

DFI

DEPARTMENT of
FINANCIAL INSTITUTIONS





Board Responsibilities

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KDFI CREDIT UNION DIRECTOR TRAINING

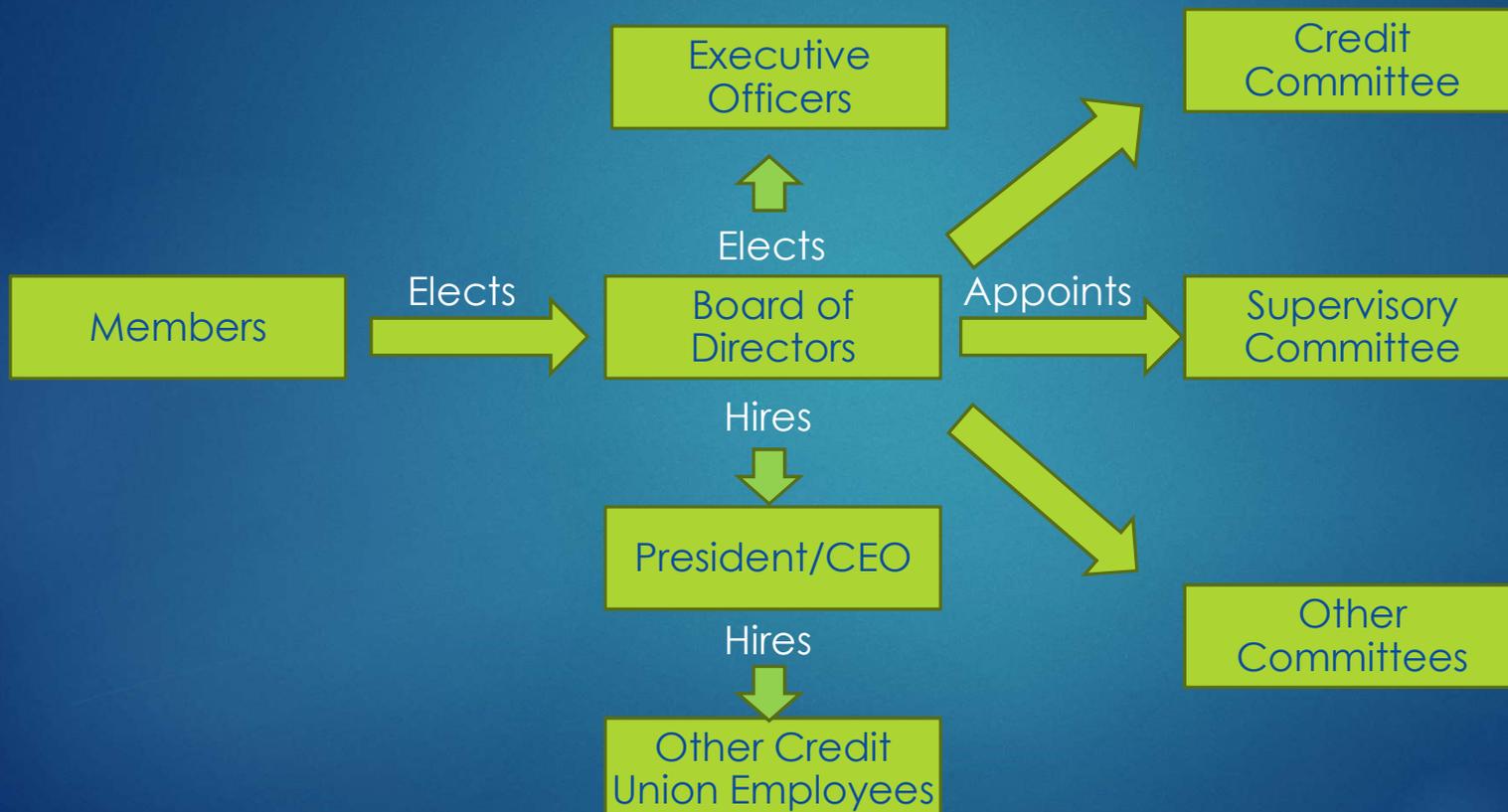
KENTUCKY DEPARTMENT OF FINANCIAL INSTITUTIONS, 2021

Introduction

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Structure of Credit Union Leadership





Structure of Credit Union Leadership

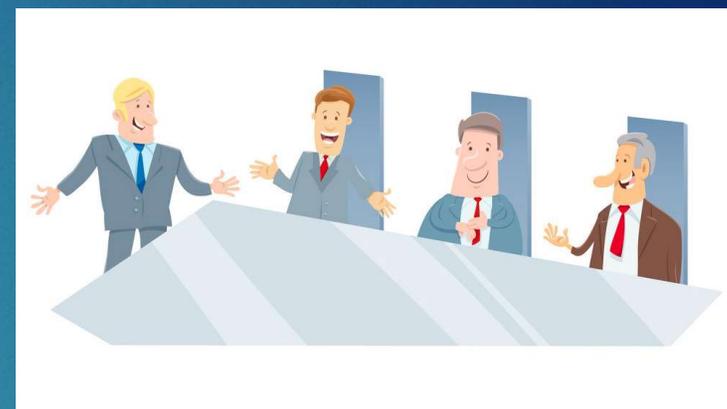
- ▶ Board members are volunteers, elected by the general membership
- ▶ Your bylaws will specify the terms of office and election procedures
- ▶ KRS 286.6-015(4) – Minimum number of Directors and supervisory committee members
- ▶ KRS 286.6-175 - Vacancies

| Minimum # of Board Members | Minimum # of Supervisory Committee Members |
|----------------------------|--|
| 5 | 3 |

A Board member cannot simultaneously be a Supervisory Committee member!

Board Appointments

- ▶ KRS 286.6-215 – Authority of the Directors
- ▶ KRS 286.6-205 – Officers of the Board
- ▶ Officer terms are for one (1) year or until their successors are chosen and have duly qualified.
- ▶ Officer duties will be prescribed in your credit union's bylaws.



| The Four Main Officers Elected by the Board | | | |
|---|---------------|-----------|-----------|
| Chairman | Vice Chairman | Treasurer | Secretary |

Board Appointments



▶ **Board Chairperson**

- ▶ Presides over all Board meetings
- ▶ Presides over all member meetings
- ▶ Maintains an effective Board
- ▶ Acts as a liaison between the Board and Credit Union management
- ▶ Ensures meetings are productive and that all Directors are heard
- ▶ Is a spokesperson for the Credit Union
- ▶ Performs any other duties prescribed in the Credit Union bylaws

▶ **Vice Chairperson**

- ▶ Exercises all the duties of the chair in their absence or when they are unable to perform them

Board Appointments



▶ **Treasurer**

- ▶ KRS does not provide specific guidance on the duties of a Treasurer, however, credit union bylaws should provide specification.

▶ **Secretary**

- ▶ Oversees the preparation, maintenance, and completion of records of all meetings of the members and of the Board.
- ▶ KRS 286.6-205 - Permits the Treasurer and Secretary to be the same individual.

What is not the role of the Director

- ▶ Coming to meetings just to:
 - ▶ Eat some snacks
 - ▶ Catch up on sleep
 - ▶ Reply to texts and emails
 - ▶ Check your Facebook





Role of the Director

A Director has 2 roles: that of a Director and that of a Member

▶ **Role as a Director**

- ▶ Share in the responsibility for the Credit Union's future
- ▶ Contribute in:
 - ▶ Setting policies
 - ▶ Approving budgets
 - ▶ Making decisions to guide the Credit Union
 - ▶ Taking part in Board meetings
 - ▶ Acting on the Board's behalf as an authorized agent

▶ **Role as a Member**

- ▶ When conducting personal business as a member, you are considered the same as any other member
- ▶ Never pressure staff to provide entitlement, special favors, better service, or better rates than other members

Board Responsibilities



- ▶ The Kentucky Department of Financial Institutions (KDFI) expects a Credit Union's Board of Directors to provide clear framework of governance that incorporates sound objectives, policies, and risk limits.
- ▶ The Board should monitor the extent to which officers and employees comply with this framework and with applicable laws and regulations.
- ▶ KDFI's expectations related to Credit Union Director responsibilities and obligations are based on specific KRS and longstanding governance principles.
- ▶ Directors should have an understanding of what topics are brought to them, including those topics where voting is involved.

Board Responsibilities



▶ CAMELS Rating System

- Specifically “M” – Management
- “...Generally, directors need not be actively involved in day-to-day operations; however, they provide clear guidance establishing acceptable risk exposure levels thru appropriate policies, procedures, and practices.”

▶ Corporate Governance

- Fiduciary Responsibility
- Appropriateness of compensation policies
- Avoidance of conflict of interest
- Professional ethics and behavior

Board Responsibilities



- ▶ Internal Controls – Senior Management – specific; however, the Board is ultimately responsible for internal controls to be implemented.
 - ▶ Other management issues include but are not limited to:
 - Adequacy of the policies and procedures covering each area of the Credit Union's operations (written, board approved, followed)
 - Budget performance compared against actual performance
 - Effectiveness of systems that measure and monitor risk
 - Risk-taking practices and methods of control to mitigate concerns
 - Integration of risk management with planning and decision-making
- (continues next slide)

Board Responsibilities

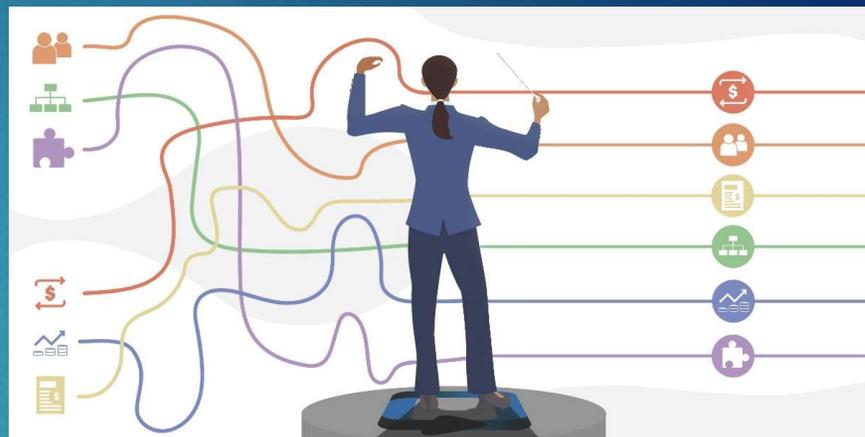


- ▶ Other management issues (continued)
 - ▶ Responsiveness to examination and audit suggestions, recommendations, or requirements
 - ▶ Compliance with laws and regulations
 - ▶ Appropriateness of the products and services offered in relation to the Credit Union's size and management experience
 - ▶ Market penetration
 - ▶ Rate structure
 - ▶ Appropriateness of disaster preparedness planning for continuity of operations
 - ▶ Succession planning for key management positions

Strategic and Business Planning

- ▶ Strategic Planning –
 - ▶ Where are we now?
 - ▶ Where do we want to be?
 - ▶ How do we get there?
 - ▶ How will we know we are successful?

- ▶ Business Plan – Short Term Goals – 1 to 2 years out
 - ▶ Includes the budget
 - ▶ Is evaluated against the strategic plan to determine if the two are consistent
 - ▶ Assesses how the plan is put into effect



Kentucky Revised Statute Board Responsibilities and Duties

The Board of Directors is expected to:

- ▶ Act upon applications for membership or to appoint one (1) or more membership officers to approve applications for membership under such conditions as the board prescribes.
- ▶ Inspect the report of actions taken by a membership officer on membership applications.
- ▶ Review appeals made by a person who is denied membership by a membership officer.





Kentucky Revised Statute Board Responsibilities and Duties

- ▶ Purchase a blanket Fidelity Bond
- ▶ Determine interest rate or rates
- ▶ Authorize any interest refunds
- ▶ Establish policies of Credit Union
- ▶ Set policies for granting of loans and the extending of lines of credit
- ▶ Establish the maximum amount which may be loaned to any one (1) member
- ▶ Establish different classes of shares types
- ▶ Declare dividends on shares and share certificates and determine the interest rate or rates which will be paid on deposits and deposit certificates



Kentucky Revised Statute Board Responsibilities and Duties

- ▶ If desirable, limit the number of shares and the amount of share certificates, deposits, and deposit certificates which may be owned by a member;
 - ▶ Any limitation shall apply alike to all members
- ▶ Have charge on the investment of funds
 - ▶ The board may designate an investment committee or any qualified individual to have charge of making investments under conditions established by the board
- ▶ Authorize employment of individuals to run the Credit Union
 - ▶ This includes Credit manager, loan officers, auditing assistance requested by the supervisory committee
 - ▶ Fix the compensation, if any, of the President



Kentucky Revised Statute Board Responsibilities and Duties

- ▶ Approve an annual budget including provision for employee compensation
- ▶ Authorize the conveyance of property
- ▶ Authorize contributions to civic, charitable or service organizations, subject to regulations of the commissioner
- ▶ Borrow or lend money to carry on the functions of the Credit Union
- ▶ Designate a depository or depositories for the funds of the Credit Union
- ▶ Suspend any or all members of the credit or supervisory committee for failure to perform their duties
- ▶ Appoint any special committees deemed necessary
- ▶ **Perform such duties as the members from time to time direct, and perform or authorize any action not inconsistent with this subtitle and not specifically reserved by the bylaws for the members.**



Kentucky Revised Statute Board Responsibilities and Duties

- ▶ KRS 286.6-185 (2) – No officer or director shall release any information contained in the report of examination, except so far as necessary in the performance of their official duties as provided by law.
- ▶ KRS 286.6-195 - No director, committee member, officer, agent or employee of the Credit Union shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting their pecuniary interest or the pecuniary interest of any corporation, partnership, or association (other than the credit union) in which they are directly or indirectly interested.
- ▶ KRS 286.6-245 – The board or executive committee shall meet monthly. These bodies shall meet on other occasions as often as is necessary.
- ▶ KRS 286.6-285(1)- Annual Audit review



When to Adjust the Level of Board Oversight

- ▶ A CAMELS composite or component rating of 3, 4 or 5, the existence of an enforcement action, or both
- ▶ Elevated asset or funding concentrations
- ▶ Complex or highly specialized products or activities
- ▶ High levels of historical or planned growth
- ▶ Rapidly shifting balance sheet structure
- ▶ Low or shrinking levels of liquid assets
- ▶ Plans to change the business model or enter into significant new lines of business
- ▶ Deviations from Credit Union policy or prudent Credit Union practice, violations of laws and regulations, or heightened examiner or auditor criticism
- ▶ Poor operating results
- ▶ Low capital levels
- ▶ Operational problems in BSA/ AML, information technology, and cybersecurity
- ▶ Deterioration in local economies or in business line fundamentals
- ▶ Low consumer compliance ratings, or high levels of consumer complaints

Tips on what to avoid as the Board of Directors

- ▶ Failing to act when it is necessary, and
- ▶ Acting when you should not have.





Tips on how to be an active Board Member

- ▶ 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.
- ▶ Periodically review the succession plan in the event key personnel retires or leaves.
- ▶ 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. (This is not required for FISCO CU's as it is for FCU's, but KDFI highly recommends financial literacy training for directors.)
- ▶ Be familiar with Credit Union laws and regulations.
- ▶ 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.
- ▶ Evaluate relationships with third party vendors.
- ▶ Ensure all directors receive their annual BSA and OFAC training. This training must be certified in writing.

ALWAYS REMEMBER!



Above all else, a Director is responsible for the general direction and control of the Credit Union



References



- ▶ **KRS 286.6 – Credit Union Statutes**

- ▶ <https://apps.legislature.ky.gov/law/statutes/chapter.aspx?id=38636>

- ▶ **808 KAR 3:050 Conduct of Credit Unions**

- ▶ <https://apps.legislature.ky.gov/law/kar/808/003/050.pdf>

- ▶ **NCUA Board Member Training Webinar Information**

- ▶ <https://www.ncua.gov/newsroom/news/2017/new-ncua-videos-educate-credit-union-boards-about-understanding-key-ratios>



Assessing Board Effectiveness C.A.M.E.L. Expectations

The NCUA provides a wealth of industry and economic information that credit unions may use to inform their strategic decisions.

For example:

- ▶ **Financial Trends in Federally Insured Credit Unions**
 - ▶ <https://www.ncua.gov/analysis/Pages/industry/fact-sheets.aspx>

- ▶ **State and City Economic Data**
 - ▶ <https://www.ncua.gov/analysis/Pages/industry.aspx>

