

**STATE OF MICHIGAN
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES**

Bulletin 2005-07-CU

In the matter of:

Director Duties and Directorship Policy Development

**Issued and entered
this 10th day of June 2005
by Linda A. Watters
Commissioner**

This bulletin replaces Bulletin 98-1.

The purpose of this bulletin is to clarify duties of credit union directors, including items the Office of Credit Unions (OCU) will review when evaluating each credit union's Directorship Policy.

Section 342(2) of the Michigan Credit Union Act (MCUA), 2003 PA 215 as amended, MCL 490.342(2), states, "A credit union board has general management of the affairs of the domestic credit union. The credit union board has the authority and responsibility for the general direction of the business affairs, funds, and records of the domestic credit union and is responsible for maintaining its safety and soundness." Specific responsibilities of the board are further prescribed by the MCUA, each credit union's bylaws, and DIFS Rules, Bulletins, and Letters. It is the responsibility of the Board to review and incorporate applicable provisions within the Directors Policy.

Credit union directors are placed in a position of trust and honor. They are elected to represent, and have a fiduciary responsibility to act in the best interest of, the membership. Directors must have a general knowledge of the daily operation of the credit union and exercise due diligence in performing their duties.

Responsible, competent Directors are crucial to the success of any financial institution. Section 341(8) of the MCUA, MCL 490.341(8), outlines minimum eligibility requirements for credit union directors. Serving as a director requires commitment and dedication, and the duties must not be taken lightly.

Each Board of Directors must develop a Directorship Policy clearly stating the board's view of its role in guiding the credit union, outlining eligibility requirements to be a member and the responsibilities of each Board Member. The following areas should be addressed in the Directorship Policy. These are recommended minimums and should not be considered an inclusive list of characteristics for an effective Board.

Attendance

Directors cannot fulfill their responsibilities if they do not attend board meetings on a regular basis. Each Director must devote sufficient time and effort to remain informed and aware of issues affecting the credit union. The Directorship Policy should specify the permissible number of absences per year for a Director to remain on the Board of Directors. The policy requirement must be at least as restrictive as the standard Bylaw Article VI, Section 6 of the bylaws.

Compliance

The Board of Directors must maintain the integrity of the credit union by ensuring compliance with applicable laws and regulations. The Board must understand and properly implement new or amended legal and regulatory requirements and must retain professional counsel when necessary to ensure that Directors and management have an appropriate understanding of legal and regulatory requirements.

Continuity

The Board of Directors must ensure the credit union remains in sound financial and operational condition over time. To preserve the credit union as a viable institution, the Board of Directors must oversee crucial areas such as strategic planning, capital accumulation, asset quality, liquidity, risk management, and management development and succession. One of the Board's most important duties is to hire and retain competent management for the credit union. The Board must develop appropriate performance standards for the credit union's chief executive officer. The Board should formally and objectively review the chief executive's performance against these previously established standards at least annually. The Board of Directors must take appropriate action, up to and including removal, if the chief executive officer or any managers lack the competence or integrity to operate the credit union in a safe and sound manner.

Education

Directors must be competent to discharge properly their responsibilities under the MCOA. Credit unions operate in a dynamic, highly-regulated environment, and the need for informed, competent Directors is great. Directors must develop and maintain a fundamental, ongoing knowledge of the regulations and issues affecting credit union operations to assure a safe and sound institution. Extensive educational resources are available for credit union Directors. Each Board should, by policy, establish appropriate education requirements and provide sufficient resources for elected officials to achieve and maintain professional competence. Credit Union Bulletin 2005-10-CU provides guidance regarding education-related expenses incurred by Directors and other credit union officials.

Integrity

Directors must maintain the highest standards of personal conduct. Directors must demonstrate integrity, dedication, and cooperation. Maintaining the confidentiality of credit union business and individual member information is absolutely essential.

Leadership

Effective Directors use good judgment and work for the best interests of the membership. Directors must provide adequate direction and control for management, but not be involved in minutiae. Strategies and plans should be well thought out and appropriately documented. Competent Directors make decisions based on facts, strategic plans, and overall goals.

Policy

Establishing sound policies is one of the Board of Director's most important functions. Policies must clearly and concisely state intentions, limitations, and controls that will dictate a specific course of action. Policies must be comprehensive, reduced to writing, approved by the Board of Directors, and reviewed at least annually.

Promotion to Members

Directors shall demonstrate their commitment to understanding and meeting the needs of the membership. Products and services must be structured to meet members' needs in the most effective manner.

Removal

Ideally, all credit union Directors will be strong representatives for the membership. The Directorship Policy must, however, address performance review and specify procedures necessary when Directors do not properly fulfill their responsibilities. The Directorship Policy must include events and circumstances that would warrant a recommendation to remove a credit union director or official, as provided in Sections 212, 214, 341(8-9), and 342 of the Michigan Credit Union Act, MCL 490. 212, 490.214, 490.341(8)(9), and 490.342.

Each Board of Directors shall objectively analyze its performance and compliance with the Directorship Policy at least annually.

Any questions regarding this bulletin should be directed to:

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/s/

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