

A Practical Perspective: Regulatory Realities

Credit Union Leadership Forum
January 25, 2011



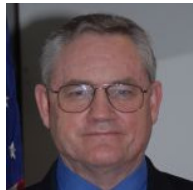
Credit Union Leadership Forum

- Credit Union Leadership Forum is a joint venture of *Credit Union Times* and Stuart Levine & Associates LLC.
- Our mission: *To strengthen boards of directors by providing learning opportunities that ensure credit union stability and growth*
- The Credit Union Leadership Forum offers continuous learning through, information, surveys, web seminars, peer-to-peer exchanges, roundtables and custom in person board room educational programs

On the Webcast Today



Stuart R. Levine – Chairman & CEO of Stuart Levine & Associates LLC. Director, Broadridge Financial Solutions, Inc. , Lead Director for J. D'Addario & Company, Inc., Advisory Council of the New York Stock Exchange



Paul Peterson - NCUA Associate General Counsel



Teresa Halleck - CEO & President of San Diego County Credit Union

Moderator:



Sarah Snell Cooke – Editor in Chief, *Credit Union Times*



Regulation on FCU Director Duties

Paul Peterson,
NCUA Associate General Counsel



FCU Director Duties

Final NCUA Rule – Four Key Provisions

1. “The board of directors is responsible for the general direction and control of the affairs of each Federal credit union . . . the ultimate responsibility of [the] board of directors for that credit union’s direction and control is non-delegable.”
2. “[A director must] carry out his or her duties . . . in good faith, in a manner such director reasonably believes to be in the best interests of the membership of the Federal credit union as a whole, and with the care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.”



FCU Director Duties

Four Key Provisions (Cont)

3. “At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, [a director must] have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Federal credit union’s balance sheet and income statement and to ask, as appropriate, substantive questions of management and the . . . auditors.”
4. “A director may rely on: One or more officers or employees of the Federal credit union who the director reasonably believes to be reliable and competent in the functions performed or the information, opinions, reports or statements provided”



FCU Director Duties

Rulemaking Timetable

- Rulemaking began about two years ago.
- Final rule adopted by NCUA Board in December 2011.
- Generally effective January 27, but . . . financial literacy piece not effective until July 27, 2011.
- Only applies to FCU directors!
- NCUA plans to issue Letter to FCUs by end of January.



FCU Director Duties

Why a regulation?

- Clarification and standardization of FCU director duties in one place.
- Focus FCU directors on their members.
- Growing size and complexity of CUs demands some financial literacy.
- Source of rule structure: existing regulation on Federal Home Loan Bank director duties.



FCU Director Duties

Limits on Indemnification

1. No indemnification against *successful civil money penalty actions by state or federal regulator*, BUT STILL: Insurance and good faith advancement of costs are available.
2. No indemnification against *successful member or third-party actions* if it is a director “decision on matter significantly affecting the fundamental rights and interests of members” AND the court specifically finds gross negligence or worse. BUT STILL: Insurance and good faith advancement of costs are available.



FCU Director Duties

Upcoming Letter to FCUs

The LFCU will address these issues:

1. What are the base financial literacy requirements?
2. What sort of training will be made available to directors?
3. Will the training constitute a “safe harbor” for directors in the exam process?



Credit Union Governance

Stuart R. Levine,
Chairman and CEO, Stuart Levine & Associates LLC



Fundamentals of Responsible Credit Union Governance

- Directors have the responsibility to oversee the credit union's activities without usurping the role of management
- Directors should exercise their decision-making powers through the board structure and committees
- Directors should be knowledgeable on two key issues
 - Succession Planning
 - Strategy
- Directors should be well-informed, participate and exercise independent judgment



Duty of Care and Duty of Loyalty

➤ Duty of Care

- Be prepared to contribute
- Commit to continuous learning
- Commit to required time to attend and participate in board and committee meetings
- Be a credit union advocate

➤ Duty of Loyalty

- Act in good faith and in the best interests of the organization and member
- Avoid conflicts of interest and personal gain



Board Organization

- Reinforce and demonstrate capacity to function as an independent and informed monitor

- Committee structure
 - Standing committees
 - Charters and committee composition
 - Compensation Committee
 - Governance and Nominating Committee
 - Supervisory Committee



Board Evaluations

- Governance and Nominating
 - Responsibility to nominate board leadership
 - Recruit and retain qualified candidates based upon criteria for board membership
- Board Assessment Process
 - Collect independent data on effectiveness of overall board, committees and individuals



Discussion and Q & A

Teresa Halleck, CEO, San Diego County Credit Union

Paul Peterson, NCUA Associate General Counsel

Stuart R. Levine, Chairman and CEO, Stuart Levine & Associates LLC



Our Next Web Seminar

Join the next Credit Union Leadership Forum web seminar on February 14, 12:00 PM EST.

The Role of the Board in Marketing and Brand Strategy

- Speakers are :
 - **Stuart R. Levine** – Chairman & CEO Stuart R. Levine
 - **Peter Hubbell** – Executive VP, Global General Manager, Saatchi & Saatchi
 - **Linda Armyn** – Vice President, Corporate Development Government Affairs, Bethpage Federal Credit Union
 - **Sarah Snell Cooke** Editor in Chief, *Credit Union Times*



Thank You

- **We invite you to take the Credit Union Leadership Forum Board Survey at:**
<http://www.zoomerang.com/Survey/WEB22AMETYVN6Z>
- **For more information or to join the Credit Union Leadership Forum:**
 - Go to www.cutimes.com/CU-Leadership-Forum
 - Contact Tom Waller, Managing Director, Credit Union Leadership Forum at 877-505-2853
 - Email Tom Waller at twaller@stuartlevine.com



Partners Information

- ***Stuart Levine & Associates LLC***, is an international consulting and leadership development company founded in 1996 by Stuart R. Levine, former CEO of Dale Carnegie & Associates, Inc. Stuart Levine & Associates is nationally recognized for its work with Credit Unions and many Fortune 500 companies. SL&A specializes in Strategic Planning, Strategic Implementation, Leadership Development and Governance. For more information, go to www.stuartlevine.com.

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