

Policy 1205: Directorship Policy

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INTRODUCTION

Texas Credit Union Department Regulatory Bulletin 2002-04 Board and Directorship Responsibilities – Revised – November 2009 provides clarification of the Department's position on the duties and responsibilities of credit union directors. The bulletin outlines the basic principles of a credit union board's function and responsibilities, qualifying that the outline is not all-inclusive. The bulletin further highlights the areas the Department perceives to be minimal requirements for the functioning of a credit union board of directors.

Section 5.09 of CSCU's bylaws lists the specific duties and powers of directors. This section provides that the board of directors has the authority and responsibility for the general direction and control of the business affairs, funds, and records of the credit union and is responsible for its safety and soundness. Additionally, the Board shall support open communication, education of members, review the Presidents's progress in achieving goals and objectives, and report to the members at the annual meeting.

As directed by Title 2, Chapter 22 of the Texas Business Organizations Code, directors must discharge their duties in good faith, with ordinary care, and in a manner the directors reasonably believe is in the best interest of the credit union. Therefore, directors must have a general knowledge of the daily operations of the credit union, and must act in good faith and exercise due diligence in performing their duties. Due diligence includes asking questions and requesting additional information in order to be fully informed and understand the actions the board takes as well as the potential ramifications or risks of the actions. Directors are also accountable to the credit union's membership and its regulators.

Because of the nature of the credit union business, directors have been placed in a position of trust and honor. Their selection to this position implies the highest confidence of the members in the integrity, business sense, and morality of each individual director. The credit union business requires a higher degree of accountability from those who choose to serve as directors. Both statutory and common law have placed the responsibility for credit union ~~management~~—governance and oversight firmly on the members of a credit union's board of directors.

Finally, Community Service Credit Union Bylaws, Section 5.09, stipulates that the board of directors may delegate to others, including the president, other officers or committees, the performance of these [board] duties, including the authority to further delegate these duties; provided, however, the board in delegating such duties is not relieved from the responsibility for the performance of such duties.

PURPOSE:

It is the intent of Community Service Credit Union to comply with all state and federal regulations governing the performance of elected credit union directors and officials. It is the further intent of Community Service Credit Union to govern credit union operations with a responsible, competent, and highly effective Board of Directors.

This policy sets forth the basic requirements and guidelines which the Board of Directors of Community Service Credit Union has established for the performance of its elected directors.

Essential Director Responsibilities

The following briefly highlight the essential responsibilities the board has in actively overseeing the credit union's affairs:

- Approve strategic plans and business plans (budget). The annual business plan/budget should be adopted on an annual basis, not later than thirty (30) days after the start of such annual period.
- Monitor and evaluate the performance and financial condition of the credit union and senior management relative to those plans.
- Establish goals, standards, policies and procedures, and operating strategies and understand the risks involved in following certain strategies.
- Establish a compliance program emphasizing the importance of regulatory compliance as an inherent part of credit union operations, ensuring compliance with external standards, such as laws and rules, and the credit union's own policies and procedures.
- Select, hire, and retain a Chief Executive Officer (CEO) with the skills, integrity, knowledge, and experience appropriate for the nature and scope of their responsibilities and periodically evaluate management's performance. The management of the credit union's daily affairs is delegated to the CEO, but delegation of responsibility for consequences resulting from unsound or imprudent policies and practices cannot be transferred from the board of directors.
- Review audits, examinations, operating results, compliance performance, internal controls and performance of new and existing activities.
- Review committee meeting minutes and agendas, allocate sufficient time within their own personal schedules to prepare for board or committee meetings.
- Ensure that the credit union serves the credit needs of its members.

Attendance and Participation

Regular attendance at board meetings is vital to the success of the credit union. In accordance with Section 5.04 of the Bylaws of Community Service Credit Union, regular meetings of the board of directors shall be held at least monthly.

Every act or decision done or made by a majority of the directors present at any duly held meeting at which a quorum is present is an act of the board of directors. Each director who is present at a meeting will be deemed to have assented to any action taken at such meeting unless the director's dissent to the action is entered in the minutes of the meeting, or unless the director shall file a written dissent thereto with the secretary of the meeting or shall forward that dissent by registered mail to the secretary of the credit union immediately after the meeting. (Section 5.07-6 Bylaws) During a board meeting, any director who finds it necessary to abstain from a board decision or action shall clearly explain the reason or reasons for abstention or for opposing the decision or action and so noted in the board minutes and as permitted in credit union bylaws. Actual participation in meetings is equally as important as attendance.

Directors shall participate in any annual planning session of the credit union and other training as scheduled periodically. Directors should be knowledgeable of legislative and political activities of the credit union movement and participate in these activities as able.

Compliance

The board must maintain the integrity of the credit union by adhering to sound business practices and ensuring compliance with applicable laws and regulations. The board will consult professional legal counsel when necessary to ensure that directors and management have an appropriate understanding of legal and regulatory requirements. The board shall designate a credit union employee(s) to serve as the BSA/AML/CIP Compliance Officer and OFAC Compliance Officer.

Member Communication

The board shall report to the members at the annual meeting. The board shall inform the membership about the general condition of the credit union, committee activities, and special projects, as well as any changes to credit union bylaws.

Continuity

The board shall "...monitor and evaluate the credit union's performance and financial condition, including the credit union's estimated solvency ratio, and to assure that a timely, adequate reporting and information system keeps directors knowledgeable at all times." Bylaws Section 5.09

The board shall provide oversight in crucial areas such as:

- Strategic planning,
- Capital accumulation,
- Asset quality,
- Liquidity,
- Funds and risk management, and
- Management development and succession.

Education

Education is crucial for director effectiveness. Credit unions operate in a dynamic, highly regulated environment, and the need for informed, competent directors has never been greater. Extensive education resources are available for credit union directors. Ongoing education is essential to ensure that directors understand and appropriately control the risks inherent in operating a depository financial institution.

CSCU strongly affirms the need for director education and training. A separate Director Education Policy has been established to more fully address the expectations and requirements established by the Credit Union Board for the education and training of its elected directors.

Examinations and Audits

The board is responsible for reviewing all reports of examination and audits performed by outside sources and implement necessary changes, to ensure any deficiencies are corrected.

Insurance and Bond

The board must ensure that the credit union has adequate insurance coverage and bond coverage for contingencies, which should be reviewed annually to reaffirm or re-evaluate.

Integrity

A director shall maintain the highest standards of personal conduct. Directors must demonstrate integrity, dedication and cooperation. Members of the board must put the interest of the credit union and the members ahead of their own personal interests. Board member may not use their positions for personal profit or advantage.

Confidentiality

The board is responsible for ensuring the confidentiality of each member's dealings with the credit union is protected. Credit union board meetings are not open to the membership or general public. As a result, the board shall protect the confidentiality of information discussed during board meetings. If a member's attendance at a board meeting is necessary, the member may only be present for the specific discussion and then excused afterward. The board shall ensure there is an information security program in place to protect member data. The board shall periodically review confidentiality policies and update them accordingly.

Internal Controls

The board shall establish procedures for conducting audits whether it is by a committee of the board or by an outside firm. The board must satisfy itself that audits are conducted professionally and the committee or outside firm has the requisite competency and integrity. At a minimum, the credit union shall perform an annual audit whether by a committee of the board or by an outside firm. The board will review and

monitor reports on internal controls and internal audits to ensure that the credit union is adequately managing and monitoring risk. Examinations by the Texas Credit Union Department and the NCUA are not substitutes for an audit.

Leadership

Effective directors use good business judgment and work for the best interest of the membership. The board is responsible to ensure that adequate policies, procedures, management, and strategic planning are in place. The board shall define the scope of the President's job, hire someone to fill the position, and review his or her progress in attaining goals and objectives. A balance should be struck between the board and management; therefore, the board shall direct and credit union management shall manage the credit union's daily operations.

Management Information System

The board is responsible for establishing a system whereby the credit union's affairs are presented in a manner that will allow reasonable comprehension of the information presented and which fairly presents the credit union's activities. The credit union shall maintain a board approved secure data processing system, secure internet access, Security Policy, and Business Continuity/Disaster Recovery program.

Policies for Credit Union Operation

Establishing sound policies is one of the board's more important functions. Policies shall clearly and concisely state intentions, limitations and controls that will dictate a specific course of action. Policies shall be comprehensive, written, approved by the board, reviewed as required by regulation, and revised or reaffirmed at least annually. The board shall also make certain that its policies are fully understood and being adhered to by those who are subject to such policies.

Director/Committee Member Fees, Reimbursable Expenses, and Other Authorized Expenditures

Section 91.502 of the Texas Administrative Code provides for expense reimbursement to Directors and Board Committee Members of out-of-pocket travel and related expenses that are reasonable and appropriate for the business activity undertaken. The Section further provides for the payment of reasonable fees to directors and committee members for attending duly called meetings for conducting appropriate credit union business, so long as the credit union is not operating under a Net Worth Restoration Plan or an order issued under Finance Code §122.257 or §122.258.

The degree of accountability that Community Service Credit Union expects of its Directors, and the scope and complexity of the Credit Union's current operations and of the financial, economic, and regulatory environment in which it operates, demands significant preparation on the part of each Director for full and effective participation in Board and Board Committee meetings, and in order that a Director may fully and competently discharge his/her duty of due diligence. In recognition of these demands, CSCU will pay a reimbursement of \$50.00 for each regularly called Board meeting, each regularly called Committee meeting and each Annual Meeting which a Director attends.

CSCU will pay a reimbursement of \$100 for participation in each Strategic Planning session.

Reimbursements of \$25.00 may be paid for any specially called meetings of the Board or of any Committee of the Board upon specific approval of the Board at a regularly called Board meeting. Such approval will consider the degree of preparation required and the duration and location of such meetings.

Payment of reimbursements will be approved by the Board Secretary, who will be accountable to verify records of attendance. The Board Treasurer will authorize reimbursements for the Board Secretary. Payment of these reimbursements will not be a substitute for reimbursement to Directors for legitimate, approved out-of-pocket expenses incurred while conducting business on behalf of the credit union. Such business expenses will continue to be reimbursed according to a separate Board-approved travel and business expense policy.

Section 91.502 further provides that a credit union may provide personal computers, access to electronic mail, and other electronic conveniences to directors during their terms of office. To facilitate cost effective delivery of meeting materials, educational material, and other Board communications, as well as to provide for secure and efficient retention of such materials for ongoing director reference, each CSCU director will be issued an electronic tablet, notebook or other access device for use during that director's term of office. Directors will be required to sign an agreement governing use and protection of the device, accepting responsibility for the device so long as it remains in their possession, and further agreeing to return the device immediately upon leaving office. The Credit Union may further provide appropriate applications and accessories for use with the device to facilitate standardized use and application of the devices in the interest of credit union efficiency and cost control, as well as to enhance the effectiveness of the devices for Director use in executing their directorship duties and responsibilities.

In accordance with 91.502, the board will annually, in good faith, review the director/committee member fees and director/committee member related expenses to ascertain the reasonableness of such fees and reimbursements.

Records of Board Action

It is the responsibility of the board to ensure that adequate minutes and other records of board actions, including pertinent discussions and dissenting opinions be maintained. Records of board actions are accomplished through the credit union's record retention program.

Removal of a Director

Pursuant to Section 5.067 of the bylaws, any director who fails to attend three consecutive meetings without an excuse approved by a majority vote of the board, or

who fails to attend six regular meetings within any 12 month period following the director's election/appointment, is automatically removed from the office.

Ideally, all credit union directors are strong representatives for the membership; however, any director may be removed from office for good cause by a majority vote of the board of directors at a regular meeting or a special meeting of the board called expressly for such purpose.

Notice of the meeting must specify the director who is subject to removal.

Good cause for removal shall be the failure to perform the duties entrusted upon such person as a director, including, but not limited to:

- Physical abuse or assault, harassment or multiple instances of verbal abuse of a member, employee officer or other directors of the credit union.
- Misapplication of credit union funds.
- Breach of fiduciary duty.
- Default on payment of a voluntary obligation to the credit union that incurs a financial loss to the credit union.
- Neglect or refusal to comply with provision so the Credit Union Act or Commission rules, bylaws or articles of incorporation.
- Conviction of a felony.
- Conviction of a misdemeanor involving moral turpitude.
- Failure to maintain confidentiality relating to credit union transactions and the financial affairs of its members.
- Failure to perform the duties of a director.

Prior to a vote on removal, the director will be afforded an opportunity to be heard at such meeting as prescribed in the CSCU Bylaws.

Review and Self Evaluation

The Directorship Policy shall be reviewed on an annual basis and so noted in board minutes. At that time, the board of directors shall objectively analyze its performance and compliance with this policy.