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ETHICS, CULTURE & GOVERNANCE

Practical Oversight for Credit Union Committees

PRESENTERS

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Today’s Presenters

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Learning Objectives

Identify key governance practices that ensure effective oversight, regulatory compliance, and long-term stability.

Recognize how the integration of ethics, culture, and governance strengthens trust, reputation, and sustainability among members.

Understand the role of ethics in guiding decision-making and promoting transparency, accountability, and member-first values within a credit union.

Examine how organizational culture influences employee behavior, member relationships, and overall trust in the institution.

Introduction

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Why This Matters

Trust is built slowly – and lost faster than ever

Governance & oversight

Culture & communication

Leadership behavior

Member Trust

CASE STUDY

Case Study Lens: Digital Rollout & Member Trust

What happened

- Online banking conversion created member access and transaction difficulties.
- Regulatory action later focused on consumer impact and rollout execution.
- The issue became a trust event, not just a technology event.

Committee oversight lesson

- Ask for readiness evidence before launch.
- Critically challenge vendor oversight, contingency plans, and member communications.
- Require prompt management escalation of member-impact trends.

Committee Challenge Point: Before a major change, what evidence shows we are ready and who can pause the rollout?

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Organizational Problems Rarely Appear All at Once

Early warnings signs

- Information silos
- Delayed escalation
- Passive oversight
- Communication gaps
- Workarounds
- Lack of challenge

Potential outcomes

- Operational surprises
- Slow response
- Unmanaged risk
- Reputational exposure

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The Committee Role

Strong oversight depends more on awareness and challenge than technical expertise.

You are NOT expected to be	You ARE expected to
• AI engineers • Regulators • Cybersecurity experts • Accountants	• Recognize patterns • Ask questions • Challenge respectfully • Oversee accountability

Ethics

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Ethics Show Up in Everyday Decisions

Pressure influences behavior long before it creates visible problems.

Pressure
Incentive pressure

Exceptions
Policy workaround

Normalization
“Just this once”

Risk
Operational & reputational impact

Employees notice what leadership tolerates far more quickly than they read policies.

CASE STUDY

Case Study Lens: Ethics, Authority & Oversight

What happened

- Former CEO of a credit union pled guilty to embezzlement.
- Regulators later referenced board oversight deficiencies in connection with the conservatorship.
- The public record turns this into an oversight lesson, not only an individual ethics failure.

Committee oversight lesson

- Understand executive authority and approval limits.
- Ensure there is a review of high-risk access, expenses, procurement, and reconciliations.
- Ensure concerns can bypass management when appropriate.

Committee Challenge Point: What information would help you see misuse of authority before it becomes a crisis?

Ethical Risk Indicators

Ethical issues often appear in patterns before they appear in reports.

Complaint trends	Retaliation concerns	Turnover spikes
Recurring audit findings	Policy exceptions	Inconsistent discipline

Questions to Ask about Ethics

ONE How are concerns reported?

TWO What trends are increasing?

THREE What behaviors get rewarded?

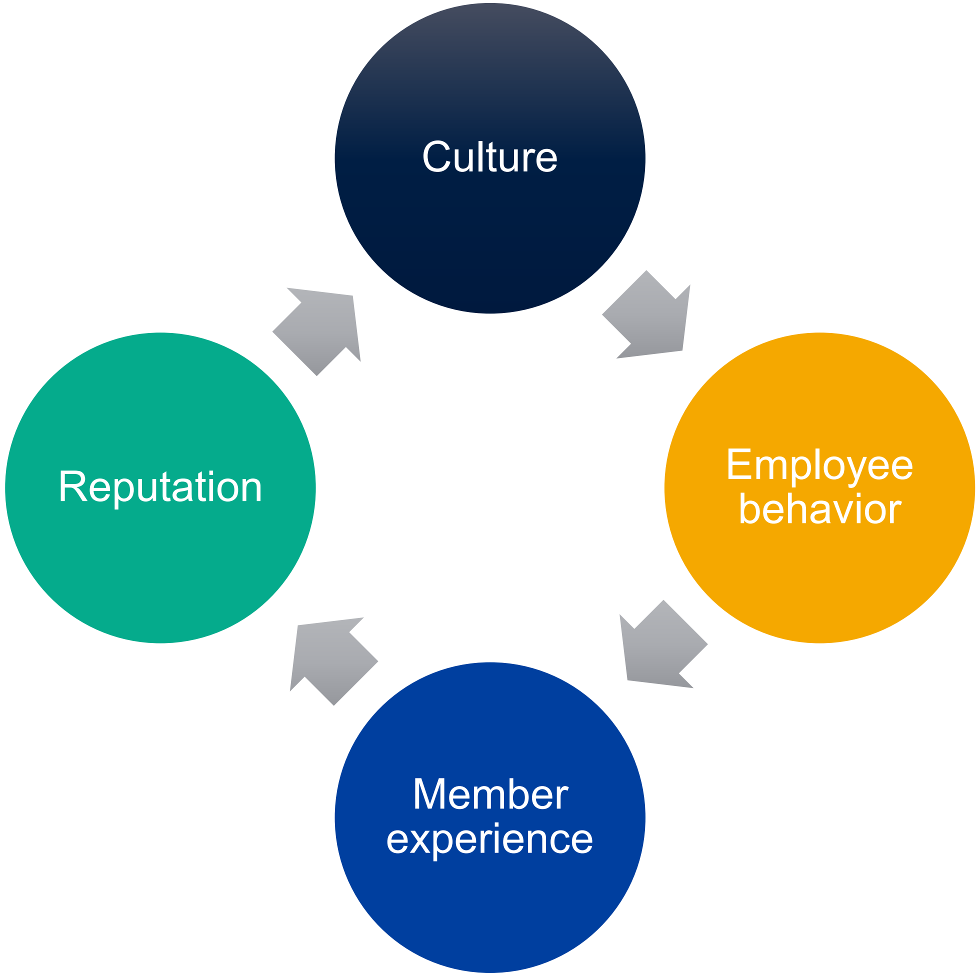
FOUR Where are exceptions becoming normalized?

FIVE Would employees feel safe speaking up?

Culture

Why Culture Matters

Culture directly affects trust, service, and operational risk



Culture
Sets the tone for how decisions are made and how people treat one another.

Employee behavior
Reflects values in action every day through choices, conversations, and accountability.

Member experience
Members feel the impact of our culture in every interaction.

Reputation
A strong reputation attracts members, strengthens loyalty, and supports the mission.

Culture as an Early Warning Sign

Organizational stress usually appears in culture first.

Burnout	Recurring turnover	Disengagement
Meeting silence	Delayed decisions	Recurring friction

Healthy Challenge vs. Passive Oversight

Credit unions with weak challenge create hidden risk.

Healthy Challenge	Passive Oversight
• Bad news surfaces early • Respectful disagreement • Escalation happens quickly • Questions welcomed	• Silence • Rubber stamping • Delayed escalation • Fear of speaking up

INTERACTION

Table discussion

Mini-Scenario: Growth Pressure & Escalation

Scenario: A credit union has strong loan growth and strong member demand. Over three quarters, indirect lending exceptions increase, documentation exceptions repeat in internal audit, and management says competitors are moving faster. Turnover in lending operations is also increasing.

1. What concerns you most?

2. What would you ask for?

3. What action is appropriate?

INTERACTION

Table discussion

Mini-Scenario: Growth Pressure & Escalation

Scenario: A credit union has strong loan growth and strong member demand. Over three quarters, indirect lending exceptions increase, documentation exceptions repeat in internal audit, and management says competitors are moving faster. Turnover in lending operations is also increasing.

1. What concerns you most?

- Exception trend
- Repeat findings
- Management minimizing risk
- Turnover in a key process
- Concurrent pattern of issues

2. What would you ask for?

- Root cause analysis
- Risk appetite / limits
- Fair lending & credit risk impact
- Owner and remediation aging

3. What action is appropriate?

- Deeper audit or targeted review
- Escalation trigger
- Management action plan
- Revised reporting to committee

Takeaway: Oversight intervention should be proportional and not to stop growth, but to ensure risk infrastructure keeps pace with strategy.

When Should Oversight Intervene?

The challenge is recognizing when oversight should escalate.

- Turnover rising
- Recurring audit findings
- Management minimizing concerns
- Pressure for growth
- Employees reluctant to escalate

- What concerns you most?
- What requires escalation?
- What additional visibility is needed?
- What governance action is appropriate?

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Questions to Ask about Culture

ONE What trends concern management?

TWO What issues keep resurfacing?

THREE Where is turnover increasing?

FOUR How is bad news handled?

FIVE What would employees say anonymously?

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Governance

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Culture & Governance Connection

Strong culture improves decision quality

What Strengthens Decision Quality?

Open Communication

Timely Escalation

Respectful Challenge

Clear Accountability

Governance is Ultimately a Decision-Making Framework

- Who has authority to decide
- What gets escalated—and when
- Who owns the decision and outcome
- How risk is incorporated into decisions
- How quickly decisions can be made

Input | Decision | Outcome | Accountability

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Where Governance Breaks Down

Most governance failures are execution failures—not policy gaps

Common breakdowns:

- Unclear roles
- Limited challenge
- Over-reliance on legacy processes
- Unclear ownership and inconsistent escalation
- Acceleration without governance discipline

On Paper	In Practice
Policies exist	Roles unclear
Reports exist	Delayed escalation
Committees exist	Passive oversight
Controls exist	Control gaps emerge
Accountability is defined	Unclear ownership

Controls Don't Fail – They Degrade

Controls don't fail suddenly; they degrade as complexity increases.

Foundation

1. Clear ownership
2. Defined controls
3. Effective escalation

Stress

1. Manual workarounds
2. Disconnected systems
3. Delayed communication

Breakdown

1. Control gaps
2. Inconsistent escalation
3. Unclear accountability

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CASE STUDY

Case Study Lens: Controls That Degrade Over Time

What happened

- NCUA documentation described long-running financial statement fraud
- Losses accumulated over many years and exceeded $12 million.
- The issue highlights the danger of weak independent validation over time.

Committee oversight lesson

- Determine whether controls are truly performed and reviewed.
- Do not over rely on one person - individual vs. structure.
- Ensure reporting provides trend visibility

Committee Challenge Point: Which controls are most vulnerable to resource pressure, workarounds, or overreliance on one person?

AI Governance

AI introduces decision risk—not just technology risk

- AI impacts member-facing and operational decisions
- Ownership and accountability may be unclear
- Regulatory expectations evolving

PEOPLE

The right skills, accountability, and fluency

PROCESS

Governance lifecycle from idea to production

TECHNOLOGY

Approved tools, data controls, and oversight systems

Questions to Ask about AI

ONE Where is AI already being used?

TWO Is member data protected?

THREE Is AI use governed?

FOUR Who validates output?

FIVE How are vendors using AI?

What Strong Governance Requires

- Challenge
- Accountability
- Escalation
- Transparency

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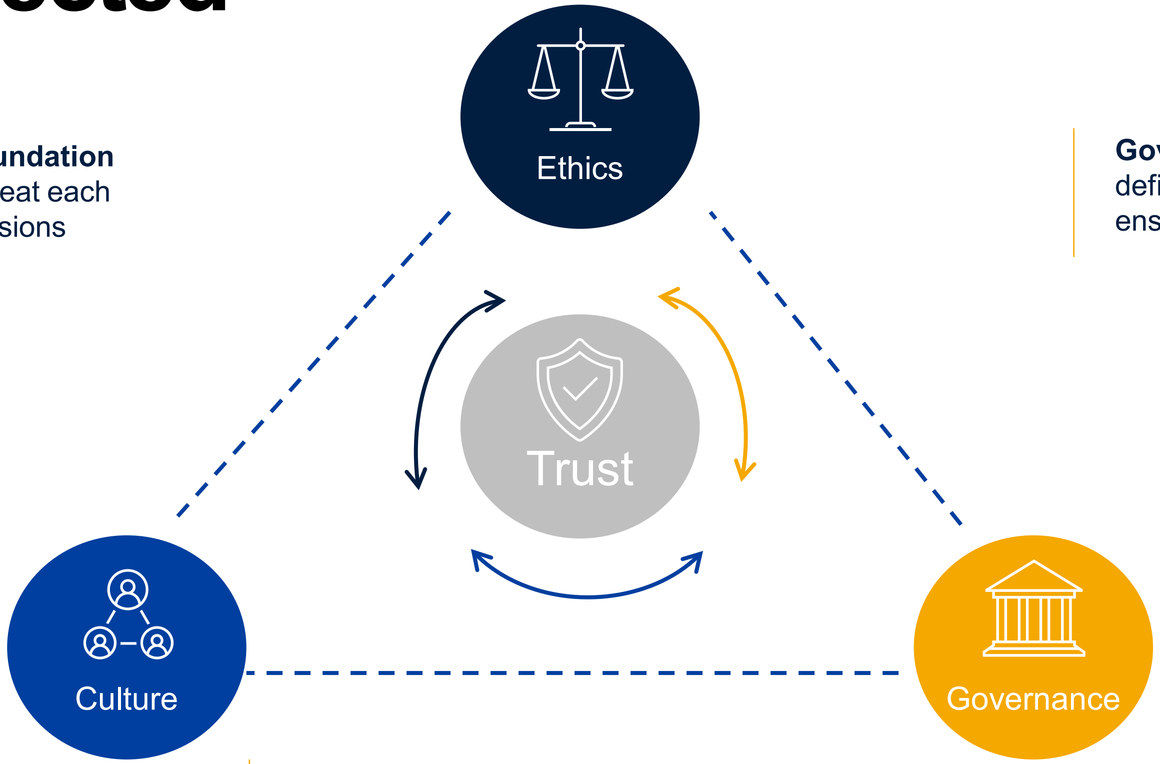
Ethics, Culture & Governance are Deeply Connected

A strong ethical foundation influences how we treat each other and make decisions every day.



Governance sets expectations, defines accountability, and ensures oversight is effective.

Open communication drives effectiveness. A healthy culture encourages speaking up so issues surface early and solutions take hold.

Strong oversight is not about eliminating risk — it's about creating credit unions where concerns surface early, decisions improve under pressure, and trust is protected.

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Questions to Take Back to Your Committee

1. What are we accepting as normal that should concern us?
2. Where are exceptions increasing?
3. What bad news reached management but did not reach the committee?
4. What risks are growing faster than our governance structure?
5. Which repeat findings lack true root-cause resolution?
6. Where is turnover, burnout, or silence creating hidden risk?
7. What would employees say we tolerate?
8. What member-impact issues are not visible in our current reporting?

QUESTIONS?

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