



State of Washington

DEPARTMENT OF FINANCIAL INSTITUTIONS
DIVISION OF CREDIT UNIONS

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January 31, 2008

TO: Washington State-Chartered Credit Union CEOs

FROM: Linda Jekel, Director of Credit Unions **DCU Interpretive Letter I-08-01**

RE: Credit Union “associate” board members

Issue presented

Some Washington state-chartered credit unions are considering the pros and cons of adding “associate” board members to their boards of directors, and have asked the Division of Credit Unions (DCU) for guidance.

Guidance and analysis

Associate board members are a growing trend in some credit unions throughout the U.S. Unlike elected board members, associates are nonvoting, and are appointed by the board, rather than elected by the members. They may be appointed for shorter terms than elected board members. Many serve for one-year terms.

Some credit unions believe that having associates on the board helps with recruitment and retention of qualified full board members, by acting as a training program. Associates can help with succession planning, can efficiently replace elected board members who are no longer able to serve, and could provide useful back-up and business viability in the event that a disaster, such as avian flu, reduces the board. As it becomes increasingly difficult to find qualified board members, the use of associates can provide talented, committed individuals the chance to “learn the ropes,” before running for board election.

Adding associate board members may have some problems or hurdles, however. Care should be taken to assure that associates are truly qualified, representative of the credit union’s membership, and not merely the “buddies” of current full board members. Prudent management practices require that associates be adequately screened and trained, and that they acquire a basic understanding of Washington state credit union law. Associates may need to be covered by insurance, just like full board members.

Although the Washington State Credit Union Act, RCW 31.12, (“the Act”), does not directly address “associate” board members, our analysis concludes that associates must meet all of the same statutory requirements for fiduciary duty, confidentiality, meeting attendance, and avoidance of conflict of interest that apply to full board members.

At a minimum, the following sections of the Act apply to associate board members:

- RCW 31.12.115 amendment of bylaws
- RCW 31.12.235 qualifications of directors
- RCW 31.12.255 board powers
- RCW 31.12.267 fiduciary relationship to credit union
- RCW 31.12.269 limitation on personal liability
- RCW 31.12.365 compensation

A state-chartered credit union wishing to utilize associate board members must vote to amend its bylaws to include associates, and delineate the limits and conditions under which they serve. Basic conditions include: the associate’s term of office, method of (non-elected) appointment, nonvoting status, indemnification and insurance, limitation on personal liability, and the applicability of the statutory standards of fiduciary duty relevant to board members. Following consistent standards, associate supervisory committee members would also be allowed. Corporate “best practices” necessitate an emphasis on training for associates and committee members.

While some credit unions in the U.S. have found associates to be a positive addition to credit union corporate governance, they are probably not necessary or “value-added” in every type of credit union setting. The credit unions that use associates appear to have chosen from one to as many as three. Very small credit unions may find that selecting and training full board members is as much work as they can handle.

An associate will only be as good as the screening, training and engagement a credit union is willing to put into the experience. In an appropriate credit union situation, an associate can add energy, continuity and fresh insights, as well as providing stability during periods of turn-over.

This Interpretive Letter is intended as general policy guidance only. The DCU does not provide legal advice. Individual credit unions with specific questions should consult their corporate counsel.