

■ CREDIT UNION MODEL POLICIES

A FRAMEWORK FOR COMPLIANCE

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Credit Union National Association

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■ INTRODUCTION

GETTING STARTED



We all have to deal with policies, whether we want to or not. Policies are a fact of life, and govern many facets of our personal and professional activities. As applied to credit unions, policies are the guidelines that credit unions must follow in providing services to their members. Policies provide credit union employees with the direction to carry out the mandates given to them by the board of directors. Policies should not attempt to set out the details of every operational area, but rather guide management and employees in providing financial services to members. Credit union policies should provide the general direction for the credit union without erecting barriers to good member service.

The board of directors approves policies. Policies should always be clear and written so that everyone can understand them. An essential goal of policymaking is promotion of uniformity and consistency in performing daily tasks. Clearly written policies allow employees to know what's expected of them and promote consistency throughout the organization. Additionally, policies that are current and clearly written can protect the credit union from lawsuits. Conversely, ambiguous and outdated policies can provide an opposing lawyer with all the ammunition needed to prevail in a lawsuit against the credit union. Poorly written or outdated policies can also make your annual regulatory examination difficult, since examiners will almost certainly review policies.

Another goal of policymaking is to help a credit union satisfy the legal and regulatory requirements of doing business. A vast array of laws and regulations impose strict requirements on credit union operations. These policies guide employee actions and help ensure that the credit union observes

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all the applicable rules and laws. Up-to-date policies provide a layer of protection from lawsuits and other attacks brought by members or an outside group. In today's litigation-happy society, this is especially important, and board members need to be mindful of this when creating and approving policies. In addition, board members should be especially concerned when reviewing and adopting policies, since they can be held personally liable for the actions taken as a member of the board of directors.

In order to be followed, policies should always be available to employees as a reference in their decision making. Access to credit union policies allows employees to act in a manner consistent with the directives of management and the board of directors. Credit union policies should be part of new employee orientation and training. New employees need to gain a sense

of what will be expected of them on the job. Learning about credit union policies during this crucial time allows new employees to gain understanding of their credit union's goals and objectives.

Not only should every employee be aware of credit union policies, employees should know the bases for the policies. In daily operations, members often make requests that either cannot or should not be honored. In those instances, the member should be told why their request was not fulfilled. The last thing a member wants to hear is that their request is "against our policy." If asked, employees should be able to explain the reasons behind the policy. A reasonable person will usually accept an explanation if there are valid reasons for the denial. For an unenthusiastic employee, it can be too easy to use a policy as a reason for not taking a certain action requested by a member without exploring other options. However, if they are knowledgeable of policies and the reasons for their existence, employees can often come up with an acceptable alternative.

Credit union policies should always reflect current business practices. Accordingly, it's important that policies are reviewed at least annually to ensure they're consistent with law, operational practices, and the competitive marketplace. Because the financial services world is constantly changing, a credit union's policy manual should remain current, to reflect changes due to regulatory change or addition of services. Sometimes it's easier to change a process without a policy review. One of the worst things a credit union's board of directors and management can do is to allow policies to remain unreviewed and unchanged. If this happens, a credit union can unwittingly be in violation of its own policies and may open itself to all sorts of problems.

Some policies are required by regulation or by state or federal laws. Others are developed by the board to implement business practices. Due to regulatory requirements, the first type of policy is usually in a form that cannot or should not be altered.

Policies that are created out of a business judgment decision, rather than a regulatory requirement, have more latitude in their formulation. A prime example of a required policy for federal credit unions is the investment policy. Federal credit unions are required to have an investment policy that meets certain criteria. Federal credit unions can only invest in certain government instruments, and cannot make risky investments or invest in the stock market. The policy must reflect these requirements. Another example of a required policy is a credit union's strict adherence to lending requirements as defined in Regulation B and Regulation Z. Credit unions have no choice but to follow these regulations, and the policy requirements will not vary significantly from one credit union to the next. On the

other hand, a credit union's marketing policy is not governed by such strict rules. The board of directors will have more latitude in formulating a marketing policy than an investment or lending policy.

Finally, it's always a good idea when creating policies to take steps to ensure that they are legal and enforceable. Sometimes policies developed by the board of directors with the best of intentions can be illegal or at least ill-advised. To ensure that policies don't violate any laws or regulations, it's a good idea to have proposed policies reviewed by the credit union's legal counsel or compliance expert—preferably both. Going the extra step of involving a compliance attorney will provide reassurance that the policy addresses the intended purpose.