



## Model Credit Union Bylaws

December 9, 2002

Every credit union must submit proposed bylaws as part of the licensing process. The board of directors should adopt the proposed bylaws upon approval by the regulatory authority and receipt of the license or charter. Bylaws, at a minimum, define:

- the credit union's field of membership,
- the requirements for membership,
- the scope of the credit union's activities,
- the services a credit union can offer, and
- the duties and responsibilities of its officials and operational management..

All officials and management should be familiar with the bylaws to thoroughly understand their job duties, authorities, and responsibilities.

Every regulatory body charged with credit union supervision and regulation should draft model bylaws to facilitate the organization and supervision of credit unions. Model bylaws serve as a guide in drafting a credit union's individual bylaws. Model bylaws allow for some standardization in credit union operations. Credit unions can be permitted to deviate from the model bylaws, however, prior to doing so the proposed change or amendment should have to be submitted to the regulatory authority for approval.

Model bylaws should be divided into sections or chapters with articles that address each specific item within the section. The following are general areas that should be addressed when drafting model bylaws:

- Section 1 – Name, Address, and Legal Designation
  - The credit union's name, address, chartering date, license number, and legal designation should be identified along with its rights, obligations, and restrictions based on the legal designation.
- Section 2 – Credit Union Goals
  - The specific goals for which the credit union was founded should be declared..
- Section 3 – Capital, Shares, and Saving
  - Articles in this section should address: the minimum ownership share deposit, legal age requirement to join, the process for share and savings withdrawals, the right to impose fees for withdrawals, the definition of a dormant account, the process to be followed when handling dormant accounts, and the right to earn interest and dividends.
- Section 4 - Common Bond and Membership
  - The specific common bond should be defined and the membership rights described.
- Section 5 – Handling of Disputes and Member Expulsions
  - The process for handling disputes and expulsions should be described along with valid reasons for expelling a member.
- Section 6 – Membership Meetings
  - Articles in this section should address: when the annual general meeting may be held, the use of regional meetings when credit union membership is large and/or a

large portion of the membership lives far from the home office, each member has only one vote regardless of their volume of business, the definition of a quorum, general issues for discussion at the annual general meeting, the process for calling special meetings, and the information to be noted in meeting minutes.

- Section 7 – Elections
  - Articles in this section should address: when a nominations committee should be appointed, for what reason, by who, how many individuals should be on the committee, how elections are to be held at the annual general meeting, and how terms are to be staggered for officials so that all terms do not expire at once.
- Section 8 – Board
  - The board of directors should be defined as the executive body, which oversees credit union operations in accordance with the general plans and rules laid down at the annual general meeting. To accomplish this, articles in this section should address: their duties and responsibilities, number of members on the board of directors, the appointed positions within the board of directors, how the board is to fill vacancies of the board, how special meetings are to be called, and if the board members will be volunteers or compensated for their time. Prohibitions, disqualifications, and incompatibilities for the board and other governing bodies should also be defined.
- Section 9 – Credit Committee
  - The credit committee should be defined as the entity that acts upon and approves member loan requests. Articles in this section should: establish the number of committee members, specify their duties and responsibilities, identify whether they are volunteers or professional staff, and grant the committee the right to delegate its authority to professional loan officers when they do not have the expertise to grant more complex loans and meet member loan requests.
- Section 10 – Supervisory Committee
  - The supervision committee should be defined as the entity which acts as the internal supervisor of the operations and management of the credit union. To this end, articles in this section should: establish the number of committee members, specify their authorities, duties, and responsibilities, determine its liabilities in case of nonperformance or negligence, and allow the committee to delegate some or all of their job duties to professional internal and external auditors.
- Section 11 – Duties and Responsibilities of Operational Management
  - Along with the duties and responsibilities, this section should clearly state that the general manager reports directly to the board and is ultimately responsible for implementing all board policies, procedures, budgets and business plans.
- Section 12 – Investments of Funds, Cash, and Liquidity
  - This section should: allow the credit union to invest excess funds in interest earning investments, specify that the board establishes all written policies addressing the investment of excess funds, establish a time limit for how long excess funds may be kept on the credit union premises before depositing them into the depository institution, define the size of the change fund that may be used to meet member demands, and state the amount of funds that are to be kept in liquid demand deposit type accounts to meet liquidity needs.
- Section 13 – Annual Budget

- The process for the development and periodic review of the annual budget should be established.
- Section 14 – Payment of Credit Union Expenses and Dividends on Ownership Shares
  - Dividends on ownership shares should be permitted only after all expenses and regulatory capital requirements have been met.
- Section 15 – Reserves
  - This section should specify: how reserve and allowance accounts are to be established, what types of reserve accounts may be established, what accounts are considered to be institutional capital, and that funds in reserve accounts may only be distributed to members upon credit union liquidation and after payment of all outstanding obligations.
- Section 16 – Loans
  - The section should specify: the board is responsible for approving loan policies, the types of loans made, the loan application requirements, the maximum loan amounts, any individuals or groups that are restricted from accessing credit, that a borrower may pay a loan off prior to maturity, and the credit union can assess fees on loans granted and/or delinquent loans.
- Section 17 – Conflict of Interest
  - Every official and employee should be required to disclose any conflict of interest they may have with any business transaction performed with the credit union. Failure to reveal this information should result in removal from office or termination of employment.
- Section 18 – Merger and Liquidation
  - Articles in this section should allow the credit union to voluntarily merge with another credit union or liquidate if the membership and regulatory authority approve the action.
- Section 19 – Amendments and Changes to Bylaws
  - Articles in this section should allow the members to amend the bylaws at an annual general or special meeting. No amendment should be final without the approval of the regulatory authority.
- Section 20 – General Provisions or Miscellaneous Items

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