

## WHAT A REPAIR MANUAL, A DOS 2.1 BOOK, AND THE 1934 CREDIT UNION ACT HAVE IN COMMON

### It Is Time To Update CU Laws

By Dan Clark

“Dear Answer Man: My 1998 Oldsmobile needs repair. My Father’s 1967 Oldsmobile repair manual doesn’t have pictures that match my car. What should I do?” Signed, Shade Tree in Albany.

“Dear Shade Tree: It’s not your Father’s Olds. Get a current book, one that matches your vehicle. You will need some specialized tools, but don’t try to mess with the computer-controlled stuff. Take that to a certified specialist.”

“Dear Mr. Wizard: I’ve got a new computer with a Pentium processor and Windows 2000. Should I keep my DOS 2.1 manual just in case?” Signed, Techno-challenged in Dubuque.

“Dear Techno—put it in the lavatory in case you run out of the soft stuff that comes on a roll. None of the words in it apply any more.”

“Dear Dan: My credit union Board continues to do all the things it used to do twenty years ago even though we hired a highly educated and competent management team. What can be done?” Signed, Miffed Director in Archaic-town, USA.

Dear Miffed: Your credit union Board has recognized things have changed and you hired smart. However, the words that you live by and popular interpretations of them are out of date. You can wait for regulators to write new regulations or you can push to update the law. I think changing the law makes sense, but it will not be popular under the current political and judicial climate. On the other hand, you and your board can do your job better as I outline here.

You see, Miffed, much has changed since 1934. The top one third of all U.S. credit unions that can hire executive level management are being held back by archaic interpretations of that old law. Some states have updated their credit union laws in the 1980s or later. Those state laws may have corrected the things that I am talking about here.

Our failure to reinterpret these old laws may well become a safety and soundness issue for many larger credit unions. Businesses, including credit unions, will need to be many things to succeed in the new realities of the next millenium. Among them, being able to...

- respond quickly to changing market conditions
- roll out new products rapidly
- experiment and learn quickly from mistakes
- get one-on-one with customers and fill their unique needs

These trends come from the latest business literature, each cited in multiple sources. Yet, we are dealing with an old problem. Credit unions and the credit union movement have been and are successful. Therefore, leaders inside credit unions and out in the movement are reluctant to change.

The National Credit Union Administration (NCUA) has made strides in broadening its interpretation of what a board may delegate, but these strides still fall short of what we need today. As I talk to credit union CEOs across America, I learn that examiners allow varying degrees of delegation.

I call upon credit union Boards everywhere to expand their thinking and make the right moves. Your success—continued safe and sound operations—will prove the case. Here are the paragraphs under Section 113 of the Federal act that require new views. The Federal credit union Board shall...

(8)... Determine the interest rates on loans, the security, and the maximum amount which may be loaned and provided in lines of credit.

(18) Declare the dividend rate to be paid on shares, share certificates, and share draft accounts ...;

(21) Do all other things that are necessary and proper to carry out all the purpose and powers of the Federal credit union, subject to regulations issued by the [NCUA] Board.

Market forces and asset/liability concerns today drive interest rates on loans and dividends on shares. A competent Asset/Liability Committee (ALCO) needs the authority to set loan and share rates. As evidence of the regulator's acknowledgement of need, NCUA legal opinions give the Board the authority to delegate a range of movement the ALCO take make in rates.

In many credit unions, the ALCO is a management team. A management ALCO passes examination scrutiny most of the time. However, some regulatory examiners erroneously believe that credit union boards can only delegate authority to an executive committee. Place new rates or complete rate sheets on the consent agenda for board confirmation.

A common interpretation of paragraph 113 (21) of the Federal Act is that the board will adopt all other policies required for operations. The word "policy" is absent from that paragraph<sup>3/4</sup>it is one of many paradigms. As former NCUA Chairman Norman D'Amours pointed out, the first line of supervision of a credit union is the credit union's Board. It is up to the credit union's board to decide what "all other things" means. Your Board, Miffed, must decide what is *necessary* and *proper* to make your credit union successful today and in the future.

Therefore, have your board delegate operational policy authority to management. Define operational policies as those "what and why" statements having anything to do with daily operations. This will include, then, human resources (personnel) and products and services. Think with me about this, who has a better understanding of Member needs for a particular product, a director or a loan officer? Therefore, let the loan officers and other employees design the things members need, and have management, not the board, approve those.

What should you do with the time this frees up for your board and management team, you may ask? Make strategic issues a part of every board meeting. If your board spends more time with management on long-term, big-picture concerns, you will better meet many of the challenges ahead.

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