

General Duties of Directors

1. The board of directors is responsible for the general direction and control of a federal credit union. The board may delegate operational functions to management, but not the responsibility for the credit union's direction.
2. A director must carry out his or her duties in good faith, in a manner reasonably believed to be in the best interests of the membership, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
3. A director must administer the affairs of the credit union fairly and impartially and without discrimination in favor of or against any particular member.
4. A director must have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union's balance sheet and income statement and the ability to ask, as appropriate, substantive questions of management and auditors.
5. A director must direct the operations of the federal credit union in conformity with the Federal Credit Union Act, NCUA's Rules and Regulations, other applicable laws, and sound business practices.
6. A director may rely on information prepared or presented by employees or consultants the director reasonably believes to be reliable and competent and who merit confidence in the particular functions performed.

Basic Financial Skills Required

The board of directors of a federal credit union is charged with the general direction and control of the institution. Credit unions, however, are not like many other commercial entities in that they do not produce observable physical goods or services. Instead, credit unions receive deposits from the membership and, in turn, lend or invest these funds. The key measure of the credit union's success or failure is its financial statements. As such, a director must understand these financial statements to participate in a meaningful manner in the direction and control of the institution.

Accordingly, to be an effective director, an individual must have a certain base level of financial skills, consistent with the size and complexity of the credit union operation they

serve. At a minimum, directors must have the ability to read and understand the credit union's balance sheet and income statement. If directors do not have the requisite skills when elected or appointed, they must obtain these skills in a timely manner, as discussed below.

What a Director Should Know

At a minimum, a director should be able to examine the credit union's balance sheet, income statement and be able to answer the following questions:

- What does this line item mean?
- Why is it important to the credit union?
- Is the value of the line item changing over time? If so, what does that change (either positive or negative) mean?
- Is the change important to the credit union?

A director must understand the specific activities in which his or her credit union engages. In particular, a director must understand not only how these activities generate revenue for the credit union but also, and perhaps most importantly, the various risks associated with these activities that could lead to financial loss.

To do their job in a meaningful manner, it is essential that directors understand the risks found in depository institutions -- that is, credit, liquidity, interest rate, compliance, strategic, transaction, and reputation risk. Moreover, directors must understand the internal control structures at the credit union that limit and control these risks.

Timetable for Acquiring Financial Skills

NCUA understands that directors are, generally, uncompensated volunteers who have other important demands that compete for their time. The decision to serve as a director, however, is a commitment which includes understanding the financial statements, risks and controls of the credit union so as to properly exercise authority over the credit union's direction.

Directors who were elected or appointed on or after January 27, 2011, and who come to the position without the requisite financial skills will have six months from the date of election or appointment to acquire the enumerated skills. Sitting directors who already understand their federal credit union's financial statements and risk controls will not have to do anything further to meet the financial requirements of NCUA's directors' duties rule. Sitting directors who were appointed or elected before January 27, 2011, and do not have these skills, have until July 27, 2011 to satisfy the minimum financial standards.