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FROM: Deputy General Counsel
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SUBJ: FCU Board of Directors Eligibility Requirements

DATE: May 26 1988

Due to the complexities of credit union operations, questions have been raised regarding the establishment of criteria for FCU members who seek to run for board election. As I mentioned to you, it has long been our position that, generally, the only eligibility requirements for FCU board membership are those contained in the FCU Act. That is, as long as an individual is a member (§111) and has not been convicted of a crime involving dishonesty or breach of trust (5205(d)), he or she is eligible to be elected as a director. There is one exception provided in the bylaws. Article VI, Section 7, permits the board, by resolution, to establish a minimum age requirement. This is essentially the recognition of a board's implied authority to set a restriction based on intellectual and legal competence.

There are, however, no restrictions on the eligibility requirements that a nominating committee can use in selection candidates for office. We have previously stated that the nominating committee is free to set reasonable standards as to whom it will nominate. Failure to be nominated by the committee, though, does not reclude a member from running for office.

As mentioned at the outset, the complexities of today's credit union operations have caused credit union officials to question whether or not minimum qualifications should be placed upon individuals desiring to fill board positions. This is also a concern to NCUA since incompetence ultimately affects this Agency and the NCUSIF. We do not, however, believe that NCUA's position should change on this issue. While permitting officials to establish qualification standards may, at first glance, appear appropriate in the spirit of self management flexibility, it can also be counterproductive to the cooperative nature of credit unions and the self governing characteristics of credit union membership. Existing officials can use standards as a way of perpetuating their own positions or limiting board membership to their own clique.

Directors are elected by and from the membership and therefore the pool from which candidates are selected is necessarily limited by the FCU's FOM. A board has two choices in finding prospective directors within this pool. It can establish qualifications and attempt to identify the number of members who meet those qualifications. This would be done through the nominating committee. Alternatively, it can educate the membership and thus expand the number of members who can qualify. In the long run, the latter choice is preferable although it will require FCU staff time and expense.

Education is the one major step that a board can take to improve the quality of director candidates. Offering courses on credit union operations to the membership is one method that comes to mind. This will first identify those members who may be interested in a board position. It may also spark interest in those who would not otherwise consider such a position. Taking the course would not be a requirement for director position. By educating the membership on how to run a credit union, the board increases the number of members who have director potential.

An alternative is to require all newly elected directors attend selected courses within a specified period of time after being elected to the board. Failure to do so would constitute failure to perform the duties of a director a subject the individual to removal. This could be accomplished through a bylaw amendment defining director duties. A member would have to agree to attend courses elected. The standard amendment to Article VI, Section requires nominees to certify in writing that they agree their nomination and will serve if elected. A similar amendment regarding post

election training could be used.

Whether training is provided to all members interested credit union operations or only on a post election basis, it will ultimately benefit the credit union. The leagues could be quite helpful in conducting these courses on a local level for groups of credit unions. Also, there is no reason that training be limited to FCU's. States may also be interested in such a program.