Policy 1205: Board of Director's Duties

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General Policy Statement:

The Board of Directors of a Credit Union is charged with the general direction and control of the institution. The Credit Union recognizes the importance of the fiduciary duties of a director of the Credit Union and will support directors with needed support and training to meet their duties.

1. **GENERAL DUTIES OF DIRECTORS.**

   A. The Board of Directors is responsible for the general direction and control of the Credit Union. The Board may delegate operational functions to management, but not the responsibility for the Credit Union’s direction.

   B. A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

   C. A director must administer the affairs of the Credit Union fairly and impartially and without discrimination in favor of or against any particular member.

   D. A director must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Credit Union’s balance sheet and income statement and the ability to ask, as appropriate, substantive questions of management and auditors.

   E. A director must direct the operations of the Credit Union in conformity with the State Credit Union Act, NCUA’s Rules and Regulations, other applicable laws, and sound business practices.

   F. A director may rely on information prepared or presented by employees or consultants the director reasonably believes to be reliable and competent and who merit confidence in the particular functions performed.

   G. The Board of Directors will promote a culture of compliance within the Credit Union based on FinCEN’s requirements in correlation with the Bank Secrecy Act and as outlined in Policy 2110 – Bank Secrecy Act/Anti Money Laundering Policy

2. **FIDUCIARY DUTY.** The key measures of the Credit Union's success or failure are represented in the Credit Union's financial statements. As such, a director must understand these financial statements to participate in a meaningful manner in the direction and control of the institution.

   A. At a minimum, a director should be able to examine the Credit Union's balance sheet, income statement and be able to answer the following questions:

      i. What does this line item mean?
         Why is it important to the Credit Union?
      ii. Is the value of the line item changing over time? If so, what does that change (either positive or negative) mean?
      iii. Is the change important to the Credit Union?

   B. Board members, at the time of election or appointment, or within a reasonable time thereafter (not to exceed six months), must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Credit Union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors. Board members must be willing to take appropriate training to be educated in the industry and compliance.
      i. Board members who were elected or appointed who do not possess the requisite financial skills have six months from election or appointment date to obtain them.
      ii. Board members will receive annual BSA training. They will also be expected to complete online courses as assigned. There are a number of board related books, courses, and conferences offered for further education.
      iii. Each Board Member shall objectively analyze its performance and compliance with this policy annually.

3. **RISK DUTY.** A Credit Union director must understand the specific activities in which his or her Credit Union engages. In particular, a director must understand not only how these activities generate revenue for the Credit Union but also the various risks associated with these activities that could lead to financial loss.

   A. To do their job in a meaningful manner, it is essential that directors understand the risks found in depository institutions:

      i. Credit,
      ii. Liquidity,
      iii. Interest rate,
      iv. Compliance,
      v. Strategic,
      vi. Transaction, and

vii. Reputation risk.

B. Directors must understand the internal control structures at the Credit Union that limit and control these risks.

4. **MANAGEMENT DUTIES.**

A. The Board must directly exercise its authority to hire, fire, determine duties, set compensation, and discipline the CEO.

B. The Board must ensure that appropriate policies are in place to guide senior management in the execution of their duties.

C. The Board may delegate other management functions to senior management.

D. Directors must ensure they are properly informed about what is happening in the Credit Union based on the input, information and reports of senior management, the supervisory committee and internal and external auditors. Where necessary, the Board may also request Credit Union employees provide information directly to the Board, and not through senior management.

i. The Board may hire consultants that report directly to the Board, and not to senior management.

5. **GOOD FAITH DUTY**. A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership of the Credit Union, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

A. Directors must take care not to violate the law, and not to be involved in decisions that benefit the director personally. Directors must focus on the best interests of the membership as a whole. If in the opinion of the commissioner a director has committed any violation of law or rule or of a cease and desist order or other order of the commissioner that has become final, or has engaged or participated in any unsafe or unsound practice in connection with the domestic credit union, or has committed or engaged in any act, omission, or practice that constitutes a breach of fiduciary duty of that person, and the commissioner determines that the domestic credit union has suffered or will probably suffer substantial financial loss or other damage or that the interests of its members and depositors could be seriously prejudiced by reason of the violation or practice or breach of fiduciary duty, the director will be removed from office.

B. A person cannot serve as a director if they have been convicted of a felony involving dishonesty or breach of trust.

C. Directors must be acceptable as a bonding risk by a bonding company licensed to do business in this state.

D. A director must not habitually negligent in paying his or her financial obligations as determined by criteria reasonably established by the credit union board.
E. He or she is a member of the credit union, in good standing.
F. Each Director must devote sufficient time and effort to remain informed and aware of issues affecting the credit union. Directors are expected to attend at minimum 80% of all scheduled meetings. If a Director fails to attend three (3) consecutive meetings (regular or special), the director will cease to hold office without further action of the members or the credit union Board.
G. A director can be removed by a 2/3 vote of the credit union board, for cause or for any reason set forth in the bylaws.