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"Voluntary" Credit Union Board Member?

Pay May be Low but Expectations and Responsibilities Are High

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Many of those who were privileged to have been active in the credit union industry before the "Great Recession" remember that often serving on a credit union board was seen as little more than "taking one's turn" at filling a spot to assure bylaws were being adhered to. Frequently, a board member could get by doing little more than attending a minimal number of board meetings and showing cursory interest in the financial outcomes of the credit union. Board members often relied on the word of credit union managers that the credit union was being run in a safe and sound manner and regulations were being adhered to. Regulators and credit union CEOs accepted this arrangement since board members were "mere volunteers" and uncompensated for their time and efforts.

Primarily as a result of the 2008 financial meltdown and subsequent brush with disaster for the credit union industry and the NCUSIF, NCUA has made it clear that individuals serving on boards of directors are to be held to high standards and expectations as described in regulations (*CODE OF FEDERAL REGULATIONS; Title 12—BANKS AND BANKING; PART 701—ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS; §701.4 General authorities and duties of Federal credit union directors*).

Compensation or no, credit union board members, collectively and individually, now are expected to accept the same responsibilities that were considered unique to board members serving in compensated (sometimes highly compensated) positions. As a side note, this shift towards greater responsibility will put pressure on credit unions and regulators to accept compensating credit union board members or face increasing difficulty filling board positions.

This article provides a brief synopsis of the duties and responsibilities board members are expected to adhere to.

According to regulations issued by NCUA, the board of directors is responsible for the general direction and control of the affairs of their Federal credit union. While a Federal credit union board of directors <u>may delegate the execution</u> of operational functions to Federal credit union personnel, the ultimate responsibility of each Federal credit union's board of directors for that Federal credit union's <u>direction and control is non-delegable</u>. Board members are expected to:

- Carry out his or her duties as a director in good faith, in a manner such director reasonably believes to be in the best interests of the membership of the Federal credit union as a whole, and with the care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances;
- Administer the affairs of the Federal credit union fairly and impartially and without discrimination in favor of or against any particular member;
- At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Federal credit union's balance

sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors; and

- Direct management's operations of the Federal credit union in conformity with the requirements set forth in the Federal Credit Union Act, its pertinent chapters, other applicable law, and sound business practices.

Addressing the direction and control of the credit union means boards of directors must actively:

- 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

NCUA and other regulators have established primary areas of responsibility for boards of directors as noted above. To effectively meet these responsibilities, board members need to:

- Exercise sound judgment
- Assure the credit union's viability and strategic direction
- Develop and maintain sound, robust policies
- Assess the credit union's financial performance
- Provide guidance and oversight of the CEO

Boards of directors of business entities are assumed to have skills basic to understanding how to run a business. Foundational to all other board duties is the responsibility to assure that the credit union is pursuing a direction that will assure business success. To run a business, any business, board members, individually and as a collective unit, must have basic skills sometimes referred to as key or 'core" competencies.

Six key competencies that Board members need to master are:

1. Basic financial literacy
2. Financial analysis
3. Effective leadership skills
4. Strategic planning
5. Understanding regulatory requirements
6. Developing regulation-compliant policies

Board members can expect regulators and members to hold them to professional standards that could place them at personal financial risk if they are not diligent. Board members must take the steps necessary to assure they are reasonably proficient and active in matters pertinent to running their respective credit union.

VirtualCorps and TCT Risk Solutions, LLC provide training and consulting services whose specialties include training for board members. Over the next six months we will provide articles on topics addressed in this article to help board members identify not only skills they need but steps they can take to achieve mastery.