I. PURPOSE

The Board of Directors is responsible for directing the affairs of the credit union. Directors must have a general knowledge of the daily operation of the credit union. Management is responsible for completing the duties delegated to them by the Board and must have the ability to manage risks, determine whether the credit union can withstand fluctuations and ensure the ongoing viability of the credit union. Credit Union Directors have a responsibility to act in the best interest of the membership.

II. PRIMARY REGULATIONS/REFERENCES

1. Michigan Credit Union Act:
   a. Sections 341, 342, and 343: Officer, Officials and Directors
   b. Sections 381, 383, 384 and 386: Administration
   c. Section 201 (6-7): Administration, supervision and enforcement
   d. Section 305: Making Records Available
2. Credit Union Bylaws:
   - Article V: Elections
   - Article VI: Board of Directors
   - Article VII: Officers
3. Credit Union Bulletin 2005-07 CU: Director Duties and Directorship Policy Development.

III. MINIMUM PROCEDURES

1. Assess whether each official (or member of any committee performing significant ongoing functions relating to credit union operations) meets the minimum criteria outlined in Section 341(8) of the MCUA.

2. Ensure the Board of Directors has developed 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 minimum requirements and should not be considered an inclusive list of characteristics for an effective Board:
   a. **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 standard Bylaw Article VI, Section 6 of the bylaws.

b. **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.

c. **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.

d. **Education:** Directors must be competent to discharge properly their responsibilities under the MCUA. 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.

e. **Integrity:** Directors must maintain the highest standards of professional conduct. Directors must demonstrate integrity, dedication, and cooperation. Maintaining the confidentiality of credit union business and individual member information is essential.

f. **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.

g. **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.

h. **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.

i. **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.

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

3. Review board meeting minutes since the previous examination to draw conclusions about how the officials and daily management interact and perform their job responsibilities. Much of this information can be useful in determining the adequacy of management and the effectiveness of their policies. Significant board actions to make note of include, but are not limited to:

a. Policy changes, loan rate changes, and dividend declarations;
b. Consideration and approval of new programs, including appropriate due diligence;
c. Approval of loan charge offs and work out agreements;
d. Approval of investment activities and material fixed asset purchases;
e. Review of ALM, budget variances, and approval of Financial Statements (which should be part of the minutes per Article VII of the Bylaws)
    i. Minutes should document discussions pertaining to progress in meeting established goals and objectives.
    ii. Minutes should document any recordkeeping problems, or other concerns identified, as well as corrective actions.
f. Discussion regarding loans to officials;
g. Changes in key personnel or officials;
h. Approval of an annual operating budget supported by specific written assumptions and a pro forma balance sheet;
i. Periodic cost-benefit analyses on major services including CUSO and branch operations;
j. Review of the most recent audit and the previous examination report; and
k. Ascertain if previously cited exceptions have been satisfactorily resolved.

4. Ensure the Board and management have established appropriate strategic planning procedures. Sound financial management requires the Board of Directors and management ensure sufficient strategic planning, consistent with the credit union's size and complexity. Strategic planning should include:
    a. A strategic plan that defines management's course of business for the next two to three years. The strategic plan encompasses all areas of operations and often addresses broad goals. At a minimum, this plan should outline the credit union's future direction and the optimal capital position relative to share and asset growth.
    b. A business plan for the next one to five years which establishes specific goals for the upcoming one or two years. The business plan should assess the current environment and evaluate external and internal factors such as regulatory issues, member base, and competition. From this assessment, officials define measurable key objectives and the acceptable level of risk that management is willing

to assume in attaining the goals. Management should document the plan's assumptions and ensure the budget, policies, procedures, and resources are consistent with the plan's objectives. The examiner should assess management's effectiveness in implementing the plan and achieving established objectives.

5. Determine if the Board of Directors provides sufficient oversight to ensure management appropriately implements policy and procedure requirements. At minimum, the Board should ensure:
   a. The person(s) responsible for carrying out each procedure governed by a policy, are aware of their responsibility and the desired results of operations.
   b. Each policy includes a periodic reporting system so the Board may evaluate and revise policies as necessary to achieve desired results.
   c. Coordination exists among the individuals assigned to implement the policies and procedures. To achieve the desired results in directing the credit union's program, the Board should practice the three principles of good management: planning, organizing and controlling.

6. Review documentation of management's due diligence regarding existing, new, and planned products and services.

7. Review material contracts entered by management since the previous examination.

8. Review the most recent examination and audit reports. Determine if previously cited exceptions have been satisfactorily resolved.

9. Initiate discussions with management and the Board of Directors to assess knowledge, effectiveness and ability. Topics for discussion may include the following:
   a. Key personnel changes since the previous examination and future plans;
   b. Significant new or planned programs or services, as well as the extent to which members use existing products and services;
   c. Due diligence performed by management on new and planned programs and services;
   d. Significant acquisitions of new facilities and future plans;
   e. EDP conversions, upgrades or material changes;

- **f.** Material change in the investment portfolio and future plans;
- **g.** Material change in the loan portfolio and future plans;
- **h.** Recordkeeping issues (e.g., balanced general ledger, balanced individual share and loan ledgers, cash reconcilements);
- **i.** Off-balance sheet risk areas;
- **j.** Lawsuits or other contingent liabilities;
- **k.** Material changes in key policies or procedures, and future plans regarding policies and procedures;
- **l.** Return on assets, capital accumulation strategy, meeting goals;
- **m.** Management succession plan; and
- **n.** Systematic review of policies and procedures.