Credit Union Leadership Forum

STRATEGIC INSIGHTS FOR CREDIT UNION BOARD MEMBERS

Executive Summary

A Practical Perspective: Regulatory Realities

Web Seminar, January 25, 2011

On January 25, 2011, the Credit Union Leadership Forum held its first Web Seminar entitled, "A Practical Perspective: Regulatory Realities." Panelist on Web Seminar included:

Paul Peterson: NCUA Associate General Counsel

Teresa Halleck: President & CEO, San Diego County CU

Stuart R. Levine: Chairman & CEO, Stuart Levine & Associates LLC, Director Broadridge Financial Solutions, Lead Director J. D'Addario & Company, Inc., Advisory Council of the New York Stock Exchange

Sarah Snell Cooke: Editor-in-Chief, *Credit Union Times*

The panel engaged in a robust discussion on the practical and real-world implications of the new NCUA regulations regarding board of director responsibilities. The NCUA created these new regulations to: clarify and standardize the Federal Credit Union (FCU) director's duties; focus FCU directors on their members; and to ensure as credit unions continue to grow in size and complexity, that all directors have a basic understanding of the financials. The key provisions and highlights of the discussion are outlined below:

1. *"The board of directors is responsible for the general direction and control of the affairs of each Federal credit union ... the ultimate responsibility of [the] board of directors for that credit union's direction and control is non-delegable."*

   Discussion:

   - Boards of directors are responsible for overseeing management through written policy statements that will guide and direct management.
   - Boards of directors are responsible for succession planning participating in the creation of strategy and validation of results
   - Boards of directors are responsible for monitoring the performance of credit unions to be sure that it stays on the right track.
   - Boards of directors are responsible for making personnel decisions with respect to senior management.

2. *"[A director must] carry out his or her duties . . . 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."*

Discussion:

- Essentially this means, don't violate the law when you make your decisions, and put the credit union interests above your own personal interests. It also requires that directors conduct reasonable inquiry, ask questions, do more due-diligence on complicated issues and take appropriate actions.

3. *At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, [a director must] 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 . . . auditors."*

   Discussion:
   - In addition to having a basic understanding of finance and accounting practices, directors should also have a basic understanding of the risks that can affect credit unions such as credit , interest rate, liquidity, transactional, compliance, strategic and reputational risk, as well as the internal controls in place to monitor these risks.

4. *"A director may rely on:… One or more officers or employees of the Federal credit union who the director reasonably believes to be reliable and competent in the functions performed or the information, opinions, reports or statements provided . . . ."*

   Discussion:

   - Directors may use good business judgment and can make decisions based on information that they believe is reliable from competent credit union employees, officers and consultants.

A letter to Federal Credit Unions will be coming out in the next couple of weeks, which will go into further detail on these provisions.

Polling Questions:

Do you think the latest NCUA regulations on Federal Credit Union Directors will help credit unions to function more effectively in the future?

Yes, definitely will help	26%
Will help some	51%
Will make no difference	15%
Don't know	8%

Discussion: Seventy-Seven percent of the respondent said that new regulations would help. While at first glance 77% looks high, there is still a significant portion 23% who do not fully understand the need for the regulations and how the regulations will increase the safety and security of credit union members. This gives the NCUA an opportunity to take a leadership role in educating credit union directors. In addition, CEOs and boards should be taking this opportunity to have a dialogue around the new regulations at their board meetings.

Do you believe that all directors should be financially literate?

Yes	98%
No	1%
I don't know	1%

Discussion: The panel was delighted with this result and mentioned that other appropriate skills were needed on the board as well, depending on the strategic direction of the board. CEOs should help develop their boards through education and recruiting the right people to their board. The board should understand the full picture, the environment, and economic trends, both locally and nationally, and be financial literate so that directors can give their CEOs good guidance. In addition, these regulations should help reduce liability going forward.

What do you believe is the most important characteristic that a Federal Credit Union Director should have?

Financial Literacy	3%
Integrity	25%
Understanding Membership	7%
Intelligence/good judgment	52%
Strategic Vision	12%
Don't know	1%

Conclusion:

When the panel was asked if the new regulations would help or hinder the CEO, they all agreed that the new regulations would be a tremendous help to the CEO. Strong CEOs should embrace this and are probably already doing it. Weak CEOs may not like it because they don't want more questions asked. However, these regulations can act as a springboard to consider the issues outlined in the regulations and encourage continuing education for board members. "A well educated board is the CEO's best friend."

In the end, these regulations will lead to greater member security and better functioning credit unions and the boards that oversee them.

When discussing the new regulations, what questions should CEOs and Boards of Directors consider?

1. Have you had a discussion about the new FCU director duties?
2. Have you reviewed and updated your board and committee charters based on the new regulations?
3. Do you have a policy on board education, including an on-boarding policy for new members? If so, has it been updated based on the new regulations?
4. Does your board understand the risks facing the credit union, and are there internal controls in place to monitor these risks?
5. Should enterprise risk management be a full board responsibility?
6. Does the board understand "Duty of Care" and "Duty of Loyalty"?

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