



Testimony of

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On behalf of

The National Association of Federally-Insured Credit Unions

“Ending the De Novo Drought: Examining the Application Process for De Novo Financial
Institutions”

Before the

House Financial Services Subcommittee on Financial Institutions and Consumer Credit

March 21, 2017

Introduction

Good afternoon, Chairman Luetkemeyer, Ranking Member Clay and Members of the Subcommittee. My name is Keith Stone and I am testifying today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU). Thank you for holding this important hearing today. I appreciate the opportunity to share with you my experience with chartering a new credit union.

I currently serve as the President and CEO of The Finest Federal Credit Union (FCU), headquartered in New York, New York, a role I assumed in February 2015, just after the credit union was chartered. I have over 25 years of experience in financial services, including time as a Vice President of a Federal Savings Bank and spending over eight years as the Vice President and CFO of another credit union.

The Finest FCU's charter was approved in January of 2015 to serve the needs of New York State's law enforcement departments, agencies, bureaus and offices. We currently have just over \$5 million in assets and serve over 2,400 members.

As you may know, NAFCU is the only national organization that exclusively represents the interests of the nation's federally-insured credit unions at the federal level. NAFCU is celebrating its 50th anniversary this year. The association is comprised of roughly 800 member-owned and operated federally-insured credit unions. NAFCU member credit unions collectively account for approximately 70 percent of the assets of federally-insured credit unions. NAFCU and the entire credit union community appreciate the opportunity to participate in this discussion regarding the many difficulties associated with starting a credit union.

Background on Credit Unions

Historically, credit unions have served a unique function in the delivery of essential financial services to American consumers. Established by an Act of Congress in 1934, the federal credit union system was created, and has been recognized, as a way to promote thrift and to make financial services available to all Americans, many of whom may otherwise have limited access to financial services. Congress established credit unions as an alternative to banks and to meet a precise public need – a niche that credit unions still fill today.

Every credit union, regardless of size, is a cooperative institution organized “for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes.” (12 USC 1752(1)). While over 80 years have passed since the *Federal Credit Union Act* (FCUA) was signed into law, two fundamental principles regarding the operation of credit unions remain every bit as important today as in 1934:

- credit unions remain wholly committed to providing their members with efficient, low-cost, personal financial service; and,
- credit unions continue to emphasize traditional cooperative values such as democracy and volunteerism.

Credit unions are not banks. The nation’s approximately 6,000 federally-insured credit unions serve a different purpose and have a fundamentally different structure than banks. Credit unions exist solely for the purpose of providing financial services to their members, while banks aim to make a profit for a limited number of shareholders. As owners of cooperative financial

institutions united by a common bond, all credit union members have an equal say in the operation of their credit union—“one member, one vote”—regardless of the dollar amount they have on account. Furthermore, unlike their counterparts at banks and thrifts, federal credit union directors generally serve without remuneration—a fact epitomizing the true “volunteer spirit” permeating the credit union community.

Credit unions have always been some of the most highly regulated of all financial institutions, facing restrictions on who they can serve and their ability to raise capital. There are many consumer protections built into the *Federal Credit Union Act*, such as the only federal usury ceiling on financial institutions and the prohibition on prepayment penalties that other institutions have often used to bait and trap consumers into high cost products.

Despite the fact that credit unions are already heavily regulated, were not the cause of the financial crisis, and actually helped blunt the crisis by continuing to lend to credit worthy consumers during difficult times, they are still firmly within the regulatory reach of the *Dodd-Frank Act*, including all rules promulgated by the Consumer Financial Protection Bureau (CFPB).

Lawmakers and regulators readily agree that credit unions did not participate in the reckless activities that led to the financial crisis, so they shouldn't be caught in the crosshairs of regulations aimed at those entities that did. Unfortunately, that has not been the case thus far. Accordingly, finding ways to cut-down on burdensome and unnecessary regulations and compliance costs is a chief priority of NAFCU members.

Unfortunately, the number of credit unions has decreased by 20% since the implementation of Dodd-Frank, and 96% of the credit unions that have disappeared had total assets of under \$100 million. This is largely due to the drastic increase in regulation—mostly stemming from the new CFPB—that many smaller credit unions simply can’t keep up with. Small and mid-sized credit unions often cannot afford the staff needed to comply with redundant regulations from multiple agencies outside of NCUA, the principle regulator for credit unions.

The Lack of De Novo Credit Unions

The relentless rising cost of compliance deters many would-be de novo credit unions. Additionally, the initial capital infusion and cash outlays are often too great for many communities and associations, and there is practically no return on investment. Starting a new credit union is essentially an altruistic endeavor, as there is no ultimate financial incentive for those who are successful. Furthermore, the complex chartering process may seem relatively easy and straightforward when compared to what a de novo credit union will face once it is chartered and operating. The industry has seen a significant decline in the pace of de novo credit unions post Dodd-Frank enactment.

The table below outlines the number of de novo federally-insured credit unions chartered since the year 2000.

New FICU Charters since 2000

	Federal Charters	State Charters	Total
2000	8	4	12
2001	7	3	10
2002	4	2	6
2003	11	4	15
2004	2	3	5
2005	5	4	9
2006	7	1	8
2007	3	0	3
2008	4	3	7
2009	2	0	2
2010	1	0	1
2011	1	0	1
2012	4	1	5
2013	1	0	1
2014	3	0	3
2015	4	0	4
2016	0	1	1
Total (2000-2016)	67	26	93
Pre Dodd-Frank (2000-2009) Annual Average	5.3	2.4	7.7
Post Dodd-Frank (2010-2016) Annual Average	2.0	0.3	2.3

Sources: NCUA annual reports, Insurance Reports of Activity

Summation of the Steps Necessary to Charter a Credit Union

Chartering a credit union is not quick, nor easy. NCUA's chartering process involves 17 steps that can be broken into 4 categories. The first three steps are research or plenary based, the next 4 steps cover identifying initial capital sources and outlays as well as determining the field of membership (FOM) and finding potential subscribers. The next eight steps relate to

development of a business plan, hiring or appointing staff and the board of directors, and the development of financial, operational, and strategic plans. All of these steps of course include the completion of numerous NCUA forms and documents. The final steps cover NCUA's evaluations and requests for follow-up information.

NCUA's Office of Small Credit Union Initiatives (OSCUI) offers free consulting services once the applicant receives preliminary FOM approval. However, it can still take up to three years to receive a charter depending on the complexity of the credit union's business model. This startup time can be even longer if there are delays in obtaining the funding (grants/donations) necessary to cover the start-up costs—including the absorption of any net operating losses and cash necessary to maintain adequate levels of capitalization. The general guidance for start-up costs is 10 percent of expected assets.

I outline the seventeen steps for establishing a federal credit union in Appendix A.

Chartering Process at The Finest FCU

The idea for The Finest Federal Credit Union came from Mr. Paul McCormack, a retired NYPD Deputy Inspector. In his travels, he was introduced to officials from St Raphael Garda Credit Union, the largest credit union in Ireland. Mr. McCormack was intrigued and amazed at the services offered by this cooperative and led him to ask the question, "why doesn't the world's largest police force (NYPD) have their own credit union tailor-made to fill their own unique needs?" In 2007, Paul and several other organizers went to work trying to find a way to fund the venture. After more than a year of research and organizing, it became apparent that the financial

crisis of 2008 scared away the would-be capital sources. A few years later, the project was re-started with new inspiration from the original organizers, specifically Mr. McCormack, when Amtrust Financial Services, a New York based property and casualty insurer, announced its interest in assisting our credit union launch. Once funding was secured, we went to work drafting the application, business plan and pro-formas, and finally submitted our application to NCUA with requests for amendments. This process lasted over eighteen months.

Currently, The Finest FCU has \$5 million in assets, serves more than 2,400 members, and offers checking and savings accounts, revolving lines of credit, and personal loans. We will soon be able to offer auto, mortgage, and boat loans, as well as a host of wealth management services.

Why was The Finest FCU able to succeed?

During the process of researching, chartering and starting operations for the organization, The Finest FCU benefitted from a number of factors, below including:

- The organizers and subscribers cooperation and commitment helped to keep the underlying goal in focus – providing specific help and services to the officers of the NYPD through all stages of life.
- The support and financial backing of Amtrust Financial Services. Securing a supporter who was willing to help fund the chartering effort was key.
- NCUA was helpful, especially towards the end of the chartering process and as The Finest began operation. NCUA's Office of Consumer Financial Protection and Office of Small Credit Union Initiatives worked to provide us answers as questions arose in the process.

- The NCUA website provided a comprehensive guide on how to charter a federal credit union.

What Challenges Has The Finest FCU Faced?

Of course, starting any new enterprise is challenging, but starting a new enterprise within the framework of the heavily and increasingly regulated financial services industry offers some particularly daunting challenges, including:

- The biggest hurdle was securing funding for the project. Without the support of Amtrust Financial Services, we would probably not be here today.
- The costs of running day-to-day operations and keeping up with the ever-changing post Dodd-Frank regulatory environment consume significant resources. New credit unions get no breaks, and were it not for a tremendous amount of volunteered legal and organizational help from AmTrust Financial and Reed & Jolly PLLC, we could not have made it across the finish line.
- Selecting a core processor and other service providers is a daunting task that has a fair share of risk.
- Our current charter powers limit us to small loans and deny us the powers necessary to fully serve our member needs. While we fully understand the safety and soundness concerns usually faced by new credit unions, we have significant capital, including deposits from other credit unions. Unfortunately, even though we have been able to consistently grow since initial operations, we are still seeking authority to offer mortgages, as well as personal loans in excess of \$5,000.

- While the NCUA was extremely helpful throughout the chartering process, there were periods of uncertainty due to their delayed responses (there is no requirement for a timely response) and even ambiguity in their responses when they did respond.
- The current requirement for monthly board meetings, with copies of all materials to the NCUA, consumes considerable resources and may be an outdated feature of credit union bylaws.
- It is challenging to retain experienced and competent employees to help manage/run a full-service banking institution. We all wear many hats and need the ability to multi-task and think “outside the box”.

Steps to Improve the Chartering Process

NCUA takes an active role to help new credit unions form and provides support as an agency. Still, de novo credit unions could benefit from NCUA rules that do more to provide structure and flexibility for the unique challenges that new credit unions face. NAFCU believes that the agency and its examiners should establish timetables for responses at various stages of the chartering process and have some limited authority to provide flexibility on a case-by-case basis with new credit unions, such as additional time to build capital requirements or meet certain requirements.

We would also urge Congress to adopt more flexibility in the *Federal Credit Union Act* when it comes to prompt corrective action capital requirements for de novo credit unions. While the *Federal Credit Union Act* gives NCUA some PCA flexibility for new credit unions, allowing

more flexibility, including giving NCUA the power to approve forms of supplemental capital for all credit unions, including de novo institutions, would help.

One way that Congress could enable more flexibility is by passing the *Capital Access for Small Businesses and Jobs Act*, H.R. 1244, which would authorize all credit unions to issue supplemental capital, so long as it does not alter the cooperative ownership structure of credit unions. NAFCU urges Congress to pass this legislation as it would better enable credit unions to meet capital requirements.

An additional flexibility that Congress should consider is whether field-of-membership (FOM) restrictions could be more accommodating for new credit unions. Economic and market realities often hamper opportunities for new credit unions to grow and gain solid footing; often, a lack of a sizeable membership base is a lead cause of this burden. Flexible FOMs for new credit unions would expand the potential market and make it easier to quickly grow the membership to a sustainable size.

Another step NCUA could take is to ensure its examiners who are in the field and working with new credit unions, are carrying out the mission of OSCUI, have the ability and flexibility to work with new credit unions, and have the experience to understand business plans adopted by new credit unions. The agency should take steps to ensure that there are not disconnects between headquarters and regional offices, such as assigning a specific contact at NCUA for the de novo credit union during the chartering process. Often de novo credit unions find initial approval for

some things is ultimately reversed down the line, adding to the challenges and frustrations of the process.

Along the same lines, rules and regulations that not only protect member deposits and the share insurance fund, but also allow for different models of forming and operating credit unions may be worth consideration. NCUA should seek to modernize outdated governance provisions in the Federal Credit Union Act and its rules and regulations, including taking steps to reform its standard credit union bylaws. In essence, we would encourage NCUA to think outside the box when it comes to new credit union charters and we stand ready to work with them on those efforts.

Finally, we have recently been certified as a Community Development Financial Institution (CDFI) and we are currently drafting our grant request. We believe that it is our responsibility to our membership (owners) to apply for any funding that may be available. The funds we may receive would be used to offset certain expenses including some regulatory/compliance burdens. The CDFI fund can be an important tool for small and de novo institutions.

Regulatory Hurdles/Burden After Chartering

Should a credit union make it through the application and chartering process, the hard part is likely just beginning as they now face a tidal wave of regulation. Since enactment of the *Dodd-Frank Act*, we have witnessed large banks grow and small banks and credit unions disappear. Approximately one-third of credit union charters established in recent years have not survived.

During the consideration of financial reform, NAFCU was concerned about the possibility of overregulation of good actors such as credit unions, and this is why NAFCU was the only credit union trade association to oppose the new CFPB having rulemaking authority over credit unions. Unfortunately, many of our concerns about the increased regulatory burdens that credit unions would face under the CFPB have proven true. While it is true that credit unions under \$10 billion are exempt from the examination and enforcement from the CFPB, all credit unions are subject to the rulemakings of the agency and are feeling this burden. While the CFPB has the authority to exempt certain institutions, such as credit unions, from agency rules, they have unfortunately been reluctant to use this authority on a broad scale.

The impact of this growing compliance burden is evident as the overall number of credit unions continues to decline. Since the second quarter of 2010, we have lost over 1,500 federally-insured credit unions – over 20% of the industry. The overwhelming majority (96%) of these were smaller institutions below \$100 million in assets. While it is true that there has been a historical consolidation trend in the industry, this trend has accelerated since the passage of the *Dodd-Frank Act*. Many smaller institutions simply cannot keep up with the new regulatory tide and have had to merge out of business or be taken over. There is an urgent need for Congress to enact meaningful regulatory relief.

Additionally, since the financial crisis and the passage of Dodd-Frank, the number of new credit unions seeking charters has decreased by nearly 70% per year, with an average of 7.7 new charters annually in the 10 years before Dodd-Frank and only 2.3 annually since the passage of Dodd-Frank.

This growing demand on credit unions is demonstrated by a recent NAFCU survey of our membership that found that nearly 97% of respondents were spending more time on regulatory compliance issues than they did in 2009. In addition to hiring new compliance personnel, many credit unions have reported that non-compliance staff is regularly called upon to help with the compliance workload. In fact, another recent survey found that over 70% of respondents have had non-compliance staff members take on compliance-related duties due to the increasing regulatory burden. This highlights the fact that many non-compliance staff is forced to take time away from serving members to spend time on compliance issues. A new credit union often has limited staff to tackle many challenges, and often finds itself in this situation where compliance, not service, becomes the main focus. Every dollar, or hour, spent on compliance, is time or money taken away from member service, additional loans, or better rates.

Additionally, cyber and data security is an important issue for all credit unions, but especially de novo charters. While we have to take steps to protect our members' financial data, a major data breach at a retailer that allows criminals access to consumers' financial accounts could prove costly to financial institutions, such as credit unions, as they try to protect their members. Smaller and de novo credit unions have a harder time absorbing these costs. We would urge Congress to enact a national data security standard to require those that hold consumer financial data have protections in place akin to what financial institutions have to do under the *Gramm-Leach-Bliley Act*.

Credit Unions Need Regulatory Relief

Regulatory burden is the top challenge facing credit unions today. Finding ways to cut-down on burdensome and unnecessary regulatory compliance costs is the only way for credit unions to thrive and continue to provide their member-owners with basic financial services and the exemplary service they need and deserve. NAFCU continues the fight and looks forward to working with Congress to address the many legislative and regulatory challenges faced by the credit union industry today.

It is with that in mind that we would like to reiterate our support for comprehensive regulatory relief for community institutions, such as the *Financial CHOICE Act* proposed in the last Congress. This legislation contained key elements of regulatory relief including repeal of the Durbin Amendment, reforms to structure, power and rules of the CFPB, greater cost-benefit analysis of new regulations, and improvements to the examination process for credit unions.

In order to ensure that this relief best benefits de novo credit unions, we would urge you to go further and fully exempt all credit unions from CFPB authority. Having to worry about rules from multiple regulators is a daunting challenge for all credit unions, and is especially hard on de novo charters – who are often so focused on getting established that they don't see the CFPB tidal wave coming. Returning credit unions to the sole jurisdiction of NCUA, is a key step Congress can take to help reverse the declining de novo trend.

We also urge you to take action to help modernize and update the *Federal Credit Union Act*, such as removing outdated governance provisions from the statute, allowing all credit unions to add underserved areas to their field of membership, and modernizing capital requirements to create a true risk-based system capital system for credit unions.

Conclusion

NCUA provides a number of important resources for de novo credit unions. We would urge the agency to do more to aid new credit unions by providing more flexibility with its rules and examiners on a case by case basis to not make the process so onerous. NCUA should also provide de novo credit unions with timely responses. This could be aided by the agency creating a key contact for each de novo credit union. Additionally, we would also encourage the agency to look at it from a business perspective and think outside the box in how it can help de novo credit unions.

Unfortunately, new credit unions like The Finest FCU are not being created due not only to the hurdles posed by initial start-up time and costs, but also the daunting over-regulation facing the credit union once its charter is granted. Many smaller credit unions are saying “enough is enough” when it comes to the overregulation of the industry. The compliance requirements in a post-Dodd-Frank environment have grown to a tipping point where it is nearly impossible for many smaller institutions to survive, much less start from scratch. Credit unions want to continue to aid in the economic recovery, but are being stymied by this overregulation. We need regulatory relief – both legislatively and from the regulators.

We would urge this Subcommittee to support regulatory relief for credit unions and support modernizing and updating the *Federal Credit Union Act*. Finally, the subcommittee should encourage regulators to act to provide relief where they can without additional Congressional action.

We thank you for the opportunity to share our thoughts with you today. I welcome any questions you might have.

Appendix A – Steps to Charter a Federal Credit Union

Step 1 – Research the Federal Charter

An applicant must research and review what a federal credit union is, detail the regulatory and consumer compliance requirements of a federal credit union (FCU), and describe the operational requirements involved in running a federal credit union.

Documentation Requirement: Subscriber must submit a signed letter, acknowledging research and review is complete.

Step 2 – Select a Credit Union Name

Select a name that is not already being officially used by, or would be confused with another credit union name.

Documentation Requirement: Send a letter to NCUA with requested credit union name.

Step 3 – Establish a Field of Membership (FOM)

Potential members must qualify for membership by belonging to a specific group with a common bond. NCUA will provide preliminary approval on a proposed FOM upon applicant satisfying documentation requirements.

Documentation Requirement: varies depending on common bond:

- **Single common bond** - a letter identifying the FOM type, the proposed FOM wording, and:
 - For occupational common bond:
Enclose a letter from the entity (on its letterhead) stating it is interested in sponsoring and being a part of the FCU. 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
 - For Trade-Industry-Profession (TIP) common bond:
Enclose a letter identifying the following:
 - 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.).
 - For associational common bond:
Enclose a letter from the association entity stating it is interested in sponsoring and being a part of the applicant. 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

Also, the applicant should 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.

- **Multiple common bond** – a letter identifying the FOM type, the proposed FOM wording, and:

- For multiple occupational common bond:

Identify each entity by name, city and state, and include number of current employees. Also, enclose a letter from an authorized representative of each entity stating it is interested in sponsoring and being a part of the applicant's FOM. The letter must also include:

- Number of current employees;
- Distance (# of miles) the entity's physical address is located from the applicant'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 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.

- For multiple associational common bond:

Identify each entity by name, city and state, and include the number of current employees and members. Also, enclose a letter from an authorized representative of each entity stating it is interested in sponsoring and being a part of the applicant's FOM. 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 applicant's office facility;
- Physical address and telephone number of the association;
- If any single group being included has more than 3,000 members, provide
 - 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.

The letter must also include a copy of the association's Bylaws, Articles of Incorporation, Constitution, Charter, or any other equivalent documentation supporting that it is a recognized entity.

- **Community common bond** - A letter identifying the FOM type the applicant wishes to serve, proposed FOM wording, and:

- For single political jurisdictions, submit the following:

- Name of the single political jurisdiction;
- Map of the political jurisdiction(s) with the proposed area outlined; and
- Population of the community

- For multiple contiguous political jurisdictions or rural districts, submit the following:
 - Name of the multiple contiguous political jurisdictions or rural district;
 - Map of the community with the proposed area outlined; and Population of the community

Step 4 – Identify Subscribers

Subscribers are any seven or more natural persons who desire to form a FCU, and they are responsible for preparing the charter application. A primary point of contact needs to be identified for NCUA. Subscribers need to undergo an “appropriate investigation” to determine “the general character and fitness of the subscribers thereto.”

Documentation Requirement:

- 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; 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 new FCU.

Step 5 – Secure Funding to Cover Start-Up Costs

NCUA provides guidance material on typical start up and operating costs for newly chartered credit unions. Typically, subscribers must seek monetary donations or subsidies to cover start up and operating costs for the initial years of operation. All commitments pledged must be placed in writing from their source and include the specific commitment and its terms. 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.

Documentation Requirement:

- 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 applicant's start-up costs and operations until the FCU can become profitable.
- 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.
- 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 applicants that are anticipating most transactions via the internet or other electronic means.

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

Step 7 – Survey Potential Membership

Data gathered from the survey will reveal the level of interest and support for the applicant FCU. 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 FCU and its desired services.

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. NCUA provides applicants with a sample membership survey that applicants can customize to meet their needs. If surveying the all persons within a FOM is not feasible, NCUA requires either a statistically valid sample, or a targeted sample, survey. The number of required survey responses will vary depending on the size of the population. Applicant FCUs should develop a business plan based on the survey results and the most likely future scenario.

Documentation Requirement: Upon completion of the membership survey, the applicant is required to submit the following:

- Tally of the membership survey results;
- Written analysis of the membership survey results;
- 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.

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. NCUA provides a recommended resource list for applicants to use.

Document Requirement: Applicants must 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 applicant;
- 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

Applicants must identify individuals that will serve as directors, supervisory committee members, and credit committee members. When selecting directors, applicants must be sure that they can carry out the duties in good faith, administer the affairs of the credit union fairly, and have a working familiarity with basic finance and accounting practices. 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.

Document Requirement: The applicant must 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.

Step 10 – Create a Business Plan

The applicant must create a plan that must support the applicant via survey results and commitment letters reflecting sponsor support. It should also detail the subscribers' goals and objectives, and demonstrate that the goals are realistic and achievable based on the assumptions provided.

Document Requirement: The business plan must contain the following sections:

- **Mission statement:** brief statement describing the purpose of the proposed FCU
- **Market analysis:** analyze market conditions, including geographic, demographic.
 - Consider what financial service providers are already available to the proposed membership.
- **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.
- **Products and services:** Identify the products and services that the proposed FCU will provide in the first two years, justified by the results of the membership survey.
 - The plan should discuss in detail the terms and conditions of products (ie., interest rates, and per transaction and aggregate maximum dollar limitation), use of third party vendors offered in the first two years, and the diligence conducted on such vendors.
- **Goals for shares, loans, and number of members:** Provide projections for the dollar amount and number of loans and shares, and the number of members for the first two years of operation, which will serve as benchmarks to measure the success.
- **Management and staffing:** Discuss the number of employees, their titles, and the anticipated compensation and benefits. Staff should have experience or expertise in offering and managing the products and services to be offered. All management and third-party agreements must be in writing and reviewed by an attorney.
- **Operating facility:** Identify the location and cost of the proposed FCU office and discuss why the location was selected. The applicant should submit a copy of the draft agreement and attorney review to NCUA.
- **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).
- **Surety Bond Coverage:** NCUA regulations require certain minimum bond coverages.
- **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.
- **Plans for Operating Independently:** Subscribers need to explain and support how the proposed FCU will continue operations after Year 2 while remaining solvent.

- **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 proposed FCU.

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

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. NCUA requires applicants to submit such information. The agency provides a sample pro-form statement.

Document Requirement: The applicant must submit semi-annual pro-forma balance sheet and income statement projections and corresponding assumptions for at least the first two full years of operation. Additionally, the annual pro-forma financial projections through the year the proposed FCU will be profitable absent grant money to demonstrate its ability to operate independently.

Step 12 – Develop a Marketing Plan

Describe how the proposed FCU will market the credit union to potential members. Specifically identify the advertising venues and methods to be used and include the cost for each.

Document Requirement: Submit a formal written marketing plan including costs associated with each marketing initiative.

Step 13 – Complete Required NCUA Forms

The Appendix of the Chartering Manual contains the required chartering forms. These forms can only be completed and signed by the appropriate individuals after receiving preliminary field of membership approval from NCUA.

Document Requirement: Applicant must submit Forms 4001, 4008, 9500, and 9501.

Step 14 – Establish Credit Union Bylaws

The applicant should customize NCUA's standard bylaws to fit their unique membership needs.

Document Requirement: Submit the adopted draft credit union bylaws to NCUA.

Step 15 – Draft Written Policies and Procedures

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.

Document Requirement: Applicant should develop policies that generally take account of the following:

- 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 Assets 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
- Policies for Advanced Services

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 proposed FCU 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). 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.

Step 17 – Charter Issued

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.