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## WHY DO WE TOLERATE UNTRAINED DIRECTORS?

Professionals—often board members at banks—meet continuing ed requirements. Why do bank directors start, and usually continue, without their own?

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In a recent blog, "Should board members get their heads examined?," I tried to answer the question of why anybody in their right mind would serve as a director of a community bank. I thought I gave a couple of good reasons, even indicating that I would probably do it again myself, if the circumstances were right.

However, writing that earlier blog caused me to think, "What do you tell someone who actually does agree to serve on the board of a community bank as a new director?"

My firm has assisted several clients lately with board succession issues. This means they are bringing on new-but not necessarily younger-directors. How do you get these men and women up to speed? Can your bank afford the luxury of having them sit in the board meetings for two or three years—that's 24 to 30 some-odd board meetings, mind you—to figure out what the vocabulary of banking is?

For that matter, how long does it take such new directors to understand that the banking business is the opposite of their business?

In most businesses, the inventory is not cash. In the banking business, the bank's inventory is, as a practical matter, cash.

Many new directors don't understand from the start that a "deposit" is a liability the bank has to pay, and that a "loan" is an asset.

Completely the opposite of their own business, where a deposit is something they can keep in the bank as a cushion, and a loan is something they have to repay.

So, how do you get them educated and how quickly should you expect them to be up to speed?

There is no excuse, in my opinion, for a director, not to have a pretty full understanding of the issues after serving on a board for about 12 months. That will not occur from attending 12 monthly meetings, however. It will only occur as a result of proactive effort. That means directors attending directors' colleges listening to webinars reading books about their duties and responsibilities and serving on bank committees, to understand how things really work.

Will one year of "book learning" substitute for 25 years of experience? Of course not. But can a director be an effective director with some education? Absolutely.

Consistent with that approach, why shouldn't we require some of our directors that are more experienced but who lack any type of formal director training, to get some, as well?

A number of our clients will set aside 45 minutes to an hour at each board meeting for some type of director education. It may simply be listening to an hour-long audio conference that occurred weeks before, that was taped by the bank. It may consist of bringing in an outside speaker, or even someone in the bank, educating the directors on some particular area of operations, lending, and the like.

In addition, the regulators are moving much more toward requiring increasing director participation and education. This is not an encouragement that the Board of Directors move toward micro-management. But a review of virtually all recent FDIC Consent Orders will reflect the presence of a "board participation" paragraph. This paragraph requires the directors to "increase" their participation in the affairs of the bank. Granted, by definition, these banks that are under Consent Orders are "troubled," but the trend is certainly toward education and increased participation of the board at an appropriate supervisory/monitoring level.

It is surprising to me still, that neither the states (except Arkansas) nor the federal regulators have any ongoing continuing requirement for director education (other than in the case of a new bank). My recommendation is that a director education requirement be implemented by both state and federal regulators, similar to continuing legal education, continuing CPA education, continuing medical education. Indeed, continuing ed in any field where it is imperative (e.g. a lot of money at stake) that the individual knows what he or she is doing.

As noted, to my knowledge, only Arkansas has a continuing education requirement for directors of all state-chartered banks.

Years back, I congratulated former Arkansas Banking Commissioner Frank White (also formerly state governor, Merrill Lynch executive, and banker) for requiring mandatory continuing education for directors.

And I asked him what prompted it.

"Jeff, I simply got tired of hearing the directors saying, 'Sorry, Governor, we didn't know we were supposed to know that'."

Let's get educated.

For information about ABA's many solutions for bank director education and training, [click here](#)

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#### About the Author

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- Jeff Gerrish is chairman of the board of Gerrish McCreary Smith Consultants, LLC, and a member of the Memphis-based law firm of Gerrish McCreary Smith, PC, Attorneys. He is a frequent contributor to ABA Banking Journal and ABA Bank Directors Briefing, and frequently speaks at ABA events and telephone briefings.

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Gerrish formerly served as Regional Counsel for the Memphis Regional Office of the FDIC, with responsibility for all legal matters, including cease-and-desist and other enforcement actions. Before coming to Memphis, Gerrish was with the FDIC Liquidation Division in Washington, D.C. where he had nationwide responsibility for litigation against directors of failed banks.

Gerrish can be reached at [jgerrish@gerrish.com](mailto:jgerrish@gerrish.com), and the firm's website, [www.gerrish.com](http://www.gerrish.com).

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