Credit Union Executives Society
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May 21, 2010

Deborah Matz, Chairman of the Board
NCUA
1775 Duke Street, Suite 4206 #7001
Alexandria, VA 22314-6115

Dear Chairman Matz:

The board of the Credit Union Executives Society has reviewed the National Credit Union Administration's proposed rulemaking that documents and clarifies the fiduciary responsibilities of Federal credit union directors (§701.4). While the board generally supports the proposed rules regarding fiduciary responsibility and a regulatory standard of care, we believe there is need for additional clarification and guidelines to ensure federal credit union boards are best enabled to manage the affairs of their organizations.

> *Sec. 701.4(a) The management of each Federal credit union is vested in its board of directors. While a Federal credit union board of directors may delegate the execution of operational functions to Federal credit union personnel, the ultimate responsibility of each Federal credit union board of directors for that Federal credit union's management is non-delegable.*

> Over the course of seven years of offering our Self-Assessment for Credit Union Boards, credit union directors have commonly stated the challenge they face in building effective governance and long-term strategic thinking without micromanaging executive staff. It is our contention that credit union boards require additional training in how to best manage the relationship between the board and CEO. This can be addressed through online courses; reading instructional texts; and ongoing professional development training at conferences, seminars, and executive education offerings.

> *Sec. 701.4(b) Carry out his or her duties as a director in good faith, in a manner such director reasonably believes to be in the best interests of the membership of the Federal credit union, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.*

In the explanatory notes related to Sec. 7.1.4(b), the Federal Register states that embedded in the standard are the duty of loyalty and the duty of care, as measured by the "prudent person" or "reasonable person" standard that is consistent with the historic standards imposed on directors of national banks. This standard requires that credit union directors keep themselves informed of material information that could affect their decisions. It also requires that directors have a working familiarity with basic finance and accounting practice. The notes state specifically that directors must understand the credit union's balance sheet and income statement, and be able to ask substantive questions of management and auditors.

While these standards are admirable, they do not go far enough to establish guidelines for the skills required by the credit union director. Specifically, a credit union director cannot reasonably be expected to keep himself/herself informed of issues relevant to his/her decision making without ongoing education related to strategy, the economy, and best business practices. In addition, the requirement for directors to have a working familiarity with basic finance and accounting, in particular related to reading and understanding the balance sheet and income statement, is too simplistic and does not require any form of accountability beyond becoming "financially literate within a reasonable time, not to exceed three months after his or her election or appointment." We recommend that credit union board members be required to do more than simply understand the balance sheet and income statement; they should also have a strong knowledge of the key ratios that reflect the credit union's performance and understand 1) the strengths and weakness of each measurement and 2) how changes in one ratio affects others. We acknowledge that participating in training is not enough to ensure proficiency, and so we also recommend that each credit union director's knowledge of financial literacy be assessed, with results recorded in a learning management system (LMS) such as the one used by CUES Directors Education Center, an online course selection—free to CUES Director Members—that provides foundational governance education.

CUES has prepared credit union board members for service for over 27 years and can help provide the necessary resources and expertise to enable directors to meet more stringent requirements for service.

We recommend a three-tiered approach to director education. Tier one builds the foundation of good governance; tier two offers ongoing learning; and tier three provides advanced education that ensures high-performing boards.

Tier one begins with the foundational courses of the Director Education Center, which includes courses on reading financial statements and understanding key ratios, as well as exams and a learning management system that provides necessary accountability to directors. Director Development Seminar, a two-day governance seminar, builds on Director Education Center by presenting in-depth information on the duties of care and loyalty and incorporating peer-to-peer learning and networking among directors. The combination of these two programs has proven over time to provide the critical foundation needed for newer directors to become fully-functioning members of their boards.

We recommend that all new directors complete these training programs, or comparable ones, within 12 months of assuming their positions. In addition, all new board members should have a basic understanding of:

1) their role in ensuring the products and services of the credit union meet the needs of its members
2) the importance of profitability and growth
3) how to manage the credit union and delegate operational duties, without micromanaging

In tier two ongoing education becomes the priority. We recommend that NCUA require a minimum number of educational hours per year for directors of Federal credit unions. CUES provides numerous ways for directors to stay on top of pertinent issues, including monthly editions Credit Union Management Magazine (available in print and online), a quarterly Directors Edge newsletter, two annual conferences designed for directors, and weekly updates to content for the **Center for Credit Union Board Excellence,** which provides online articles, video, and webinars designed for full-board training in seven key areas: governance, finance, board/CEO relations, strategy, risk management, advocacy, and effective use of committees.

Board members at this level should be developing an understanding of:

1) compensation and benefits, and the importance of reinvesting in personnel to attract and retain top management,
2) the board's role in lending and meaningful lending benchmarks, including loan to value ratios
3) risk mitigation and how it is different from risk avoidance. Specific needs, such as building and enhancing the CEO/board chair relationship can also be addressed through CUES Symposium, an annual meeting designed for that purpose

Tier three is designed for experienced directors seeking deeper knowledge in the areas of governance, strategy, and leadership. Our executive education at our partner schools—IESE Business School of the University of Navarra, Rotman School of Management at the University of Toronto, and Harvard Business School—offer unsurpassed education for directors who are seeking ways to build their boards into highly-functioning governing bodies. Directors who successfully complete the programs at IESE and Rotman School of Management are eligible for the Certified Credit Union Director (CCD) designation—signifying their commitment to lifelong learning and showcasing a level of expertise recognized throughout the credit union movement.

The Credit Union Executives Society believes that well-designed systems for director education strengthens the credit union movement and positions it for success long into the future. Educated board members are better able to address the changing needs of their organizations and adapt to the rapidly changing economic and market forces that have recently provided challenges to the financial service industry as a whole. Instituting education requirements as part of the overall fiduciary responsibilities of Federal credit union directors will help ensure the necessary education occurs.

As in any market, there are high and low quality educational offerings available. Examiners should review not only that training is taking place, but also that learning occurs and a standard of content is set.

CUES' methods and processes for director education have proven repeatedly to make the difference between a good credit union board and a great one. We are the resource for director development and regulatory training, and we look forward to using our expertise to strengthen the movement and position for success long into the future.

Sincerely,

FJ/ls

cc: CUES Board of Directors:

Dale Schumacher, President/CEO Tampa Bay FCU
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Teresa Freeborn, President/CEO, Xceed FCU
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