

FEDERAL CORPORATE CREDIT UNION CHARTERING MANUAL

National Credit Union Administration

Office of Corporate Credit Unions



TABLE OF CONTENTS

INTRODUCTION-----	ii
 CORPORATE FEDERAL CREDIT UNION	
CHARTERING -----	1-1
I. GOALS OF NCUA CHARTERING POLICY -----	1-1
II. SUBSCRIBERS -----	1-1
III. ECONOMIC ADVISABILITY-----	1-2
III.A General-----	1-2
III.B Proposed Management’s Character and Fitness-----	1-2
III.C Member Support-----	1-2
III.D Present and Future Market Conditions - Business Plan-----	1-3
IV. ORGANIZING A CORPORATE FEDERAL CREDIT UNION-----	1-4
V. NAME SELECTION-----	1-5
VI. NCUA REVIEW-----	1-5
VI.A General-----	1-5
VI.B OCCU Director Action-----	1-6
VI.C NCUA Board Action & Right to Petition Board Directly-----	1-6
VI.D Finalization of New Charter-----	1-7
 VII. FUTURE SUPERVISION-----	 1-7
 APPENDICES	
Appendix A Sample Letter of Understanding and Agreement-----	A-1
Appendix B NCUA/OCCU Contact Information-----	B-1
Appendix C NCUA Forms-----	C-1

INTRODUCTION

A corporate credit union is a member-owned, member-controlled, not-for-profit cooperative financial institution formed to serve other credit unions (also referred to as natural person credit unions). Member ownership and control are what make credit unions and corporate credit unions unique.

The cooperative movement in financial institutions was born in Europe during the mid-1800s. The first credit union was organized in Belgium in 1848 during a period of severe economic depression. At the same time, cooperative credit societies were being developed in Germany to provide a self-help vehicle for the shopkeepers, urban workers and farmers who had been forced to pay usurious rates charged by the area money lenders. In all cases, these cooperative institutions were democratically controlled, open to voluntary membership, and generated all capital from the savings of the participants.

By 1900, the financial cooperative idea had spread to Canada, and in 1909, the first credit union was organized in the United States. By 1935, 38 states and the District of Columbia had laws permitting the establishment of credit unions, and over 3,000 were in existence.

In 1934, Congress passed the Federal Credit Union Act "to establish a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States." That Act set the basic structure which governs federal credit unions.

The passage of the Federal Credit Union Act established an administrative structure within the federal government for the supervision of federal credit unions. This structure was administered by a succession of federal agencies over the years until Public Law 91-206 was enacted in 1970. This law formed the National Credit Union Administration (NCUA) as an independent agency with responsibility for regulating and chartering federal credit unions.

Also in that year, Congress established the National Credit Union Share Insurance Fund (Fund) within the NCUA to insure the shares of all federal credit unions and participating state credit unions. The Fund is backed by the full faith and credit of the U. S. Government.

As credit unions were growing in the 1970s, leaders of the credit union industry saw a need. Credit unions needed the ability to transfer funds within the credit union system to address the impact of cyclical changes in loan demand and share growth. A key goal of the corporate credit union founders was to provide for a "credit union system" answer to this need for liquidity, rather than relying on the banking industry to fill the void. This is how corporate credit unions became the "credit unions' credit unions".

State credit union leagues were heavily involved in the creation of the corporate credit union system. When the process of chartering corporates was fully under way in the 1970s and 1980s, nearly every state formed its own corporate to serve its natural person credit unions. About half of the corporates were originally chartered under the requirements set forth in the Federal Credit Union Act; the other half were chartered under regulations set forth in their individual states. At their peak, there were a total of 46 corporate credit unions. Today, as a result of consolidation among corporates, their numbers have declined significantly.

When corporate federal credit unions were first established, they were chartered to serve specific fields of membership, or FOMs. The FOMs primarily consisted of credit unions within a specific state or geographic region. Most state-chartered corporate credit unions were chartered with a national FOM, but, in practice, they limited service to the states in which they were incorporated. In the mid-1990s NCUA permitted corporate federal credit unions to expand to national FOMs. The goal was to allow more choice for natural person credit unions on where to obtain their services.

Natural person credit unions have come to depend heavily on corporate credit unions. Approximately 99 percent of all natural person credit unions have accounts in at least one corporate credit union. Seventy-five percent of natural person credit unions rely on a corporate credit union as their primary settlement agent. This means the corporate system processes transactions for millions of consumers.

NCUA finalized changes to its corporate credit union rule. As a result of the rule changes, NCUA believes that some groups of credit unions may wish to form new corporate credit unions. As the credit union system and the financial world evolve, NCUA will continue to update its chartering guidance to ensure that corporate federal credit unions have the tools to fully serve their members.

FEDERAL CORPORATE CREDIT UNION CHARTERING

I -- GOALS OF NCUA CHARTERING POLICY

The National Credit Union Administration's (NCUA) chartering guidelines are intended to achieve the following goals:

- uphold the provisions of the Federal Credit Union Act;
- promote safety and soundness within the credit union industry; and
- provide quality services to members.

NCUA will consider the above criteria as the primary factors in determining whether to approve a corporate federal credit union charter. In unusual circumstances, NCUA may consider other information in deciding if a charter should be approved, such as other federal law or public policies.

Unless otherwise noted, the guidelines outlined in this manual apply only to corporate federal credit unions.

II -- SUBSCRIBERS

Corporate credit unions' primary purpose is to provide natural person credit unions with correspondent banking services, as well as liquidity and investment services. The organization of a successful corporate federal credit

union takes considerable planning and dedication.

Persons interested in organizing a corporate federal credit union should contact the NCUA Office of Corporate Credit Unions (OCCU).

Seven or more natural person representatives of different natural person credit unions -- the "subscribers" -- must present to NCUA for approval a sworn organization certificate stating at a minimum:

- the name of the proposed corporate federal credit union;
- the location of the proposed corporate federal credit union;
- the names and addresses of the subscribers to the certificate and the number of shares subscribed by each;
- the initial par value of the shares; and
- the proposed field of membership.

False statements on any of the required documentation filed in obtaining a federal credit union charter may be grounds for federal criminal prosecution.

III -- ECONOMIC ADVISABILITY

III.A -- General

Before chartering a corporate federal credit union, NCUA must be satisfied that the institution will be viable and that it will provide needed services to its members. NCUA will conduct an independent investigation of each charter application to ensure that the proposed corporate credit union can be successful. In general, the success of any credit union depends on: (a) the character and fitness of management; (b) the depth of the members' support; and (c) present and projected market conditions.

III.B -- Proposed Management's Character and Fitness

The Federal Credit Union Act requires NCUA to ensure that the subscribers of federal charters are of good "general character and fitness." In addition, employees and officials must be competent, experienced, honest, and of good character.

NCUA will conduct background and credit investigations of prospective officials and employees, and the reports must establish each applicant's character and ability to effectively handle financial matters. Factors that may lead to disapproval of a prospective official or employee include criminal convictions, indictments, and acts of fraud and dishonesty. Other factors, such as serious or unresolved past due credit obligations and bankruptcies disclosed during credit checks, may also disqualify an individual.

NCUA also needs reasonable assurance that the management team will have the requisite skills - particularly in leadership, accounting, funds management, and payment systems risk - and the commitment to dedicate the time and effort needed to make the proposed corporate federal credit union a success.

Section 701.14 of NCUA's Rules and Regulations sets forth the procedures for NCUA approval of officials of newly chartered federal credit unions, including corporate federal credit unions. If the application of a prospective official or employee to serve is not acceptable to NCUA's Director of OCCU, the group can propose an alternate to act in that individual's place. If the charter applicant feels it is essential that the disqualified individual be retained, the individual may appeal the OCCU's decision to the NCUA Board. If an appeal is pursued, action on the application may be delayed. If the appeal is denied by the NCUA Board, an applicant acceptable to NCUA must be provided before the charter can be approved.

III.C -- Member Support

An important chartering consideration is the degree of support from the field of membership. The charter applicant must demonstrate a sufficient customer base from which to draw business in the form of membership applications, capital and share commitments, as well as commitments to use the corporate federal credit union's services. The applicant must provide surveys and/or

CHARTERING

written commitments certifying to the potential membership base and capital commitment to the levels required by Part 704 of the NCUA's Rules and Regulations. Although NCUA may work with a newly chartered corporate regarding a plan to meet the retained earnings requirements of Part 704, the newly chartered corporate must have a viable plan to solicit and maintain sufficient contributed capital. Generally, the plan must show how the corporate federal credit union will maintain its total capital at 4 percent or more of its moving daily average net assets (MDANA) at all times beginning on the date NCUA issues the charter. MDANA at the time of charter will be calculated as the corporate's net assets on the day of charter. MDANA for month one consists of the DANA for that month. MDANA for months two through eleven consists of the average of DANA for the month being measured and the previous months back to the date of charter.

III.D -- Present and Future Market Conditions - Business Plan

The ability to provide effective service to members, compete in the marketplace, and adapt to changing market conditions are key to the survival of any enterprise. Before NCUA will charter a corporate credit union, a charter applicant must submit a business plan based on realistic and supportable projections and assumptions.

The business plan should contain, at a minimum, the following elements:

- mission statement;

- analysis of market conditions (i.e., economic prospects for the corporate credit union and availability of proposed financial services from alternative depository institutions);
- summary of survey results and/or member (customer) base analysis;
- proposed financial services to be offered;
- how/when services are to be implemented;
- anticipated corporate credit union staffing and credentials of key employees;
- physical facility – office and equipment;
- proposed record keeping, data processing, and communications systems and/or vendors;
- budget for the first three years;
- semiannual pro-forma financial statements for the first three years, including a listing of the assumptions used to develop the financial statements;
- goals for the number of members and shares under various scenarios;
- projected break-even or date of achieving independent operations;

CHARTERING

- source of funds to pay expenses during initial setup and early months of operation;
- written policies for shares, lending, investments, funds management, capital accumulation as required by Part 704, payment systems and EDP;
- plan for continuity – directors, committee members, and senior management;
- evidence of commitment (i.e. letters and/or contracts used to substantiate projections); and
- services and marketing strategies for financial and correspondent services, including the ability of the proposed corporate credit union to efficiently deliver these products.

IV -- ORGANIZING A CORPORATE FEDERAL CREDIT UNION

As part of the application process, the subscribers must submit the following documentation to the OCCU, which are available in Appendix C of this Manual:

- NCUA Form 4001 - Federal Credit Union Investigation Report. In completing the form, subscribers may disregard any reference to “common bond.” In addition, where Section B.2 of the form requires a potential interest survey sample of at least 250 potential members, subscribers may use a sample of at least 30 potential members.
- NCUA Form 4008 – Organization Certificate. This document establishes the seven criteria required of subscribers by the Act and is signed by the subscribers and notarized. This document should be executed in duplicate.
- NCUA Form 4012 - Report of Official and Agreement to Serve. This form documents general background information for each official and employee of the proposed corporate credit union. Each designee must complete and sign this form.
- NCUA Form 9500 – Application and Agreements for Insurance of Accounts. This document contains agreements federal credit unions must comply with in order to obtain NCUA insurance coverage of member accounts. The document must be completed and signed by both the chief executive officer and chief financial officer.
- NCUA Form 9501 – Certification of Resolutions. This document certifies the board of the proposed corporate credit union has resolved to apply for federal insurance of member’s accounts and has authorized the chief executive officer and the chief financial officer to execute the Application and agreements for Insurance of Accounts. Both the chief executive officer and

CHARTERING

recording officer of the proposed corporate credit union must sign this certification.

V -- NAME SELECTION

It is the responsibility of the corporate federal credit union organizers to ensure that the proposed corporate federal credit union name does not constitute an infringement on the name of any corporation in its trade area. This responsibility also includes researching any service marks or trademarks used by any other corporation (including credit unions) in its trade area. NCUA will ensure, to the extent possible, that the corporate credit union's name:

- 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.

The last three words in the name of every credit union chartered by NCUA must be "Federal Credit Union."

VI -- NCUA REVIEW

VI.A -- General

OCCU will conduct an independent investigation of the corporate credit union's charter application to assess the economic and long-term viability of the

proposed corporate credit union. OCCU field staff will conduct the review and, if necessary, perform an on-site contact with selected officials and others having an interest in the proposed corporate credit union.

The review will include evaluation of proposed management's experience and suitability, commitment of proposed officials, and assessment of economic viability. OCCU field staff may also be called upon to assist subscribers in the proper completion of required forms and the Organization Certificate - NCUA Form 4008.

OCCU field staff will thoroughly analyze the prospective corporate credit union's business plan for realistic projections, attainable goals, and time commitment. Any concerns will be reviewed with the subscribers and discussed with prospective officials.

NCUA will follow the timeline set forth below in processing corporate charter applications:

- Within 30 days of receipt of the application, OCCU field staff will meet with the proposed officials and management team to evaluate the adequacy of management and the information provided as well as to discuss the corporate credit union's ability to begin operations and meet financial projections if the charter is approved.
- On completion of all required reviews, but no later than 60

CHARTERING

days after the meeting described above, OCCU field staff will make a recommendation to the OCCU Director regarding the application. The recommendation may include provisional requirements to be completed prior to final approval of a corporate federal credit union charter.

VI.B -- OCCU Director Action

- Within 30 days of receiving the OCCU field staff recommendation, the OCCU Director will determine if the application can be forwarded to the NCUA Board for action or if it should be returned to the subscribers for more information.

If the OCCU Director, after reviewing any additional information, believes the application has no merit, the OCCU Director may return the application to the subscribers as disapproved. If the OCCU Director believes the application has merit, the Director will forward the application to the Board.

VI. C -- NCUA Board Action and the Right to Petition Board Directly

Upon receiving a proposed chartering application recommended for approval from the OCCU Director, the Board then has 60 days to vote on the proposed charter.

Notwithstanding the above timeline, the subscribers may petition the Board directly for a vote on a pending application. The right to petition begins upon the earlier of these two dates:

- the date of any OCCU disapproval described in Section VI.B above, or
- 180 days from the date of the initial charter application.

Subscribers must ensure the Board receives any petition no later than 90 days following these two dates. The Board will act on a timely petition no later than 60 days from the date of petition receipt.

If the charter is approved, the officials must sign a “Letter of Understanding and Agreement” (LUA) before the corporate credit union can commence operations. This LUA will impose certain operational restrictions, require compliance with NCUA’s Rules and Regulations and adoption of the standard Corporate Federal Credit Union Bylaws, and contain several financial performance milestones that the new charter must meet, consistent with Part 704.

Generally, the agreement is for a limited term of two to four years. A sample Letter of Understanding and Agreement is found in Appendix A.

VI.D -- Finalization of New Charter

If NCUA approves the charter application, the subscribers, as their final

CHARTERING

duty, will elect the board of directors for the newly chartered corporate federal credit union. The new board of directors will subsequently appoint the supervisory committee. The corporate federal credit union must then submit a report of officials to OCCU.

VII -- FUTURE SUPERVISION

Each corporate federal credit union will be examined regularly by NCUA to determine that it remains in compliance with applicable laws and regulations and to determine that it does not pose undue risk to the NCUSIF. The examiner will contact the corporate credit union officials shortly after approval of the charter in order to arrange for the initial supervision contact (usually within the first three months of operation).

The examiner will be responsible for monitoring the progress of the corporate credit union and providing the necessary advice and guidance to ensure it is in compliance with applicable laws and regulations. The examiner will also monitor compliance with the terms of any required Letter of Understanding and Agreement.

APPENDIX A

SAMPLE LETTER OF UNDERSTANDING AND AGREEMENT

To the Board of Directors and Other Officials
_____ Corporate Federal Credit Union

Since the purposes of corporate credit unions are to provide natural person credit unions with correspondent banking services, as well as liquidity and investment services, and since newly chartered corporate credit unions are unproven in providing those services as a fledgling operation, federal insurance coverage of member accounts under the National Credit Union Share Insurance Fund will be granted to the above named corporate credit union subject to the conditions listed in this Letter of Understanding and Agreement (LUA) and in the Organization Certificate and Application and Agreements for Insurance of Accounts. These terms are listed below and are subject to acceptance by authorized corporate credit union officials.

1. The corporate credit union will endeavor to build retained earnings to a level of 0.30 percent of its moving daily average net assets (DANA) within 24 months of its inception and 0.45 percent of its moving DANA within 36 months of its inception.

2. The corporate credit union will maintain at all times pursuant to the requirements of Section 704.8 of the NCUA Rules and Regulations its risk exposure to levels that do not result in a base case Net Economic Value (NEV) ratio or any NEV ratio resulting from the interest rate sensitivity testing below 2 percent.

3. The corporate credit union will limit at all times pursuant to the requirements of Section 704.3 of the National Credit Union Administration (NCUA) Rules and Regulations the minimum leverage and risk-based capital ratios.

4. The corporate credit union will not establish or invest in a Credit Union Service Organization (CUSO) without the prior written approval of the Director of the Office of Corporate Credit Unions (OCCU) while operating under the provisions of this Letter of Understanding and Agreement.

5. The corporate credit union is prohibited from applying for activities pursuant to Appendix B to Part 704 of NCUA's Rules and Regulations while operating under the provisions of this Letter of Understanding and Agreement.

5. The corporate credit union will adopt and file with the OCCU the standard corporate federal credit union bylaws no later than 60 days after its inception.

6. The corporate credit union will prepare and mail to the district examiner a schedule providing the status of the operation's retained earnings accumulation plan each calendar quarter by the 20th of each following month for which the report is prepared.

7. The corporate credit union will prepare and mail to the district examiner financial and statistical reports as required by the Federal Credit Union Act and Bylaws by the 20th of each month following that for which the report is prepared.

8. As the corporate credit union's officials gain experience and the corporate credit union achieves target levels of growth and profitability, the above terms and conditions may be renegotiated by the two parties.

We, the undersigned officials of the _____ Federal Credit Union, as authorized by the board of directors, acknowledge receipt of and agree to the attached Letter of Understanding and Agreement dated _____.

This Letter of Understanding and Agreement has been voluntarily entered into with the National Credit Union Administration. We agree to comply with all terms and conditions expressed in this Letter of Understanding and 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 corporate credit union in a sound and prudent manner, the NCUA Board may terminate insurance coverage of the corporate credit union. If actions by the officials, in violation of this Letter of Understanding and Agreement, cause the corporate credit union to become insolvent, the officials assume such personal liability as may result from their actions.

The term of this Letter of Understanding and Agreement shall be for the period of at least 24 months from the date the corporate credit union is insured. This Letter of Understanding and Agreement may, at the option of the OCCU Director, be extended for an additional 24 months at the end of the initial term of this agreement.

Dated this _____ of _____
(day) (month) (year)

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

OCCU Director

_____ Federal Credit Union

By:

Chief Executive Officer Date

Chief Financial Officer Date

Secretary Date

APPENDIX B

**NATIONAL CREDIT UNION ADMINISTRATION
OFFICE OF CORPORATE CREDIT UNIONS
CONTACT INFORMATION**

CENTRAL OFFICE

National Credit Union Administration
Office of Corporate Credit Unions
1775 Duke Street
Alexandria, VA 22314-3428

Commercial: 703-518-6640
Facsimile: 703-518-6665
E-mail: OCCUMAIL@ncua.gov

APPENDIX C

NCUA FORMS

NCUA 4001	-- Federal Credit Union Investigation Report
NCUA 4008	-- Charter – Organization Certificate
NCUA 4012	-- Report of Official and Agreement to Serve
NCUA 9500	-- Application and Agreements for Insurance of Accounts
NCUA 9501	-- Certification of Resolutions