THE BLUE PAPER

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PAID DIRECTORS: HOW PREVALENT ARE THEY? WHAT ARE THE PROS AND CONS?

Will There Be Repercussions As Mergers And Growth Make CUs Look More Like Banks?

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Is it a good idea or a bad idea to pay CU directors?

Sarah Snell Cooke. Editor and Publisher of *Credit Union Times*, called it a "dirty little secret."

Henry Wirz, CEO of SAFE Credit Union in North Highlands, California, disagrees (about paying board members). He feels that "we will attract better directors and retain them longer if we pay them."

Consequently, the Credit Union world is mulling over these questions:

- Is it a good idea or a bad idea to pay CU directors?
- Why the recent surge in paying directors?
- Does paying actually result in *better* directors?
- Do Credit Unions with paid directors *perform better*?
- How many CUs are paying their board members?
- How much are they paying them?
- Will there be any repercussions resulting from paying directors?

THE ISSUE IS COMPLEX AND THERE IS LITTLE AGREEMENT

Sharon Allen, Chairperson, Deloitte LLP, wrote in *Boardroom Briefing*, "When boards provide independent management oversight and compelling strategic input, the positive impact on performance can be felt."

But Evans M. Harrell of Marietta, Georgia, has served for the past 50 years as a director of community banks, as well as a Credit Union committee member and board member. He wrote in *Credit Union Times* that "paying Credit Union directors is plain wrong. It will not attract better informed or more responsible individuals."

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> An article in *Credit Union Times* stated it well:
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> "Some veteran board members quip they can remember the days when their biggest challenge was choosing the color for the carpet of the newest branch.
>
> "Welcome to 2013. Today, directors find themselves tackling issues such as mergers, compliance, succession planning, attracting young Members, and balancing budget realities against the need to introduce new technology."

Steve Winninger, formerly CEO of Trust Credit Union, Lansing Michigan, is now a governance consultant. He stated, "In the old days, a willingness to serve was about the only criterion for being on a board. Over time, as a Credit Union grows, the board needs to shift its focus."

Moreover, today, there's an attempt by regulatory agencies to make sure board members have basic fiduciary knowledge.

HOW PREVALENT IS THE POLICY OF PAYING DIRECTORS?

State-chartered Credit Unions are able to pay directors in many states. These include Texas, Pennsylvania, Wisconsin, Kentucky, Alabama, New Jersey, Nevada, Georgia, Indiana, Maryland, Minnesota, North Dakota, and Rhode Island. (Arkansas, Colorado, Idaho, Mississippi, Montana, and Vermont allow compensation for the board treasurer.)

Yet only a small percentage (less than half) of the state-chartered CUs pay directors in states where compensation is permitted.

In Texas, fewer than 20 Credit Unions (less than 10 percent of those that are state-chartered) pay board members. In Nevada, none of the three state-chartered Credit Unions pay their directors.

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HOW MUCH DO THEY PAY?

According to Henry Wirz, "All directors receive indirect compensation" in one form or another. Many CUs offer "reimbursement" for such expenses as gas for driving to board meetings. According to Wirz, "Most Credit Unions pay for their directors and spouses to attend Credit Union conferences — many at high-end locations with a great deal of leisure time." In some cases, even board strategic planning sessions can seem more like a luxurious vacation at an exotic location.

But some of those CUs that do pay (and they differ greatly in size) pay quite well. The total amounts paid — and the median stipend per director, also vary. Statistics are available through 2011.

Associated Credit Union of Norcross, Georgia, paid a total of $76,000 for a medium annual stipend of $5,500 per director. Coventry Credit Union, Coventry, Rhode Island, paid $103,800 for a medium payment of $8,400. Pennsylvania State Employees CU, Harrisburg, Pennsylvania, paid $122,644 for a median stipend of $12,429.

The highest total outlay in the country was paid by Trumark Financial Credit Union, Trevose, Pennsylvania: $452,567 for a median stipend of $52,120.

In some cases, individual directors received even more. Teachers Credit Union, South Bend, Indiana, paid their board a total of $356,749, with one director receiving $93,109.

However, even paying directors those amounts, CUs still lag behind banks. Bert Hash, CEO of Municipal Employees CU, Baltimore, Maryland, stated that even the annual $10,500 paid to his directors "is not nearly as much as what board members at competing banks are receiving."

"What we pay our directors is not nearly as much as what board members at competing banks are receiving."

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WHY THE SUDDEN SURGE IN PAYING DIRECTORS?

Day by day, managing Credit Unions is becoming more and more complex.

As regulations increase, the number and types of services balloon, and technology becomes a greater part of the Credit Union world, many CUs have found that the requirements for a director have also multiplied. Steve Winninger added, "Today, Credit Unions are so much more complex, and consequently, there's more focus on board responsibility."

This has resulted in CUs seeking more knowledgeable directors. A survey by *Credit Union Times* learned that CUs that do pay their directors state that they look for board members who can leverage their education, talents, and experience to keep the CU financially sound and help it grow.

IS IT BENEFICIAL TO THE CREDIT UNION TO PAY DIRECTORS?

The question remains: Is there a definite value in paying board members?

Some of the CUs that pay their directors promote how successful they've become. But, as Sarah Snell Cooke wrote in her editorial, "It's a mixed bag. The financials at some of the Credit Unions have not yielded the results to demonstrate the value of what they're paying for."

More importantly, some feel that the increased size of CUs (due to growth and mergers) gives opponents the opportunity to argue that Credit Unions are now nothing but banks. Paying directors could just be one more argument in their favor.

Evans Harrell added in his letter that "paying Credit Union directors simply drives a dagger into the heart of the CU movement and further serves to weaken and destroy it."

But others don't think so. Henry Wirz wrote, "I don't give much weight to the assumption that paying directors might jeopardize our tax exemption. The bankers will fight our tax exemption no matter what we do or what we don't do."

CONCLUSION

The issue of paying directors is complex and, obviously, there is little agreement on the subject.

Only time, research, and surveys will eventually tell us how beneficial the practice really is. ◆