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Dividend Rate Setting Authority:

The Iowa Code has placed discretionary authority in the board of directors to establish the rates, frequency and classes of shares upon which dividends are paid. Such discretionary authority is not transferable; however, the board may set express parameters and guidance in which the credit union management may adjust rates to be paid on classes of shares within specific timeframes.

Analysis: Iowa Code Section 533.312 states as follows:

> 1. The board of directors may declare dividends at such rates and upon such classes of shares as are determined by the board, at such intervals and for such periods as the board may authorize, and after provision for required reserves pursuant to section 533.303.
> 2. Dividends shall be considered a normal operating expense of the state credit union and shall be paid on all paid-up shares outstanding at the close of the period for which the dividend is declared and shall be available only from undivided earnings.
> 3. The superintendent may restrict or prohibit the payment of a dividend or interest when an impairment of capital exists.

The board of directors must have sufficient flexibility to not only maintain liquidity and sustain cash flows, but also to meet the financial needs of their membership. In doing so, the directors must exercise adequate control in the payment of dividends on shares and deposits for safety and soundness purposes.

In order to accomplish this, the directors may authorize senior management to determine the rates to be paid on classes of shares established by board policy. However, such decision-making authority, when given to senior management, must be kept within a narrowly defined range and for a limited time period.

As used in the interpretation, the term "narrowly defined range" is intended to mean a variance not to exceed 50 basis points from the established rate, and the term "limited time period" is intended to mean no more than quarterly.

For example, the directors, at their January board meeting, could authorize the first quarter dividend rate to be .05% on basic shares under $2,000.00 and at .10% on all shares over

$2,000.00, plus or minus 25 basis points, and a certificate rate on six month deposits to be .40%, plus or minus 50 basis points.

During the monthly board meeting, the directors should review the rate structure, declare payment of the dividends set by senior management, and establish guidance for the next dividend period. Between scheduled reviews, if the authorization parameters established by the board need to be adjusted, senior management would need to obtain additional authorization during a special board meeting in order to adjust rates and terms beyond that established by the board.

It is assumed that all other requirements of the Iowa Code are met in authorizing the dividends in this manner, including: that it is done after provision for required reserves has been accomplished; that all dividends are considered to be current expenses; and, that the declaration of payment, within each established class, is consistently applied and is not administered to benefit selective accounts.

Notwithstanding the provisions of this interpretation concerning the ability for the board to authorize senior management to determine dividend rates, the payment of dividends must be accomplished in accordance with all pertinent state and federal laws and rule.

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