



Federal Credit Union Charter Application Guide

Office of Consumer Protection
Division of Consumer Access

1775 Duke Street
Alexandria, VA 22314-3437

September 2014
(Version 1.0)

Federal Credit Union Charter Application Guide

SEPTEMBER 2014
(VERSION 1.0)

National Credit Union Administration
Office of Consumer Protection
Division of Consumer Access
1775 Duke Street
Alexandria, VA 22314-3437
(703) 518-1140
NewFCU@NCUA.gov

Questions regarding this guide and new federal credit union charters should be directed to the above telephone number/email address. When NCUA is referenced in this guide, please use the above contact information to contact or submit application materials to NCUA.

Using this Guide

This guide provides direction on applying for a Federal Credit Union Charter. The guide's five parts include step-by-step guidance and examples to help your proposed federal credit union (PFCU) group navigate the process successfully. It is most efficient to complete Parts 1 through 3 in the order listed. Each Step within a Part is also in suggested order of completion. We recommended you submit each Part for NCUA review and feedback before proceeding to the next Part. Any Step within a Part may also be submitted when completed. Each submitted Step or Part will be reviewed by NCUA as to its adequacy and NCUA will let the PFCU know when they should proceed to the next Step or Part. NCUA must find all Steps have been satisfactorily completed before a charter can be approved.

- **Part 1, Preliminary Work, Steps 1 through 3** - This Part covers what you should research before starting the chartering process. It also covers establishing a name and a field of membership for your PFCU.
- **Part 2, Support and Location, Steps 4 through 7** - This Part covers: identifying subscribers, securing funding for start-up and operational costs; identifying a location; and completing a survey of the potential field of membership.
- **Part 3, Assembling Your Package, Steps 8 through 15** - This Part covers operational and financial plans for the PFCU. It covers: finding a mentor; identifying officials and staff; developing a detailed and realistic business and marketing plan; completing NCUA's chartering forms; and developing bylaws, policies, and procedures.
- **Part 4, NCUA Action, Steps 16 and 17** - This Part discusses NCUA's actions upon determining you have met the requirements for your charter to be approved.
- **Part 5, Attachments** - There are 13 attachments (A through M). Attachment A is a checklist recapping the documentation requirements for Steps 1 through 15. The other attachments are examples, templates, resource materials and links, etc.

NCUA’s Office of Consumer Protection, Division of Consumer Access (OCP-DCA) is responsible for the chartering process and issuing the credit union’s charter. For information and questions regarding the chartering process, please contact OCP-DCA at 703-518-1140 or at NewFCU@ncua.gov. Documentation for all completed Steps/Parts should be submitted to OCP-DCA at the following address:

1775 Duke Street
Alexandria, VA 22314-3428

NCUA also offers free consulting services with the chartering process. These services, which are available once a PFCU receives preliminary field of membership approval, are offered by NCUA’s Office of Small Credit Union Initiatives (OSCUI). OSCUI is committed to helping small credit unions survive and thrive. OSCUI recognizes the unique role small, low income designated, and new credit unions play in the lives of their members and communities. Assistance offered through OSCUI for credit union organizing groups and newly chartered credit unions includes consulting, training, and grants (if low income designated). You may contact them at the above address, by calling (703) 518-6610, or emailing OSCUIconsulting@ncua.gov. Additional information on the role of OCP-DCA and OSCUI in the chartering process is below in “Frequently Asked Questions.”

NCUA will update this guide as changes occur in the chartering process. For the most recent version of the guide, go to www.ncua.gov.

Note to User: In the Table of Contents, place the cursor over the category name and click while holding down the Control key to go to that category. A list of the documentation requirements for each Step follows each Step’s discussion. For a checklist of all the documentation requirements for each Step go to [Attachment A](#) (hold cursor over the “Attachment A” heading and click while holding the Control key).

Frequently Asked Questions

How long does it take to charter a federal credit union?

The time required to complete the process varies depending upon the subscribers' knowledge, expertise, planned services, and timeliness in submitting the required data. However, organizers working closely with NCUA and completing the process step by step has on average ranged from one year to three years, depending on the complexity of PFCU's business model.

How much start-up and capital funding is needed?

Funding, usually in the form of donations and grants, is necessary to cover the start-up costs of the PFCU, to absorb its net operating losses until it achieves positive net earnings, and to maintain an adequate capital position. The amount of funding varies, and is contingent upon the PFCU's desired initial services, business model, and overall proposed operating structure. More services and related costs often equates to more funding. The actual amount necessary will not be able to be fully determined until completion of the pro-forma financial statements and plans for operating independently. However, if you wish to estimate the amount of funding required, we suggest using, at a minimum, the lesser of \$300,000 or \$100,000 per \$1 million in projected assets during the first five years of PFCU's operation. For example, if you expect the PFCU to grow to \$5 million in assets by the end of year five, the organizers should obtain, pre-charter, at least \$500,000 in commitments for start-up donated capital. These amounts are only estimates and additional funding may be needed.

Does NCUA offer assistance to organizers?

Yes, NCUA offers assistance with the chartering process through OCP-DCA and OSCUI.

Generally, NCUA assigns an OCP-DCA Analyst to work with a PFCU through the chartering process (Step 1 through 17). The analyst will review all documentation submitted by the PFCU and provide feedback.

Upon a PFCU receiving preliminary field of membership approval (completion of Step 3), free consulting services with the chartering process are available upon OSCUI enrolling the PFCU into its consulting program. NCUA's preliminary field of membership approval letter will identify what type of assistance is available and how a PFCU may request such assistance. If a PFCU is enrolled into OSCUI's consulting program, an Economic Development Specialist is assigned to assist the PFCU. The

EDS will work in conjunction with the assigned OCP-DCA Analyst to assist the PFCU to complete the remainder of the chartering steps (Step 4 – 15).

Upon a PFCU being chartered, NCUA assigns a District Examiner (DE) and Supervisory Examiner (SE) to the new federal credit union. The DE and SE will complete on-site examinations and are responsible for overseeing the regulatory supervision and safety and soundness of the new federal credit union. An EDS will also be assigned to continue providing free consultation services for the new federal credit union's first three years.

Other resources are also available to assist a PFCU with the chartering process. See Step 8 for more information on these other resources.

Federal Credit Union Charter Application Guide

Table of Contents

Introduction	viii
---------------------------	------

PART 1: Preliminary Work

Step 1: Research the Federal Charter	1-1
Step 2: Select Credit Union Name	2-1
Step 3: Establish a Field of Membership	3-1
Section A - Single Common Bond (SCB) Charter.....	3-2
Section B - Multiple Common Bond (MCB) Charter	3-5
Section C – Community Charter	3-9
Potential Low Income Designation	3-11

PART 2: Support and Location

Step 4: Identify Subscribers	4-1
Step 5: Secure Funding to Cover Start-Up Costs	5-1
Step 6: Identify a Physical Location	6-1
Step 7: Survey the Potential Membership	7-1
Designing the Membership Survey Form	7-1
Conducting the Membership Survey	7-1
Analyzing the Survey Results	7-5
Summarizing the Results.....	7-6

PART 3: Assembling Your Package

Step 8: Find a Mentor and Other Resources	8-1
Credit Unions	8-1
Other Supportive Resources	8-3
Step 9: Identify Officials and Management	9-1
Step 10: Create the Business Plan	10-1
Mission Statement	10-1
Market Analysis	10-2
Evidence of Member Support	10-2

Products and Services.....	10-2
Goals for Shares, Loans and Number of Members	10-3
Management and Staffing	10-4
Operating Facility.....	10-5
Recordkeeping and Processing System.....	10-5
Surety Bond Coverage	10-6
Source of Funds and Other Support	10-7
Plans for Operating Independently.....	10-7
Continuity Plan for Director, Committee Members, Management and Staff..	10-8
Step 11: Create Pro-Forma Financial Statement Projections and Assumptions	11-1
Step 12: Develop a Marketing Plan.....	12-1
Step 13: Complete Required NCUA Forms	13-1
Step 14: Establish Credit Union Bylaws	14-1
Step 15: Draft Written Policies and Procedures	15-1
Fair Lending Policy and Loan Policy.....	15-1
Collection Policy	15-2
Loan Charge-Off Policy	15-3
Allowance for Loan and Lease Losses (ALLL) Policy.....	15-3
Investment Policy	15-3
Cash Policy.....	15-3
Bank Secrecy Act (BSA)/Customer Identification Program (CIP).....	15-3
Office of Foreign Assets Control (OFAC) Policy.....	15-4
Truth-in-Savings (TIS).....	15-4
Director Fiduciary Duties.....	15-5
Reimbursement Policy	15-5
Asset Liability Management (ALM) Policy.....	15-5
Liquidity Policy.....	15-6
Vendor Management/Third Party Relationships.....	15-6
E-Commerce Policy	15-6
Security Program.....	15-7
Disaster Recovery and Business Continuity/Resumption Policy.....	15-7
Privacy Policy	15-7
Identity Theft Red Flags, Credit Reports Address Discrepancies, and Records Disposal	15-8
Procedures for Major Operational Areas	15-8
Policies for Advanced Services.....	15-8
 PART 4: NCUA Action	
Step 16: Meet with NCUA Staff	16-1
Step 17: Charter Issued	17-1

PART 5: Attachment

Attachment A: Checklist of Documentation Requirements A-1
Attachment B: Researching the Federal Credit Union Charter B-1
Attachment C: Proposed Field of Membership Wording..... C-1
Attachment D: Donated Capital Estimate D-1
Attachment E: Sample Membership Survey E-1
Attachment F: Example Illustrating a Membership Survey Analysis.....F-1
Attachment G: Conflicting Positions G-1
Attachment H: Sample Commitment Letter..... H-1
Attachment I: Example of Pro-Forma Financial Statement (FS) Projections.. I-1
Attachment J: Example of Pro-Forma FS Projection Assumptions J-1
Attachment K: Sample LUA K-1
Attachment L: Links to NCUA Referenced Materials L-1
Attachment M: Other Terms Used M-1

Introduction

A credit union is a member-owned and controlled, not-for-profit, cooperative financial institution formed to permit groups of persons to save, borrow, and obtain financial services and to participate in its management. Member ownership and control are what make credit unions unique.

The Federal Credit Union Act, as amended, sets forth the basic structure governing federal credit unions. See [Attachment L](#) for a direct link to the FCU Act.

- Membership is limited to a group, or multiple groups, each defined in the credit union’s charter, each of which have a common bond of occupation or association or is located within a well-defined neighborhood, community, or rural district.
- Member deposits into the credit union, otherwise known as shares, allow the member to become an owner of the credit union with a right to vote.
- Shares provide primary funding for the lending and investment activities of the credit union.
- Members exercise democratic control – one member, one vote, regardless of shares owned.
- The credit union is governed by a board of directors, elected by and from the credit union’s membership. Board and other committee members serve on a volunteer basis and are charged with acting in the best interest of all members. Professional managers and staff may be compensated but only one board officer may be compensated.

The Federal Credit Union Act also established an independent executive agency within the federal government for the supervision of federal credit unions known as the National Credit Union Administration (NCUA). NCUA charters and supervises federal credit unions. Backed by the full faith and credit of the U.S. government, NCUA insures savings of members and eligible non-members to at least \$250,000 in all federal credit unions and many state-chartered credit unions.

PART 1: Preliminary Work (Should be completed first)

Step 1: Research the Federal Charter

Subscribers are advised to begin the chartering process by doing some research.¹ The first step is to review and be familiar with the following NCUA documents:

- Federal Credit Union Charter Application Guide - review the 17 steps and documentation requirements discussed in this document;
- Facts about Federal Credit Unions;
- Federal Credit Union Handbook;
- NCUA's Rules and Regulations;
- Appendix B of Part 701 of NCUA's Rules and Regulations, also known as the Chartering and Field of Membership Manual (Chartering Manual). Review Chapters 1 and 2, and Chapter 3 if the PFCU plans to request a low-income designation or serve an underserved area as part of its multiple common bond charter; and
- Express Chartering Procedures.

The above documents, which can be accessed using [Attachment L](#) will help you throughout the chartering process. They provide an overview and understanding of what a federal credit union is, detail the regulatory and consumer compliance requirements of a federal credit union, and describe the operational requirements involved in running a federal credit union.

Call or email NCUA (see front cover) if you have questions concerning the chartering process that are not addressed in the above documents.

Documentation Required for Step 1

- Each subscriber should individually review and become familiar with the above six documents. You may acknowledge this by submitting a letter to NCUA. See [Attachment B](#) for a sample letter.

NOTE: All subscribers may not yet be identified. As such, you may complete the documentation for Step 1 for at least one subscriber and then each identified subscriber thereafter. Step 1 should be completed for each subscriber before Step 4 is completed.

¹ At least seven subscribers are needed before a credit union may be chartered. See Step 4.

Step 2: Select Credit Union Name

Select a name for the PFCU, and provide at least one alternative name in the event we are unable to reserve your first choice. NCUA will reserve a PFCU's name as long as it:

- Is not already being officially used by another federal credit union;
- Will not be confused with NCUA or another federal or state agency, or with another credit union; and
- Does not include misleading or inappropriate language.

See [Attachment L](#) for a direct link to Credit Union Names Already in Use.

This step is requested early in the chartering process as the PFCU name is NCUA's means to track the progress of a charter application. The name of the credit union can be changed prior or subsequent to obtaining the credit union charter. Subscribers need to notify NCUA of any changes they wish to make to a reserved name.

Documentation Required for Step 2

- | |
|--|
| <ul style="list-style-type: none"><input type="checkbox"/> In a letter addressed to NCUA include the name of the PFCU. This can be combined with the documentation requirements of Step 3, which follow. |
|--|

Step 3: Establish a Field of Membership

Potential members must qualify for membership by belonging to a specific group with a common bond such as:

- Occupation (work in same employment entity or line of work);
- Association (for example, a member of a particular church, professional, civic or fraternal group or labor union); or
- Community (live, work, worship, or attend school in the same geographic area).

That common bond is known as the credit union's field of membership (FOM). Every credit union must establish a legally recognized FOM, and only persons or groups within the FOM and a few others by virtue of their close relationship to the common bond group may join the credit union. For example, immediate family members or household² may join the credit union. Other eligible groups, along with other information on fields of membership can be found in the Chartering Manual. See [Attachment L](#) for a direct link to the Manual.

The three field of membership types a federal credit union can be chartered to serve are:

- Single Common Bond ([Section A](#));
- Multiple Common Bond ([Section B](#)); or
- Community ([Section C](#)).

NCUA will provide preliminary approval on one of the above field of membership types upon the PFCU satisfying the below documentation requirements. Information on qualifying for a [low income designation](#) based on the PFCU's field of membership is also outlined below, along with the benefits of such a designation.

² Immediate family is defined as spouse, child, sibling, parent, grandparent, or grandchild. This includes stepparents, stepchildren, stepsiblings, and adoptive relationships. Household is defined as persons living in the same residence maintaining a single economic unit. A PFCU can adopt a more restrictive definition of immediate family or household.

Section A - Single Common Bond (SCB) Charter

A single common bond can be occupational based (i.e., employees of an entity or a trade, industry, or profession (TIP), or associational based (i.e., members and employees of an association).

Documentation Requirements for Step 3.A.

- A letter identifying:
 - Field of membership type the PFCU wishes to serve (select one of the below and include the required documentation for the selection): 3.A.1; 3.A.2; or 3.A.3); and
 - Proposed FOM Wording (See [Attachment C](#)):

3.A.1 – Occupational

An occupational single common bond charter can be established by persons who share an employment relationship with a single legal entity or several entities under common ownership. This charter could potentially serve employees of XYZ Company or alternatively, employees of the XYZ Company and all the subsidiary companies of XYZ Company.³

- Enclose a letter from the entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must be signed by an individual authorized to represent the entity and must include the following:
 - Entity's name;
 - Physical address;
 - Telephone number; and
 - Number of employees.

3.A.2 – Trade, Industry, or Profession (TIP)

A TIP charter is a single occupational common bond based on employment in a trade, industry, or profession, which can include employment in a number of legal entities. Even though these entities are not under common ownership, they have a common bond by virtue of producing similar products, providing a similar service, or participating in the same type of business. This charter could potentially serve textile workers (i.e., a trade); employees of the healthcare industry, the airline industry, or in the federal government (i.e., an industry); or doctors, realtors, or teachers (i.e., a profession) located in a specific geographic area.

³ The parent company must have at least a ten percent ownership interest in the subsidiary company.

For a list of TIPs already approved and available for use, see [Attachment L](#) for a direct link to the TIP (Trade, Industry, or Profession) Report. Subscribers should consider using one of the pre-approved TIPs and the related FOM wordings. For new TIPs, the FOM wording must be developed and approved by NCUA. Contact NCUA for assistance in developing new TIPs. The pre-approved TIP wording can be used as a guide for developing a new TIP's wording.

- The enclosed letter should also include the following information:
 - Name of proposed trade, industry, or profession;
 - Number of employees in TIP and independent documentation to support the number;
 - Geographic area to be served;
 - Discussion of previously approved TIP by NCUA, if applicable; and
 - Description of how membership eligibility will be verified (i.e., pay stub, employment badge, HR department, etc.).

3.A.3 – Associational

An associational single common bond charter may include in its FOM, regardless of location, all members and employees of a recognized association.⁴ The association's common bond consists of individuals and groups whose members participate in activities developing common loyalties, mutual benefits, and mutual interests. This charter could potentially serve members and employees of one church, or alternatively, members and employees from a group of churches within the same denomination (e.g., Methodist or Baptist). Other examples of associational based groups are labor unions, homeowner associations, certain alumni groups, etc.

A member based group will not meet NCUA's associational common bond requirements by simply existing. NCUA will consider the totality of circumstances in determining whether the group satisfies NCUA's associational common bond requirements. Documents from the association should reflect whether it meets the following common bond requirements listed in Chapter 2, Section III.A.1 of the Chartering Manual:

- Whether members pay dues;
- Whether members participate in the furtherance of the goals of the association;
- Whether the members have voting rights. To meet this requirement, members need not vote directly for an officer, but may vote for a delegate who in turn represents the members' interests;
- Whether the association maintains a membership list;
- Whether the association sponsors other activities;

⁴ Associations based primarily on a client-customer relationship do not meet NCUA's associational common bond requirements (i.e., fitness clubs or gyms, wholesale clubs, etc.).

- The association's membership eligibility requirements; and
- The frequency of meetings.

- Enclose a letter from the entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must be signed by an individual authorized to represent the entity and must include the following:
 - Entity's name, physical address, and telephone number;
 - Number of members in the association; and
 - Number of employees in the association, if any.

- Enclose a copy of the association's Bylaws, Articles of Incorporation, Constitution, Charter or any other equivalent documentation supporting that it is a recognized entity (bylaws are generally not needed if the entity is a well-known church); however, NCUA may request these and any other documents at its discretion.

Section B - Multiple Common Bond (MCB) Charter

As the name indicates, a multiple common bond (MCB) charter serves multiple entities. Each entity has its own common bond but each does not share the same single common bond with the other entities. For example, if a single common bond credit union adds a group that does not share the same single common bond as the original group, it will essentially convert from a single common bond charter to a multiple common bond charter.

Multiple common bonds may be occupational or associational based, and/or a combination of both occupational and associational groups. Each of the MCB groups must be located within the service area⁵ of the PFCU's service facilities.⁶ Each group as a whole will be considered to be within the service area when:

- A majority of the persons in a select group live, work, or gather regularly within the service area;
- The group's headquarters is located within the service area; or
- The group's "paid from" or "supervised from" location is within the service area. Although "service area" is not defined by a specific distance in NCUA's regulations, groups should generally be within a 25 mile radius of the anticipated service facility. Additional support should be provided which shows the credit union can service a group outside of the 25 mile radius. Internet access to the PFCU is not sufficient support.

A MCB charter with occupational and associational based groups could potentially serve all of these entities: members and employees of a church; employees of XYZ Company; members and employees of a labor union; and employees and students of ABC school district.

A MCB charter serving occupational, associational, or a combination of these groups can also add an underserved area to its charter (Step 3.B.3 contains additional information on underserved areas). An underserved area is a geographic area designated under the Community Development Financial Institution Act (CDFI) as an

⁵ A service area is the area that can reasonably be served by the service facilities accessible to the groups with the field of membership. Chapter 2, Article IV.A.1. of the Chartering Manual.

⁶ A service facility for MCB credit unions is defined as a place where shares are accepted for members' accounts, loan applications are accepted, or loans are disbursed. This definition includes: a credit union-owned branch; a mobile branch; an office operated on a regularly scheduled weekly basis; a credit union-owned ATM; or a credit union-owned electronic facility that meets, at a minimum, these requirements. A service facility also includes a shared branch or a shared branch network if either: (1) the credit union has an ownership interest in the service facility either directly or through a Credit Union Service Organization (CUSO) or similar organization; or (2) the service facility is local to the credit union and the credit union is an authorized participant in the service center. This definition does not include the credit union's Internet Web site. Chapter 2, Section IV.A.1. of the Chartering Manual.

investment area and the area meets other criteria outlined in the Chartering Manual, Chapter 3, Section III. See [Attachment L](#) for a direct link to the Manual. These geographic areas are generally defined as a county or by census tracts. More information on investment areas can be found at www.cdfifund.gov.

Documentation Required for Step 3.B.

- A letter identifying
 - Field of membership type the PFCU wishes to serve (select all of the below that are applicable and include the required documentation for each selection): 3.B.1; 3.B.2; or 3.B.3); and
 - Proposed FOM Wording (See [Attachment C](#)):

3.B.1 - Multiple Common Bond Charter – Occupational

- Identify each entity by name, city and state, and include the number of current employees.
- Enclose a letter from an authorized representative of each entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must also include:
 - Number of current employees;
 - Distance (# of miles) the entity’s physical address is located from the PFCU’s office facility;
 - Physical address and telephone number of the entity;
 - If any single group being included has more than 3,000 members,
 - Explanation why the group cannot form its own credit union⁷; and
 - Statement whether the group has other credit union service. If the group has other credit union service, submit a letter from any overlapped credit union indicating whether or not it objects to the overlap, unless the overlapped credit union is a community charter or non-federally insured. If this letter cannot be obtained, submit proof of sending a letter to any overlapped credit union to obtain this information (e.g., certified mail

⁷ The group’s letter should discuss the following: **Member location** – whether the membership is widely dispersed or concentrated in a central location. **Demographics** – the employee turnover rate, economic status of the group’s members, and whether the group is more apt to consist of savers or borrowers. **Market competition** – the availability of other financial services. **Desired services and products** – the type of services the group desires in comparison to the type of services a new credit union could offer. **Sponsor subsidies** – the availability of operating subsidies. **The desire of the sponsor** – the extent of the sponsor’s interest in supporting a credit union charter. **Employee interest** – the extent of the employees’ interest in obtaining a credit union charter. **Evidence of past failure** – whether the group previously had its own credit union or previously filed for a credit union charter. **Administrative capacity to provide services** – will the group have the management expertise to provide the services requested.

return receipt). For assistance in identifying overlapped credit unions, submit a Freedom of Information Act Request to NCUA. See [Attachment L](#) for a direct link to the Freedom of Information Act Request.

3.B.2 - Multiple Common Bond Charter – Associational

- Identify each entity by name, city and state, and include the number of current employees and members.
- Enclose a letter from an authorized representative of each entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must also include:
 - Number of current members and the association’s employees;
 - Distance (# of miles) the association’s physical address is located from the PFCU’s office facility;
 - Physical address and telephone number of the association;
 - If any single group being included has more than 3,000 members,
 - Explanation why the group cannot form its own credit union (see footnote number 7); and
 - Statement whether the group has other credit union service. If the group has other credit union service, submit a letter from the overlapped credit union indicating whether or not it objects to the overlap, unless the overlapped credit union is a community charter or non-federally insured. If this letter cannot be obtained, submit proof of sending a letter to any overlapped credit union to obtain this information (e.g., certified mail return receipt). For assistance in identifying overlapped credit unions, submit a Freedom of Information Act Request to NCUA. See [Attachment L](#) for a direct link to the Freedom of Information Act Request.
- Enclose a copy of the association’s Bylaws, Articles of Incorporation, Constitution, Charter, or any other equivalent documentation supporting that it is a recognized entity (bylaws are generally not needed if the entity is a well-known church); however, NCUA may request these and any additional documents at its discretion.

3.B.3 - Multiple Common Bond Charter – Underserved Area

The addition of an underserved area at the time of the preliminary field of membership approval would be rare for a PFCU charter. However, if an underserved area is being considered, NCUA is available to assist with whether an area would meet the underserved area requirements.

- The letter should also include the following information:
 - Name and/or a description of the underserved area (including the census tracts encompassing requested area);
 - Population of the underserved area;
 - CDFI Investment Area map obtained from www.cdfifund.gov demonstrating the requested area qualifies;
 - CDFI Investment Area Report obtained from www.cdfifund.gov showing how the requested area meets the investment area criteria;
 - Documentation supporting the PFCU meets the MCB requirements for adding an underserved area:
 - Two or more single common bond groups are to be included in the proposed field of membership;
 - A service facility⁸ is in the underserved area or will be established and maintained in the area within two years; and
 - The requested area is underserved by other depository institutions, including credit unions. NCUA can assist with this requirement once a CDFI map and investment area report are obtained. Contact NCUA for assistance with satisfying this requirement; and
 - One-page narrative titled “Significant Unmet Needs” documenting the unmet financial needs in the requested area and how the PFCU will meet those unmet needs. Contact NCUA for assistance with satisfying this requirement.

⁸ A service facility for an underserved area is defined as a place where shares are accepted for members’ accounts, loan applications are accepted and loans are disbursed. Please note this definition is slightly different from the service facility definition for MCB charters, as this definition requires loan applications to be accepted “and” loans disbursed versus “or” loans disbursed. A service facility includes a credit union-owned branch, a shared branch, a mobile branch, or an office operated on a regularly scheduled weekly basis or a credit union owned electronic facility that meets, at a minimum, the above requirements. This definition does not include an ATM or the credit union’s Internet Web site. Chapter 3, Section III.F. of the Chartering Manual.

Section C – Community Charter

Community charters must be based on a single, geographically well-defined local community, neighborhood, or rural district where individuals have common interests and/or interact. More than one credit union may serve the same community. A community is defined as either a single political jurisdiction or a multiple contiguous political jurisdiction.

- A single political jurisdiction is a county or any contiguous portion thereof, such as a city or contiguous cities within one county, a neighborhood or contiguous neighborhoods within one county, or any contiguous geographic area(s) within one county.
- A multiple contiguous political jurisdiction is a contiguous area covering more than one county, such as two counties or a city falling within two counties, or contiguous areas covering more than one county. To qualify as a multiple political jurisdiction, the area must have well-defined, contiguous geographic boundaries and meet the below criteria.
 - Previously approved as a community under Interpretive Ruling and Policy Statements (IRPS 99-1, as amended). See [Attachment L](#) for a directly link to Communities Previously Approved; or
 - Core Based Statistical Area - the area is designated a Core Based Statistical Area (CBSA) or part thereof, or in the case of a CBSA with Metropolitan Divisions, the area is a Metropolitan Division or part thereof; and the CBSA or Metropolitan Division has a population of 2.5 million or less.
- A rural district is either where the district has well-defined, contiguous geographic boundaries; more than 50 percent of the district’s population resides in census blocks or other geographic areas that are designated as rural by the U.S. Census Bureau; and the total population does not exceed the greater of 250,000 people or three percent of the population of the state in which the majority of the district is located; *OR* the district has well-defined, contiguous geographic boundaries; the population density does not exceed 100 people per square mile; and the total population does not exceed the greater of 250,000 people or three percent of the population of the state in which the majority of the district is located.

Documentation Required for Step 3.C

- A letter identifying:
 - Field of membership type the PFCU wishes to serve (select one of the below and include the required documentation for the selection: 3.C.1 or 3.C.2);

and

- Proposed FOM Wording (See [Attachment C](#)):

3.C.1 - Community Charter - Single Political Jurisdiction – submit the following:

- Name of the single political jurisdiction (i.e., Benton County, WA or City of Vacaville, CA);
- Map of the political jurisdiction(s) with the proposed area outlined. If the area is not a township, borough, city, parish, or county, describe the outer boundaries of the area using roads, streets, and landmarks; and
- Population of the community. Generally, the U.S. Census Bureau can be used to locate this information. See [Attachment L](#) for a direct link to American FactFinder.

3.C.2 – Community Charter - Multiple Contiguous Political Jurisdictions or Rural District – submit the following:

- Name of the multiple contiguous political jurisdictions (i.e., Benton and Franklin Counties, WA or Kennewick-Richland-Pasco Metropolitan Statistical Area) or rural district;
- Map of the community with the proposed area outlined. If the area is not comprised totally of contiguous counties and/or cities, describe the outer boundaries of the area using roads, streets, and landmarks; and
- Population of the community. Generally, the U.S. Census Bureau can be used to locate this information. See [Attachment L](#) for a direct link to American FactFinder.
- IF NOT PREVIOUSLY APPROVED BY NCUA – Submit documentation showing how the community meets the Statistical Area or Rural District criteria outlined above. For additional questions or a better understanding of what is needed, contact NCUA; and
- If previously approved multiple contiguous political jurisdiction – Provide the credit union name, location, and charter number that is currently serving this community. No other documentation is needed. See [Attachment L](#) for a direct link to Communities Previously Approved.

Potential Low Income Designation

A PFCU can also seek a low-income designation pursuant to NCUA Rules and Regulations, Section 701.34. See [Attachment L](#) for a direct link to NCUA Rules and Regulations. A credit union can be designated low-income when a majority of the credit union’s potential or actual membership qualifies as low-income. Low-income members are those members whose family income is 80 percent or less than the median family income for the metropolitan area where they live or national metropolitan area, whichever is greater, or those members who earn 80 percent or less than the total median earnings for individuals for the metropolitan area where they live, or the national metropolitan area, whichever is greater. For members living outside a metropolitan area, the statewide or national, non-metropolitan area median family income or median earnings for individuals is used to qualify for the designation. The term “low-income members” also includes those members enrolled as students in a college, university, high school, or vocational school. NCUA can provide assistance with determining if a proposed area meets the low-income requirements.

If a majority of the PFCU’s potential members are believed to be low-income members, a low-income designation can be requested at the time the preliminary field of membership approval is requested. The methodology for determining whether a majority of the potential members qualify as low-income members will largely depend upon the charter type being requested and whether the PFCU can provide address information on the potential membership. If NCUA is unable to complete a low-income determination based on the field of membership request, NCUA will work with the subscriber(s) to identify the needed documentation to complete a low-income determination. Absent the availability of needed documentation, the credit union can apply for the designation post charter once membership is established. Although there is no minimum number of members needed to apply for a low-income designation, the membership should be established to the point where adding new members would not jeopardize the low-income designation.

Credit unions designated low-income are afforded certain benefits not available to other credit unions, including:

- Ability to accept nonmember deposits from any source up to the greater of \$3 million or 20 percent of total shares. A higher amount may be allowed if approved by NCUA, pending further justification.
- Ability to receive technical assistance grants and low-cost loans from the NCUA Community Development Revolving Loan Program. Technical assistance grants generally reimburse credit unions for expenses related to increasing member services, training of staff, or marketing if needed to improve the long-term financial health and stability of the credit union. Loans up to an aggregate of \$300,000 may be approved.

NOTE: Anticipation of NCUA technical assistance grants can be used as supplementary sources of funding to strengthen the potential for the PFCU's ability to operate independently but it cannot be relied upon as a primary source of capital. Grant are not guaranteed, would only potentially become available after chartered, and must be used for a specific purpose.

Information on the Technical Assistance Grant Program, the Community Development Revolving Loan Program, and other resources for low-income designated credit unions can be found on the NCUA website -- see [Attachment L](#) for a direct link to Community Development.

- Ability to receive an exception from NCUA to grant member business loans in excess of the aggregate limit provided in Section 723.16 of the NCUA Rules and Regulations. The aggregate limit on a credit union's outstanding member business loans (including any unfunded commitments) is the lesser of 1.75 times the credit union's net worth or 12.25 percent of the credit union's total assets. Net worth is all of the credit union's retained earnings (undivided earnings, regular reserves, and any other reserves).
- Part 702 of NCUA's Rules and Regulation, Prompt Corrective Action, allows net worth to include secondary capital accounts that are uninsured and subordinated to all other claims against a low-income credit union, including the claims of creditors, shareholders, and the NCUSIF (National Credit Union Share Insurance Fund) when calculating a net worth ratio. See Section 701.34(b) of the NCUA Rules and Regulations for further information on secondary capital accounts. See [Attachment L](#) for a direct link to NCUA Rules and Regulations.

Note: Secondary capital can be used as supplementary sources of funding to strengthen the potential for the credit union's ability to operate independently but it cannot be relied upon as a primary source of capital. Secondary capital is viewed as temporary funding, structured with the intent of returning it to the investor at maturity. Secondary capital generally is used as a liquidity source as well as a way to enhance earnings (a positive margin may be achieved if an investor agrees to a below market interest rate).

If a low-income designation is not obtained during the charter application process, the application should not include reliance upon any of the above benefits for the credit union's economic viability.

PART 2: Support and Location (Begin after successfully completing the Steps of Part 1)

Reminder: Upon receiving preliminary field of membership approval (completing Step 3), free consulting services from NCUA with the chartering process are now potentially available from NCUA’s Office of Small Credit Union Initiatives (OSCUI). For more information on NCUA’s free consulting services and OSCUI, see the “Using This Guide” and “Frequently Asked Questions” sections.

Step 4: Identify Subscribers

As defined by the Federal Credit Union Act,⁹ subscribers are any seven or more natural persons who desire to form a Federal Credit Union. Subscribers are responsible for preparing the charter application. A primary point of contact needs to be identified for NCUA during the chartering process. The primary point of contact may be a subscriber or professional organizer hired or appointed by the subscriber(s). The function of an organizer is to provide direction, guidance, and advice to the subscribers.

Under Section 104 of the Federal Credit Union Act (12 U.S.C. §1754), subscribers need to undergo an “appropriate investigation” to determine “the general character and fitness of the subscribers thereto.” As outlined in Step 9, officials and employees also are required to undergo such an investigation. A Report of Official and Agreement to Serve (NCUA 4012) Form in the Appendix of the Chartering Manual is the document completed by the officials and employees to initiate this process. See [Attachment L](#) for a direct link to the Chartering Manual and NCUA 4012 Form. NCUA uses this same form for subscribers.

Documentation Required for Step 4

- A letter identifying the subscribers and their anticipated involvement and contribution to the chartering process, including time commitment (number of hours per month);
- Name and telephone number of the contact person. If other than a subscriber, their anticipated involvement and contribution to the chartering process, including time commitment (number of hours per month); and
- An original Report of Official and Agreement to Serve (NCUA 4012) Form and

⁹ Section 103 of the Federal Credit Union Act. 12 U.S.C. §1753

a resume for each individual who desires to be a subscriber of the PFCU. Ensure the NCUA 4012 Form is completed in its entirety, including the Authorization to Perform a Credit Check, and that the applicant's signature is witnessed.

Step 5: Secure Funding to Cover Start-Up Costs

Chartering and operating a credit union costs money. A credit union must remain solvent (maintain a positive capital position) at all times. New credit unions seldom generate sufficient income to cover operating expenses in the beginning. Therefore, subscribers must seek monetary donations or subsidies to cover start up and operating costs for the initial years of operation.

“Estimated Start-Up and Operating Costs in Chartering a Credit Union” provides guidance on typical start up and operating costs for newly chartered credit unions. See [Attachment L](#) for a direct link to Estimated Start-Up and Operating Costs in Chartering a Credit Union. Also, to assist subscribers with estimating the amount of donations needed to fund ongoing operations for the PFCU, see [Attachment D](#), Donated Capital Estimate.

If your PFCU group is unable to secure adequate funding, consider obtaining credit union services from an existing credit union. To locate an existing local credit union, see [Attachment L](#) for a direct link to Locate an Existing Local Credit Union. NCUA can also assist with locating an existing credit union.

Types of support PFCU generally receive include donations of:

- Cash
- In-Kind Support:
 - Office space;
 - Furniture & equipment;
 - Computers and recordkeeping software; and
 - Utilities

Sources of support, subsidies, or donations for a PFCU may come from a:

- Community organizations (i.e., church);
- Sponsoring organization (i.e., company or association);
- Non-profit organizations (i.e., economic development corporation); and
- Other grant programs, such as the Community Development Financial Institutions (CDFI) Fund

All commitments pledged must be placed in writing from their source and include the specific commitment and its terms.

For example, if a sponsor company offers to provide office space free of charge and to donate \$200,000 to cover start-up costs, the organizer’s letter should indicate the office

location, the term (i.e., first 36 months of operations), and the size (e.g., 1,100 square feet) of the free office space, and state whether it includes free electricity, telephone service, trash removal, cleaning, security, grounds maintenance, etc.

The commitment letters must be supported by the donor's clear ability to provide the pledged support. This can be accomplished with a copy of the donor's audited financial statements or equivalent documentation.

If funds are committed but not received:

- Obtain a Commitment Letter signed by the donor. The donor must have authority to commit and provide the funds.
- Financial statements or similar proof of available funds.

If received:

- Bank statement reflecting deposit of funds. Bank statement should contain a date at least 15-days past the last deposit to confirm the funds have cleared.
- Acknowledgement letter signed by donor confirming the funds are donations to the credit union, and are not deposits.

All donors must be available to meet in-person with NCUA representatives to confirm their understanding of the donated funds.

If any commitments require repayment, they are considered borrowings by the PFCU, not donated equity. As such, they cannot be counted towards the equity position of the PFCU. The only exception to this rule is Secondary Capital, which is only available to low-income designated credit unions. See Section 701.34(c) of the NCUA Rules and Regulations for additional information and requirements for secondary capital. See [Attachment L](#) for a direct link to NCUA Rules and Regulations.

Documentation Required for Step 5

- In a letter addressed to NCUA, describe the source of your funding and the actions and steps taken by the subscribers to obtain the necessary funds to cover the PFCU's start-up costs and operations until the PFCU can become profitable. Provide details on the nature, terms, and conditions on all the contributions, cash, non-member deposits, or other assistance provided to the PFCU. Any financial benchmarks for the PFCU that are tied to the commitment(s) or the repayment(s) should be discussed as well.
- Obtain the commitment in writing from the funding source and ensure the letter contains the following details regarding the commitment:
 - Name of the person making the commitment;
 - Name of organization affiliated with donor;

- Address of person/organization;
 - Telephone number of person/organization;
 - Type and amount of commitment;
 - Start date of commitment;
 - End date of commitment; and
 - Description of terms and conditions of commitment.
- Forward copies of commitment letters to NCUA; and
- Submit copies of bank statements and/or donors' most recent audited financial statements or equivalent documentation to NCUA.

Step 6: Identify a Physical Location

Each credit union must have at least one physical location, including PFCUs that are anticipating most transactions via the internet, kiosks, or other electronic means. Subscribers should determine an anticipated location of the main office and any other physical branch locations to be open at inception. If the exact addresses are not known, provide the city and state.

Documentation Required for Step 6

- In a letter, inform NCUA of the PFCU's anticipated physical address of its main office and any branches to be opened at inception.

Step 7: Survey the Potential Membership

Complete this step ONLY after NCUA has granted preliminary approval of your field of membership.

The membership survey is one of the more important steps in the chartering process. The data gathered from the survey will reveal the level of interest and support for the PFCU. It will also help you better understand the specific financial needs of the membership, how they might use the credit union, and which products and services to offer and when. The results of the membership survey drive the business plan and financial projections and support the reasonableness and achievability of the projected outcomes. The results must clearly indicate support for a new federal credit union and its desired services.

Designing the Membership Survey Form

Each organizing group must design a membership survey form that gathers enough information to aid in developing and supporting the products and services set forth in the business plan along with pro-forma financial projections and related assumptions. A membership survey needs, for example, to gather such information to:

- Gauge the level of interest in the PFCU;
- Determine the number of individuals willing to join the credit union immediately after it is chartered;
- Determine the amount of initial deposits you can expect as well as the amount of monthly deposits thereafter (without this information you will be unable to create reasonable financial projections);
- Establish the types of products and services desired;
- Determine the types of products and services to offer and when to offer them;
- Decide what your office hours will be; and
- Recruit volunteers to serve as officials and on committees.

[Attachment E](#) contains a sample of a simple membership survey and cover letter that PFCUs can use to customize a survey to meet their needs.

Conducting the Membership Survey

Who should you survey?

After developing the survey form, the next step is to conduct the survey. Ideally, you would survey all persons within the field of membership, which is a possibility for smaller groups. However, for larger groups, and to control pre-chartering costs, surveying a random sample of the membership may be more reasonable.

How to perform a random survey?

There are two types of sampling for a random survey.

- A statistically valid sample, and
- A targeted sample.

See below for a discussion on each type.

A statistically valid random sample contains two key components:

- Every individual within the field of membership must have an equal chance of being selected; and
- The number of responses must be a fair representation of the entire field of membership.

Equal Chance for Selection

A simple statistically valid random sample involves surveying every n^{th} person from a list of potential members. However, such a selection method is not required. You may survey the membership using other forms of random sampling. Examples of other forms of statistically valid random samples are illustrated as follows:

- If the field of membership consists of members of five churches, offering the survey form to all attendees at all five churches on a given Sunday would be considered statistically valid random sampling. If you only survey the members of one of the five churches, or limit the survey to a segment of individuals (e.g., those under the age of 25 or those with children), it would not be considered a statistically valid random sample.
- If the field of membership consists of a community charter, conducting the survey at a number of different locations throughout the community would be considered statistically valid random sampling. However, if only one segment of the community or one geographic area (e.g., one city in a county) was surveyed, and not all segments of the community or various geographic areas had an opportunity to receive the survey, the distribution would not be deemed a statistically valid random sample.

A targeted random sample does not contain the two key components found in a statistically valid sample. Also, a specific number of responses are not required in a targeted random sample. Due to these shortcomings, the results from a targeted random sample cannot be extrapolated and applied to the entire field of membership population.

The example below illustrates the differences in applying the results of a statistically valid random sample survey compared to a targeted random sample.

EXAMPLE: Assume the field of membership population is 5,000, surveys are sent to 1,000 random individuals, and 500 individuals responded to the survey. Out of the 500 responses, 150 or 30 percent expressed an interest in joining the credit union within its first two years of operations.

If the results of the 150 were based on a statistically valid sample, one could extrapolate the 30 percent favorable response rate (150/500) and apply it to the entire field of membership population. You can assume approximately 1,500, or 30 percent of the 5,000 individuals in the population would be interested in joining the credit union within its first two years of operation. The two-year annual growth projections in the pro-forma financial projections could then be developed with this in mind. For example, the projected new members for year one and year two could be 500 and 1,000, respectively resulting in total new members after two years of 1,500.

If the results of the 150 were based on a targeted random sample, the survey results could not be applied to the entire population. Instead, the two year annual growth projections in the pro-forma would be based solely on achieving a total of 150 new members over the next two years -- possibly, 50 new members the first year and 100 the second year, for a total of 150 after two years.

Regardless of whether a survey is conducted based on a statistically valid random sample or a targeted random sample, it is inappropriate to survey only those individuals who you believe are interested in joining the credit union while excluding others within the field of membership. That is not a random sample and the survey results and all data gathered from the survey would be unreliable and considered a weak foundation for developing a business plan and financial projections.

NOTE: Contact NCUA first if you have questions about whether your random sampling method is proper before performing a survey, particularly if it does not include every nth individual in the potential membership. All random sampling methods must be explained in detail, and if NCUA determines any random sampling method improper, NCUA will require a new survey.

Number of Responses Required

The next factor to consider when conducting a statistically valid random sample of the potential membership is the number of survey responses you must receive to adequately predict the desires of the potential membership. The number of required survey responses will vary depending on the size of the population. You may use the table below to determine the number needed based on the number of total potential members,

also known as the population size. The table uses a 95 percent confidence level¹⁰ and a 5 percent confidence interval.¹¹

For example, if the PFCU's potential membership is 5,000 members, you must receive 357 responses to the membership survey in order to adequately predict the desires of the entire potential membership.

Population Size	Number of Responses Needed
Up to 1,000	278
1,001 to 3,000	341
3,001 to 5,000	357
5,001 to 10,000	370
Over 10,000	384

The PFCU should use this table when completing either a statistically valid random sample or a targeted random sample.

How to determine the number of surveys to be sent out?

How will you know how many surveys to send out in order to receive the required number of responses? It is highly unlikely that you will receive a 100 percent response rate to the membership survey. Thus, the final factor to consider when conducting a random sample of the potential membership is the anticipated response rate from the sample of members. Subscribers must use judgment in estimating the survey response rate as it will differ for each potential field of membership.

In the above example, if you estimate forty percent of those who receive the survey will respond, you must send out 893 surveys in order to receive 357 survey responses (357 divided by 40 percent).¹² If a low response rate is anticipated, consider surveying a larger number of potential members to ensure you get an adequate number of responses.

PFCU's should be aware a low response rate may be an indication the potential membership is not supportive of a new federal credit union. If a low actual response rate is experienced, the PFCU should be able to provide reason(s) why the potential membership is not being responsive to the survey.

¹⁰ The confidence level tells you how sure you can be of the results. It is expressed as a percentage and represents how often the true percentage of the population who would pick an answer lies within the confidence interval. The 95 percent confidence level means you can be 95 percent certain.

¹¹ The confidence interval (also called margin of error) is the plus-or-minus figure usually reported in newspaper or television opinion poll results. For example, if you use a confidence interval of 5, and 47 percent of your sample picks an answer, you can be "sure" that for the entire relevant population, between 42 percent (47 minus 5) and 52 percent (47 plus 5) would have picked that answer.

¹² The number of surveys to send to achieve the required number of survey responses is calculated by dividing the number of required responses by the estimated response rate.

Analyzing the Survey Results

Once you receive the survey responses, you must tally and analyze the results. If you follow the guidance noted above to conduct a statistically valid random sample, you may use the results to predict the desires of the entire potential membership. Using the example above, if you received 357 responses to your survey; you may extrapolate the results to the entire potential membership of 5,000 members.

Suppose for this example, 30 percent of the survey respondents indicated they would join the credit union within the first two years. If this were the case, you have support to anticipate a membership base of approximately 1,500 (5,000 x 30 percent) members at the end of year two. However, the statistical calculation assumes an error rate of plus or minus five percent; thus, the estimated membership base must reflect a range of 1,250 (5,000 x 25 percent) members and 1,750 (5,000 x 35 percent) members. These numbers can be viewed potentially as the “best case scenario” (1,750 members) and potentially as the “most likely scenario” (1,250).

Based on NCUA’s experience, new credit unions do not generally achieve the “best case scenario”. Due to several factors, including the length of time between conducting the survey and receipt of a credit union charter, not all persons who state they would join actually join the new credit union. Therefore, developing a business plan and financial projections using the “most likely scenario” assumptions is highly recommended. Other scenarios can be presented as long as sound statistical support is provided.

Also, please note, larger results will potentially occur when a larger potential membership base is involved. Subscribers need to use judgment whether those results based on the larger potential membership base are attainable. If deemed unattainable, assumptions should be modified accordingly.

For example, if the 30 percent response rate used above for joining the credit union within two years was applied to a potential membership of 500,000, the result would be 150,000 individuals might join the credit union after two years. A review of membership growth at existing credit unions does not support a new federal credit union could add 75,000 net new members a year on average, as existing credit unions are not even able to do this.

In addition, a study completed in 2007 also confirms large membership growth during the first two years of operation is generally unattainable. NCUA’s Region V Office reviewed membership numbers on 29 credit unions (federal, state, and privately insured) chartered since 1987 in Region V. Actual membership after two years of operation averaged approximately 550 members. Of the 29 credit unions, only 11 reported growth in excess of 550. Of those 11 credit unions, only three reported actual

membership growth in excess 1,000 new members after two years of operations, at approximately 1,200, 1,700, and 1,900.

Therefore, subscribers with larger potential fields of membership will need to evaluate the results and determine whether their conclusions are reasonable and attainable. More than likely, subscribers will need to make adjustments and calculate assumptions on information more in line with newly chartered and existing credit unions.

Subscribers can review financial information (5300 Call Report and Financial Performance Reports) on newly chartered and other existing credit unions to help establish realistic assumptions. See [Attachment L](#) for a direct link to the 5300 and Financial Performance Report. Mentor credit unions can also greatly assist with feedback regarding reasonable and realistic projections and assumptions.

Summarizing the Results

At a minimum, summarize the survey results using the format shown in the table below.

Number Surveyed	3,570
Number Responding to Survey	357
Number in Favor of the PFCU	107
Number Against the PFCU	250
Number Pledging An Initial Share Deposit	91
Average Initial Share Deposit	\$3,717
Number Pledging Monthly Share Deposits	70
Average Amount of Monthly Share Deposits	\$300

Prepare a narrative discussing the survey results. For example, the chart above shows the survey results indicate 10 percent of the individuals surveyed responded (357/3,570). Of those responding, 30 percent were in favor of supporting the PFCU (107/357). Of those supporting the credit union, 85 percent pledged an initial share deposit (91/107) and 66 percent pledged systematic monthly share deposits (70/107). Based on the average initial and monthly pledged deposits, initial share deposits could total \$338,247 ($\$3,717 \times 91$), with new deposits averaging \$21,000 ($\300×70) each month, thereafter.

When extrapolating these results into the share deposit projections on the pro-forma balance sheet, you will need to apply an estimated retention rate for the deposits. For example, with \$338,247 in initial deposits, and \$20,650 in monthly deposits for the next five months, the total potential deposit base could be \$443,247 ($\$338,247 + \$21,000 \times 5$), but a 25 percent retention rate for the monthly deposits would produce only \$364,497 ($\$338,247 + \$21,000 \times 5 \times 25\%$) in share balances at the end of the six month period. The pro-forma balance sheets should reflect these deposits.

For a more detailed illustration of analyzing and summarizing the results of the membership survey, see [Attachment F](#). Keep in mind that NCUA relies heavily on your written analysis of the survey results to obtain a better understanding of the basis and content of the business plan, projections, and assumptions.

Documentation Required for Step 7

Upon completion of the membership survey submit the following to NCUA:

- Tally of the membership survey results (do not submit the completed individual survey forms to NCUA unless requested);
- Written analysis of the membership survey results. See [Attachment F](#) for an example;
- Blank copy of the membership survey form;
- Written explanation of how the membership survey form was distributed; and
- Written explanation of the random sample process used to select who received a survey form.

PART 3: Assembling Your Package (Begin after successfully completing Part 2)

Step 8: Find a Mentor and Other Resources

NCUA strongly recommends subscribers/organizers establish mentor relationships with one or more existing credit unions and also to seek out other assistance in and outside the credit union industry. These relationships have proven to be beneficial to subscribers/organizers going through the chartering process and during the first few years of operation. A list of the available resources is below along with some information on each resource.

- [Credit Unions](#)
- [Sponsor](#)
- [Natural Persons](#)
- [Credit Union Leagues/Associations](#)
- [Corporate Credit Unions](#)
- [Other Credit Union Affiliated Organizations](#)
- [Banks](#)
- [Other Government Entities](#)

Credit Unions. A credit union mentor is typically an established, financially sound, well-managed credit union. Their assistance can be invaluable in helping you develop a successful business plan and pro-forma financial statements. Ideally, seek out a credit union mentor with the same field of membership type (i.e. occupational, associational, or community) as the PFCU. Also, it is helpful to establish a mentor relationship with another well-managed credit union that uses the same data processing system. See [Attachment L](#) for a direct link to Contact Information on Existing Credit Unions.

Although some credit union mentors offer hands-on assistance, most generally do not but their involvement assists subscribers/organizers with progressing and completing the chartering application themselves. As such, subscribers/organizers should not rely upon credit union mentors to complete the chartering application for the PFCU or to resolve the application's deficiencies. Mentor credit unions are available to:

- Answer questions and provide direction and guidance;
- Attend organizer meetings and/or board meetings after chartering;
- Assist and educate subscribers, organizers, and staff in understanding what it takes to start-up and run the daily operations, the processes involved, and necessary costs;

- Review and assist with developing reasonable assumptions for the pro-forma financial projections;
- Provide sample policies and procedures or assistance in reviewing the drafts.
- Assist in resolving application deficiencies, including business plan, financial statement projections, marketing development, policies, etc.;
- Train staff and officials (i.e., directors, supervisory committee, and credit committee) on their specific duties and responsibilities;
- Train staff on the mentor's data processing system (if the same system is to be used by the PFCU);
- Identify reputable vendors serving the industry for proposed products and services;
- Assist in negotiating contracts;
- Provide office space, fixed assets, or back office support at low or no-cost;
- Subsidize operating expenses, or permit the new federal credit union to piggy back off them using the mentor's vendor; and
- Make a low or no-cost, non-member deposit.

Some best practices for building a strong credit union mentor relationship is below.

- Identify goals and objectives (e.g., timeline for accomplishing specific steps);
- Identify the amount of time the subscribers and/or organizers will be able to commit to each step and the type and time of estimated assistance needed;
- Identify a method for keeping mentors updated on progress (e.g., weekly calls, monthly meetings, etc.);
- Select the subscribers, organizers, officials, or staff to work with the mentor(s) whose character, experience, and credentials will help meet the desired goals and objectives;
- Document each party's role, the desired outcome, and time frame; and

After a mentor relationship has been established, it is important that subscribers follow through on obtaining a written acknowledgement. Often mentors are volunteering time and resources and a written acknowledgement letter will evidence the mentor's intent to assist the PFCU or the new federal credit union. Subscribers should notify NCUA of all mentor relationships established and forward copies of the written acknowledgement letters. At a minimum, the written acknowledgements should:

- Identify the steps, actions, or services the mentor will provide to assist the subscribers or the new federal credit union once chartered;
- Specify how the mentor will provide the specified actions or services;
- Discuss the length of time the actions or services will be provided;
- Explain any conditions for continued involvement with the PFCU;
- Identify the name and contact information of the specific individual(s) providing the assistance, and
- Include any other pertinent information.

Other Supportive Resources

Sponsor. A sponsor is usually an entity (i.e., company or organization) within the PFCU's field of membership. A sponsor could assist the PFCU with monetary support (e.g., donations for start-up costs or operational costs after chartered), non-monetary support (e.g., purchase or donation of furniture, computer, etc.), or subsidies (e.g., free office, use of company copier or staff in legal department, etc.).

Natural Persons. Individuals can also support the PFCU. Natural persons can donate their time or funds that can go towards covering the chartering process and costs (e.g., membership survey, legal reviews, etc.), start-up costs for the new credit union (computer, furniture, supplies, etc.), or operational costs after chartered.

Credit Union Leagues/Associations. These are trade associations for credit unions. They are located in most states and provide a wide variety of services, such as education, training, and small credit union consulting. Some may provide products and other services, such as form purchasing, audits, legal consultation, guidance on compliance with regulations, etc. Some may also provide hands-on assistance with the charter application steps. Some examples of how leagues/associations can assist in the chartering process include:

- Answering questions;
- Identifying training needs and available educational or training resources for staff and officials;
- Identify vendors serving the credit union industry for bond coverage, insurance, purchasing supplies, etc.;
- Identifying potential mentor credit unions in the area;
- Provide human resource guidance (job descriptions, advertising positions, interviewing, salary surveys, etc.).

Most leagues/associations distribute a periodic newsletter containing updated and helpful information about the credit union industry. See [Attachment L](#) for a direct link to League Information in Your State.

Corporate Credit Unions. Corporate credit unions are credit unions for credit unions. They can serve state, regional, or nationwide fields of membership and offer a wide variety of services, including share draft (checking) accounts, investments, wire transfer services, check, and other member processing functions. See [Attachment L](#) for a direct link to Corporate Credit Union Contact Information.

Other Credit Union Affiliated Organizations. A number of credit union affiliated organizations may be able to assist or answer questions for the subscribers/organizers. For example, the National Federation of Community Development Credit Unions may

assist subscribers/organizers with the chartering process for a community development or low-income credit union. See [Attachment L](#) also for a direct link to Other Credit Union Affiliated Organizations.

Banks. Banks sometimes provide assistance to PFCUs that will be low-income designated once chartered in order to comply with CRA (Community Reinvestment Act) requirements. Such assistance is generally in the form of non-member deposits, grant money, free use of bank space, office equipment, etc. See a local telephone book listing for a list of the local banks in your area.

Other Government Entities. Local, state, and possibly federal government agencies may also provide assistance to PFCUs. See a telephone book listing for a list of government entities.

Documentation Required for Step 8

- Notify NCUA in writing of all mentor relationships established and include copies of the written acknowledgement letters. The written letters should:
 - Identify the steps, actions, or services the mentor will provide to assist the subscribers or the new federal credit union once chartered;
 - Specify how the mentor will provide the specified actions or services;
 - Discuss the length of time the actions or services will be provided;
 - Explain any conditions for continued involvement with the PFCU;
 - Identify the name and contact information of the specific individual(s) providing the assistance, and
 - Include any other pertinent information.

Step 9: Identify Officials and Management

Most credit union officials volunteer their time and cannot be compensated.¹³ In this step, identify the individuals selected to initially serve as officials of the PFCU, including:

- Board of Directors - must have an odd number of members between 5 and 15. Only one board member may be compensated as an officer of the board;
- Supervisory Committee Members - must have between 3 and 5 members; and
- Credit Committee Members - if used, must have an odd number of members between 3 and 7. Loan officers may be used instead of or in conjunction with a credit committee.

For management employees, refer to the Management and Staffing section under Step 10 for the desirable skill sets of a proposed management employee.

In limited cases, volunteers may serve concurrently on the board of directors and either the supervisory or credit committee. However, the Federal Credit Union Act, Federal Credit Union Bylaws, NCUA Rules and Regulations, and Principles of Sound Internal Control place restrictions on individuals from simultaneously serving in certain conflicting positions. See [Attachment G](#) for a listing of conflicting positions.

In December 2010, NCUA adopted specific knowledge requirements for the Board of Directors. See Section 701.4 of the NCUA Rules and Regulations and NCUA Letter to Federal Credit Unions 11-FCU-02 for additional information. See [Attachment L](#) for a direct link to Letters to Credit Unions and NCUA Rules and Regulations.

When selecting directors, be confident they possess or can quickly acquire the skills to:

- Carry out the duties of a director in good faith, in the best interests of the membership, and with such care as an ordinarily prudent person in a like position would use under similar circumstances;
- Administer the affairs of the credit union fairly, impartially, and without discrimination;
- Direct management's operations in conformity with the Federal Credit Union Act, NCUA Rules and Regulations, other applicable law, and sound business practices; and

¹³ Reimbursement of reasonable expenses incurred in the execution of the duties of the position is not considered compensation. See Reimbursement Policy under Step 15, Draft Written Policies and Procedures.

- Have a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors.

Directors should possess the requisite financial skills within six months of being appointed or elected.

Each prospective official and employee must complete a Report of Official and Agreement to Serve (NCUA 4012) Form. An original copy of this form, along with a copy of each individual's resume, should be submitted to NCUA. NCUA will evaluate a prospective credit union applicant's competence, experience, character, and integrity to ensure his or her association with a newly chartered credit union is in the best interests of the credit union's members or of the public. This evaluation is performed through a review of each individual's NCUA 4012 Form, resume, credit report, and criminal background check.

If the evaluation identifies adverse information, the applicant will be asked to explain in writing the circumstances which led to the adverse information, action taken to resolve the concerns, and steps taken to avoid similar concerns in the future. Other documentation may be requested to support the written explanation, such as proof of delinquent payments and/or agreements reached with creditors. NCUA will notify each applicant and the organizer of an individual's approval or denial to serve as an official or employee for the PFCU.

NCUA 4012 Form is in the Appendix to the Chartering Manual. See [Attachment L](#) for a direct link to the Manual.

Documentation Required for Step 9

- Submit an original Report of Official and Agreement to Serve (NCUA 4012) Form and a resume for each individual who desires to serve as an official and/or employee of the PFCU, unless already completed in Step 4.
- Ensure the NCUA 4012 Form is appropriately completed, including the Authorization to Perform a Credit Check, and the applicant's signature is witnessed.

Step 10: Create the Business Plan

Subscribers should ensure Steps 1 through 9 are completed and reviewed by NCUA before finalizing the business plan. For a business plan to demonstrate the economic viability of the PFCU, it must be supported by the following key information:

- Survey Results (field of membership support);
- Funding for Start-Up Costs (financial and in-kind support); and
- Identification of Officials and Management (management support).

The business plan has three main objectives:

- Clearly document support for the PFCU via the survey results, along with commitment letters reflecting sponsor support, evidence of donations, and other commitments;
- Detail the subscribers' goals and objectives and clearly states how and when the credit union will meet them; and
- Clearly demonstrate that the goals are realistic and achievable based on the assumptions provided, and the goals agree with the financial projections. The financial projections and assumptions, which are addressed in the next step of this guide, must show the credit union can generate sufficient income and has adequate financial resources to cover the cost of operations, dividends on share deposits, and build reserves.

A mentor credit union is generally the best resource for assisting subscribers with developing their business plan, financial projections, and assumptions. In addition, subscribers can request advisory assistance from NCUA with completing this step.

There are a number of sections to a business plan. The major sections are listed below. Each section should be separately organized under its own tab so it can be easily updated based on feedback you will receive on your business plan from NCUA.

Mission Statement

Prepare a brief statement describing the purpose of the PFCU. For example: "It is the purpose of this credit union to promote thrift among its members and create a source of credit for provident and productive purposes." You can also review existing credit union's websites for mission statement examples.

Market Analysis

Analyze market conditions, including geographic, demographic, employment, income, housing, and other economic data. At a minimum, the analysis should answer the following questions:

- What financial services and service providers are available to the membership? For example, identify the number of credit unions, banks, savings and loan institutions, check cashing facilities, pawn shops, and/or other alternative financial institutions available.
- What type of products do the financial providers offer (or not offer)?
- What is the economic condition of the membership? For example, is the sponsor company growing or downsizing, or is the community considered affluent or low income?
- Why is there a need for a credit union, and what is that need?
- Who will be the PFCU's competitors, and how will the PFCU compete?

The data and analysis performed on the market generally helps subscribers develop the PFCU's business plan, marketing plan, projections, and assumptions.

Evidence of Member Support

Describe and summarize the membership survey results and analyses performed by the subscribers and organizer, and detail the financial services needed/desired by the membership. Step 7 covered this section in more detail and provides an example illustrating a membership survey analysis.

Products and Services

Based on the results of the membership surveys and available capital and funding, identify the products (loans and shares) and services (money orders, wire transfers, notary service, debit/ATM cards, etc.) to be offered in the first two years and the timing of when they will be made available (i.e. upon opening, within 6 or 12 months, end of Year 1 or 2, etc.). The offering of products and services at the commencement of operations should be based on what is realistically possible for a newly chartered federal credit union with possibly limited income capacity and resources.

Discuss in detail the terms, conditions, and use of third party vendors for products or services offered in the first two years. Specifically, discuss the due diligence review performed for each vendor and state why the vendor was selected. Obtain written proposals from the vendors as to the costs (flat fees and per transaction costs) to use their service. This section should also discuss the per transaction and aggregate maximum dollar limitations placed on each product and service. A summary table should be incorporated into the business plan similar to the following:

Product/Service	Start Date	Terms	Individual and Aggregate Limits	Third Party Vendors
Regular Shares	Immediate	0.25% Dividend, paid quarterly	Individual \$250,000 or insured limit; Aggregate – None	None
Direct Deposit	6 Months	Free	None	ABC Corporate Credit Union for Routing
Share Drafts	See Benchmark	0.0% Dividend; See Fee Schedule	None	ABC State Credit Union League; ABC Corporate Credit Union for clearing
New Auto Loans (not indirect) ¹⁴	See Benchmark	Rate = Average of 5 CU Competitors; 60 Month Maximum Maturity	Individual \$5,000; Aggregate the lesser of \$500,000 or 40 percent of total loans.	None

Goals for Shares, Loans, and Number of Members

This section outlines projections for the dollar amount and number of loans and shares, and the number of members for the first two years of operation. The intent of this section is to provide benchmarks upon which the credit union and NCUA can measure the success of the group and its business plan. The goals should be broken down by each loan and share product type and expressed in annual periods. The goals should agree with the financial projections (Step 11). Include a discussion of the basis for each goal and identify the section of the membership survey supporting the goal.

A partial illustration of information subscribers would include in this section and incorporate into the PFCU’s pro-forma financial statements projections is below.

¹⁴ See [Attachment L](#), NCUA Letter 10-CU-15 for more information on what is indirect lending.

Growth Assumptions	1st Year¹⁵	2nd Year¹⁶	3rd Year¹⁷
Membership	625	1,250	1,875
# of Vehicle Loans	125	250	375
\$ of Vehicle Loans	\$626,375	\$1,631,250	\$3,015,000
# of Checking Accounts	531	1,062	1,593
\$ of Checking Accounts	\$223,125	\$446,250	\$669,375
# of 24-Mo. Share Certificates	93	187	281
\$ of 24-Mo. Share Certificates	\$56,250	\$112,500	\$168,750

The table above is based on the assumptions made in Step 11. See [Attachment J](#) – Example of Pro-Forma Financial Statement Projection Assumptions for members, vehicle loans, checking accounts, and 24-month share certificate accounts.

Management and Staffing

Discuss the number of employees, their titles, and the anticipated compensation and benefits in this section of the business plan. Include a job description for each job title as well as a training schedule. Staff should have experience or expertise in offering and managing the products and services to be offered. The more sophisticated the products and services, the greater the experience and expertise required. Subscribers must demonstrate each employee is either qualified to handle the responsibilities outlined in the job description or identify the necessary training to adequately prepare the employee prior to opening the PFCU. The training plan should also include how the employees will be trained on using the data processing system, and identify the associated training costs.

All management arrangements and agreements with third parties (i.e., another credit union, etc.) must be in writing and reviewed by an attorney representing the PFCU's interest. Submit draft copies of all agreements and the attorney's written review to NCUA.

Be sure to incorporate all compensation and benefits and training costs into the pro-forma financial statements (Step 11).

¹⁵ For simple illustrative purposes, half of the 2nd Year amount is used. However, the PFCU's marketing plan and assumptions should drive the pro-forma growth goals.

¹⁶ From assumptions made in [Attachment J](#).

¹⁷ For simple illustrative purposes, one and one-half times the 2nd Year amount is used. However, the PFCU's marketing plan and assumptions should drive the pro-forma growth goals.

Operating Facility

Identify the location and cost of the PFCU's office¹⁸ and discuss why this location was selected. Draft copy of a purchase, lease or rental agreement should be reviewed by an attorney representing the PFCU's interest. Submit a copy of the draft agreement and attorney review to NCUA. If a specific location has not yet been determined, identify the planned location and the cost of space in the area, supported by written estimates for at least three locations. A specific location will need to be determined prior to a PFCU finalizing its charter application and NCUA acting on it.

Also include in this section any planned leasehold improvements, need for office equipment and supplies, safeguarding of assets (security equipment and plans), insurance coverage, utility costs, etc., and incorporate these expenses into the pro-forma financial statements (Step 11).

Additionally, state the proposed hours the office will be open to members to transact business.

Recordkeeping and Processing System

Identify the data processing system(s) selected for use by the credit union. Discuss why the system(s) were selected and the cost of the system(s). Draft copies of the proposed hardware and software purchase or lease agreements, maintenance contracts, and vendor estimates of other ongoing costs should be reviewed by an attorney representing the PFCU's interest, and these documents and reviews should be submitted to NCUA. NCUA will also evaluate if any limitation on the terms of any draft contract would be necessary.¹⁹ Incorporate the associated costs (e.g., fixed assets, amortization and depreciated expense, etc.) into the pro-forma balance sheets and income statements (Step 11).

¹⁸ NCUA highly recommends the establishment of only one facility until the credit union has gained experience in how to efficiently operate this facility prior to the establishment of branch offices.

¹⁹ NCUA may also request draft contracts with terms greater than one year contain the following language: "The credit union or its successor shall have the option to terminate this contract/agreement without any liability (other than for services already rendered) or penalty whatsoever to the vendor effective upon NCUA's carrying out its Prompt Corrective Action responsibilities against the credit union pursuant to Part 702 of the NCUA Rules and Regulations, resulting in the merger, conservatorship, or liquidation of the credit union."

An example of a fixed asset listing and depreciation schedule is below.

Furniture, Fixture & Equipment	Estimated Cost	Life of Asset²⁰	Monthly Depreciation
Computer Hardware	\$48,000	48 months	\$1,000
Computer Software	\$6,000	40 months	\$150
Audio Response System	\$4,800	96 months	\$50
5 Desks and 5 Chairs	\$2,650	48 months	\$55
Copy Machine	\$1,200	24-months	\$50
Total	\$62,650		\$1,305

The pro-forma balance sheet would reflect the Furniture, Fixture & Equipment (FF&E) Account at \$62,650 and the Accumulated FF&E Depreciation Account (contra asset account) at the end of the first 12 months at \$15,660 (\$1,305 times 12 months). The pro-forma income statement would reflect depreciation expenses of \$1,305 per month.

Surety Bond Coverage

Section 713.5 of the NCUA Rules and Regulations requires the following minimum bond coverage:

Total Assets	Minimum Bond Coverage
\$0 to \$4,000,000	Lesser of total assets or \$250,000
\$4,000,001 to \$50,000,000	\$100,000 plus \$50,000 for each million or fraction thereof over \$1,000,000

A PFCU would need to purchase additional or enhanced coverage when circumstances warrant. Subscribers should perform an internal risk assessment and consider factors such as the amount of cash on hand, cash in transit, and the nature and risks inherent in any services offered, such as automated clearing house (ACH), wire transfer, and remittance services. Also any needed insurance plans/programs to cover credit union operations in addition to the surety bond coverage must be evaluated.

The associated costs for the surety bond and insurance plans/programs must be incorporated into the pro-forma financial statements and evidence of the proposed coverage submitted to NCUA (Step 11).

²⁰ To determine the life of an asset, consult a Certified Public Accountant (CPA) for the generally accepted accounting guidelines or Section 3000 of the Accounting Manual for Federal Credit Unions. See [Attachment L](#) for a direct link to the Accounting Manual.

Source of Funds and Other Support

Subscribers must ensure the level of funding and support is sufficient to operate the credit union for providing the services deemed important by the members, as reflected in the membership survey. Step 11, the PFCU's financial projections, should include all of the monetary support and subsidizing that are detailed in this section of the business plan. Support can come from:

- a sponsor,
- an organizer,
- an individual,
- a community group or organization,
- a mentor credit union,
- another financial institution like a bank, etc.

Support can be in the form of:

- a grant,
- non-member deposit,
- secondary capital (if a low-income designation is expected)
- donated equipment,
- free or low cost office space, etc.

Each supporter's assistance must be explained in detail including:

- the amount or type of support provided,
- when it begins,
- when it ends,
- if it is to be repaid, and
- any other terms or conditions.

Ensure all commitments being relied upon and used to support the two-year financial projections are in writing. Commitments may be in the form of letters, draft contracts, or any other such document substantiating the PFCU's projections accompanied by financial statements or similar documentation from the supporter(s) demonstrating their ability to meet the commitment. Financial statements from well-known organizations may not be required. To review an example of a commitment letter, go to [Attachment H](#).

Plans for Operating Independently

Subscribers need to explain and support how the PFCU will continue operations after Year 2 while remaining solvent (positive net worth).²¹ Include assumptions in this

²¹ Net worth is computed as all the credit union's retained earnings, including undivided earnings, regular reserves, uninsured secondary capital (available for low income designated credit unions only), net

section and provide support in the form of annual pro-forma financial projections (including balance sheet and income statement projections) demonstrating when the subscribers anticipate the PFCU will generate positive net income absent grants from outside sources. Submit pro-forma financial projections through this year.

Continuity Plan for Director, Committee Members, Management and Staff

Discuss the number of directors and members for each committee, including a supervisory committee, and credit committee if being used. Detail out the terms of each official and the training to be provided prior to, and after opening the PFCU. Also, discuss how you plan to find and train future credit union officials and the succession plan for replacing the CEO/manager. Some potential training topics for officials are:

- Understanding Board Governance – Board’s duties, powers, and responsibilities;
- Understanding financial statements and key financial trends and conditions;
- Understanding the risks of operating a credit union and how to identify and control these risks;
- Understanding economic trends and their effect on the credit union;
- Developing an effective business plan with goals and measurable outcomes;
- Conducting effective meetings;
- Assessing and evaluating a CEO/Manager;
- Communicating with other officials and staff effectively; and
- Working and communicating with your regulator and insurer.

Incorporate the associated training costs into the pro-forma financial statements (Step 11).

If a written management arrangement or agreement will be used, discuss how management and staff will continue after the term of the arrangement/agreement ends.

Documentation Required for Step 10

- Submit a detailed business plan incorporating the minimum requirements mentioned above.

income, and other reserves (excluding the allowance for loan and lease losses, and accumulated gains/losses on available for sale securities).

Step 11: Create Pro-Forma Financial Statement Projections and Assumptions

Subscribers should ensure NCUA’s review of the membership survey has found Step 7 is adequately completed (represents a statistically valid random sample or targeted random sample, the results are tallied, and a written analysis developed) before finalizing the pro-forma financial statement projections and assumptions. Also, Step 12 should be reviewed before starting Step 11.

Once the results from the membership survey are tallied, analyzed, and conclusions reached (Step 7), subscribers will use the results to develop assumptions for membership, loans, shares, usage of products and services, etc. and projections for the PFCU’s pro-forma financial statements.

Detailed pro-forma financial statements consist of a balance sheet and income statement for the first two years of operations, as well as membership, delinquency, and net charge off projections. To review an example of detailed pro-forma financial statement projections illustrating the breakout of categories on a PFCU’s balance sheet and income statement, go to [Attachment I](#).

Include in this section written, detailed assumptions explaining how each line item category on the balance sheet and income statement was calculated and include the basis for the assumption (survey results, industry averages, etc.). [Attachment J](#) contains an example of written assumptions.

Additionally, as discussed under Step 10, Plans for Operating Independently, submit financial projections beyond Year 2 through the year the PFCU plans to operate profitably absent grant money. For example, if the PFCU believes it will be profitable in Year 5, prepare and include pro-forma financial projections through Year 5.

Documentation Required for Step 11

- Submit semi-annual pro-forma balance sheet and income statement projections and corresponding assumptions for at least the first two full years of operation; and
- Submit annual pro-forma financial projections through the year the PFCU will be profitable absent grant money to demonstrate its ability to operate independently as discussed under Step 10.

Step 12: Develop a Marketing Plan

Describe how the PFCU will market the credit union to potential members. Specifically identify the advertising venues and methods to be used and include the cost for each. Some examples of marketing strategies are:

- A 4 x 4 advertisement in the local newspaper for Friday, Saturday, and Sunday papers each quarter at a cost of \$1,300;
- Word of mouth advertising via on-site visits at three local organizations once a week at a cost of \$15 for the membership materials provided to the three local organizations. On-site visits will be handled by the manager on Wednesday mornings before the office opens;
- High school yearbook advertising costing \$75;
- Table rental for distribution of credit union materials at community festival at \$20; and
- School sports field advertisement for a donation of \$100.

The frequency and cost for the advertisement can be easily illustrated via a rollout marketing calendar. An example of a marketing calendar for year one is below. The marketing venues or methods are listed in the left margin with the periods listed in the top header and the cost of the marketing strategy is inserted where the row intersects the column. The marketing strategies, such as those identified above, should correspond with the information provided in the marketing calendar.

Marketing Venues	Quarter				Year 1
	1 st	2 nd	3 rd	4 th	Total
Grand Opening Celebration	\$1,000				\$1,000
Weekly Community Publications Ads		\$500	\$500	\$500	\$1,500
News Article (local paper)	\$1,300	\$1,300	\$1,300	\$1,300	\$5,200
News Article (free ads with membership of \$200)	\$200	\$0	\$0	\$0	\$200
Community Festivals (Table Rentals)		\$250		\$350	\$600
Billboard		\$2,000			\$2,000
Direct Mailings	\$1,500	\$1,500	\$2,250	\$2,250	\$7,500
Total	\$4,000	\$5,550	\$4,050	\$4,400	\$18,000

If the PFCU will serve a local community, neighborhood, or rural district, the marketing plan should incorporate the analysis of the area's demographic characteristics, along with a discussion about how the PFCU will reach out and effectively serve all segments of the population.

Also, discuss what activities and events are planned within the PFCU's service area and/or groups to promote the new federal credit union's services and products, and represent itself as a responsible corporate citizen. For example, participation in the local Chambers of Commerce, city's Vendor Fair, annual Food Drive event, etc.

See Part 740 of NCUA Rules and Regulations for requirements regarding the accuracy of advertising. See [Attachment L](#) for a direct link to NCUA Rules and Regulations. Be sure to include all marketing costs in the pro-forma financial statement projections (Step 11).

Documentation Required for Step 12

- Submit a formal written marketing plan including costs associated with each marketing initiative as shown above.

Step 13: Complete Required NCUA Forms

The Appendix of the Chartering Manual contains the required chartering forms. See [Attachment L](#) for a direct link to the Manual. These forms can only be completed and signed by the appropriate individuals after receiving preliminary field of membership approval from NCUA (Step 3).

The forms are:

NCUA 4001, Federal Credit Union Investigation Report signed by the Organizer:

- Page 4 and 5 should only be completed for an occupational single common bond (SCB) charter;
- Page 6 should only be completed for a trade, industry, or profession, which is a SCB charter type;
- Page 7 and 8 should only be completed for an associational SCB charter;
- Page 9 should only be completed for a multiple common bond (MCB) charter; and
- Page 10 should only be completed for a community charter.

NCUA 4008, Organization Certificate signed by each subscriber, not less than seven subscribers. Ensure each subscriber's signature matches the printed version of the subscriber's name on this form, and that the names on this form are IDENTICAL to the names of subscribers listed on pages 11 and 12 of the Form NCUA 4001. Provide two notarized copies of this form to NCUA.²²

NCUA 9500, Application and Agreement for Insurance of Accounts signed by the individuals appointed Chairperson and Chief Financial Officer (or Treasurer).

NCUA 9501, Certificate of Resolution signed by the individual assigned Chief Executive Officer and appointed Recording Officer for the Board of Directors (or Secretary).

Documentation Required for Step 13

- | |
|--|
| <input type="checkbox"/> Submit NCUA Forms 4001, 4008, 9500, and 9501. |
|--|

²² NCUA recommends submitting the two notarized copies of the NCUA 4008 after NCUA provides a listing of approved subscribers. Frequently, a revised NCUA 4008 must be submitted because some subscribers may not be approved to serve as a subscriber or an official as a result of NCUA's credit and criminal background checks. Similar changes may be needed to other forms (i.e., NCUA 4001) due to NCUA's credit and criminal background investigations.

Step 14: Establish Credit Union Bylaws

Customize NCUA’s standard Federal Credit Union Bylaws to meet the needs of the PFCU by downloading an “MS Word” version of the most recent federal credit union bylaws. See [Attachment L](#) for a direct link to the Federal Credit Union Bylaws. Simply fill in the indicated blanks and select the desired options available for certain articles or sections. No other changes can be made to the bylaws without NCUA approval.

If you wish to seek NCUA’s approval for a non-standard amendment (i.e., one that is not a fill-in-the-blanks provision or option provided in the standard bylaws) to the Federal Credit Union Bylaws, contact NCUA to discuss in greater detail before submitting a written request to amend the PFCU’s bylaws.²³ See the front cover page for NCUA’s contact information.

Documentation Required for Step 14

- | |
|--|
| <input type="checkbox"/> Submit the adopted draft credit union bylaws to NCUA. |
|--|

²³ NCUA generally will not approve a bylaw amendment for items that can be accomplished by a board resolution.

Step 15: Draft Written Policies and Procedures

The board of directors of a federal credit union charter is ultimately responsible for establishing the policies of the credit union. It is through written policies and the resulting procedures that the board of directors and management control the operations of the credit union. Policies and procedures should specifically address the impact on the credit union's operation and should be reviewed and adjusted as necessary, but at least annually. The specific policies and procedures required for a new federal credit union will depend on its particular offerings, membership, and environment.

Subscribers should become familiar with NCUA Rules and Regulations, consumer regulations, and safe and sound business practices in order to develop many of the policies below. NCUA Letters to Credit Unions and Exam Questionnaires also provide guidance on many of these policy areas. Subscribers should use their mentor credit union(s) to assist with drafting credit union policies. If policies are obtained from a mentor credit union, modify the policies to fit the operations of the PFCU. See [Attachment L](#) for a direct link to the Letters to Credit Unions and Exam Questionnaires.

A list of the basic written policies is below. Some may not be applicable depending on the new federal credit union's products and services, membership, etc.

Fair Lending Policy and Loan Policy

Fair lending laws are designed to provide fair and equal access to credit, based on individual creditworthiness, without regard to a prohibited basis such as race, gender, or national origin. The fair lending policies and procedures should clearly state how the credit union will comply with fair lending laws and enable the credit union to serve the entire field of membership.

The board of directors and senior management will need to understand and convey to all credit union staff they are responsible and accountable to complying with the fair lending laws and regulations. Policies and procedures concerning the approval of credit, loan underwriting, pricing, and servicing standards need to be clearly written and understood also. Fair lending training should also be provided for all credit union employees and officials involved in the lending process. Include training for employees who take applications, originate loans, service loans, and collect delinquent loans. The supervisory committee and any internal audit staff should also incorporate an assessment of compliance with the credit union's fair lending policies as a component of their review procedures. See [Attachment L](#) for a direct link to NCUA's Fair Lending Guide.

Loan policies need to identify the type of lending programs to be offered in the first two years of operation. Discuss the type of loans, dollar limitations, terms and interest rates,

maturity, collateral and insurance requirements, etc. within each lending program. State the factors and parameters (e.g., credit standards) for processing a loan within each lending program.

Ensure the loan policies address compliance with the appropriate consumer lending regulations, including the Truth in Lending Act (Consumer Financial Protection Bureau (CFPB) Regulation Z, 12 CFR Part 1026), Equal Credit Opportunity Act (CFPB Regulation B, 12 CFR Part 1002), and Fair Credit Reporting Act (CFPB Regulation V, 12 CFR Part 1022). More advanced lending products, such as mortgage loans, will require compliance with the Real Estate Settlement Procedures Act (RESPA – CFPB Regulation X, 12 CFR Part 1024), Fair Housing Act,²⁴ and possibly the Home Mortgage Disclosure Act (HMDA – CFPB Regulation C, 12 CFR Part 1003), among other requirements. These regulations can be viewed at the Electronic Code of Federal Regulations site. See [Attachment L](#) for a direct link to the Electronic Code of Federal Regulations site.

Review NCUA Rules and Regulations pertaining to loans or loan related matters as listed below. See [Attachment L](#) for a direct link to NCUA Rules and Regulations.

- §701.21, Loans to Members and Lines of Credit to Members;
- §701.22, Loan Participation (Letters to Credit Union 08-CU-26 and 13-CU-07 also provide information);
- §701.31, Nondiscrimination Requirements;
- §702.304(a)(3), Restriction on Member Business Loans;
- Part 706, Credit Practices;
- Part 717, Fair Credit Reporting, Subparts I and J;²⁵
- Part 722, Appraisals;
- Part 723, Member Business Loans; and
- Part 760, Loans in the Areas Having Special Flood Hazard.

Review NCUA Letters to Credit Unions covering lending matters, such as risk-based lending (99-CU-05), specialized lending (04-CU-13), mortgages and appraisals (07-CU-09, 03-CU-17, and 10-CU-23), members business loans (04-CU-10 and 10-CU-02), and Small Business Administration loans (04-CU-01). See [Attachment L](#) for a direct link to Letters to Credit Unions.

Collection Policy

Ensure the collection policy outlines collection practices, such as who is responsible for collection contacts; the time frames and collection contacts/actions to be taken

²⁴ The Fair Housing Act is codified at 42 U.S.C. §§ 3601-3619. U.S. Dept. of Housing and Urban Development regulations implementing the Fair Housing Act are found at 24 CFR Part 100.

²⁵ See also CFPB Regulation V, 12 CFR Part 1022.

(reminder notice, letter, telephone call, repossession, foreclosure, referral to a collection agency or attorney, etc.); how collection efforts will be documented and tracked; board reporting requirements, etc.

Loan Charge-Off Policy

Develop a policy outlining charge off practices (Letter to Credit Unions 03-CU-01). See [Attachment L](#) for a direct link to Letters to Credit Unions.

Allowance for Loan and Lease Losses (ALLL) Policy

Develop an ALLL policy addressing the methodology and documentation requirements to fund the ALLL account. For additional guidance reference Letter to Credit Unions 02-CU-09. See [Attachment L](#) for a direct link to Letters to Credit Unions.

Investment Policy

Ensure the investment policy addresses all requirements outlined in Part 703 of NCUA Rules and Regulations, such as permissible investments; discussion on how interest rate, liquidity, credit, and concentration risk will be managed; who has investment authority and extent of their authority; approved broker-dealers; approved safe keepers; etc. Letters to Credit Unions 10-CU-18 and 13-CU-05 provides information on investments. See [Attachment L](#) for a direct link to NCUA Rules and Regulations and to Letters to Credit Unions.

Cash Policy

Identify how cash will be handled and the permissible amount to be held on the credit union's premises. The amount of cash in teller drawers, vaults, etc. must be based on the bonding limits from an approved bond company. See Section 713.5 of NCUA Rules and Regulations or Step 10, Surety Bond Coverage, for more information on the minimum bond coverage required. Also, having a cash operation has Bank Secrecy Act implications (e.g., filing of Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs)) which should be further addressed in the PFCU's Bank Secrecy Act policy (discussed below). See [Attachment L](#) for a direct link to NCUA Rules and Regulations.

Bank Secrecy Act (BSA)/Customer Identification Program (CIP)

Ensure these policies address all requirements specified in the interagency Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual,²⁶ including how a member's identity will be verified. See [Attachment L](#) for a direct link to the BSA/AML Examination Manual. The BSA program needs to be commensurate with

²⁶ Developed by the Federal Financial Institutions Examination Council (FFIEC) member agencies.

the PFCU's respective BSA/AML risk profiles and address the following required elements:

- System of internal controls;
- Independent testing;
- Designated person or persons responsible; and
- Training.

In general, BSA requires credit unions to track cash transactions and purchases of cash equivalents, such as money orders, and to comply with other recordkeeping and reporting requirements. The forms used most frequently by credit unions to report transactions are the CTR and the SAR.

The CIP policy must detail the method to be used to verify a person's identity and indicate who will handle/respond to the information sharing requests (commonly known as 314a lists)²⁷ provided by the Financial Crimes Enforcement Network (FinCEN).

Separate policies may be developed for BSA and CIP if preferred. Additional guidance on BSA is located in Letters to Credit Unions 06-CU-14, 05-CU-16, and 05-CU-09. See [Attachment L](#) for a direct link to Letters to Credit Unions.

The BSA statute and implementing regulations can be viewed on FinCEN's website. See [Attachment L](#) for a direct link to FinCEN.

Office of Foreign Assets Control (OFAC) Policy

Develop an OFAC policy addressing compliance with and takes appropriate action to block, freeze, or prohibit transactions with persons and countries contained on the list of Specially Designated Nationals and Blocked Persons (SDN). Credit unions must take steps to download or otherwise obtain the SDN list from OFAC on a regular basis. Many computer vendors have incorporated OFAC reviews, including the download of updated SDN lists, in their daily processing and monthly closing routines. See [Attachment L](#) for a direct link to OFAC information.

Truth-in-Savings (TIS)

Develop TIS disclosures complying with Part 707 of NCUA Rules and Regulations. TIS disclosures outline the share products and include the terms, interest rates, maturity, fees, procedure for payment of dividends, etc. for each of the share products. NCUA Rules and Regulations §701.35 covers permissible share accounts; permissible non-

²⁷ Section 314 of the USA Patriot Act addresses cooperative efforts between law enforcement agencies and financial institutions to deter money laundering.

member deposits are outlined in §701.32. See [Attachment L](#) for a direct link to NCUA Rules and Regulations.

Director Fiduciary Duties

Develop a policy addressing the fiduciary responsibilities of the board of directors. The board of directors is responsible for the general direction and control of the credit union, including the ability to:

- Carry out the duties of a director in good faith and in the best interests of the membership;
- Administer the affairs of the credit union fairly, impartially, and without discrimination;
- Direct management’s operations in conformity with the Federal Credit Union Act, NCUA Rules and Regulations, other applicable law, and sound business practices; and
- Develop a working familiarity with basic finance and accounting practices, including the ability to read and understand the credit union’s balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors within six months of appointment or election.

The policy should also include training available to implement the above objectives. Section 701.4 of the NCUA Rules and Regulations and Letter to Federal Credit Union 11-FCU-02 address directors’ fiduciary duties. See [Attachment L](#) for a direct link to NCUA Rules and Regulations and Letters to Federal Credit Unions.

Reimbursement Policy

Develop, in accordance with Section 701.33(b)(2)(i) of the NCUA Rules and Regulations, written policies and procedures, including documentation requirements, for the payment (by reimbursement to a credit union official or direct credit union payment to a third party) of reasonable and proper costs incurred by an official in carrying out the official’s responsibilities, if the board of directors determines the payment is necessary or appropriate to carry out the official business of the credit union.

Asset Liability Management (ALM) Policy

Ensure the ALM policy addresses interest rate risk limits, monitoring, reporting, and controls. ALM is a process of evaluating balance sheet risk (interest rate and liquidity risks) and making prudent decisions, which enables a credit union to remain financially viable as economic conditions change. An ALM policy is necessary to control interest rate risk and liquidity risk associated with longer term investments, real estate loans, and business lending activities. Letters to Credit Unions 99-CU-12, 01-CU-08, and 12-CU-05 provide information on ALM. See also Chapter 13 of NCUA’s Examiner’s

Guide. See [Attachment L](#) for a direct link to Asset Liability Management, Letters to Credit Unions, and Chapter 13 of the Examiner’s Guide.

Liquidity Policy

Develop a liquidity policy that addresses:

- Minimum cash levels;
- Concentration limits in loans, investments, fixed assets, etc.;
- Approved liquidity sources such as a corporate credit union line of credit, correspondent banking relationships, Federal Home Loan Bank membership, NCUA’s Central Liquidity Facility, Federal Reserve System, etc.; and
- Reporting and monitoring requirements.

Adequate liquidity management helps ensure management has sufficient funds available to meet demands for loans and share withdrawals. Letters to Credit Unions 10-CU-14 and 13-CU-10 provides information on liquidity and contingency funding plans. See [Attachment L](#) for a direct link to Letters to Credit Unions.

Vendor Management/Third Party Relationships

Develop a vendor management policy that addresses planning, due diligence, and controls required before engaging in third-party relationships. The level of planning, due diligence, and controls required to safely engage in any relationship depends upon the credit union’s risk profiles and the type of relationship with the vendor. Letters to Credit Unions 08-CU-09, 07-CU-13, and 01-CU-20 provide information on vendor/third-party relationships. See [Attachment L](#) for a direct link to Letters to Credit Unions.

E-Commerce Policy

Establish an E-Commerce policy when the business plan calls for delivering financial services electronically, including the internet and audio response. This policy should address procedures that monitor and control activities relating to the electronic delivery of financial services. Letters to Credit Unions 02-CU-17 and 05-CU-18 provides guidance on E-Commerce and Letter to Credit Unions 97-CU-1 provides guidance on audio response systems. See [Attachment L](#) for a direct link to Letters to Credit Unions.

Ensure this policy adequately addresses the federal consumer protection laws and regulations pertaining to electronic delivery of financial services, specifically the Electronic Fund Transfers Act (CFPB Regulation E, 12 CFR Part 1005) and Electronic Signatures in Global and National Commerce Act (E-SIGN Act).²⁸ See [Attachment L](#) for a direct link to the Electronic Code of Federal Regulations.

²⁸ The E-SIGN Act is codified at 15 U.S.C. §§ 7001-7006; 7021; 7031.

Security Program

Develop a security program covering the following areas:

- Protecting each credit union office from robberies, burglaries, larcenies, and embezzlement;
- Ensuring the security and confidentiality of member records (manual and electronic records); and
- Preventing the destruction of vital records.

As appropriate, the security policy needs to address the requirements of NCUA Rules and Regulations Part 748, Appendix A (Safeguarding Member Information), Appendix B (Incident Response Programs), and Part 749 (Records Preservation Program). Letters to Credit Unions 06-CU-07 and 02-CU-12 also provide guidance on developing a security program. See [Attachment L](#) for a direct link to NCUA Rules and Regulations and Letters to Credit Unions.

Disaster Recovery and Business Continuity/Resumption Policy

Establish a disaster recovery policy covering potential disasters and describes what staff is to do and who they are to notify in the event of a disaster. The policy should also indicate where back-up records will be stored or maintained. For guidance on disaster recovery programs, see Letters to Credit Unions 06-CU-12, 08-CU-01, and 08-CU-07 and Risk Alert 06-Risk-01. See [Attachment L](#) for a direct link to Letters to Credit Unions and Risk Alerts.

Ensure the policy includes business continuity/resumption procedures during failures such as telecommunications networks, telephone lines, power grids, water and sanitation systems, etc. and details how the credit union will continue operations in the event of such a failure. For guidance on this area, see Letter to Credit Unions 98-CU-12. See [Attachment L](#) for a direct link to Letters to Credit Unions.

Privacy Policy

Create a privacy policy addressing treatment of nonpublic personal information about consumers and compliance with annual disclosure requirements. For more information, refer to CFPB Regulation P (12 CFR Part 1016) and Letter to Credit Unions 01-CU-02. See [Attachment L](#) for a direct link to the Electronic Code of Federal Regulations and Letters to Credit Unions.

Identity Theft Red Flags, Credit Report Address Discrepancies, and Records Disposal

Develop and implement written identity theft prevention programs under the "Red Flags Rules." The red flags rules implement part of the Fair and Accurate Credit Transactions Act of 2003 (FACTA). Under these rules, financial institutions and creditors with covered accounts must have identity theft prevention programs in place to identify, detect, and respond to patterns, practices, or specific activities that could indicate identity theft.²⁹ For more information, refer to Letter to Credit Unions 08-CU-24. FACTA also requires users of credit reports to implement reasonable policies and procedures to use when the user receives a notice of address discrepancy from a credit reporting agency. Additionally, credit unions and other financial institutions are required to adopt measures for properly disposing of consumer information derived from credit reports.³⁰ See [Attachment L](#) for a direct link to Letters to Credit Unions.

Procedures for Major Operational Areas

In addition to the above written policies, written procedures must be developed for all major areas of operations such as record retention, maintaining and balancing general ledger accounts; capitalization or expenditure of purchases, fixed asset calculation and limit, etc.

Policies for Advanced Services

Policies must be established for any advanced services planned for implementation during the first two years of operations. For example, a share draft program requires a policy to address the terms of the program, including who will qualify for an account, when an account will be closed, overdraft procedures, fees, clearing procedures, third party relationships, and compliance with the Expedited Funds Availability Act and the Check Clearing for the 21st Century Act (Federal Reserve Board (FRB) Regulation CC, 12 CFR Part 229), the Truth-in-Savings Act,³¹ and the FRB's Reserve Requirements of Depository Institutions (FRB Regulation D, 12 CFR 204). A share draft policy must also address overdraft protection procedures, if applicable. See Letters to Credit Unions 05-CU-03 for overdraft protection controls and 05-CU-28 for information on Overdraft (Courtesy Pay) Programs. See [Attachment L](#) for a direct link to the Electronic Code of Federal Regulations and Letters to Credit Unions.

²⁹ For FCUs, the red flags rules appear in NCUA Rules and Regulations Part 717, Subpart J (Identity Theft Red Flags) and Appendix J (Interagency Guidelines on Identity Theft Detection, Prevention, and Mitigation). Two sections implement Subpart J: §717.90 (Duties regarding the detection, prevention, and mitigation of identity theft) and §717.91 (Duties of card issuers regarding changes of address).

³⁰ For FCUs, the credit report address discrepancies and disposal of consumer information rules appear in NCUA Rules and Regulations Part 717, Subpart I (Duties of Users of Consumer Reports Regarding Address Discrepancies and Records Disposal). Two sections implement Subpart I: §717.82 (Duties of users regarding address discrepancies) and §717.83 (Disposal of consumer information).

³¹ See Part 707 of the NCUA Rules and Regulations.

NCUA Exam Questionnaires can provide guidance on establishing policies for advanced services. See [Attachment L](#) for a direct link to Exam Questionnaires.

Documentation Required for Step 15

- Submit a copy of all written policies and procedures to NCUA.

PART 4: NCUA Action (When Part 1, 2, and 3 are successfully completed)

Step 16: Meet with NCUA Staff

Upon satisfactory completion of a charter application demonstrating the organization certificate conforms to the requirements of the Federal Credit Union Act, the PFCU's business model has the potential of demonstrating economic viability, along with the subscribers and officials being of good character and fitness, NCUA staff will meet with the proposed subscribers, officials, and management to finalize a Letter of Understanding and Agreement (LUA). The LUA will be signed by the PFCU's board of directors and appropriate NCUA staff, and will generally remain in place for at least 24 months. An LUA outlines the parameters in which the new federal credit union will operate and is based substantially on the PFCU's approved business plan and financial projections. To review a sample LUA, go to [Attachment K](#).

Step 17: Charter Issued

Congratulations! Upon successful completion of NCUA's onsite review and execution of the Letter of Understanding and Agreement, NCUA will issue a Charter and Certificate of Insurance to establish the new federal credit union. NCUA will forward these documents and necessary pamphlets, forms, and instructional manuals to the credit union office.

The new federal credit union will be assigned to one of NCUA's regional offices. A supervisory examiner and district examiner will be assigned by the regional office to oversee and supervise the new federal credit union. The district examiner serves as the new federal credit union's point of contact with NCUA.

Please note, Article X of the Federal Credit Union Bylaws state that "failure to commence operations within 60 days following receipt of the approved organization certificate is cause for revocation of the charter unless a request for an extension of time has been submitted to and approved by the Regional Director." Any delays in the new federal credit union commencing operations should be communicated by the new federal credit union to its assigned NCUA regional office.

Attachment A: Checklist of Documentation Requirements

[Click here to go back](#) to Attachment A Reference

Documentation Required for Step 1 – Research the Federal Charter:

- Each subscriber should individually review and become familiar with the six documents listed in Step 1. You may acknowledge this by submitting a letter to NCUA. See [Attachment B](#) for a sample letter.

Documentation Required for Step 2 – Select Credit Union Name:

- In a letter addressed to NCUA include the name of the PFCU. This can be combined with the documentation requirements of Step 3, which follows.

Documentation Required for Step 3 – Establish a Field of Membership:

3.A. – Single Common Bond

- A letter identifying:
 - Field of membership type the PFCU wishes to serve (select one of the below and include the required documentation for the selection): 3.A.1; 3.A.2; or 3.A.3); and
 - Proposed FOM wording (See [Attachment C](#)):

3.A.1 – Occupational

- Enclose a letter from the entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must be signed by an individual authorized to represent the entity and must include the following:
 - Entity's name;
 - Physical address;
 - Telephone number; and
 - Number of employees.

3.A.2 – Trade, Industry, or Profession (TIP)

- The enclosed letter should also include the following information:
 - Name of proposed trade, industry, or profession;
 - Number of employees in TIP and independent documentation to support the number;
 - Geographic area to be served;
 - Discussion of previously approved TIP by NCUA, if applicable; and
 - Description of how membership eligibility will be verified (i.e., pay stub, employment badge, HR department, etc.).

3.A.3 – Associational

- Enclose a letter from the entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must be signed by an individual authorized to represent the entity and must include the following:
 - Entity’s name, physical address, and telephone number;
 - Number of members in the association; and
 - Number of employees in the association, if any.

- Enclose a copy of the association’s Bylaws, Articles of Incorporation, Constitution, Charter or any other equivalent documentation supporting that it is a recognized entity (bylaws are generally not needed if the entity is a well-known church); however, NCUA may request these and any other documents at its discretion.

3.B. – Multiple Common Bond

- A letter identifying
 - Field of membership type the PFCU wishes to serve (select all of the below that are applicable and include the required documentation for each selection): 3.B.1; 3.B.2; or 3.B.3); and
 - Proposed FOM wording (See [Attachment C](#)):

3.B.1 - Multiple Common Bond Charter – Occupational

- Identify each entity by name, city and state, and include the number of current employees.

- Enclose a letter from an authorized representative of each entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must also include:
 - Number of current employees;
 - Distance (# of miles) the entity’s physical address is located from the PFCU’s office facility;
 - Physical address and telephone number of the entity;
 - If any single group being included has more than 3,000 members,
 - Explanation why the group cannot form its own credit union; and
 - Statement whether the group has other credit union service. If the group has other credit union service, submit a letter from the overlapped credit union indicating whether or not it objects to the overlap, unless the overlapped credit union is a community charter or non-federally insured. If this letter cannot be obtained, submit proof of sending a letter to any overlapped credit union to obtain this information (e.g., certified mail return receipt). For assistance in identifying overlapped credit unions, submit a Freedom of Information Act Request to NCUA. See

[Attachment L](#) for a direct link to the Freedom of Information Act Request.

3.B.2 - Multiple Common Bond Charter – Associational

- Identify each entity by name, city and state, and include the number of current employees or members.

- Enclose a letter from an authorized representative of each entity (on its letterhead) stating it is interested in sponsoring and being a part of the PFCU. The letter must also include:
 - Number of current members and the association’s employees;
 - Distance (# of miles) the association’s physical address is located from the PFCU’s office facility;
 - Physical address and telephone number of the association;
 - If any single group being included has more than 3,000 members,
 - Explanation why the group cannot form its own credit union; and
 - Statement whether the group has other credit union service. If the group has other credit union service, submit a letter from the overlapped credit union indicating whether or not it objects to the overlap, unless the overlapped credit union is a community charter or non-federally insured. If this letter cannot be obtained, submit proof of sending a letter to any overlapped credit union to obtain this information (e.g., certified mail return receipt). For assistance in identifying overlapped credit unions, submit a Freedom of Information Act Request to NCUA. See [Attachment L](#) for a direct link to the Freedom of Information Act Request.

- Enclose a copy of the association’s Bylaws, Articles of Incorporation, Constitution, Charter, and/or any other equivalent documentation supporting that it is a recognized entity (bylaws are generally not needed if the entity is a well-known church); however, NCUA may request these and any additional documents at its discretion.

3.B.3 - Multiple Common Bond Charter – Underserved Area

- The letter should also include the following information:
 - Name and/or a description of the underserved area (including the census tracts encompassing requested area);
 - Population of the underserved area;
 - CDFI Investment Area map obtained from www.cdfifund.gov demonstrating the requested area qualifies;
 - CDFI Investment Area Report obtained from www.cdfifund.gov showing how the requested area meets the investment area criteria;
 - Documentation supporting the PFCU meets the MCB requirements for adding an underserved area:
 - Two or more single common bond groups are to be included in the proposed field of membership;
 - A service facility is in the underserved area or will be established and maintained in the area within two years; and
 - The requested area is underserved by other depository institutions, including credit unions. NCUA can assist with this requirement once a CDFI map and investment area report are obtained. Contact NCUA for assistance with satisfying this requirement; and
 - One-page narrative titled “Significant Unmet Needs” documenting the unmet financial needs in the requested area and how the PFCU will meet those unmet needs. Contact NCUA for assistance with satisfying this requirement.

3.C. – Community

- A letter identifying :
 - Field of membership type the PFCU wishes to serve (select one of the below and include the required documentation for the selection: 3.C.1; or 3.C.2); and
 - Proposed FOM Wording (See [Attachment C](#)):

3.C.1 - Community Charter - Single Political Jurisdiction – Submit the following:

- Name of the single political jurisdiction (e.g., Benton County, WA or City of Vacaville, CA);
- Map of the political jurisdiction(s) with the proposed area outlined. If the area is not a township, borough, city, parish, or county, describe the outer boundaries of the area using roads, streets, and landmarks; and
- Population of the community. Generally, the U.S. Census Bureau can be used to locate this information. See [Attachment L](#) for a direct link to American FactFinder.

3.C.2 – Community Charter - Multiple Contiguous Political Jurisdictions or Rural District – submit the following:

3.C.2 – Community Charter - Multiple Contiguous Political Jurisdictions or Rural District – submit the following:

- Name of the multiple contiguous political jurisdictions (e.g., Benton and Franklin Counties, WA or Kennewick-Richland-Pasco Metropolitan Statistical Area) or rural district;
- Map of the community with the proposed area outlined. If the area is not comprised totally of contiguous counties and/or cities, describe the outer boundaries of the area using roads, streets, and landmarks; and
- Population of the community. Generally, the U.S. Census Bureau can be used to locate this information. See [Attachment L](#) for a direct link to American FactFinder.
- IF NOT PREVIOUSLY APPROVED BY NCUA – Submit documentation showing how the community meets the Statistical Area or Rural District criteria outlined above. For additional questions or a better understanding of what is needed, contact NCUA; and
- If previously approved multiple contiguous political jurisdiction – Provide the credit union name, location, and charter number that is currently serving this community. No other documentation is needed. See [Attachment L](#) for a direct link to Communities Previously Approved.

Documentation Required for Step 4 – Identify Subscribers:

- A letter identifying the subscribers and their anticipated involvement and contribution to the chartering process, including time commitment (number of hours per month);
- Name and telephone number of the contact person. If other than a subscriber, their anticipated involvement and contribution to the chartering process, including time commitment (number of hours per month); and
- An original Report of Official and Agreement to Serve (NCUA 4012) Form and a resume for each individual who desires to be a subscriber of the PFCU. Ensure the NCUA 4012 Form is completed in its entirety, including the Authorization to Perform a Credit Check, and the applicant’s signature is witnessed.

Documentation Required for Step 5 – Secure Start-up Costs:

- In a letter addressed to NCUA, describe the source of your funding and the actions and steps taken by the subscribers to obtain the necessary funds to cover the PFCU's start-up costs and operations until the PFCU can become profitable. Provide details on the nature, terms, and conditions on all the contributions, cash, non-member deposits, or other assistance provided to the PFCU. Any financial benchmarks for the PFCU that are tied to the commitment(s) or the repayment(s) should be discussed as well.
- Obtain the commitment in writing from the funding source and ensure the letter contains the following details regarding the commitment:
 - Name of the person making the commitment;
 - Name of organization affiliated with donor;
 - Address of person/organization;
 - Telephone number of person/organization;
 - Type and amount of commitment;
 - Start date of commitment;
 - End date of commitment; and
 - Description of terms and conditions of commitment.
- Forward copies of commitment letters to NCUA; and
- Submit copies of bank statements and/or donors' most recent audited financial statements or equivalent documentation to NCUA.

Documentation Required for Step 6 –Identify a Physical Location:

- In a letter, inform NCUA of the PFCU's anticipated address of its main office and any branches to be open at inception.

Documentation Required for Step 7 – Survey the Potential Membership:

Upon completion of the membership survey submit the following to NCUA:

- Tally of the membership survey results (do not submit the completed individual survey forms to NCUA unless requested);
- Written analysis of the membership survey results. See [Attachment F](#) for an example;
- Blank copy of the membership survey form;
- Written explanation of how the membership survey form was distributed; and
- Written explanation of the random sample process used to select who received a survey form.

Documentation Required for Step 8 – Find a Mentor and Other Resources:

- Notify NCUA in writing of all mentor relationships established and include copies of written acknowledgement letters. The written letters should:

- Identify the steps, actions, or services the mentor will provide to assist the subscribers or the new federal credit union once chartered;
- Specify how the mentor will provide the specified actions or services;
- Discuss the length of time the actions or services will be provided;
- Explain any conditions for continued involvement with the PFCU;
- Identify the name and contact information of the specific individual(s) providing the assistance, and
- Include any other pertinent information.

Documentation Required for Step 9 – Identify Officials and Management:

- Submit an original Report of Official and Agreement to Serve (NCUA 4012) Form and a resume for each individual who desires to serve as an official and/or employees of the PFCU, unless already completed in Step 4.
- Ensure the NCUA 4012 Form is appropriately completed, including the Authorization to Perform a Credit Check and the applicant's signature is witnessed.

Documentation Required for Step 10 – Create the Business Plan:

- Submit a detailed business plan incorporating the minimum requirements mentioned in Step 10.

Documentation Required for Step 11 – Create Pro-Forma Financial Statement Projections and Assumptions:

- Submit semi-annual pro-forma balance sheet and income statement projections and corresponding assumptions for at least the first two full years of operation; and
- Submit annual pro-forma financial projections through the year the PFCU will be profitable absent grant money to demonstrate its ability to operate independently as discussed under Step 10.

Documentation Required for Step 12 – Develop a Marketing Plan:

- Submit a formal written marketing plan including costs associated with each marketing initiative as discussed under Step 12.

Documentation Required for Step 13 – Complete Required NCUA Forms:

- Submit NCUA Forms 4001, 4008, 9500, and 9501.

Documentation Required for Step 14 – Establish Credit Union Bylaws:

- Submit the adopted draft credit union bylaws to NCUA.

Documentation Required for Step 15 – Draft Written Policies and Procedures:

- Submit a copy of all written policies and procedures to NCUA:
 - Fair Lending Policy and Loan Policy;
 - Collection Policy;
 - Loan Charge Off Policy;
 - Allowance for Loan and Lease Losses (ALLL) Policy;
 - Investment Policy;
 - Cash Policy;
 - Bank Secrecy Act (BSA)/Customer Identification Program (CIP);
 - Office of Foreign Asset Control (OFAC) Policy;
 - Truth-In-Savings (TIS);
 - Director Fiduciary Duties;
 - Reimbursement Policy;
 - Asset Liability Management (ALM) Policy;
 - Liquidity Policy;
 - Vendor Management/Third Party Relationships;
 - E-Commerce Policy;
 - Security Program;
 - Disaster Recovery and Business Continuity/Resumption Policy;
 - Privacy Policy;
 - Identity Theft Red Flags, Credit Report Address Discrepancies, and Records Disposal;
 - Procedures for Major Operational Areas; and
 - Policies for Advanced Services.

Attachment B: Researching the Federal Credit Union Charter

[Click here to go back](#) to Attachment B Reference

Proposed Federal Credit Union
10000 East Avenue, Somewhere, USA 77777
1-800-000-0000, Fax: 000-000-1111, Email: JohnDoe@ProposedFCU.net

January x, 20xx

National Credit Union Administration
Office of Consumer Protection
Division of Consumer Access
1775 Duke Street
Alexandria, VA 22314-3437

Dear Director of the Office of Consumer Protection:

As suggested in NCUA's Federal Credit Union Charter Application Guide, the subscribers listed in the enclosure acknowledge reviewing and becoming familiar with the following six NCUA documents:

- Federal Credit Union Charter Application Guide;
- Facts about Federal Credit Unions;
- Federal Credit Union Handbook;
- NCUA's Rules and Regulations;
- NCUA's Chartering and Field of Membership Manual, Chapters 1, 2, and 3; and
- Express Chartering Procedures.

As indicated in the enclosure, (insert name) has witnessed the subscribers' signatures. In addition, the subscribers have designated (insert name) as the proposed federal credit union's contact person and [select one: hired or appointed] (insert name) as the Organizer. If you have questions regarding this letter, please let me know.

Sincerely,

John Doe, [Select one: Subscriber or Organizer]
Proposed [Insert Name] Federal Credit Union

ACKNOWLEDGEMENT OF RESEARCHING THE FEDERAL CREDIT UNION CHARTER

I, the undersigned, have reviewed the six NCUA documents outlined in NCUA's Federal Credit Union Charter Application Guide. I have become familiar with what a federal credit union is, the regulatory and consumer requirements a federal credit union must comply with, understand better the operational requirements involved in developing a business model and running a federal credit union, and the steps and documentation requirements for chartering a federal credit union.

#1 Subscriber's Printed Name Date

Signature Witness Signature

#2 Subscriber's Printed Name Date

Signature Witness Signature

#3 Subscriber's Printed Name Date

Signature Witness Signature

#4 Subscriber's Printed Name Date

Signature Witness Signature

#5 Subscriber's Printed Name Date

Signature Witness Signature

**ACKNOWLEDGEMENT OF RESEARCHING THE FEDERAL CREDIT
UNION CHARTER (Continued)**

#6 Subscriber's Printed Name

Date

Signature

Witness Signature

#7 Subscriber's Printed Name

Date

Signature

Witness Signature

Attachment C: Proposed Field of Membership Wording

[Click here to go back](#) to Attachment C-Step 3.A Reference

[Click here to go back](#) to Attachment C-Step 3.B Reference

[Click here to go back](#) to Attachment C-Step 3.C Reference

Occupational - Single or Multiple Common Bond

The proposed field of membership wording for an occupational common bond group can include one or a combination of any four phrases: employees *who work in, are paid from, are supervised from, or are headquartered in* (city and state of office location). Identify which phrase or phrases are most appropriate. See [Attachment L](#) for a direct link to the Chartering Manual for specific examples.

Associational - Single or Multiple Common Bond

Examples of the proposed field of membership wording for an associational common bond group are available in NCUA's Chartering Manual. See [Attachment L](#) for a direct link to the Chartering Manual.

Trade, Industry, or Profession (TIP) - Single Common Bond

Pre-approved field of membership wording for a trade, industry, or profession charter is available at NCUA's website. See [Attachment L](#) for a direct link to the TIP Report. For new proposed field of membership TIP language, PFCU should work with NCUA in developing this wording.

Community

Examples of the proposed field of membership wording for a community charter are available in NCUA's Chartering Manual. See [Attachment L](#) for a direct link to the Chartering Manual.

Additional Field of Membership Wording for All Charter Types

Identify if any of the additional field of membership wording below is not desired, based on the charter type being requested.

Single Common Bond

- Occupational: spouses of persons who died while within the field of membership of this credit union; employees of this credit union; persons retired as pensioners or annuitants from the foregoing employment; volunteers; members of the immediate family or household; organizations of such persons; and corporate or other legal entities in this charter.

- TIP: spouses of persons who died while within the field of membership of this credit union; employees of this credit union; persons retired as pensioners or annuitants from the foregoing employment; volunteers; members of the immediate family or household; organizations of such persons; and corporate or other legal entities in this charter.
- Associational: spouses of persons who died while within the field of membership of this credit union; employees of this credit union; volunteers; members of the immediate family or household; organizations of such persons; and corporate or other legal entities in this charter.

Multiple Common Bond: spouses of persons who died while within the field of membership of this credit union; employees of this credit union; persons retired as pensioners or annuitants from the foregoing employment; volunteers; members of the immediate family or household; organizations of such persons; and corporate or other legal entities in this charter.

Community Common Bond: spouses of persons who died while within the field of membership of this credit union; employees of this credit union; volunteers in the community; members of the immediate family or household; and organizations of such persons.

Attachment D: Donated Capital Estimate

[Click here to go back](#) to Attachment D Reference



Donated Capital
Estimate.xlsx

Attachment E: Sample Membership Survey

[Click here to go back](#) to Attachment E Reference

Proposed Federal Credit Union
10000 East Avenue
Somewhere, USA 77777
1-800-000-0000 Fax: 000-000-1111
Email: JohnDoe@ProposedFCU.net

January x, 20xx

First Last Name
Address
City, State, Zip Code

Dear First Last Name:

We are working to establish a new federal credit union. We recently received preliminary approval from the National Credit Union Administration (NCUA) as to the individuals this new federal credit union would be authorized to serve. Based on NCUA's preliminary approval, you will be able to join this new federal credit union once we complete the chartering process and NCUA issues us a charter.

We believe this new federal credit union will be of great financial benefit to you and your family. It will be established with your specific financial needs in mind. Before we begin developing our business plan and financial projections, we need to better understand what specific financial needs you have and how you might use the credit union.

The enclosed survey will assist us with this task. Please voluntarily complete the survey questions below and return it to the address above.

If you have questions regarding this letter and survey, or about the new proposed federal credit union, you may contact me using the information above.

Sincerely,

John Doe, Organizer
Proposed Federal Credit Union



SURVEY – Proposed Federal Credit Union

Return Completed Survey to: 10000 East Avenue, Somewhere, USA 77777

1. Are you interested in joining the Proposed Federal Credit Union within two years of it being opened? ___Yes ___No

If **NO**, please answer question 2, briefly explain why not in question 12, and return the survey to the above address. If **YES**, please complete questions 2 through 12 and return the survey to the above address.

2. Are you currently a member at a credit union or a customer at a bank?

<input type="checkbox"/>	Member at a Credit Union	<input type="checkbox"/>	Customer at a Bank	<input type="checkbox"/>	Other
--------------------------	--------------------------	--------------------------	--------------------	--------------------------	-------

If the other box is checked, please explain _____

3. Please indicate which of the following products and services are **Desired** or **Necessary** for you to join the credit union (use a D for Desired and an N for Necessary):

Savings/Shares		Loans		Other Services			
<input type="checkbox"/>	Savings	<input type="checkbox"/>	Signature	<input type="checkbox"/>	Overdraft Protection	<input type="checkbox"/>	Money Order
<input type="checkbox"/>	Checking	<input type="checkbox"/>	New Vehicle	<input type="checkbox"/>	Debit Card	<input type="checkbox"/>	Cashier Checks
<input type="checkbox"/>	Share Certificate	<input type="checkbox"/>	Used Vehicle	<input type="checkbox"/>	ATM Card	<input type="checkbox"/>	Direct Deposit
<input type="checkbox"/>	IRA	<input type="checkbox"/>	First Mortgage	<input type="checkbox"/>	Online Banking	<input type="checkbox"/>	Wire Transfer
<input type="checkbox"/>	Business Checking	<input type="checkbox"/>	Home Equity	<input type="checkbox"/>	Online Bill Pay	<input type="checkbox"/>	Notary
<input type="checkbox"/>	Other	<input type="checkbox"/>	Credit Card	<input type="checkbox"/>	Financial Counseling	<input type="checkbox"/>	Other
		<input type="checkbox"/>	Other	<input type="checkbox"/>	Telephone Banking	<input type="checkbox"/>	

If any of the “Other” boxes are checked, please explain _____

4. Would you be willing to pledge an initial deposit in the credit union?
Yes_____ No_____ If yes, how much would you be willing to deposit? \$_____

5. Would you be interested in making regular deposits (such as payroll deposit) in the credit union? Yes_____ No_____ If yes, how much would you deposit monthly?
\$_____

If you checked any of the “Savings/Shares” boxes above, please complete the following questions as applicable.

6. Which of the following average balances for each share account would you be able to keep in the credit union?

Share Type	\$0-\$300	\$301-\$500	\$501-\$1,000	\$1,001-\$1,500	\$1,501-\$2,000	\$2,001-\$2,500	\$2,501-\$3,000	Over \$3,000
Savings								
Checking								
Share Certificate								
IRA								
Business Checking								
Other								

7. Which of the following average balance for each share certificate term (i.e. maturity date) would you be able to keep in the credit union?

Share Certificate Type	\$0-\$300	\$301-\$500	\$501-\$1,000	\$1,001-\$1,500	\$1,501-\$2,000	\$2,001-\$2,500	\$2,501-\$3,000	Over \$3,000
6 months								
12 months								
24 months								
Over 24 months								

If you checked any of the “Loans” boxes in #3, please complete the following question as applicable.

8. If you were to acquire a loan in the next 12 months, which of the following ranges represent the amount you might borrow for each type of loan you are interested in?

Loan Type	\$0 - \$500	\$501 - \$1,000	\$1,001 - \$5,000	\$5,001 - \$10,000	Over \$10,000
Signature					
New Vehicle					
Used Vehicle					
1st Mortgage					
Home Equity					
Credit Card					
Other					



9. When transacting credit union business which of the following ways would you use? Please use 1 for the most preferred way and 7 for the least preferred way.

	Visit the credit union office
	ATM
	Online Banking
	USPS Mail Service
	Telephone Banking
	Automated Telephone Banking
	Other, please explain

10. Would you be interested in being a volunteer official at the credit union? ___Yes
___No

11. Please provide your name and address if you answered yes to #10 or would like more information about the proposed federal credit union, including when you can join.

Name _____
 Address _____
 City, State, Zip Code _____
 Telephone Number _____
 E-mail address _____

12. Please provide us with any other thoughts or comments you would like to share with us.

Attachment F: Example Illustrating a Membership Survey Analysis

[Click here to go back](#) to Attachment F Reference

To further illustrate the use of survey results and the type of analysis subscribers would complete, see below.

Subscribers should use the below as guidance to obtain a better understanding of developing the analysis and the type of information a membership survey analysis may contain. The below is not the required format nor all inclusive and complete.

The below results, analysis, conclusions, and assumptions are based on the answers received from the potential membership in response to selective survey questions. The sample (respondent) size is 357 for a population of 5,000.

Membership Analysis

Q#1 – 107 of the 357 people responding to the survey indicated they would join the credit union within two years of the credit union opening.

Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
(107 of 357) 30 percent $107/357=30\%$ response rate	Potential / response rate= 1,500 (5,000 x 30 percent)	1,250 to 1,750 of the 5,000 potential members would join credit union (5,000 x 25% = 1,250 and 5,000 x 35% = 1,750)

Loan Analysis – Vehicle Loans

Q#3 – 21 of the 107 people indicating they would join the credit union within two years of the credit union opening indicated they were interested in a vehicle loan.

Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
(21 of 107) 20 percent 21/107=20% response rate	300 (1,500 x 20 percent)	225 to 375 of the 1,500 interested in joining the credit union would be interested in a vehicle loan (1,500 x 15% = 225 and 1,500 x 25% = 375)

Based on the field of membership, it may also be appropriate to assume only a percent of the loan applicants will qualify for a loan. Therefore, under a more likely scenario, estimating for example a 70 percent approval rate will yield 158 auto loans (225 * 70 percent) by the end of year two.

Q#8 – the 21 people interested in a vehicle loan indicated they would borrow within the following range of balances.

Average Balance	Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
\$501 to \$1,000	(3 of 21) 14 percent	42 (300 x 14 percent)	27 to 57 of the 300 are interested in a vehicle loan between \$501 to \$1,000 (300 x 9% = 27 and 300 x 19% = 57)
\$1,001 to \$5,000	(3 of 21) 14 percent	42 (300 x 14 percent)	27 to 57 of the 300 are interested in a vehicle loan between \$1,001 to \$5,000 (300 x 9% = 27 and 300 x 19% = 57)
\$5,001 to \$10,000	(10 of 21) 48 percent	144 (300 x 48 percent)	129 to 159 of the 300 are interested in a vehicle loan between \$5,001 to \$10,000 (300 x 43% = 129 and 300 x 53% = 159)

Over \$10,000	(5 of 21) 24 percent	72 (300 x 24 percent)	57 to 87 of the 300 interested in a vehicle loan over \$10,000 (300 x 19% = 57 and 300 x 29% = 87)
---------------	-------------------------	--------------------------	--

Share Analysis – Checking Account

Q#3 – 91 of the 107 people indicating they would join the credit union within two years of the credit union opening indicated they were interested in a checking account.

Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
(91 of 107) 85 percent	1,275 (1,500 x 85 percent)	1,200 to 1,350 of the 1,500 interested in joining the credit union are interested in a checking account (1,500 x 80% = 1,200 and 1,500 x 90% = 1,350)

Q#6 – the 91 people interested in a checking account indicated they would keep the following range of balances.

Average Balance	Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
Less than \$300	(14 of 91) 15 percent	191 (1,275 x 15 percent)	128 to 255 of the 1,275 interested in a checking account would maintain less than \$300 (1,275 x 10% = 128 and 1,275 x 20% = 255)
\$301 to \$500	(45 of 91) 50 percent	637 (1,275 x 50 percent)	574 to 701 of the 1,275 interested in a checking account would maintain \$301 to \$500 (1,275 x 45% = 574 and 1,275 x 55% = 701)

\$501 to \$1,000	(23 of 91) 25 percent	319 (1,275 x 25 percent)	255 to 383 of the 1,275 interested in a checking account would maintain \$501 to \$1,000 (1,275 x 20% = 255 and 1,275 x 30% = 383)
\$1,001 to \$1,500	(9 of 91) 10 percent	128 (1,275 x 10 percent)	64 to 191 of the 1,275 interested in a checking account would maintain \$1,001 to \$1,500 (1,275 x 5% = 64 and 1,275 x 15% = 191)

Share Analysis – 24-month Share Certificate Account

Q#3 & Q#6 – 16 of the 107 people indicating they would join the credit union within two years of the credit union opening also indicated they were interested in a 24-month share certificate account.

Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
(16 of 107) 15 percent	225 (1,500 x 15 percent)	150 to 300 of the 1,500 interested in joining the credit union are interested in a 24-month share certificate (1,500 x 10% = 150 and 1,500 x 20% = 300)

Q#6 – the 16 people interested in a 24- month share certificate account also indicated they would keep the following range of balances.

Average Balance	Response rate	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of 5 +/-5
Less than \$300	(2 of 16) 12.5 percent	28 (225 x 12.5 percent)	17 to 39 of the 225 interested in a 24-month share certificate would maintain less than \$300 (225 x 7.5% = 17 and 225 x 17.5% = 39)
\$301 to \$500	(8 of 16) 50 percent	113 (225 x 50 percent)	101 to 124 of the 255 interested in a 24-month share certificate would maintain \$301 to \$500 (225 x 45% = 101 and 225 x 55% = 124)
\$501 to \$1,000	(4 of 16) 25 percent	56 (225 x 25 percent)	45 to 68 of the 255 interested in a 24-month share certificate would maintain \$501 to \$1,000 (225 x 20% = 45 and 225 x 30% = 68)
\$1,001 to \$1,500	(2 of 16) 12.5 percent	28 (225 x 12.5 percent)	17 to 39 of the 255 interested in a 24-month share certificate would maintain \$1,001 to \$1,500 (225 x 7.5% = 17 and 225 x 17.5% = 39)

Conclusion

Using the data in the last column of the membership analysis table above, subscribers could conclude the following information regarding membership after two years.

- Between 1,250 and 1,750 would potentially join the credit union within the first two years of the credit union opening.

Based on the assumption that 1,250 people (lower range amount) would join within the first two years of operation the following vehicle loan, checking account, and 24-month share certificate account conclusions could be reached.

Vehicle Loans - 250 people (1,250 x 20 percent) would potentially be interested in a loan within the first two years within the following balances.

Low and High Average Balance	# of Vehicle Loan Accounts	Average Vehicle Loan Balance after First Two Years ³²
\$501 to \$1,000	14% or 35	\$17,535 to \$35,000
\$1,001 to \$5,000	14% or 35	\$35,035 to \$175,000
\$5,001 to \$10,000	48% or 120	\$600,120 to \$1,200,000
Over \$10,000	24% or 60	\$600,000
Total	100% or 250	\$1,252,690 to \$2,010,000
Average Balance Per Vehicle Loan		\$5,011 to \$8,040

Checking Accounts - 1,062 people (1,250 x 85 percent) would potentially open a checking account within the first two years and maintain the following balances.

Low and High Average Balance	# of Checking Accounts	Average Checking Balance after First Two Years ³³
Less than \$300	15% or 159	\$0 to \$47,700
\$301 to \$500	50% or 531	\$159,831 to \$265,500
\$501 to \$1,000	25% or 266	\$133,266 to \$266,000
\$1,001 to \$1,500	10% or 106	\$106,106 to \$159,000
Total	100% or 1,062	\$399,203 to \$738,200
Average Balance Per Checking Account		\$376 to \$695

³² Low Average Balance times # of Accounts = Low Average Loan Balance after First Two Years. High Average Balance times # of Accounts = High Average Loan Balance after First Two Years.

³³ Low Average Balance times # of Accounts = Low Average Checking Balance after First Two Years. High Average Balance times # of Accounts = High Average Checking Balance after First Two Years.

24-month Share Certificates - 187 people (1,250 x 15 percent) would potentially open a 24-month certificate within the first two years and maintain the following balances.

Low and High Average Balance	# of Share Certificate Accounts	Average 24-Mo. Share Certificate Balance after First Two Years ³⁴
Less than \$300	12.5% or 23	\$0 to \$6,900
\$301 to \$500	50% or 94	\$28,294 to \$47,000
\$501 to \$1,000	25% or 47	\$23,547 to \$47,000
\$1,001 to \$1,500	12.5% or 23	\$23,023 to \$34,500
Total	100% or 187	\$74,864 to \$128,500
Average Balance Per 24-month Share Certificate Account		\$400 to \$687

Pro-Forma Financial Projection Assumptions

The above analysis and conclusions would support subscribers assuming the following to calculate the PFCU's pro-forma financial projections:

- 1,250 members would join after two years;
- 250 vehicle loans would exist after two years totaling between \$1,252,690 and \$2,010,000;
- 1,062 checking accounts would exist after two years totaling between \$399,203 and \$738,200; and
- 187 share certificate accounts with a 24-month term would exist after two years totaling between \$74,864 and \$128,500.

As mentioned in Step 7, please note that larger results will potentially occur when a larger potential membership base is involved. Subscribers need to use judgment regarding whether those results based on the larger potential membership base are attainable. If deemed unattainable, assumptions should be modified accordingly.

For example, if the 30 percent response rate used above for joining the credit union within two years was applied to a potential membership of 500,000, the result would be 150,000 individuals might join the credit union after two years. A review of membership growth at existing credit unions does not support a new federal credit union could add 75,000 net new members a year, as existing credit unions are not even able to do this.

³⁴ Low Average Balance times # of Accounts = Low Average 24-month Share Certificate Balance after First Two Years. High Average Balance times # of Accounts = High Average 24-month Share Certificate Balance after First Two Years.

In addition, a study completed in 2007 also confirms large membership growth during the first two years of operation is unattainable. NCUA, Region V Office reviewed membership numbers on 29 credit unions (federal, state, and privately insured) chartered since 1987 in Region V. Actual membership after two years of operation averaged approximately 550 members. Of the 29 credit unions, only 11 reported growth in excess of 550. Of those 11 credit unions, only three reported actual membership growth in excess 1,000 new members after two years of operations, at approximately 1,200, 1,700, and 1,900.

Therefore, subscribers with larger potential fields of membership will need to evaluate the results and determine whether their conclusions are reasonable and attainable. More than likely, subscribers will need to make adjustments and calculate assumptions on information more in line with newly chartered and existing credit unions.

Subscribers can review financial information (5300 Call Reports and Financial Performance Reports) on newly chartered and other existing credit unions to help establish reasonable and realistic assumptions. See [Attachment L](#) for a direct link to the 5300 Call Report and Financial Performance Report. Mentor credit unions can also greatly assist with feedback regarding reasonable and realistic projections and assumptions.

Attachment G: Conflicting Positions

[Click here to go back](#) to Attachment G Reference

Positions in Federal Credit Unions and Persons Who are Prohibited From Holding Them

Position	Prohibited by Law, Regulation, or Bylaw	Prohibited by Principles of Sound Internal Control
Chief executive officer	Vice President, secretary or assistant secretary, treasurer, manager, assistant treasurer or manager, membership officer (if the president countersigns checks).	Member of the supervisory committee or supervisory committee assistant, credit union employee
Assistant executive officer	President, secretary or assistant secretary, treasurer, manager, assistant treasurer or manager, membership officer (if the vice president countersigns checks)	Member of the supervisory committee or supervisory committee assistant, credit union employee
Recording officer	President, vice president, manager or assistant manager	Member of the supervisory committee or supervisory committee assistant, credit union employee
Financial officer	President, vice president, member of the supervisory committee or supervisory committee assistant, membership officer, assistant secretary	Member of credit committee
Director	Manager or assistant manager; only one director may be a member of the supervisory committee	Credit union employee
Executive committee member	Any officer or employee other than a director	Credit or Supervisory committee members, employees, membership officer
Credit committee member	Member of the supervisory committee or supervisory committee assistant; only one credit committee member may be appointed a loan officer	Treasurer, manager
Supervisory committee member	Member of the credit committee, credit union employee (including manager and assistant manager), treasurer; only one board member may be appointed to this committee	Loan officer, membership officer, assistant treasurer, president, vice president, secretary

**Positions in Federal Credit Unions and
Persons Who are Prohibited From Holding Them (Continued)**

Position	Prohibited by Law, Regulation, or Bylaw	Prohibited by Principles of Sound Internal Control
Loan officer	Membership officer; only one credit committee may be appointed a loan officer	Member of the supervisory committee or supervisory committee assistant
Membership officer	Treasurer, assistant treasurer, loan officer, manager, assistant manager, president, or vice president if checks are to be countersigned	Member of the supervisory committee or supervisory committee assistant
Manager	Member of the board of directors except by bylaw provision, president, vice president, member of the supervisory committee or supervisory committee assistant, membership officer	Relative of any official, member of the credit committee
Assistant treasurer	President, vice president, membership officer	Member of the supervisory committee or supervisory committee assistant
Assistant secretary	President, vice president, treasurer	
Assistant manager	Member of the board of directors, member of the supervisory committee or supervisory committee assistant, membership officer	Relative of any official
Supervisory committee assistant	Treasurer, assistant treasurer, manager, assistant manager, members of the credit committee, credit union employee	Loan officer, membership officer, relative of any official or employee, assistant treasurer, president, vice president, secretary
Credit union employee	Member of the supervisory committee or supervisory committee assistant	Relative of any official, member of the board of directors

Attachment H: Sample Commitment Letter

[Click here to go back to](#) Attachment H Reference

The XXXX Community Trust
354 Sunset Drive
Milwaukee, MI 10054

January x, 20xx

John Doe, Organizer
Proposed Federal Credit Union
10000 East Avenue
Somewhere, USA 77777

Dear Mr. Doe:

We are pleased to inform you the XXX Community Trust Company has approved a grant for \$X00,000. This is a binding commitment to provide funds for the new federally-chartered credit union. We understand and agree the grant is made without expectation of repayment by the Proposed Federal Credit Union. We will fund it no later than the approval of the charter of the Proposed Federal Credit. Enclosed is a copy of our most recent financial statements supporting our ability to meet this commitment. If requested by the National Credit Union Administration during the charter application process, we are prepared to provide the grant funds in escrow and/or updated financial statements. If you have any questions, please let me know.

Sincerely,

XXXX
Chief Executive Officer

Enclosure

Attachment I: Example of Pro-Forma Financial Statement (FS) Projections

[Click here to go back](#) to Attachment I Reference



Example of
Pro-Forma FS Project

Attachment J: Example of Pro-Forma Financial Statement Projection Assumptions

[Click here to go back](#) to Attachment J Reference

Subscribers should use the format below as guidance to obtain a better understanding of the type of information that may be contained in assumptions to support a PFCU’s pro-forma financial statement projections. The example is not the required format, is not all-inclusive and complete, and the amounts and supporting statements made below are fictitious and should not be relied upon as factual.

Member Assumptions

	Year 1	Year 2	Year 3
Members	625	1,250	1,875

The membership assumptions above are supported by the membership survey analysis for Question #1 – Join the credit union. The conclusion reached in the membership survey analysis on Question #1 was that 1,250 to 1,750 of the 5,000 potential members would be interested in joining the credit union within two years of it opening, as shown in the table below.

# of Respondent	Impact on Population Based on Response Rate	Result Range Using a Confidence Interval of +/- 5
30 percent (107 of 357)	1,500 (5,000 x 30 percent)	1,250 to 1,750 of the 5,000 potential members would join credit union (5,000 x 25% = 1,250 and 5,000 x 35% = 1,750)

In this example, we assumed the lower range of 1,250 would join the credit union over the first two years of operation. Year 1 is half of year 2 and year 3 is year 1 plus year 2.

Loan Assumptions

Vehicle Loans - The below assumptions are supported by the membership survey analysis for Questions #3 and #8 as it pertained to vehicle loans. The conclusions reached in the membership survey analysis was that 20 percent of the assumed 1,250 potential members to join the credit union within two years of it opening would be interested in a vehicle loan and the average balance per vehicle loan ranged from \$5,011 to \$8,040.

	Year 1	Year 2	Year 3
# of Members	625	1,250	1,875
Percent & # of Vehicle Loans	20% / 125	20% / 250	20% / 375
Average Loan Balance	\$5,011 ³⁵	\$6,525	\$8,040 ³⁶
Total Vehicle Loans based on Average Loan Balance	\$626,375 (125*\$5,011)	\$1,631,250 (250*\$6,525)	\$3,015,000 (375*\$8,040)
Vehicle-60% @ lower rate	\$375,825 (626,375*60%)	\$978,750 (1,631,250*60%)	\$1,809,000 (3,015,000*60%)
# of Loans	75 (125*60%)	150 (250*60%)	225 (375*60%)
Vehicle-40% @ higher rate	\$250,550 (626,375*40%)	\$652,500 (1,631,250*40%)	\$1,206,000 (3,015,000*40%)
# of Loans	50 (125*40%)	100 (250*40%)	150 (375*40%)

The average balance per vehicle loan for year two is calculated below.

$(\$750 \times 14\%) + (3,000 \times 14\%) + (\$7,500 \times 48\%) + (\$10,000 \times 24\%) = \text{Avg. Vehicle Loan Bal.}$

$$\$105 + \$420 + 3,600 + \$2,400 = \$6,525$$

The calculation above is based on the table below obtained from the survey results illustrating the vehicle loan response rate for each likely balance amount. The last column in the table calculates the midpoint for each likely balance amount range used in the calculation above.

Likely Balance Amount	Respondents Likely to Open a Checking Account (n=1,062)	Average of Likely Balance Amount
Less than \$500	0%	Midpoint between \$0 & \$500 = \$250
\$501 to \$1,000	14%	Midpoint between \$501 & \$1,000 = \$750
\$1,001 to \$5,000	14%	Midpoint between \$1,001 & \$5,000 = \$3,000
\$5,001 to \$10,000	48%	Midpoint between \$5,001 & \$10,000 = 7,500
Over \$10,000	24%	Midpoint = \$10,000

Based on information from a similar start up credit union, an assumption is made that 60 percent of vehicle loans will be at the lower interest rate and 40 percent at the higher interest rate.

The actual average balances, as reported by a similar start-up credit union after two years, was significantly higher at almost \$10,000 but the number of loans outstanding

³⁵ Low average balance from membership survey results

³⁶ High average balance from membership survey results

after two years was significantly less at 71. For the pro-forma financial statement projections, the survey results are being used instead of the actual data from the similar start-up credit union. This is because the PFCU’s membership has slightly lower income on average than the members of the similar start-up credit union, therefore more individuals will likely carry a lower balance loan – so the lower average balance (\$6,525 versus \$10,000) is being used. However, the availability of credit for the PFCU’s membership within the local area is minimal. There are no financial institutions in the area -- only alternative lenders with high loan rates. Therefore, the higher number of loans (250 versus 71) is being used. Projections are based on the assumption that more potential members will be granted a loan but the average balance per loan will be lower.

Deposit Assumptions

Based on the survey responses pertaining to likely share balance amounts, weighted averages were calculated. These calculations multiplied the average of each balance range as shown in the survey, times the percentage of responses likely to deposit in those ranges.

For example, the calculation for the average checking account balance is below.

$$(\$150 \times 15\%) + (400 \times 50\%) + (\$750 \times 25\%) + (\$1,250 \times 10\%) = \text{Avg. Chkg. Bal.}$$

$$\$22.50 + \$200 + \$187.50 + \$125 = \$535$$

This calculation is based on the table below obtained from the survey results illustrating the checking account response rate for each likely balance amount. The last column in the table calculates the midpoint for each likely balance amount range used in the calculation above.

Likely Balance Amount	Respondents Likely to Open a Checking Account (n=1,062)	Average of Likely Balance Amount
Less than \$300	15%	Midpoint between \$0 & \$300 = \$150
\$301 to \$500	50%	Midpoint between \$301 & \$500 = \$400
\$501 to \$1,000	25%	Midpoint between \$501 & \$1,000 = \$750
\$1,001 to \$1,500	10%	Midpoint between \$1,001 & \$1,500 = 1,250
\$1,501 to \$2,000	0%	Midpoint between \$1,501 and \$2,000 = 1,500
Over \$2,000	0%	Midpoint = \$2,000

Similar calculations were performed on the other savings accounts based on the results of the membership survey.

The chart below compares the survey results to those used in the pro-forma financial statements for the first year of operation.

	<u>Survey Results</u>	<u>Year 1 Pro-Forma Statements</u>
Checking Accounts	\$ 535	\$ 420
Savings		
Regular Shares	\$ 350	\$ 283
6-Mo. Share Certificates	\$ 450	\$ 300
12-Mo. Share Certificates	\$ 525	\$ 500
24-Mo. Share Certificates	\$ 535	\$ 600

The pro-forma balances were determined by using the actual average balances as reported by a similar start-up credit union and a sample of those less than \$10 million in assets. The survey results above seem to confirm the pro-forma financial statement numbers are reasonable.

To arrive at the pro-forma projections for year 1 for checking accounts and the 24-month share certificate accounts, we used the following calculations.

Checking Account: average actual checking account balance per member reported by a similar start-up credit union and a sample of those less than \$10 million in assets times the # of members to join in year 1 times the % of members likely to open a checking account based on survey results. The actual calculation for year 1 is below.

$$\$420 \times (625 \times 85\%*) = \$223,125**$$

*See membership survey analysis regarding checking accounts.

**This number is shown in the sample pro-forma financial projections.

The same calculation is used for year 2 and 3 assumptions as shown below.

$$\text{Year 2} - \$420 \times (1,250 \times 85\%*) = \$446,250**$$

$$\text{Year 3} - \$420 \times (1,875 \times 85\%*) = \$669,375**$$

*See membership survey analysis regarding checking accounts.

**This number is shown in the sample pro-forma financial projections.

24-Mo. Share Certificate Account: average actual 24-month share certificate account balance per member reported by a similar start-up credit union and a sample of those less than \$10 million in assets times the # of members to join in year 1 times the % of members likely to open a 24-month share certificate account based on survey results. The actual calculation for year 1 is below.

$$\$600 \times (625 \times 15\%*) = \$56,250**$$

*See membership survey analysis regarding 24-month share certificates.

**This number is shown in the sample pro-forma financial projections.

The same calculation is used for year 2 and 3 assumptions as shown below.

Year 2 - $\$600 \times (1,250 \times 15\%*) = \$112,500**$

Year 3 - $\$600 \times (1,875 \times 15\%*) = \$168,750**$

*See membership survey analysis regarding 24-month share certificates.

**This number is shown in the sample pro-forma financial projections.

Non-Member Deposits – below is a breakdown of the non-member deposit commitments –

Name of Entity	Year 1	Year 2	Year 3
ABC FCU	\$100,000	\$200,000	\$250,000
LMNOP FCU	\$100,000	\$200,000	\$250,000
QRS FCU	\$100,000	\$200,000	\$250,000
TUV FCU	\$100,000	\$100,000	\$250,000
XYZ FCU	\$100,000	\$100,000	\$0
Total	\$500,000	\$800,000	\$1,000,000

Income Assumptions

Interest Income	Assumption
Loans*	
Vehicles	60% @ lowest rate of 5.90% 40% @ highest rate of 13.90%
Share Secured	Regular Share Rate plus 3%
Unsecured	60% @ lowest rate of 10.90% 40% @ highest rate of 16.90%
Investments	
Certificates of Deposit**	Average rate: 1.50% Year 1, 2.00% Year 2, and 2.50% Year 3

*Based on the actual experience of a credit union in the local area serving a similar FOM type. See attachment (note: PFCU will need to obtain and attach) obtained from local credit union regarding their rate and percent of loan portfolio by type.

**Based on current market rate for 1-year certificates of deposit. Year 2 and 3 are based on a slight increase consistent with current market information. See attachment (note: PFCU will need to obtain and attach) reflecting current market rates and anticipated rate trend information over the next two years.

Non-Interest Income	% of Members Each Month*
Membership Fees (\$1)	100%
Checking Fees (\$25)	2.5%
NSF Fees (\$15)	15%
Stop Payment Fees (\$10)	1.5%
DBA Accounts (\$25)	3%
Account Research (\$15)	1%
Money Order Fees (\$2.50)	8%
Wire Fees (\$10)	6%
Loan Late Fee (\$15)	or 5% of monthly payment whichever is less

*Fee amounts for first three years are based on current market information -- see attachment (note: PFCU will need to obtain and attach) reflecting current market fees. Percent of members each month is based on the actual experience of a credit union in the local area serving a similar FOM type. See attachment (note: PFCU will need to obtain and attach) obtained from local credit union regarding the percent of membership charged such fees each month.

Cost of Funds Assumptions

Dividend Expenses	Year 1	Year 2	Year 3
Regular shares	1.00%	1.00%	1.00%
Checking	0%	0%	0%
Youth	0%	1.00%	1.00%
Money Market	0%	1.25%	1.25%
6-Mo. Share Certificates	2.0%	2.05%	2.20%
12-Mo. Certificates	2.4%	2.55%	2.70%
24-month Certificates	2.80%	3.00%	3.15%
Non-Member Certificates	0%	0%	0%

Rates are based on current market information. See attachment (note: PFCU will need to obtain and attach) reflecting current market rates and anticipated rate trend information over the next two years.

Loan Loss Assumptions

Provision for Loan Losses	Year 1	Year 2	Year 3
Delinquency Rate*	2.00%	2.00%	2.00%

*Rate based on the actual experience of a credit union in the local area serving a similar FOM type. See attachment (note: PFCU will need to obtain and attach) obtained from local credit union regarding their delinquency rate.

Operating Expense Assumptions

Cost of all operating expenses, except loan loss expense, will be covered through donations and contributions from the sponsor. A list of the donation and contribution commitments for the next 3 years is in our business plan under the “Source of Funds and Other Support” tab along with the letters obtained from the individuals/entities.

Operating Expenses	Year 1	Year 2	Year 3
Compensation	\$155,000	\$161,200	\$167,648
Manager plus 1.5 FTE @ 4% annual increase. Manager @ \$110,000, 1 FTE @ \$30,000 and 0.5 FTE \$15,000			
Benefits	\$38,750	\$40,300	\$41,912
25% of compensation – see attachment for breakout of taxes and health insurance coverage			
Travel and Conference	\$1,000	\$1,000	\$1,000
Manager to attend league meeting and local conferences – see attached breakout for cost of league and conferences.			
Association Dues	\$257	\$563	\$989
League dues (total assets x 0.0002)			
Office Occupancy	\$27,060	\$28,413	\$29,834
Rent – \$1,500 a month – see draft contract			
Building Maintenance - \$300 – see attached bid			
Utilities - \$200 – see attached anticipated quotes from electric and water companies			
Amortization of leasehold improvements - \$255 – see list of anticipated leasehold improvements and amortization schedule			
Year 2 and 3 – 5% annual increase			
Office Operations	\$62,976	\$68,014	\$73,455
Telephone - \$300 – see attached bid			
Banking Fees - \$250 – see list of fees and anticipated usage			
Postage - \$600 – see list of anticipated postage for statements and marketing			
Statement Processing – \$500 - see attached bid			
Hardware maintenance - \$500 – see attached bid			
Software maintenance - \$300 – see attached bid			
Bond Coverage – \$500 - based on Section 713.5 of NCUA Rules and Regulations			
Supplies - \$300 – see list of anticipated supplies			
Payroll service - \$350 – see attached bid			
Depreciation of furniture, fixture, and equipment - \$1,305 – see list of anticipated furniture, fixture, and equipment and depreciation schedule			
ATM card expenses - \$343 – see attached bid			
Year 2 and 3 – 8% annual increase			
Education & Promotional	\$18,000	\$13,500	\$13,000
Refer to marketing plan – breakout of marketing expenses in plan			
Loan Serving	\$363	\$843	\$1,445

Cost of credit reports @ \$1.50 each; 40% denial rate			
Professional & Outside Services	\$17,000	\$20,000	\$21,300
Legal and audit expense – see attached schedule for legal fees and anticipated usage, and attached audit bid			
Management & Support Services	\$35,000	\$37,000	\$39,000
Staff training and back office support from local credit union – processing/balancing general ledger, check clearings, ATM, bank account, loan processing, collection notices, etc. See attached contract and how cost of services was determined to arrive at annual service amount.			
Operating Fee	\$270	\$592	\$1,040
NCUA operating fee (total assets x 0.00021025)			
Miscellaneous	\$3,000	\$5,000	\$7,000
Estimate of operational losses – see attachment for breakdown			

Attachment K: Sample LUA

[Click here to go back](#) to Attachment K Reference

**LETTER OF UNDERSTANDING AND AGREEMENT
ISSUED BY AND BETWEEN
THE NATIONAL CREDIT UNION ADMINISTRATION
AND
[NAME] FEDERAL CREDIT UNION**

This Letter of Understanding and Agreement (LUA) is made and entered into on [insert date] by and between [Name] FCU (hereinafter [Name]FCU) a credit union organized under the laws of the United States of America and doing business at [insert address] and the National Credit Union Administration (NCUA).

[Name]FCU is an insured credit union within the meaning of §101(7) of the Federal Credit Union Act, 12 U.S.C. §1752(7). As such [Name]FCU is subject to the jurisdiction of the NCUA and NCUA's authority to initiate administrative enforcement actions against it pursuant to §206 of the Federal Credit Union Act, 12 U.S.C. §1786."

1. Loans shall be limited to signature loans, vehicle loans, fully share secured loans, and other secured loans where the collateral supports an economic necessity of the borrower and contains an active resale market. The credit union shall make loans only to natural-person members. No loans will be made to organizations.
2. Loans shall not be granted to any member or group of members, in the aggregate, in excess of \$5,000 or 10 percent of the credit union's undivided earnings and shares, whichever is less. After six months of lending operations, a request can be made of the NCUA regional director to increase the dollar limit.
3. The credit union can offer the following products and services without limitation, provided adequate policies and risk mitigation controls are in place to ensure their safe and sound administration:
 - Regular Shares
 - Club Accounts
 - Certificates of Deposits
 - Direct Deposit
 - Money Orders
 - Cashier Checks
 - ACH – Receiving Only
4. Offering the general membership any other product or service requires adequate policies, risk mitigation controls, and pre-approval by the NCUA regional director.

5. Investments and deposits shall be limited to accounts at federally-insured financial institutions. All investments shall be direct purchase, not through a broker or third party.
6. No investments shall have maturities in excess of 12 months except as approved by the National Credit Union Administration (NCUA) regional director.
7. All books and records must be kept current and in balance.
8. A fixed asset waiver will be requested from the NCUA regional director prior to the credit union reaching \$1 million in assets, if at such time total fixed assets exceeds five percent of the credit union's total shares and retained earnings. Refer to Section 107(4) of the Federal Credit Union Act and Section 701.36 of the NCUA Rules and Regulations for definitions of fixed assets and retained earnings, and for the waiver requirements.
9. The credit union will prepare and mail, fax, or e-mail financial reports, board meeting minutes, and other reports as requested to the NCUA district examiner by the 20th of each month following that for which the report is prepared.
10. Projection variance reports will be generated monthly and all variances exceeding ten percent (plus or minus) will be explained in a written monthly report to the board of directors.
11. The board of directors will revise projections for income statement and balance sheet goals at least semiannually to incorporate actual operating results. Revised projections will reflect the need to achieve stable capital levels through positive earnings.
12. At the first board meeting, the board of directors will adopt all written policies provided with the charter application and bylaws in accordance with NCUA Rules and Regulations, Appendix A to Part 701 – Federal Credit Union Bylaws.
13. The officials will obtain training to further enhance their ability to perform their respective duties and responsibilities within 90 days of this Agreement. Training will include understanding the requirements of all approval policies, computer operations and security, record keeping, loan processing, and fulfilling the requirements of the credit union's bylaws.
14. The board of directors will ensure the NCUA district examiner is informed of any decisions to change policies or establish new programs or services.
15. The board of directors will ensure all changes and additions to officials and senior executive officers are submitted for NCUA regional director's approval in accordance with Section 701.14 of the NCUA's Rules and Regulations.

16. The credit union will refrain from soliciting or accepting brokered or internet solicited deposits from any source without the prior written approval of the NCUA regional director.
17. The credit union will not establish or invest in a credit union service organization (CUSO) without the prior written approval of the NCUA regional director.
18. Other than this agreement or loans made to members, the credit union will not enter into any agreement or contract, verbal or written, which exceeds one year in duration, except for:
 - a. [Vendor Name] - data processing – 36 months
 - b. [Lessor Name] Lease - 60 months
 - c. Contracts approved by the NCUA regional director
19. The credit union will not enter into any insurance programs, including force-placed insurance, whereby the credit union member finances the payment of insurance premiums through loans from the credit union. This provision does not restrict the offering member elect credit life, credit disability, or GAP-auto insurance.
20. Any special insurance plan/program, that is, insurance other than usual and normal surety bonding, casualty, liability, loan protection, or life savings insurance coverage, which the credit union officials intend to undertake, will be submitted to the NCUA regional director for written approval prior to the officials committing the credit union thereto.
21. The credit union will notify the NCUA regional director in writing upon beginning operations.

As the credit union officials gain experience and the NCUA regional director is satisfied with the credit union's progress, the above terms and conditions may be re-negotiated by the two parties.

We, the undersigned officials of the [Credit Union Name] Federal Credit Union, as authorized by the board of directors, acknowledge receipt of and agree to the attached Agreement dated [Month, xx, 20xx].

This Agreement has been voluntarily entered into with the NCUA. We agree to comply with all terms and conditions expressed in this Agreement.

Should the NCUA Board determine that these terms and conditions have not been complied with or that the board of directors or other officials have not conducted the affairs of the credit union in a sound and prudent manner, the NCUA Board may

terminate insurance coverage of the credit union. If actions by the officials, in violation of this Agreement, cause the credit union to become insolvent, the officials assume such personal liability as may result from their actions.

The terms of this Agreement shall be in effect from the date the credit union is chartered and insured, and shall remain in effect until cancelled or revised by the regional director.

Dated this [dd th] day of Month 20xx.

[NAME] FEDERAL CREDIT UNION By:

_____ **Date**

Board Chairman

_____ **Date**

Vice-Chairman

_____ **Date**

Treasurer

_____ **Date**

Secretary

_____ **Date**

Board Member

**NATIONAL CREDIT UNION ADMINISTRATION BOARD
ON BEHALF OF THE NATIONAL CREDIT UNION SHARE INSURANCE
FUND**

_____ **Date**

Gail W. Laster
Director, Office of Consumer Protection

Attachment L: Links to NCUA Referenced Materials

[Click here to go back](#) to Attachment L in Table of Contents

If any of the below links are not working properly or no longer active, please notify us at NewFCU@ncua.gov so we may make appropriate adjustments.

5300 Call Report and Financial Performance Report

<http://www.ncua.gov/DataApps/QCallRptData/Pages/CallRptData.aspx> and
<http://fpr.ncua.gov/>

American FactFinder

http://factfinder.census.gov/home/saff/main.html?_lang=en

Accounting Manual

<http://www.ncua.gov/Legal/GuidesEtc/Pages/Accounting-Manual.aspx>

Asset Liability Management

<http://www.ncua.gov/Resources/CUs/ALM/Pages/default.aspx>

Bank Secrecy Act Anti-Money Laundering (BSA/AML) Examination Manual

http://www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm

Chartering and Field of Membership Manual (located in Appendix B to NCUA Regulation 12 CFR Part 701)

<http://www.ecfr.gov/cgi-bin/text-idx?SID=be767deb9af1bf01cf0586ba8007e46c&node=12:7.0.2.3.2.0.1.29.6&rgn=div9>

Communities Previously Approved

<http://www.ncua.gov/Legal/RptsPlans/Pages/CCR.aspx>

Contact Information on Existing Credit Unions

<http://cuonline.ncua.gov/CreditUnionOnline/CU/FindCreditUnions.aspx>

Corporate Credit Union Contact Information

<http://www.ncua.gov/Legal/GuidesEtc/Pages/CUDirectory.aspx> and select the most current credit union directory and type “corporate” in the search box

Credit Union Names Already in Use

<http://cuonline.ncua.gov/CreditUnionOnline/CU/FindCreditUnions.aspx>

Community Development

<http://www.ncua.gov/Resources/OSCUI/Pages/default.aspx>

Currency Transaction Report Form

http://www.fincen.gov/forms/bsa_forms/

Electronic Code of Federal Regulations³⁷

<http://www.ecfr.gov/cgi-bin/ECFR?page=browse>

Estimated Start-Up and Operating Costs in Chartering a Credit Union

<http://www.ncua.gov/Resources/Documents/CUDev/AcrobatDocument6-26-09.pdf>

Exam Questionnaires

<http://www.ncua.gov/DataApps/Pages/AIRES.aspx>

Examiner's Guide - Chapter 13

<http://www.ncua.gov/Legal/GuidesEtc/Pages/Examiners-Guide.aspx>

Express Chartering Procedures

<http://www.ncua.gov/Legal/GuidesEtc/Pages/Express-Chartering-Procedure.aspx>

Facts about Federal Credit Unions

http://www.ncua.gov/Resources/Documents/CUDev/FactFedCreditUnion_A2.pdf

Fair Lending Guide, March 2013

http://www.ncua.gov/Legal/GuidesEtc/GuidesManuals/OCP_FairLendingGuide.pdf

Federal Credit Union Act, April 2013 (12 U.S.C. §§ 1751-1795k)

<http://www.ncua.gov/Legal/Pages/FCUAct.aspx>

Federal Credit Union Bylaws (located in Appendix A to NCUA Regulation 12 CFR Part 701)

<http://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=70bf9fb99d395d90df9e643b5a14437d&r=APPENDIX&n=12y7.0.2.3.2.0.1.29.4>

Federal Credit Union Handbook, 2006

http://www.ncua.gov/Legal/GuidesEtc/GuidesManuals/fcu_handbook.pdf

³⁷ In e-CFR, NCUA Rules and Regulations are located in Title 12, Banks and Banking, Parts 700—799; CFPB regulations are located in Title 12, Banks and Banking, Parts 1002—1090; and FRB regulations are located in Title 12, Banks and Banking, Parts 200—281.

Freedom of Information Act Request

<http://www.ncua.gov/Resources/FOIA/Pages/default.aspx>

FinCEN

<http://www.fincen.gov/>

League Information in Your State

<http://www.ncua.gov/Resources/CUs/Links/Pages/Leagues.aspx>

Letters to Credit Unions

<http://www.ncua.gov/Resources/CUs/Pages/LTCU2014.aspx>

Letters to Federal Credit Unions

<http://www.ncua.gov/Resources/CUs/Pages/LTFCU2014.aspx>

Locate an Existing Local Credit Union

www.findacreditunion.com/

OFAC Information

<http://www.treas.gov/offices/enforcement/ofac/>.

Other Credit Union Affiliated Organizations

<http://www.ncua.gov/Resources/CUs/Links/Pages/CUOrgs.aspx>

Risk Alert

<http://www.ncua.gov/Resources/CUs/Pages/Risk.aspx>

NCUA Rules and Regulations (located in e-CFR, Title 12, Banks and Banking, Parts 700-799)

<http://www.ncua.gov/Legal/Regs/Pages/Regulations.aspx>

Suspicious Activity Report Form

http://www.fincen.gov/forms/bsa_forms/

TIP (Trade, Industry, Profession) Report

<http://www.ncua.gov/Legal/RptsPlans/Pages/TIP.aspx>

Attachment M: Other Terms Used

[Click here to go back](#) to Attachment M Reference in Table of Contents

Below is a brief explanation of other terms used in this document.

314a Information – Information shared with financial institutions gathered by law enforcement authorities regarding individuals, entities, and organizations engaged in or reasonably suspected, based on credible evidence, of engaging in terrorist acts or money laundering activities. FinCEN established the 314a Program which requires certain financial institutions to search their records and identify if they have responsive information with respect to the particular investigative subject.

CDFI -- Community Development Financial Institution – The Community Development Financial Institutions (CDFI) Fund was created for the purpose of promoting economic revitalization and community development through investment in and assistance to community development financial institutions (CDFIs). The CDFI Fund is operated by the United States Department of the Treasury and was established by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative.

CUSO -- Credit Union Service Organization – A separate legal entity a credit union may invest in or loan to if the CUSO primarily serves credit unions, their membership, or the membership of credit unions contracting with the CUSO. This term does not include trade associations or membership organizations principally composed of credit unions. Part 712 of NCUA Rules and Regulations contains more information on CUSOs. See [Attachment L](#) for a direct link to NCUA’s Rules and Regulations.

CTR -- Currency Transaction Report – Form used by financial institutions to capture each deposit, withdrawal, exchange of currency, or other payment or transfer by, through, or to the financial institution which involves a transaction in currency of more than \$10,000. For more information and a copy of the form, see [Attachment L](#) for a direct link to the Currency Transaction Report Form.

FACTA -- Fair and Accurate Credit Transactions Act of 2003 – A federal law amending the Fair Credit Reporting Act allowing consumers to request and obtain a free credit report once every twelve months from each of the three nationwide consumer credit reporting companies (Equifax, Experian, and TransUnion). FACTA also contains provisions to help reduce identity theft. The regulations implementing the Fair Credit Reporting Act and FACTA are located in CFPB Regulation V (Fair Credit Reporting, 12 CFR Part 1022) and NCUA Regulation 12 CFR Part 717, Subparts I and J.

FinCEN -- Financial Crimes Enforcement Network – A network administered by the United States Department of the Treasury whose goal it is to prevent and punish criminals and criminal networks that participate in money laundering. FinCEN operates domestically and internationally, and it consists of three major players: law-enforcement agencies; the regulatory community; and the financial-services community.

Regulation CC -- Availability of Funds and Collection of Checks – FRB regulation (12 CFR Part 229) that implements the Expedited Funds Availability Act and the Check Clearing for the 21st Century Act – Regulation CC standardizes hold periods on deposits made to credit unions and other depository institutions and regulates institutions' use of deposit holds.

Regulation D -- Reserve Requirements of Depository Institutions –FRB regulation (12 CFR Part 204) that limits the number of preauthorized withdrawals and transfers from a savings account or money market account. The regulation applies to all United States depository institutions offering such accounts.

SAR -- Suspicious Activity Report – Form used to provide an effective and consistent means for financial institutions to notify appropriate law enforcement agencies of known or suspected criminal conduct or suspicious activities that take place at or were perpetrated against the financial institutions. For more information and a copy of the form, see [Attachment L](#), for a direct link to the Suspicious Activity Report Form.