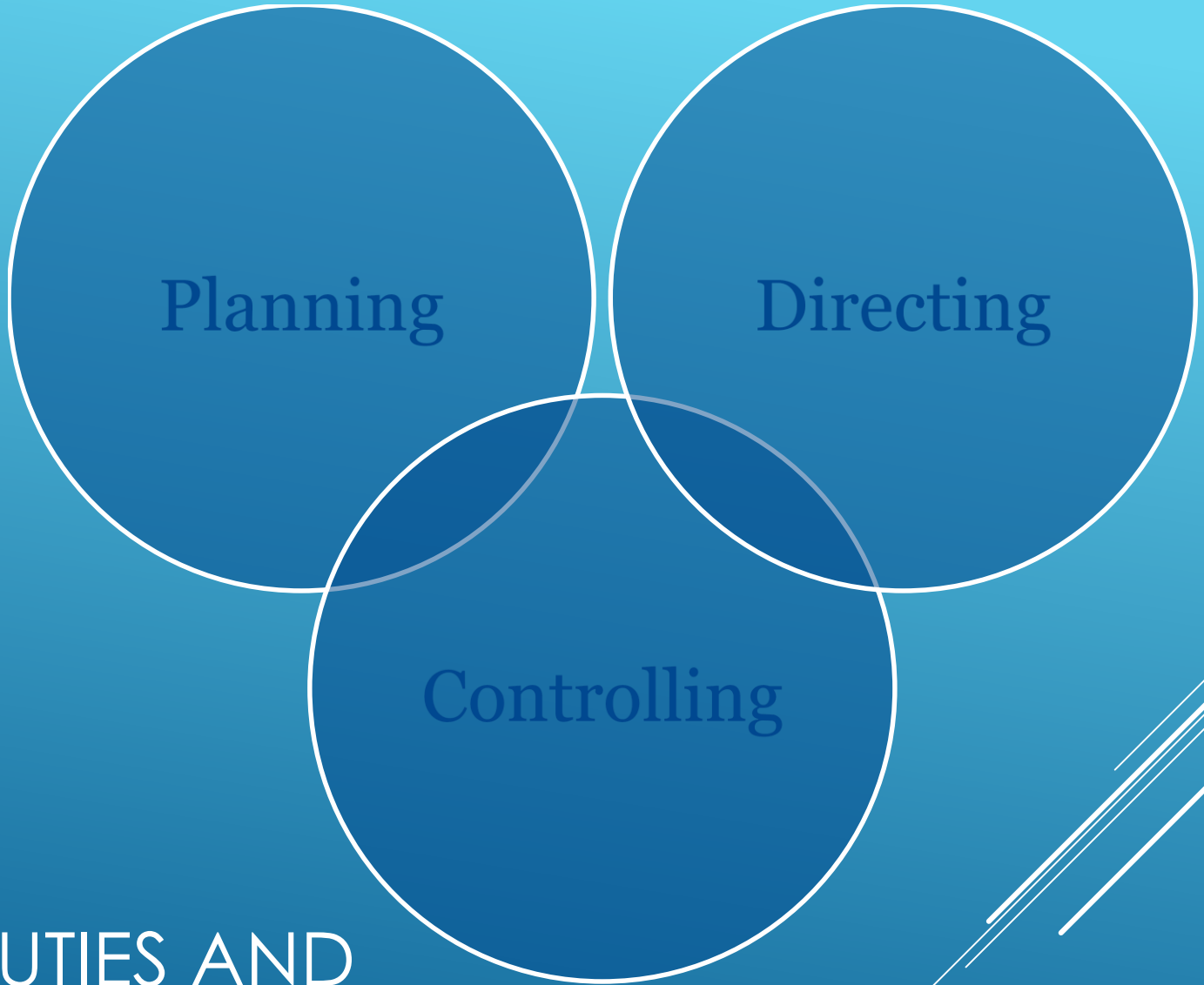
## BOARD MINUTES

- ▶ Delegations to Management
- ▶ Loan Policy Changes
- ▶ Allowance for Loan Loss Account (ALLL) Review
- ▶ Collection Problem Loans
- ▶ Loan Rate Changes
- ▶ Recordkeeping Problems
- ▶ Dividend Declarations
- ▶ New Programs
- ▶ Investment Activities
- ▶ Capital Accumulation
- ▶ Approval of Charged-Off Loans
- ▶ Asset Liability Management
- ▶ Budget Review
- ▶ Financial Statement Review
- ▶ Fixed Assets Purchased
- ▶ Loans to Officials
- ▶ Progress in Meeting Goals
- ▶ Review of Examination and Audit Reports

## BOARD MINUTE SIGNIFICANT ACTIONS

1. Know your credit union's history, charter, mission statement and bylaws.
2. Know the credit union's policies and procedures by setting standards of operations.
3. Understand and evaluate the credit union's financial reports, operating budget, audit and examination reports.
4. Correct any findings identified by the NCUA examiner or auditor.
5. Represent and promote the credit union to the potential membership.
6. Avoid any conflicts of interests.
7. Be objective and fair when providing input and participating in decisions.
8. Act on issues only if you thoroughly understand them and know the consequences.

## WHAT MAKES AN EFFECTIVE BOARD MEMBER?



BOARD DUTIES AND  
RESPONSIBILITIES





- ▶ Strategic Plan
- ▶ Business Plan
- ▶ Succession Plan
- ▶ Annual Budget
- ▶ Annual Meeting

PLANNING



- ▶ Monitor Reports
- ▶ Periodic Financial Statements
- ▶ Delinquency and Charge-Offs
- ▶ Statement of Changes in Equity
- ▶ Budget Variance Reports
- ▶ Act on Membership Applications
- ▶ Designate Deposit/Investment Institutions
- ▶ Approve Expenditures
- ▶ Ensure Resources for Adequate Record keeping
- ▶ Ensure Adequate Resources for Training Program
- ▶ Evaluate, Review and Approve Policies
- ▶ Elect officials
- ▶ Appoint committees
- ▶ Hire manager and other staff
- ▶ Address management and personnel issues

# DIRECTING

- ▶ Set Loan Rates and Limits
- ▶ Establish and Declare Dividends
- ▶ Assure Membership Confidentiality
- ▶ Establish Lending Program
- ▶ Collections
- ▶ Delinquency
- ▶ Charge Offs
- ▶ Establish and Authorize Contracts and Agreements
- ▶ Bond Coverage for Employees and Officials (701.20)

## CONTROLLING

- ▶ Implement Strategic and Business Plan
- ▶ Ensure Adherence to Budget
- ▶ Prepare Financial Statements
- ▶ Perform day-to-day functions in accordance with the Board's Plan
- ▶ Adhere to Policies and Practices
- ▶ Adhere to Laws, Rules and Regulations
- ▶ Ensure Implementation of Training Program
- ▶ Organize Annual Meeting

## MANAGEMENT DUTIES AND RESPONSIBILITIES



# AVOIDING DIRECTOR LIABILITY

Managing the risks

A series of several parallel white lines of varying lengths and positions, all slanted diagonally from the bottom-left towards the top-right, located in the lower right quadrant of the slide.

- ❖ Directors may be named individually in a lawsuit
- ❖ Board may be named as a group
- ❖ When the suit involves a policy decision, the board as a whole might be named.
- ❖ Individual directors are most often named when they had some personal involvement in the disputed issue.

WHO CAN BE HELD LIABLE?



- ❖ Members
- ❖ Individuals or companies who enter into contracts with the credit union
- ❖ NCUA or State Regulator
- ❖ Fellow directors
- ❖ Bonding company

WHO CAN SUE?

- ❖ Failure to act when necessary and
- ❖ Acting when they should not have.

WHAT ARE THEY HELD LIABLE FOR?





- Attend all meetings
- Note in the minutes if a director dissents from a vote.
- Make sure credit union operates under a budget, business plan and statement of goals.
- Receive regular financial information and get those reports in time for assess them *before* the board meeting.
- Respond and act upon regulatory exams and ensure a timely response is given.
- Ensure directors receive necessary financial literacy training. Ensure a policy is in place to address this.
- Review credit union operations on a regular schedule.
- Ensure the supervisory committee conducts a periodic audit and membership verification.
- Regularly study salary scales, employee benefits and personnel policies.
- Examine credit union insurance coverage.
- Disclose any potential conflicts of interest.
- Ensure all directors receive their annual BSA and OFAC training. Must certify in writing.

## MANAGING THE RISKS...

- ▶ Federal Credit Union Bylaws
- ▶ NCUA Rules and Regulations (701.4)
- ▶ NCUA Chartering and Field of Membership Manual
- ▶ Federal Credit Union Handbook
- ▶ 11-FCU-02 Letter to Federal Credit Unions
- ▶ [www.ncua.gov](http://www.ncua.gov)

## KEY REFERENCES

- ▶ Board Duties and Responsibilities
- ▶ Management Duties and Responsibilities
- ▶ Avoiding Director Liability
- ▶ References

LET'S REVIEW



# THANK YOU FOR YOUR TIME!

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