

January 13, 2010

Krzysztof Matyszczyk
Polish & Slavic Federal Credit Union
100 McGuinness Boulevard
Brooklyn, NY 11222

Re: Conflicts of Interests, Disqualification, and Required Voting Majorities.

Dear Mr. Matyszczyk:

You have asked for our advice about conflict-of-interest situations on the Polish & Slavic Federal Credit Union (PSFCU) board of directors involving directors who are employed by or volunteer with PSFCU sponsor organizations. Generally, the FCU must first determine whether a matter before the board will affect an organization's pecuniary interest. If so, it must then determine whether the decision will affect a director's interest in the organization. Note the FCU Bylaws' conflict of interest provision is not intended to prevent a director from participating in setting general policies and making decisions involving the general direction of the credit union. Also, a director's disqualification under this provision does not alter the required voting majorities set forth in the FCU Bylaws.

Conflicts of Interest

The FCU Bylaws prohibit a director, committee member, officer, agent, or credit union employee from participating, directly or indirectly, in matters affecting his or her pecuniary or personal interest. The provision also covers matters affecting the pecuniary interests of an organization in which a director, or the others enumerated in the provision, is directly or indirectly interested. FCU Bylaws, Article XVI, Section 4.

Whether a conflict of interest exists requiring a director to be disqualified depends on the particular facts and circumstances involved. Sometimes the determination is obvious, for example, a director should not vote on whether a credit union should enter into a contract with a company of which the director is the sole or majority owner. But, for example, if a director has a modest investment in a publicly traded corporation, like Intel, that director need not be disqualified from voting on a contract with Intel to purchase computers. While any new contract for Intel would likely benefit the corporation –its pecuniary interest will be affected -- that director's interest in the corporation is likely so attenuated that his interest in the corporation will not be affected. The director need not be disqualified.

The conflict of interest analysis under the bylaw provision is, first, whether the board's decision will affect a director's own private (pecuniary or personal) interests. Second, where an organization is involved in which a director has an interest, the analysis is: (a)

whether a decision will affect the organization's pecuniary interest and, also, (b) whether the decision regarding the organization will affect the director's interest in the organization. Note that the conflict of interest provision in the bylaws requires a real or actual effect, not a hypothetical or speculative effect, on the individual or organization's interest in order for a conflict to exist. Also, as noted in the example above, not all board decisions affecting an organization's pecuniary interest will affect a director's interest in the organization.

Directors make many decisions for a credit union that may affect their interests, and even the pecuniary interest of organizations in which they have an interest, but the decisions are not of the type that raises a conflict of interest requiring disqualification. For example, the directors establish dividend rates and, as members, will benefit. The decision, however, is affecting all members, not affecting particularly the directors' personal or pecuniary interests. Also, a director may be able to vote on policies affecting an organization in which the director has an interest. For example, a board may be considering a policy to provide payroll deductions as a member benefit in cooperation with employer sponsors. A director may be an employee of a sponsoring entity. Because the policy will affect all employer sponsors, most likely, a director who is also a sponsor's employee should not be disqualified.

Director Disqualification and Required Voting Majorities

A director disqualified under Article XVI, Section 4 cannot participate in any discussion and vote on a matter causing his or her disqualification. Such disqualification does not alter the designated voting majority required to approve the matter. For example, Article XVII, Section 1 of the FCU Bylaws requires "an affirmative vote of two-thirds of the authorized number of members of the board" to change an FCU's charter or bylaws. Meaning, an FCU having an eleven-member board, must obtain eight affirmative votes (a two-thirds majority) to approve a charter or bylaw amendment. Eight affirmative votes are necessary even though the number of directors qualified to vote in the matter is fewer than the authorized number of directors.

Sincerely,

/S/

Sheila A. Albin
Associate General Counsel

GC/LKD/SAA
09-1039
cc: Region I Director