

FORMATION OF A NEW TENNESSEE STATE-CHARTERED CREDIT UNION

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- 3. Establish bylaws (a copy of standard bylaws are attached) Page 17 & Exhibit F
- 4. Draft Written Policies and Procedures
- 5. Complete and submit the required share insurance form for NCUA (please note the credit union cannot open for business until such time as insurance is granted) Page 18 & Exhibit G

Submit the completed application to form the credit union and a copy of the application for share insurance to the Tennessee Department of Financial Institutions.

Submit the original application for share insurance to the NCUA.

PHASE 3 – Tennessee Department of Financial Institutions Review

1. Application Review by the Department (at this point the Applicant is awaiting comments from the Department)
 - a. Review for completion
 - b. Once complete an onsite investigation will take place
 - c. Upon completion of the investigation a recommendation will be made to the Commissioner
 - d. Charter for the credit union is filed by the Department of Financial Institutions with the Tennessee Secretary of State. The applicant is responsible for a \$100 filing fee, made payable to the Tennessee Secretary of State
Note: the applicant must not submit a Charter directly to the Tennessee Secretary of State, as a no objection from the Commissioner is required.
 - e. Certificate of Approval is granted authorizing the credit Union to begin business

OVERVIEW

This document provides certain basic information regarding Tennessee state-chartered credit unions and the chartering process.¹ 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.

- Membership is limited to a group, or multiple groups, each defined in the credit union's bylaws, each of which have a common bond of occupation or association or is located within a well-defined neighborhood, community, or rural district. Membership is subject to approval.
- 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 typically serve on a volunteer basis and are charged with acting in the best interest of all members.

PHASE 1 - PRELIMINARY WORK

Phase 1 covers certain items you should research before starting the chartering process. It also covers establishing a name and a field of membership for your credit union.

Select a name for the credit union and provide at least one alternative name in the event your first choice is unavailable.

This step is requested early in the chartering process as the name of the credit union is a 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, subject to the Department's approval. Incorporators need to notify the Department of any changes they wish to make to a reserved name.

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

- a) Occupation (work in same employment entity or line of work);

¹ This document is intended to provide a narrative summary of certain information pertaining to the Tennessee state-chartered credit union chartering process. This document does not constitute any interpretation or determination by the Department with respect to any law. Interested persons should contact the Department for specific application instructions and requirements.

- b) Association (for example, a member of a particular church, professional, civic or fraternal group or labor union); or
- c) 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. A credit union can serve either (a) groups with occupational or associational common bonds or (b) groups within a well-defined neighborhood, community, or rural district.

a) **Occupational or Associational Common Bond.**

- **An occupational common bond** group can be established by persons who share an employment relationship with one or more legal entities. This group could potentially serve employees of XYZ Company or alternatively, employees of the XYZ Company and all the subsidiary companies of XYZ Company.
 - o **TIP group** 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 group 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. If a credit union has a TIP in its FOM, its FOM cannot include other groups.
- **An associational common bond** group may include in its FOM, regardless of location, all members and employees of a recognized association. The association's common bond consists of individuals and groups whose members participate in activities developing common loyalties, mutual benefits, and mutual interests. This group 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 the associational common bond requirements by simply existing. The totality of circumstances will be taken into consideration in determining whether the group satisfies associational common bond requirements. Documents from the association should reflect whether it meets the following common bond requirements listed in the Department's Rule 0180-29-.03:

- o Whether members pay dues;

- Whether members participate in the furtherance of the goals of the association;
- Whether the members have voting rights.
- Whether the association maintains a membership list;
- Whether the association sponsors other activities;
- The association's membership eligibility requirements;
- The frequency of meetings; and
- Whether the association sponsors other activities which clearly demonstrate that the members of the group meet and interact regularly to accomplish the objectives of the association.

A credit union serving occupational, associational, or a combination of these groups can also apply to add an underserved area to its FOM. An underserved area is a geographic area designated under the Community Development Financial Institution Act (CDFI) as an investment area and the area meets other criteria outlined in the NCUA's Chartering Manual, Chapter 3, Section III. 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.

- b) **Community Charter** –A community FOM 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. For example, a community could consist of a city or a county or a portion thereof. In some cases, a community could be larger.

The Department will provide preliminary approval on field of membership upon the credit union satisfying all other documentation requirements in the application.

Potential Low Income Designation

A credit union can also seek a low-income designation pursuant to NCUA Rules and Regulations, Sections 701.34 and 741.204. 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 credit union'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 FOM being requested and whether the credit union 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 may work

with the incorporators 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 after 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.

Please find attached a Fact Sheet (**Exhibit A**), provided by the NCUA, that may be helpful relative to seeking a Low Income Designation.

Identify Incorporators

Incorporators are any seven persons, residents of this state, who are within a common bond of occupation and association or reside in a well-defined neighborhood, community or rural district who desire to form a credit union. Incorporators are responsible for preparing the charter application. A primary point of contact needs to be identified during the chartering process. The primary point of contact may be an incorporator or professional organizer hired or appointed by the incorporator(s).

Incorporators need to undergo an appropriate background investigation to determine whether their standing is such as to give assurance that the credit union's affairs will be properly administered. In addition, officials such as executive officers and supervisory committee members are required to undergo such an investigation.

Secure Funding to Cover Start-Up Costs

Chartering and operating a credit union costs money, both initially and continuously. 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, incorporators must seek monetary donations or subsidies to cover start up and operating costs for the initial years of operation.

The attached document titled 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. The attachment could be used to assist incorporators with estimating the amount of donations needed to fund ongoing operations for the credit union.

If your group is unable to secure adequate funding, consider obtaining credit union services from an existing credit union.

Types of support credit unions 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 may come from:

- 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 funds are 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 Department representatives to confirm their understanding of the donated funds.

If any commitments require repayment, they are considered borrowings by the credit union, not donated equity. As such, they cannot be counted towards the equity position of the credit union. The only exception to this rule is Secondary Capital, which is only available to low-income designated credit unions.

Identify a Physical Location

Each credit union must have at least one physical location, including credit unions that are anticipating most transactions via the internet, kiosks, or other electronic means. Incorporators 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.

Find a Mentor and Other Resources - The Department strongly recommends incorporators/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 incorporators/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 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:

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

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). Also, it is helpful to establish a mentor relationship with another well-managed credit union that uses the same data processing system. Although some credit union mentors offer hands-on assistance, most generally do not but their involvement assists incorporators/organizers with progressing and completing the chartering application themselves. As such, incorporators/organizers should not rely upon credit union mentors to complete the chartering application or to resolve the application's deficiencies. Mentor credit unions may be available to:

- Answer questions and provide direction and guidance;
- Attend organizer meetings and/or board meetings after chartering;
- Assist and educate incorporators, 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.

Other Supportive Resources

Sponsor - A sponsor is usually an entity (i.e., company or organization) within the credit union's field of membership. A sponsor could assist 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 credit union. 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.

Most leagues/associations distribute a periodic newsletter containing updated and helpful information about the credit union industry.

Survey the Potential Membership

Complete this step **ONLY** after the Department 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 credit union. 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 credit union and its desired services.

Designing the Membership Survey Form

The 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 credit union;
- 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.

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 ninth 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 the Department first if you have questions about whether your random sampling method is proper before performing a 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.

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

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. Incorporators must use judgment in estimating the survey response rate as it will differ for each potential field of membership.

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

Completion of the Preliminary Stage

Compilation and submission of the Application to Form the Credit Union follows after the preliminary work (Phase 1) above is completed by the organizing group.

PHASE 2 – APPLICATION TO FORM A CREDIT UNION

Identify Officials and Management

Most credit union officials volunteer their time and are often not compensated. In this step, identify the individuals selected to initially serve as officials of the credit union, including:

- A) Board of Directors – must have an odd number not less than 5 members.
- B) Supervisory Committee Members, and Credit Committee Members (if the credit union will have supervisory committee and/or credit committee)

For management employees, refer to the Management and Staffing section below.

In limited cases, volunteers may serve concurrently on the Board of Directors and either the Supervisory or Credit Committee. However, applicable laws and regulations and Principles of Sound Internal Control may place restrictions on individuals from simultaneously serving in certain conflicting positions.

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

- A) 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;
- B) Administer the affairs of the credit union fairly, impartially, and without discrimination;
- C) Direct management's operations in conformity with the Federal Credit Union Act, NCUA Rules and Regulations, Tennessee state law pertaining to credit unions, other applicable law, and sound business practices; and
- D) 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 incorporator, director and officer of the proposed credit union must subject themselves to a background check. This evaluation is performed through a review of each individual's resume along with information obtained during the application process. In connection with the background check the Department requires the following:

- A letter identifying the incorporators 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 incorporators, their anticipated involvement and contribution to the chartering process, including time commitment (number of hours per month);
- An original Report of Official and Agreement to Serve (NCUA 4012) Form (**See Exhibit B**); and,
- A resume for each individual who desires to be an incorporator of the credit union.
- Ensure that the background investigation form is completed in its entirety.

This information is to be provided to the Department as part of the credit union application.

Create the Business Plan

The proposed business plan must demonstrate the economic viability of the credit union, it must be supported by the following key information:

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

The business plan has three main objectives:

- 1) Clearly document support for the credit union via the survey results, along with commitment letters reflecting sponsor support, evidence of donations, and other commitments;
- 2) Detail the incorporators' goals and objectives and clearly states how and when the credit union will meet them; and
- 3) 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 may be a good resource for assisting incorporators with developing their business plan, financial projections, and assumptions.

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 the Department.

Mission Statement

Prepare a brief statement describing the purpose of the credit union. 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:

- a) 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.
- b) What type of products do the financial providers offer (or not offer)?

- c) 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?
- d) Why is there a need for this credit union, and what is that need?
- e) Who will be the credit union's competitors, and how will the credit unions compete?

The data and analysis performed on the market generally helps subscribers develop the credit union'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.

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 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. An example summary table is attached as **Exhibit C** (from the NCUA chartering manual).

Goals for Shares

This section discusses 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 the Department 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 submitted in the application. Include a discussion of the basis for each goal and identify the section of the membership survey supporting the goal.

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. Incorporators must demonstrate that 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 credit union. 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 credit union's interest. Submit draft copies of all agreements to the Department.

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

Operating Facility

Identify the location and cost of the credit union's proposed office and discuss why this location was selected. Draft copy of a purchase, lease or rental agreement should be reviewed by an attorney representing the proposed credit union. Submit a copy of the draft agreement and attorney review to the Department. 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 the credit union finalizing its charter application and any decision made by the Commissioner.

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.

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 proposed credit union's interest, and these documents and reviews should be submitted to the Department. The Department will also evaluate if any limitation on the terms of any draft contract would be necessary. Incorporate the associated costs (e.g., fixed assets, amortization and depreciated expense, etc.) into the pro-forma balance sheets and income statements.

Surety Bond Coverage

The proposed credit union must have surety bond coverage which complies with the requirements of the NCUA. Attached is **Exhibit D**, Bond Coverage Worksheet, for your reference.

The proposed credit union would need to purchase additional or enhanced coverage when circumstances warrant. Incorporators 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 the Department and the NCUA.

Source of Funds and Other Support

Incorporators 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. The credit union's financial projections should include all of the monetary support and subsidizing that are detailed in this section of the business plan.

Plans for Operating Independently

Incorporators need to explain and support how the credit union will continue operations after Year 2 while remaining solvent (positive net worth). Include assumptions in this 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 credit union will generate positive net income absent grants from outside sources. Submit pro-forma financial projections.

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 the terms of each official and the training to be provided prior to, and after opening, the proposed credit union. 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:

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

Incorporate the associated training costs into the pro-forma financial statements.

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.

Create Pro-Forma Financial Statement Projections and Assumptions

Using the membership survey, which 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.

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

Detailed pro-forma financial statements consist of a balance sheet and income statement for the first two years of operation, 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 credit union's balance sheet and income statement, go to **Exhibit E**.

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.). Additionally, as previously mentioned, discuss plans for operating independently. Submit financial projections beyond Year 2 through the year the credit union plans to operate profitably absent grant money. For example, if the credit union believes it will be profitable in Year 5, prepare and include pro-forma financial projections through Year 5.

Develop a Marketing Plan

Describe how the proposed credit union 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) Advertisement in the local newspaper for Friday, Saturday, and Sunday papers each quarter at a cost of \$1,300;
- b) 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;
- c) High school yearbook advertising costing \$75;
- d) Table rental for distribution of credit union materials at community festival at \$20; and
- e) School sports field advertisement for a donation of \$100.
- f) Table rental for distribution of credit union materials at community festival at \$20; and
- g) 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	\$5,500	\$4,050	\$4,400	\$18,000

If the credit union 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 credit union will reach out and effectively serve all segments of the population.

Also, discuss what activities and events are planned within the credit union's service area and/or groups to promote the 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.

Establish Credit Union Bylaws

Customize the standard Bylaws to meet the needs of the credit union by downloading an "MS Word" version of the most recent federal credit union bylaws or Standard Credit Union Bylaws Approved by the Department. For your convenience, a copy of the Department's Standardized Credit Union Bylaws are attached as **Exhibit F**.

If you wish to seek approval for a non-standard amendment to the credit union bylaws, contact the Department to discuss in greater detail before submitting a written request to amend the bylaws.

Draft Written Policies and Procedures

The board of directors of a 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 credit union will depend on its particular offerings, membership, and environment.

Incorporators should become familiar with applicable laws and rules and regulations, consumer regulations, and safe and sound business practices in order to develop many of the policies below. Incorporators may consider seeking assistance from their mentor credit union(s) in drafting credit union policies. If policies are obtained from a mentor credit union, modify the policies to fit the operations of the proposed new credit union.

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

- Allowance for Loan and Lease Losses (ALLL) Policy
- Asset Liability Management (ALM) Policy
- Bank Secrecy Act (BSA)/Customer Identification Program (CIP)
- Cash Policy Fair Lending Policy and Loan Policy
- Director Fiduciary Duties
- Disaster Recovery and Business Continuity/Resumption Policy
- E-Commerce Policy
- Identity Theft Red Flags, Credit Report Address Discrepancies, and Records Disposal
- Investment Policy
- Liquidity Policy
- Loan Charge-Off Policy
- Office of Foreign Assets Control (OFAC) Policy

Policies for Advanced Services
Privacy Policy
Procedures for Major Operational Areas
Reimbursement Policy
Truth-in-Savings (TIS)
Vendor Management/Third Party Relationships

Application for Share Insurance

In addition to the above, the organizers must complete and submit the application for Share Insurance (*Exhibit G*) form to the NCUA. A copy of the application for share insurance must be submitted to the Department with the Application to Form the Credit Union.

PHASE 3 – REVIEW OF THE APPLICATION TO FORM A CREDIT UNION BY THE DEPARTMENT OF FINANCIAL INSTITUTIONS

During Phase 3 of the process to form a credit union, the Department will view the application submitted, along with any supporting documentation, for completeness. The credit union will also need to receive the approval of the NCUA. If the application is deemed complete, an on-site investigation will be scheduled by the Department. Upon completion of the investigation a recommendation will be made to the Commissioner. Assuming the recommendation is to approve, and the Commissioner agrees, the Charter of the credit union will be filed with the Tennessee Secretary of State's office on behalf of the incorporators. In addition, a Certificate of Approval authorizing the credit union to begin business will be issued by the Department once approved by the Commissioner.



Low-Income Designation Fact Sheet

What is the low-income designation?

Low-income designation (LID) is a classification for credit unions that meet certain membership criteria. The classification entitles these credit unions to legislated benefits. A federal credit union qualifies for LID when a majority of its membership (50% + one member) qualifies as Low-Income Members¹.

Why is being a LID important?

LID credit unions have access to benefits unavailable to non-LID credit unions. These benefits are designed to help the credit unions serve members recognized to have challenges accessing mainstream financial products and services. Refer to chart on the back of this page for a comparative summary of LID benefits.

How does a credit union become a LID?

NCUA will periodically evaluate federal credit unions, through an analysis of member addresses, during the credit union's regular examination. NCUA's Office of Consumer Protection (OCP) will notify such credit unions that qualify. For federally insured state credit unions, the designation and analysis is performed by the applicable state supervisory authority in compliance with State, then Federal, regulations.

Does our credit union have to become a LID?

No. The decision to become a LID is voluntary. A credit union may notify NCUA it accepts the designation after receiving notice of its qualification.

I'm concerned about our credit union members being labeled "low-income".

We hear this concern a lot from credit union officials. However, if the majority of your members are low-income, your credit union probably needs more support to meet their needs. Availing your credit union of the full range of benefits to help meet your members' needs is responsive and, we think, a good business decision. Again, the decision is yours.

My credit union didn't receive a LID notice, but I believe we qualify, can we receive consideration?

Yes. A federal credit union that does not receive notice from NCUA but believes it qualifies may submit information to the OCP to demonstrate its eligibility. For example, the credit union may provide actual member income from a statistically valid sampling of loan applications or surveys to demonstrate a majority of their membership is low-income. OCP will notify the credit union of its decision.

¹ "Low-income members" includes members with a family income 80% or less than the median family income for the metropolitan area where they live or national metropolitan area, whichever is greater. Members enrolled as students in a college, university, high school, or vocational school also qualify. For the full definition, refer to NCUA Rules and Regulation 701.34.



Low-Income Designation Fact Sheet (Continued)

Comparison between a LID and non-LID

Primary benefits – eligible to:

- ✓ Accept non-member deposits from any source.
- ✓ Offer secondary capital accounts.
- ✓ Receive exemption from the aggregate loan limit for member business loans (MBLs).
- ✓ Apply for grants and low-interest loans from NCUA.

Additional benefits - eligible to:

- ✓ Receive consulting services from NCUAs Office of Small Credit Union Initiatives (OSCUI)
- ✓ Access resources of other federal government agencies and non-profits with lower barriers.

LID Credit Unions	Non-LID Credit Unions
Yes.	No, access to non-member deposits is restricted.
Yes.	No.
Yes.	Only under limited circumstances. Otherwise, MBL limited to lesser of 1.75 times NW or 12.25% of assets.
Yes.	No.
Yes.	Limited to credit unions: <ul style="list-style-type: none"> • < \$50 million in assets, • < 10 years old, or • proposed charter groups.
Yes.	No.

For more information, consult:

Online:

- [NCUA Release: "Matz: 'NCUA Expands Small Business Access to Capital'"](#)
- [Frequently Asked Questions on Low Income Credit Union Eligibility and Designation](#)
- [NCUA Rules and Regulations Section 701.34](#)

NCUA Offices:

- Office of Consumer Protection: dcamail@ncua.gov; 703-518-1150
- Office of Small Credit Union Initiatives: oscuimail@ncua.gov; 703-518-6610
- Your NCUA regional office or examiner

REPORT OF OFFICIAL AND AGREEMENT TO SERVE
TO: NATIONAL CREDIT UNION ADMINISTRATION

Proposed	Federal Credit Union
Title of Prospective Position:	
Name:	
Maiden Name: (If Different From Above)	
Address (Res.): Street:	
City:	
State:	
Zip Code:	
Telephone Number:	
Place of Birth:	
Date of Birth:	
Employer:	
Social Security Number (Optional):	
Type of Business:	
Number of years with present employer:	
Your position title:	
Education background (enter highest grade completed)	
High School:	
College:	
Major Field of Study:	

Other training or experience:	
Are you willing to accept the position of trust for which you have been selected and to remain in office until a qualified successor is found?	Yes No
Have you been informed as to the general duties and responsibilities of an official of the proposed Federal Credit Union and are you willing to devote the time necessary to familiarize yourself with and to perform your duties?	Yes No
Estimated number of hours per month you will be able to volunteer:	
IF THE ANSWER IS YES TO THE FOLLOWING QUESTION, PLEASE PROVIDE INFORMATION AS INSTRUCTED ON THE FOLLOWING PAGE: Have you ever been convicted of any CRIMINAL OFFENSE involving dishonesty or a breach of trust?	Yes No
To facilitate the process of obtaining a credit and background check, please provide the following:	
1. Any other names which you have used:	
2. Previous address (if your address changed over the past 2 years):	
3. Name of Spouse:	

PRIVACY ACT NOTICE

The Privacy Act of 1974 (Public Law 93-579) requires that you be advised as to the legal authority, purpose and uses of the information solicited by this form. Pursuant to Sections 104 and 205(d) of the Federal Credit Union Act, the information in this form is requested for the purpose of completing the investigation required for a new Federal credit union. The information in this form will be primarily used in considering the soundness of the management for the proposed Federal credit union. However, this form may be disclosed to any of the following sources: a congressional office in response to your inquiry to that office; an appropriate Federal, state or local authority in the investigation or enforcement of a statute or regulation; or employees of a Federal agency for audit purposes. Failure to complete this form or omission of any item of information, except for disclosure of your social security number, may result in a delay in the process for chartering the proposed Federal credit union. In accordance with Section 792.68 of NCUA's regulations, you are not required to furnish your social security number on this form. Your social security number, if voluntarily provided, will be used to more easily verify the information required by this form. No penalty will result to you as a management official or to the chartering of the proposed Federal credit union if you do not provide your social security number.

Further information needed if answer to CRIMINAL OFFENSE question on the previous page was YES:

CRIMINAL OFFENSE:

Nature of offense:

Date of occurrence:

Date of conviction:

Sentence conferred:

(Attach a separate sheet if space provided is not adequate)

CRIMINAL OFFENSE GUIDELINES

The Federal Credit Union Act, Subchapter II, Section 205(d), requires that, except with the written consent of the NCUA Board, no person shall serve as director, officer, committee member, or employee of an insured credit union who has been convicted or who is hereafter convicted, of any criminal offense involving dishonesty or breach of trust. To assist the NCUA Board in making a determination of the fitness of a person who is selected to serve and who the organizer believes is qualified to serve as an official, the specific information above will need to be furnished.

If the NCUA Board believes that, in view of the facts presented and the date of the offense, they can give their consent to the appointment they will so advise that person in writing. If on the other hand, the NCUA Board believes after careful consideration that they cannot in good conscience give their written consent to the appointment they will contact the organizer and ask that another person be selected for the position. The person selected will have to complete a Report of Official and Agreement to Serve.

An indication of whether the bonding company would agree to provide coverage should be included if the person is to serve as treasurer. Bonding company agrees to provide coverage: YES NO

AUTHORIZATION TO OBTAIN A CREDIT REPORT

The National Credit Union Administration (NCUA) may evaluate the competence, experience, character, and integrity of any individual who is to serve as an official, employee, or committee member of a federally insured credit union, in accordance with §1790a of the Federal Credit Union Act and Chapter 1, §V.B.4 of the NCUA Chartering and Field of Membership Manual.

NCUA may disapprove any individual whose employment it believes will not be in the best interest of the credit union or of the public. To assist in the evaluation process, NCUA may obtain and review an individual's credit report.

Your signature on this document authorizes NCUA to obtain a copy of your credit report.

Last
First
Middle

Social Security Number:

Date of Birth:

Signature

Date

Exhibit C

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)	See Benchmark	Rate = Average of 5 Credit Union competitors; 60 month maximum maturity	Individual \$5,000; Aggregate of the lesser of \$500,000 or 40% of total loans	None

Exhibit D

MINIMUM BOND COVERAGE

The minimum bond coverage based on asset size is as follows:	
Assets	Minimum Bond
\$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.
\$50,000,000 to \$500,000,000	\$2,550,000 plus \$10,000 for each million or fraction thereof over \$50,000,000, to a maximum of \$5,000,000.
Over \$500,000,000	One percent of assets, rounded to the nearest hundred million, to a maximum of \$9,000,000.
NOTE: The required coverage may be higher based on the level of cash at the credit union Please see Part 713.5(c) of the Rules and Regulations.	
Assets at Examination Date (From DataBase)	81,049,260
Minimum Required Blanket Bond Coverage for this Credit Union (Calculated)	2,870,000
NOTE: Difference may be due to difference in asset size on rating date	

MAXIMUM DEDUCTIBLE

The maximum amount of allowable deductible is computed based on a federal credit union's asset size and capital level as follows considering no deductible may exceed 10 percent of Regular Reserve unless a segregated Contingency Reserve has been created for the difference (see Part 713.6(b) of the Rules and Regulations):	
Assets	Maximum Deductible
\$0 to \$100,000	No deductible allowed.
\$100,001 to \$250,000	\$1,000.
\$250,001 to \$1,000,000	\$2,000.
Over \$1,000,000	\$2,000 plus 1/1000 of total assets up to a maximum of \$200,000; for credit unions that have received a composite CAMEL rating of "1" or "2" for the last two (2) full examinations and maintained a net worth classification of "well capitalized" under part 702 of this chapter for the six (6) immediately preceding quarters or, if subject to a riskbased net worth (RBNW) requirement under part 702 of this chapter, has remained "well capitalized" for the six (6) immediately preceding quarters after applying the applicable RBNW requirement, the maximum deductible is \$1,000,000.
Assets at Examination Date (From DataBase)	81,049,260
Maximum Deductible for this Credit Union (Calculated)	83,049

Exhibit D

MINIMUM BOND COVERAGE

BOND CALCULATION

Over \$500,000,000	
Total Assets	N/A
Assets rounded to the nearest hundred million	N/A
One percent of assets	N/A
Maximum	N/A
Lessor of maximum or one percent of assets	N/A
Total Required Coverage	N/A

\$50,000,000 to \$500,000,000	
Base Bond	2,550,000
Amount over \$50,000,000	31,049,260
Rounded to 6 decimal places	31,000,000
Difference	49,260
Fractions of rounded	31
If needed, +1 for fraction over \$50MM	1
Total Required Fractions	32
Times \$10,000	320,000
Maximum	5,000,000
Total Required Coverage	2,870,000

\$4,000,001 to \$50,000,000	
Base Bond	N/A
Amount over \$1,000,000	N/A
Rounded to 6 decimal places	N/A
Difference	N/A
Fractions of rounded	N/A
If needed, +1 for fraction over \$1MM	N/A
Fractions over \$1,000,000	N/A
Fractions times \$50,000	N/A
Total Required Coverage	N/A

\$0 to \$4,000,000	
Total Assets	N/A
Maximum	N/A
Lessor of total assets or maximum	N/A
Total Required Coverage	N/A

DEDUCTIBLE CALCULATION

Over \$1,000,000	
Base deductible	2,000
Plus 1/1000 of total Assets	81,049
Total Deductible Allowed*	83,049
*Cannot exceed \$1,000,000 or 10% Regular Reserve without a Contingency Reserve Account.	

\$250,001 to \$1,000,000	
Base deductible	N/A
Total Deductible Allowed*	N/A
*Cannot exceed \$2,000 or 10% Regular Reserve without a Contingency Reserve Account.	

\$100,001 to \$250,000	
Base deductible	N/A
Total Deductible Allowed*	N/A
*Cannot exceed \$1,000 or 10% Regular Reserve without a Contingency Reserve Account.	

\$0 to \$100,000	
Base deductible	N/A
Total Deductible Allowed*	N/A
* No deductible is allowed for these credit unions	



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			



STANDARD CREDIT UNION BYLAWS

Approved by the
Tennessee Department of Financial
Institutions

AS OF June 22, 2018

ARTICLE I – Name

The name of the credit union shall be:

ARTICLE II – Purpose

The purposes of this credit union shall be: (a) to promote thrift; (b) to issue shares and maintain accounts as set forth below; (c) to make loans to its members at reasonable rates of interest for provident purposes; (d) to invest any surplus not required for loans to members in the way and manner provided by law, and (e) to exercise those functions described in the laws of the State of Tennessee authorizing the organization of credit unions.

ARTICLE III – Membership

Section 1. Any (include field of membership)

Section 2. Membership is determined by election of the Board of Directors, or as hereinafter provided, and by the subscription to one (1) or more shares and by payment for them in full or in part, as hereinafter provided.

ARTICLE IV – Meetings of Members

Section 1. The Annual Meeting of the members shall be held during January, February, or March of each year. A notice of said meeting shall be mailed or handed to each member at least seven (7) days before the date thereof except that, if the meeting is to be held during the same month as that of the previous Annual Meeting and if this credit union maintains an office that is readily accessible to members and wherein regular business hours are maintained, and the Board so determines notice of the meeting may be given by posting the notice thereof in a conspicuous place in the office of the credit union where it may be read by the members at least fourteen (14) days prior to such Annual Meeting.

Section 2. _____ members or ten percent (10%) of the members, whichever is the lower figure, shall constitute a quorum. If a quorum is not present on the date first appointed for a regular or special meeting of the credit union, the meeting shall be adjourned for ten (10) days, and a second notice shall be mailed or handed to each member containing the date of the adjourned meeting, at which adjourned meeting, those then present shall constitute a quorum for the transaction of business.

Section 3. Each member shall have one (1) vote, irrespective of the number of shares owned. When otherwise not provided, the vote of a majority of members present in person

at a meeting shall be the act of the corporation. A member, other than a natural person, shall be entitled to one (1) vote, which said vote shall be cast by an agent duly authorized and designated in writing to represent such entity; provided, however, no credit union member under the age of eighteen (18) years on the date of a meeting shall be authorized to vote.

Section 4. The Board of Directors of the credit union may call special meetings of the credit union, and special meetings shall be held upon the request, in writing, of ten percent (10%) of the members. All notices of special meetings shall state clearly the purpose of the call for the meeting and, at said meeting, no other business shall be transacted, except as set forth in the call. Notices of all special meetings shall be mailed or handed to each member at least seven (7) days before the date of the meeting.

Section 5. Unless modified by the President or Acting Chairman, the order of business at the Annual Meeting shall be as follows: (a) roll call; (b) reading of minutes of last Annual Meeting; (c) Report of Directors; (d) Report of Treasurer; (e) unfinished business; (f) new business (including elections); and (g) adjournment.

Section 6. The members, by a majority vote of those present at any meeting, may review the acts and reverse the decisions of the Board of Directors, provided the notice of the meeting shall have stated the question to be considered.

Section 7. The fiscal year of the credit union shall end on the thirty-first (31st) day of December.

ARTICLE V – Directors

Section 1. The Board of Directors shall consist of (_____) (*insert an odd number not less than five (5) members of the credit union, elected as follows: For the purpose of these bylaws, the first meeting of the incorporators shall be called the First Annual Meeting; the next Annual Meeting thereafter shall be called the Second Annual Meeting; following the Second Annual Meeting shall be the Third Annual Meeting, and so forth for all subsequent Annual Meetings. At the first meeting, there shall be (_____) directors elected for one (1) year; (_____) directors elected for two (2) years; and, (_____) directors elected for three (3) years. Thereafter, directors elected at the Annual Meeting shall be elected for terms of three (3) years, unless the election is to fill a vacancy, in which event, it shall be for the period of the unexpired term.*

Section 2. A meeting of the Board of Directors shall be held as soon as possible (and not later than seven (7) days) after their election, and the newly elected Board of Directors shall elect, from their own number, a President, a Vice President, a Secretary, and a Treasurer. The offices of Secretary and Treasurer may be held by one (1) person. The Board of Directors shall meet at least once each month, or more often if necessary, upon notification by the Secretary. A majority of members of the Board shall constitute a quorum.

Section 3. The Board of Directors shall have general management of the affairs, funds, and records of the credit union. It shall be their special duty: (a) to act upon all applications for membership and on the expulsion of members; however, the Board of Directors may appoint a membership officer from among the members of the credit union, other than the Treasurer, Assistant Treasurer, or a loan officer, who may approve applications for membership under such conditions as the Board may prescribe, except that this membership officer shall submit to the Board at each regular meeting a list of approved or pending applications for membership received since the previous regular meeting; (b) to inspect or cause to be inspected, the securities, cash, and accounts, and to review the acts of all committees and the officers of the credit union at frequent intervals, but in no event less than annually. The Board of Directors shall make or cause to be made at the close of each fiscal year, a thorough review or audit of the receipts, disbursements, income, assets, and liabilities of the credit union for the fiscal year and shall make a full report thereon to the membership which report shall be read or provided at the Annual Meeting and shall be filed and preserved with the records of the credit union; (c) to determine the amount of the blanket surety bond which shall be required for all officials and employees which amount shall be as follows: for one(1) year from the charter date, the bond shall be not less than one thousand dollars (\$1,000.00); thereafter, the bond shall not be less than thirty percent (30%) of the true assets of the credit union, or if the bond contains a deductible clause, the bond shall exceed the deductible amount provided in such clause by not less than thirty percent (30%) of the true assets of the credit union; and the amount of the bond shall be adjusted annually subject to a maximum bond requirement in any case of one million dollars (\$1,000,000.00) or such greater amount as required by the credit union insurer; and provided, however, that no such blanket surety bond shall include a deductible clause without the written approval of the Commissioner of the Tennessee Department of Financial Institutions (the "Commissioner of Financial Institutions"), upon such terms and conditions as the Commissioner may establish by rule, and unless the credit union shall maintain all statutory and insurer reserves, including a reserve for the deductible equal to the amount of the deductible; (d) to fix, if it deems necessary, the maximum number of shares which may be held by any one(1) member and to fix the maximum amount which may be loaned to any one (1) member; (e) to determine the interest rates on loans; (f) to determine the amount of retroactive reductions of interest; (g) to select a bank as a depository for the funds of the credit union; (h) to authorize the borrowing of funds (up to fifty percent (50%) of the member accounts and surplus), if needed; (i) to declare dividends in the way and manner provided by law; (j) to adopt amendments to these bylaws; (k) to fill vacancies in the Board until the election and qualification of successors; (l) to have charge of the investment of funds of the credit union, other loans to members; (m) to provide compensation for the Treasurer; (n) to determine whether to have a credit committee and to appoint either a credit committee and/or loan officers; (o) to determine whether to appoint and to fill vacancies on a supervisory committee to make or cause to be made at the close of the fiscal year a review or audit of the receipts, disbursements, income, assets, and liabilities of the credit union for the fiscal year and to make a full report to the Board of Directors; and (p) to perform, occasionally, such other duties as the members authorize.

Section 4-A. No member of the credit or supervisory committee shall receive any compensation for services as a member of the committee.

Section 4-B, As an alternative to reimbursement for members of the Board of Directors in subsection 4-C of this Article, each member of the Board of Directors may be compensated subject to the following conditions:

- 1) The Board shall adopt a resolution stating that the credit union requires expertise among board members for the prudent general management of the affairs, funds and records of the credit union.
- 2) Such compensation shall be payable to board members elected after the adoption of the resolution in subsection B-1.
- 3) The credit union shall adopt a policy governing the participation and attendance that a board member shall comply with in order to receive compensation' and
- 4) The annual report of the credit union's income and expenses shall include board member compensation as a specific expense item.

Section 4-C. Notwithstanding the provisions of subsection 4-A of this Article, the Board of Directors may provide that the credit union shall reimburse any member of the Board of Directors or the credit or supervisory committee for any loss of earnings caused by time spent in the service of the credit union, in such amount as the Board of Directors may determine, not to exceed the amount of the earnings lost.

Section 5. The Board of Directors may authorize the appointment of someone other than the Treasurer to be general manager or manager of the credit union, subject to the control and direction of the Board of Directors, and provide compensation, if any, of such person. In addition to the general manager or manager, the Board of Directors may establish positions for such additional employees as may be necessary to carry on the business of the credit union and establish the guidelines for the compensation of such employees.

Section 6. The Board of Directors shall review the acts of the officers and of all committees and to remove from office at any time by a two-thirds (2/3) vote of the entire Board of Directors any or all members of such committees or the officers for cause, including the failure to discharge assigned responsibilities, any acts involving dishonesty or breach of trust, any act, omission, or practice which constitutes a breach of fiduciary duty to the credit union or which is a violation of the credit union's bylaws, policies, or the laws or regulations of the State of Tennessee.

ARTICLE VI – Officers and their Duties

Section 1. The officers of this credit union shall be as defined in Article V, Section 2, of these bylaws. Unless sooner removed as herein provided, the officers shall hold office until the next meeting of the Board of Directors following the next Annual Meeting of members, and until the election of their respective successors.

Section 2. The duties of the President shall be to preside at meetings of the members and of the Board of Directors; to countersign all notes drawn by the credit union, and to perform all the usual duties connected with that office.

Section 3. The Vice President shall have and exercise all of the powers, authority, and duties of the President during the absence of the latter or the Presidents inability to act, and such other duties as the Board of Directors may, from time-to-time, prescribe.

Section 4. The Treasurer may be appointed by the Board of Directors as the general manager or manager of the credit union under the control and direction of the Board of Directors. Subject to such limitations and controls as may be imposed by the Board of Directors, the Treasurer shall have custody of general ledger accounts, and other valuable papers of this credit union. The Treasurer shall be responsible for providing and maintaining full and complete records of the balance sheet accounts and financial transactions of this credit union in accordance with the forms and procedures prescribed or approved by the Commissioner of Financial Institutions. The Treasurer shall sign or provide for an authorized signature on all checks, drafts, and notes drawn by the credit union; shall deposit or cause to be deposited all funds of the credit union except for petty cash and cash charge funds, in such qualified depositories as the Board may from time-to-time designate, and all such funds shall be so deposited not later than the second banking day after their receipt; provided, however, that receipts in the aggregate of three hundred dollars (\$300.00) or less may be held as long as five (5) banking days before they are deposited. Within fifteen (15) days after the close of each month, the Treasurer shall prepare or cause to be prepared a financial statement showing the condition of this credit union as of the end of the month, including a summary of delinquent loans, and shall submit the statement and summary to the Board of Directors at its next meeting. The Treasurer shall promptly post or cause to be posted a copy of such monthly financial statement in a conspicuous place in the office of this credit union, where it shall remain posted until replaced by the financial statement for the next succeeding month. The Treasurer shall prepare and forward or cause to be prepared and forwarded to the Commissioner of Financial Institutions such financial reports as said Commissioner may require. The Treasurer may delegate the responsibilities set forth in this Section to other credit union employees upon approval by the Board of Directors.

Section 5. An Assistant Treasurer may be appointed by the Board of Directors and authorized to perform, under the direction of the Treasurer, any of the duties devolving on the Treasurer, including the signing of checks. The Assistant Treasurer may also act as

Treasurer during the absence of the Treasurer or in the event of the Treasurers inability to act.

Section 6. The Secretary shall be responsible for the preparation and maintenance of full and correct records of all meetings of the members and of the Board of Directors. The Secretary shall give or cause to be given in the manner prescribed in these bylaws, proper notice of all meetings of the members, and shall perform all other duties incident to this office.

ARTICLE VII – Credit Committee

The Board of Directors shall determine whether the credit union shall have a credit committee. If the Board determines that the credit union shall not have a credit committee, the Board of Directors shall appoint one (1) or more loan officers and such loan officer(s) shall approve or disapprove every loan or advance made by the corporation to members. If the Board of Directors determines that the credit union shall have a credit committee, the Board of Directors shall appoint the credit committee and it shall serve under the terms and conditions determined by the Board of Directors and shall approve or disapprove every loan or advance made by the corporation to members, except as herein provided. The credit committee may appoint one (1) or more loan officers and delegate to such loan officer(s) the power to approve or disapprove loans. Each loan officer shall furnish to the credit committee, or in the absence of such committee, to the Board of Directors, a record of each loan approved or disapproved within thirty (30) days of the date of the filing of the application therefore. No individual shall have authority to disburse funds of the credit union for any loan which they have approved in their capacity as a loan officer. An applicant for a loan may appeal to the Directors if the initial decision to disapprove the loan is made by the credit committee or by a loan officer in the absence of a credit committee.

ARTICLE VIII – Supervisory Committee

The Board of Directors, in its discretion, may appoint a supervisory committee to report to the Board of Directors, charged with the duty and responsibility to inspect or cause to be inspected the securities, cash and accounts, and to make or cause to be made at the close of the fiscal year, a thorough review or audit of the receipts, disbursements, income, assets, and liabilities of the credit union and make a full report of their findings to the Board.

ARTICLE IX – Capital

The capital of this credit union shall consist of the payments made upon shares by its members.

ARTICLE X – Shares

Section 1. The number of shares which may be issued by this credit union shall be unlimited.

Section 2. The par value of shares shall be five dollars (\$5.00).

Section 3. Shares may be paid in full at the time of subscription or may be paid in installments of not less than one dollar (\$1.00) per installment.

Section 4. There may be an entrance fee of (\$ _____) dollars to be paid on joining the credit union.

Section 5. Fully-paid shares may be transferred to any person eligible for membership, subject to the approval of the Board of Directors and upon payment of a transfer fee not to exceed five dollars (\$5.00).

Section 6. A member may withdraw money paid on shares on any day when payments for shares may be received, provided the withdrawing member has filed a written notice of such intention, but the Board of Directors may require a member, at any time, to give sixty (60) days written notice of their intention to withdraw the whole or any part of the amount paid in by the member on account of shares, and such withdrawing member shall receive the amount paid in on account of shares, together with such dividends as have been credited thereto, less any lawful fines or other obligations due to this credit union. Withdrawals shall be met in the order of their filing and as funds therefore become available. No member who has filed a notice of intention to withdraw shall exercise any of the privileges of membership.

Section 7. No officer, director, or committee member shall discount or directly or indirectly purchase from another member a share of this credit union, whether or not filed for withdrawal.

Section 8. The credit union shall have a lien and right of set-off on the shares and special accounts of any member and upon the dividends payable thereon for and to the extent of any loans made to the member, or any dues and fines payable by member.

Section 9. A joint survivorship agreement may be entered into by any member with any person or persons, all of whom shall execute a written agreement in such form as is prescribed by the credit union.

ARTICLE XI – Expulsion

The Board of Directors may expel any member who has not carried out his obligations to the credit union, or who has been convicted of a criminal offense or who neglects or refuses to comply with the provisions of the credit union statutes or of these bylaws, or who habitually neglects to pay his debts. The Board, by two-thirds (2/3) majority vote, at any meeting, may expel a member who has become intemperate or irresponsible, but no member shall be expelled until they have been informed, in writing, of the charges against them and have had an opportunity to be heard. In the event of the expulsion of a member for any cause, such expelled member shall be deemed a withdrawing member, as regards to conditions hereinabove provided for the redemption of shares. Any member who withdraws, or is expelled, shall not be relieved thereby of any remaining liability to the credit union.

ARTICLE XII – Fines

A member failing to make a payment on a loan when due, shall pay a fine set by the Board of Directors at a rate not to exceed five percent (5%) on amounts in default, provided that such fine shall not be less than five dollars (\$5.00). The Board of Directors of the credit union, unless the fine has been excused for cause shown, may take such action to effect collection of said account as the Board may deem advisable.

ARTICLE XIII – Member Special Accounts

Section 1. The credit union may receive special accounts from its members only subject to such conditions as the Board of Directors may approve. Under no circumstances may non-members borrow from the credit union.

Section 2. A member's special account in the credit union may draw interest beginning the first day of deposit through the date of withdrawal.

Section 3. The rate of interest to be paid on "members special accounts" shall be determined by the Board of Directors and shall be payable within the periods established by the Board of Directors, and shall be credited to the account of the member unless withdrawn by the member; however, no interest will be payable on a fractional part of a dollar and no interest will be paid on those portions of "special" accounts that are withdrawn during the interest paying period established by the Board of Directors.

Section 4. Any member may withdraw all or part of the member's special account at any time the office of the credit union is open for business. The Board of Directors may, however, require thirty (30) days notice, in writing, of the intention of a member to make the withdrawal. Such withdrawal shall be honored in the order in which the notice therefore is filed, as provided for share withdrawals in Article X, Section 6.

ARTICLE XIV – Remote Withdrawals and Payment Procedures

Section 1. Members may withdraw funds from share and special accounts by remote funds withdrawal procedures including, but not limited to, share drafts, mail share withdrawals, member-held loan drafts, etc., provided that such procedures have been authorized by the Board of Directors, approved by the Commissioner of Financial Institutions, and are made equally available to all members maintaining specified minimum balances in their share or special accounts.

Section 2. The credit union shall maintain a reserve against its accounts utilized for share draft or other remote withdrawal services. Said reserves shall be maintained in an amount not less than ten percent (10%) of its share draft accounts and accounts subject to remote withdrawal service. Reserves shall be held in the form of: (a) cash on hand or due from other financial institutions on demand; (b) local clearings; and (c) deposits held directly with the Federal Reserve Bank in the district where the credit union is located or held in another depository institution in a pass through account. In addition, fifty percent (50%) of the reserve requirements not held in a pass through account or with the Federal Reserve Bank may be held in obligations of the United States Government with a maturity of one (1) year or less if such obligations are not pledged as security for any account or any creditor. Required reserves are computed on the basis of a daily account balance during a seven (7) day period (the base week) beginning on Thursday and ending the following Wednesday. The preceding day's totals will apply on a day when the credit union is closed. During the week immediately following the base week, the credit union shall maintain an average daily reserve in the allowable form of reserves in an amount not less than ten percent (10%) of the average daily total of accounts of the base week.

Section 3. Remote withdrawal procedures as authorized by the Board of Directors and approved by the Commissioner of Financial Institutions shall not be available to eligible members until such members and all other persons authorized to employ the applicable remote withdrawal procedures have executed and filed with the credit union's central office agreements setting forth the basic terms of the procedure and the respective rights and obligations of the parties to the agreement.

Section 4. The notice requirements of Article XIII, Section 4, pertaining to withdrawal of special accounts and Article X, Section 6, pertaining to withdrawal of shares, may be eliminated or otherwise modified by any agreement, approved by the Board of Directors for remote withdrawal of shares, or other funds in a member's special accounts.

ARTICLE XV – Power to Borrow

The credit union may borrow from any agency or person selected by the Board of Directors provided, however, that said Directors shall determine the amount to be borrowed, the terms of the loan, and shall authorize such borrowing. The aggregate amount of rediscounts

and borrowing shall, at no time, exceed fifty percent (50%) of the sum total of member accounts and surplus of the credit union.

ARTICLE XVI – Investment of Funds

The capital, special accounts, reserve funds, undivided profits, and all other monies of the credit union may be invested in one or more of the following ways, and in such ways only: (a) they may be loaned to the members of the credit union for provident purposes, and in any way and manner provided in Article XVII, of these bylaws; (b) they may be deposited to the credit of the credit union in (i) any legally-chartered bank or trust company insured by the Federal Deposit Insurance Corporation (FDIC), (ii) any state or federal savings and loan association insured by the Federal Savings and Loan Insurance Corporation (FSLIC) or the FDIC, (iii) in credit unions (state or federally-chartered) subject to limitations contained in Tennessee Code Annotated (T.C.A.) § 45-4-501(3)(C), (iv) in any central credit union (state or federal) approved by such investments by the Commissioner of Financial Institutions subject to the limitations contained in T.C.A. §45-4-501(3)(C), (v) in any agency, association, or corporation in which membership and loans are restricted to credit unions and organizations of credit unions whose purpose of organization is designed to service or assist credit union operations in an aggregate amount not to exceed twenty-five percent (25%) of the reserve funds of the investing credit union, (vi) in obligations fully-secured as to principal and interest by the State of Tennessee or the United States Government, (vii) in any bonds of the State of Tennessee or any of its political subdivisions, (viii) in bonds or other obligations issued by the Tennessee Valley Authority pursuant to the Tennessee Valley Authority Act of 1933, and any amendment thereto; and (c) in any investment authorized for federal credit unions under Title 12 of the United States Code or authorized by Section 35-3-120, Tennessee Code Annotated.

ARTICLE XVII – Loans

Section 1. Loans shall be made only to members in good standing.

Section 2. No loan shall be made to any member that shall cause such member to become indebted to the credit union in an aggregate amount in excess of ten percent (10%) of the credit union's assets or three hundred dollars (\$300.00), whichever is greater.

Section 3. Subject to a written loan policy which shall be established by the Board of Directors, the amount of the loan, the time for which it is granted, the term of its repayment, and the form and value of the security, if any, shall be determined by the credit committee or loan officer. Preference shall always be given to the smaller loans in the event the available funds do not permit all loans approved by the credit committee, or loan officer, to be made.

Section 4. The rate of interest charged on loans shall be fixed by the Board of Directors. All loans shall be secured by the promissory note of the borrower and by such additional

security, if any, as the credit committee or loan officer(s) may require; provided however, the Board of Directors may require that security be taken on all loans in excess of specified amount. Endorsement for a note or an assignment of shares in any credit union may be considered security within the meaning of this Section.

Section 5. Applications for loans shall be in writing and shall state specifically the purpose for which the money is borrowed and the security offered, if any. If the facts stated in the application are found to be misrepresented, or the money is used for some other purpose than that for which it was borrowed, the loan shall become immediately due and payable.

Section 6. An applicant for a loan may appeal to the Board of Directors, if the decision to disapprove the loan is made by the credit committee or by a loan officer in the absence of a credit committee. The decision of the Board of Directors shall be final.

Section 7. Subject to the limitations contained in Section 2 above, and as may be specified in written loan policies established by the Board of Directors, a director or member of any credit or supervisory committee shall be allowed to borrow from the credit union.

ARTICLE XVIII – Share or Special Account Statement

The credit union shall provide a share or special account statement to each member after each dividend or interest period, unless a different method of account verification is utilized pursuant to a remote withdrawal of funds agreement. The share or special account statement shall provide a statement of all debits and credits to the account and interest or dividends credited during the period covered by the statement.

ARTICLE XIX – Reserve Fund

Section 1. A reserve fund, belonging to the credit union, shall be maintained for contingencies. It shall not be distributed to the members except upon dissolution of the credit union. Losses incurred by the credit union shall be charged against the reserve fund. Any sums recovered on items previously charged-off against the reserve fund shall be credited to such fund. The fund shall be established and maintained according to the requirements of T.C.A. §45-4-703.

Section 2. After the payment of the organization expenses, all entrance fees, fines, and transfer fees shall be added to the reserve fund of the credit union monthly or at the close of the dividend period.

Section 3. Transfers out of the fund may be made to profit and loss of such amounts as are in excess of the level specified in T.C.A. § 45-4-703(a) at the end of any fiscal year.

ARTICLE XX – Dividends

Section 1. A credit union may declare dividends at such rates as it deems appropriate for such periods and class of accounts as the Board of Directors shall establish; provided that no dividends shall be authorized or paid which will total more than the current earnings of the credit union after the required reserve transfer, undivided profits, and the amount held in regular reserves in excess of legal requirements unless the Commissioner of Financial Institutions shall have granted written approval in advance of the payment of such dividends.

Section 2. Undivided profits are to be calculated by crediting to the profit and loss account earnings from all sources and charging against such account all expenses paid or incurred, interest paid, or accrued and unpaid, on debts owing by the credit union and all losses sustained by it in excess of its reserve fund. The credit balance of the profit and loss account, as thus determined, shall constitute the undivided profits at the close of such period.

Section 3. Dividends shall be paid on all fully-paid shares outstanding at the close of the dividend period; but shares which become fully-paid during the period shall be entitled to a proportional part of said dividends calculated from the first day of the month following such payment in full or the first day of the same month in which payment-in-full is made by the tenth day of the month. Dividends may be credited to a shareholder's account or paid in cash at the option of the shareholder. Dividends may be paid from the date of deposit or the date when shares become fully-paid to the date of withdrawal or such deposits or shares.

ARTICLE XXI – Dormant Accounts

Section 1. This credit union may assess a service charge of five dollars (\$5.00) per year on dormant accounts, provided written notice of intent to assess such a charge has been sent to the member at his last known address. A dormant account is defined as being a share or special account of less than twenty-five dollars (\$25.00) in which no payments, transfers, deposits, or withdrawals have occurred for a period of one (1) year.

Section 2. In lieu of the service charge provided for in Section 1 hereof, the credit union may transfer a dormant account to the regular reserve within thirty (30) days after written notice to the credit union member, at the member's last known address, as shown upon the records of the credit union, stating the credit unions intention to make such transfer, and giving the member the opportunity to request the deferral of such action or to withdraw the account prior to such transfer.

ARTICLE XXII – Amendment

Amendments of the credit union bylaws may be adopted by the affirmative vote of two-thirds (2/3) of the authorized number of members of the Board of Directors of the credit

union at any duly held meeting thereof, if the members of the Board have been given prior written notice of such meeting and the notice has contained a copy of the proposed amendment or amendments, and provided further, that no amendment of the bylaws of the credit union shall become effective until approved, in writing, by the Commissioner of Financial Institutions.

ARTICLE XXIII – Dissolution, Liquidation, and Merger

Section 1. Dissolution – A majority of the entire membership of the credit union may vote to dissolve the credit union at a regular or special meeting called for that expressly-stated purpose. Any member, within twenty (20) days of the date of the mailing of the notice of such meeting, may vote on the question of dissolution by signing a statement in form approved by the Commissioner of Financial Institutions, and such vote shall have the same force and effect as any other vote. The credit union shall thereupon immediately cease to do all business except for the purpose of liquidation, and the President and Secretary shall, within fifteen (15) days following such meeting, notify the Commissioner of Financial Institutions, in writing, of its intention to liquidate, and shall include in such notice a list of the names of directors and officers of the credit union together with their addresses.

Section 2. Liquidation – (1) A credit union under order to liquidate or in the course of dissolution or liquidation, shall continue in existence for the purpose of discharging its debts, collecting and distributing its assets, and doing all acts required in order to wind up its business, and may sue and be sued for the purpose of enforcing such debts and obligations until its affairs are fully adjusted. The Board of Directors of the credit union, or in the case of involuntary dissolution or liquidation by order of the Commissioner of Financial Institutions, the liquidating agent, shall use the assets of the credit union to pay: first, all expenses incidental to liquidation, including, without limitation, any surety bond that may be required; second, any liability due non-members; and third, redemption of shares, share accounts, and members' special accounts. Assets then remaining shall be distributed to the members proportionately to the purchase price of shares held by each member as of the date dissolution was voted, or the date of the order of liquidation or suspension by the Commissioner of Financial Institutions, as the case may be.

Liquidation – (2) As soon as the Board or the liquidating agent determines that all assets from which there is a reasonable expectancy of realization have been liquidated and distributed as set forth in Article XXIII, Section 2(1), it shall execute a Certificate of Dissolution and forward same to the Commissioner of Financial Institutions who shall review the details of the liquidation and, if the Commissioner approves same, shall issue a Certificate of Approval and return such certificate to the Board or liquidating agent who shall then file same with the Secretary of State for Tennessee and thereafter file same with the office of the Register of Deeds of the county in which the credit union has its principal place of business.

Liquidation – (3) If the credit union has filed a Certificate of Dissolution or has indicated an intention to file such certificate, and the Directors and officers of the credit union in the opinion of the Commissioner of Financial Institutions, are not conducting the liquidation proceedings in an expeditious, orderly, and efficient manner, or in the best interest of it's members, the Commissioner of Financial Institutions may terminate the liquidation proceedings, take possession of the business and property of such credit union, and for the purpose of carrying out such liquation, may appoint or cause to be appointed, a liquidating agent therefore. Such liquidating agent shall furnish bond for the faithful discharge of their duties in an amount to be approved by the Commissioner of Financial Institutions.

Liquidation – (4) The liquidating agent may, under such rules and regulations as the Commissioner prescribes: (a) receive and take possession of the books, records, assets, and property of every description of the credit union in liquidation; sell, enforce collection of, and liquidate all such assets and property; compound all bad or doubtful debts, sue in the name of the credit union in liquidation, and defend such actions as are brought against them as liquidating agent or against the credit union ; (b) receive, examine, and pass upon all claims against the credit union in liquidation, including claims of members; (c) make distribution and payments to creditors and members as their interests appear; (d) execute such documents and papers and do such other acts as they deem necessary or desirable to discharge their duties; and (e) the expenses incurred by the liquidating agent in the liquidation of the credit union including the compensation of the liquidating agent and any other necessary or proper expenses connected therewith all of which shall be paid in order of priority out of the property of the credit union in the hands of the liquidating agent. Such expenses of liquidation, including the compensation of the liquidating agent, are subject to approval by the Commissioner of Financial Institutions unless such agent is appointed by the court.

Section 3. Mergers – (1) The credit union may, with the approval of the Commissioner of Financial Institutions, merge with any other credit union under the existing charter of the other credit union, pursuant to any plan approved by the Board of Directors of each credit union joining in the merger, and approved by two-thirds (2/3) of the members of each credit union represented at a meeting of members duly called for such purpose, at which a minimum of ten percent (10%) of the entire membership is present, unless such a meeting of members of either credit union has been waived by the Commissioner of Financial Institutions. After such approval of the Board and members of each credit union, the President or Chairman of the Board and Secretary of each credit union shall execute a Certificate of Merger, which shall set forth all of the following: (a) the time and place of the meeting of the Board of Directors at which the plan was agreed upon; (b) the vote in favor of adoption of the plan; (c) a copy of the resolution or other action by which the plan was agreed upon; (d) the time and place of the meeting of the members at which the plan agreed upon was approved; and (e) the vote by which the plan was approved by members.

Mergers – (2) Such certificates and a copy of the plan of merger agreed upon shall be forwarded to the Commissioner of Financial Institutions, and, upon approval, returned to the merging credit unions. The Certificate of Merger (with the Certificate of Approval of the Commissioner of Financial Institutions annexed thereto) shall be recorded in the office of the Secretary of State for Tennessee and in the Register’s Office of the county in which each credit union has it’s principal place of business.

Mergers – (3) Upon any such merger so effected, all property, property rights, and interest of the merged credit unions shall vest in the surviving credit union without deed, endorsement, or other instrument of transfer, and all debts, obligations and liabilities of the merged credit union shall be deemed to have been assumed by the surviving credit union under whose charter the merger was effected.

Exhibit G

**INFORMATION TO BE PROVIDED IN SUPPORT OF THE APPLICATION OF A
STATE CHARTERED CREDIT UNION FOR INSURANCE OF ACCOUNTS**

Existing credit unions must complete the entire application. All other applicants do not have to complete questions 8, 11, 12, 13, 15, and 16.

_____ Credit Union

1. Show below the location of the credit union's books and records.

(Street Address)

(City) (State) (Zip) (Telephone)

2. Show the date (month, day, year) in which the credit union was chartered.

3. Attach a copy of the credit union's field of membership as shown in the charter, articles of incorporation and/or bylaws, as amended to date. Please identify it as the first schedule in the consecutive number sequence as discussed in the instructions. Schedule No. _____

4. Potential membership (total number of persons who could be served including present members). _____

5. Identify charter type (e.g., single common bond, multiple common bond, community). _____

6. Does the credit union operate under standard bylaws provided by the state supervisory authority? Yes No (Complete a.)

a. Attach a copy of the current official bylaws under which the credit union operated. Schedule No. _____

7. Is the credit union under any administrative restraints by the State Supervisory Authority? Yes No (Complete a.)

a. Explain fully on an attached schedule. Schedule No. _____

8. Attach a copy of the latest State supervisory authority examination. Copies of any correspondence from the accountant's report if made in lieu of a State supervisory authority examination. Copies of any correspondence from the State supervisory authority which accompanied the examination report should also be included.
9. Attach copies of the Balance Sheet and Statement of Income and Expense (or Financial and Statistical Report) for the month preceding the date of this application and for the same month of the preceding year.
Schedule Nos. _____

10. Reserves

Show below the requirements of the State law and/or your bylaws for transfer of earnings to reserves (either monthly or at the end of each accounting period).

11. Delinquent Loans and Charged-off Loans

a. Attach a copy of the delinquent loan list as of the month-end preceding the date of this application. See instructions pertaining to Item No. 11a.
Schedule No. _____

b. List below the requested information on delinquent loans for the latest four calendar quarters preceding the date of the application (March 31, June 30, September 30 and December 31). Also show total share and loan balances for all members for the same period.

(a) *Other Delinquent Categories	(b) Delinquent Categories	Date	Date	Date	Date
	2 to less than 6 mos.	\$ _____	\$ _____	\$ _____	\$ _____
	6 to less than 12 mos.	\$ _____	\$ _____	\$ _____	\$ _____
	12 mos. and over	\$ _____	\$ _____	\$ _____	\$ _____
	Totals	\$ _____	\$ _____	\$ _____	\$ _____
	Share Balances	\$ _____	\$ _____	\$ _____	\$ _____
	Loan Balances	\$ _____	\$ _____	\$ _____	\$ _____

*See instructions pertaining to Item No. 11 b.

c. List below the requested information on loans charged off during the last three years and the current year. List total of all reserves both revocable and irrevocable for the same period as (balance at year-end and or current period).

	Year	Year	Year	Current Yr. To Date	*Totals Since Organization
Total Charged Off					
Total Recovered					
Net Charged Off					

*If this information is available.

12. Does the credit union have any unrecorded or contingent liabilities, (including pending law suits or civil actions)? Yes No Complete a.

a. List on an attached schedule the complete description of such liabilities, including amounts, status of the items, and a description of the circumstances creating the liabilities or contingent liabilities. Schedule No. _____

13. Do any asset accounts other than loans to members, investments, and real estate have actual values less than the book values shown on the Balance Sheet?

List on a separate schedule a description of such assets, showing at least the following information; account number, description of item, book value and actual value. Schedule No. _____

14. List below or on an attached schedule, any investments or real estate as discussed in the instructions pertaining to Item No. 14. Schedule No. _____. Attach a copy of the credit union's current investment policies. Investments/Loans to Credit Union Service Organization (CUSO) should be listed separately.

<u>Description of Item</u>	<u>Current Market Value</u>	<u>Current Book Value</u>
	\$ _____	\$ _____
	\$ _____	\$ _____
	\$ _____	\$ _____

15. Individual Share and Loan Ledgers:

a. Were the totals of the trial balance of the individual share and loan ledgers in agreement with the balances of the respective general ledger control accounts as of the month-end preceding the date of this application? _____

b. What are the differences as of the month and preceding the date of this application?

	<u>Shares</u>	<u>Loans</u>
Balances in General Ledger	\$ <input type="text"/>	\$ <input type="text"/>
Totals of the trial balance of the individual ledgers	\$ <input type="text"/>	\$ <input type="text"/>
Differences	\$ <input type="text"/>	\$ <input type="text"/>

16. Supervisory Committee:

a. What is the effective date of the last complete comprehensive annual audit performed by the supervisory committee?

Effective Date _____

(1) If the effective date of the annual audit is not within the last 18 months what is the supervisory committee's target date for completion of a comprehensive audit? Date _____

b. Show the effective date of the supervisory committee's last controlled verification of all members' accounts:

Effective Date _____

(1) If all members' accounts have not been verified under controlled conditions during the last two years, what is the supervisory committee's target date for completion of the verification program?

Date _____

c. If it is necessary to complete either 16a(1) or 16 b(1); please describe the directors' plans for seeing that the target dates are met. (Discuss below or on an attached schedule.) Schedule No. _____

17. List below the credit union's surety bond coverage.

a. Name of carrier _____

b. Standard form number of the bond (i.e., 23, 576, 577, 578, 581, 562 CU-1, other) _____

c. Basic amount of coverage \$ _____

d. Bond premium paid to (date) _____

e. What is the amount of coverage required by State law or your bylaws?

f. Riders to the bond (list below) (i.e., faithful performance, forgery, misplacement, etc.)

18. Does the credit union render any services to or perform any functions on behalf of the members, non-members, organizations, or the public other than the usual savings and loan services for members? _____

Attach a schedule describing each activity in full. Schedule No. _____

19. Does the board of directors or management know of any adverse economic condition that is affecting or will affect the credit union's present or future operation or that of the sponsor organization?

Attach a schedule describing the condition and its possible effect on the credit union's future. Schedule No. _____

20. To the best of the credit union's knowledge and belief, has any director, officer, committee member, or employee been convicted of any criminal offense involving dishonesty or breach of trust? _____

a. Attach a statement describing the circumstances. Schedule No.

21. Lending policies and practices:

a. Complete the following schedule showing the present policies and practices on loans to members.

b. Complete the following schedule of largest loans with the attached instructions pertaining to Item No. 21.

LENDING POLICIES AND PRACTICES

	Maximum Loan Amount	Maximum Period of Repayment	Required Amount of Down Payment (Equity)
1. Credit Union Policies and Practices			
a. Unsecured Loan Limits	█	█	
b. Secured Loan Limits			
(1) New Auto Collateral	█	█	█
(2) Used Auto Collateral	█	█	█
(3) Real Estate			
(a) First Mortgage	█	█	█
(b) Second Mortgage	█	█	█
(4) Comakers	█	█	
(5) Others (describe)	█	█	
c. Loans to Organizations	█	█	
d. Loans to Directors, Officers, or Committee Members	█	█	
2. State Credit Union Law; Bylaws			
a. Unsecured Loan Limits	█	█	
b. Secured Loan Limits	█	█	
c. Loans to Directors, Officers, or Committee Members	█	█	

**CREDIT UNION SERVICE ORGANIZATION
(CUSO)**

1. Name of CUSO _____

2. Date of CUSO'S Organization _____
(Date of obtaining charter from State)

3. Type of organization (check one):

a. General Partnership c. Joint Ownership

b. Limited Partnership d. Corporation

4. Owners of CUSO (list name, charter number if FCU, and percentage of ownership, if possible).

a. _____
Name Charter Number (If FCU) %

b. _____
Name Charter Number (If FCU) %

(Continue on reverse side if additional space is required)

5. Capitalization (list investors and amount of investment in CUSO).

a. _____
Name Charter Number (If FCU) Amount

b. _____
Name Charter Number (If FCU) Amount

(Continue on reverse side if additional space is required)

6. List all known services which are being offered by CUSO (be as specific as possible). _____

7. Comments (include all other pertinent information, if applicable, not previously discussed). _____

8. Attach the latest Financial and Statistical Report of CUSO, if available.

FORM 9600 INSTRUCTIONS

APPLICATION OF A STATE CHARTERED CREDIT UNION FOR INSURANCE OF ACCOUNTS

The application and all supporting documents should be prepared, photocopied, and submitted in accordance with these instructions. Additional schedules may be included if deemed appropriate.

Existing credit unions must complete the entire application. All other applicants do not have to complete questions 8, 11, 12, 13, 15, and 16.

Existing credit unions must submit current policies and financial statements as noted in the application. All other applicants must submit proposed policies and pro forma financial statements for the first and second year of operation.

When an item specifies that a schedule should be prepared and attached, please assign a schedule number in consecutive order, starting with number one. Please show the schedule number at the top right-hand corner of the schedule.

Some of the items are self-explanatory and require no special instructions. Other items, however, need special explanations, definitions, and instructions for completion. These are listed below, identified by the same item numbers as appear in Exhibit A.

Item No. 10: Reserves: The term "reserves" means that account, or accounts, which represents segregated portions of earnings as provided by the law, bylaws, and/or the credit union's management for the

absorption of losses relating to loans to members.

Item No. 11a: The delinquent loan list requested should include, for each delinquent loan, the account number of the borrower, date of loan, original amount of loan, unpaid balance, date of last payment of principle, excluding transfers from pledged shares, collateral, and comments regarding the collectibility of each loan in the categories 6 months to less than 12 months and 12 months and over. Payments of interest only should be so identified.

Item No. 11b: The schedule provided for the delinquent loan information is set up in delinquency categories of 2 months to less than 6 months, 6 to less than 12 months, and 12 months and over. Credit unions that compute delinquency using categories other than shown in column (b) may use these other categories and show them in column (a). Credit unions using column (a) need not show the delinquencies in the column (b) categories. It is not necessary to report on loans which are delinquent less than 2 months.

Adverse Trends: If items 8, 9, or 11 indicate adverse trends such as significant decreases in shares, loans or reserves, increases in loan delinquency or loan charge-offs, or unresolved serious exceptions shown in the State examination report, the credit union may attach an explanation and identify it as "Explanation of Adverse Trends or Unresolved

Examination Exceptions" and assign it a schedule number.

Item No. 14: This item need be completed only if the credit union owns any of the following:

A. Investments in U.S. Government securities guaranteed as to principle and interest or Federal Agency securities, the market value of which is now less than the book value.

B. Real estate other than that used entirely for the credit union's own office(s).

C. Other investments of any type except:

1. Loans to other credit unions.
2. Certificates of, or accounts in, federally insured financial institutions.
3. Deposits or accounts in corporate credit unions.

If corporate bonds are listed, please show maturity date, rate of interest on bonds and current yield rate.

If stocks are listed, please show number of shares and bid price.

Please identify the source of the market valuation information and the date of such information.

Item No. 21b: In selecting the largest loans for this Exhibit, list the largest outstanding unpaid loan balance and proceed in descending order by dollar amount until the number specified

below has been shown. The number of such loans to be listed will be determined as follows:

If your credit union has the following no. of outstanding loans	You should list the following no. of the largest unpaid balances
Under 100	5
100 to 199	10
200 to 299	15
300 to 399	20
400 or more	25

If any of the above loans are delinquent, please show the number of months delinquent in the appropriate "Status of Re-payment" column.

Complete the Credit Union Service Organization (CUSO) schedule for each investment/loan to a CUSO.

TERMINATION OF INSURANCE

Should the credit union, after obtaining insurance of member accounts, desire to terminate its insured status, this could be accomplished by complying with the provisions of Section 206(a), (c) and (d) of Title II of the Federal Credit Union Act. This action would require approval by a vote of the majority of the members, and ninety days written notice of the proposed termination date to NCUA. Member accounts would continue to be insured for one year following termination of insurance and the insurance premium

would be paid during that period. After termination of insurance, the credit union shall give prompt and reasonable notice to all members whose accounts are insured that it has ceased to be an insured credit union.

Sections 206(a)(2) and 206(d)(2) and (3) of the Act provide that an insured credit union may also terminate its insurance by converting from its status as an insured credit union under the

Act to insurance from a corporation authorized and duly licensed to insure member accounts. In this event, approval is required by a majority of all the directors and by affirmative vote of a majority of the members voting, provided that at least 20 percent of the members have voted on the proposition. Under this provision for termination, insurance of member accounts would cease as of the date of termination.

6. To maintain the deposit and pay the insurance premium charges imposed as a condition of insurance pursuant to Title II (Share Insurance) of the Federal Credit Union Act.
7. To comply with the requirement of Title II (Share Insurance) of the Federal Credit Union Act and of regulations prescribed by the NCUA Board pursuant thereto.
8. For any investments other than loans to members and obligations or securities expressly authorized in Title I of the Federal Credit Union Act, as amended to establish now and maintain at the end of each accounting period and prior to payment of any dividend, an Investment Valuation Reserve Account in an amount at least equal to the net excess of book value over current market value of the investments. If the market value cannot be determined, an amount equal to the full book value will be established. When, as of the end of any dividend period, the amount in the Investment Valuation Reserve exceeds the difference between book value and market value, the board of directors may authorize the transfer of the excess to Undivided Earnings.
9. When a state-chartered credit union is permitted by state law to accept nonmember shares or deposits from sources other than other credit unions and public units, such nonmember accounts shall be identified as nonmember shares or deposits on any statement or report required by the NCUA Board for insurance purposes. Immediately after a state-chartered credit union receives notice from NCUA that its member accounts are federally insured, the credit union will advise any present nonmember share and deposit holders by letter that their accounts are not insured by the National Credit Union Share Insurance Fund. Also, future nonmember share and deposit fund holders will be so advised by letter as they open accounts.
10. In the event a state-chartered credit union chooses to terminate its status as a federally-insured credit union, then it shall meet the requirements imposed by Sections 206(a)(1) and 206(c) of the Federal Credit Union Act and Part 741.208 of NCUA's regulations.
11. In the event a state-chartered credit union chooses to convert from federal insurance to some other insurance from a corporation authorized and duly licensed to insure member accounts, then it shall meet the requirements imposed by Sections 206(a)(2), 206(c), 206(d)(2), and 206(d)(3) of the Federal Credit Union Act and any other applicable federal law.

In support of this application we submit the following schedules:

Schedule No.	Title
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CERTIFICATIONS AND RESOLUTIONS

We, the undersigned, certify that we are the duly elected and qualified presiding officer and recording officer of the credit union and that at a properly called and regular or special meeting of its board of directors, at which a quorum was present, the following resolutions were passed and recorded in its minutes:

We, the undersigned, certify to the correctness of the information submitted.

Be it resolved that this credit union apply to the National Credit Union Administration Board for insurance of its accounts as provided in Title II of the Federal Credit Union Act.

Be it resolved that the presiding officer and recording officer be authorized and directed to execute the Application and Agreement for Insurance of Accounts as prescribed by the NCUA Board and any other papers and documents required in connection therewith and to pay all expenses and do all such other things necessary or proper to secure and continue in force such insurance.

We further certify that to the best of our knowledge and belief no existing or proposed officer, committee member, or employee of this credit union has been convicted of any criminal offense involving dishonesty or breach of trust, except as noted in attachments to this application. We further agree to notify the Board if any existing, proposed or future officer, committee member or employee is indicted for such an offense.

(Signature) Chairperson, Board of Directors

(Print or type Chairperson's Name)

(Signature) Secretary, Board of Directors

(Print or type Secretary's Name)

**REPORT OF OFFICIAL AND AGREEMENT TO SERVE
TO: NATIONAL CREDIT UNION ADMINISTRATION**

Proposed	Federal Credit Union
Title of Prospective Position:	
Name:	
Maiden Name: (If Different From Above)	
Address (Res.): Street:	
City:	
State:	
Zip Code:	
Telephone Number:	
Place of Birth:	
Date of Birth:	
Employer:	
Social Security Number (Optional):	
Type of Business:	
Number of years with present employer:	
Your position title:	
Education background (enter highest grade completed)	
High School:	
College:	
Major Field of Study:	

Other training or experience:		
Are you willing to accept the position of trust for which you have been selected and to remain in office until a qualified successor is found?	Yes	No
Have you been informed as to the general duties and responsibilities of an official of the proposed Federal Credit Union and are you willing to devote the time necessary to familiarize yourself with and to perform your duties?	Yes	No
Estimated number of hours per month you will be able to volunteer:		
IF THE ANSWER IS YES TO THE FOLLOWING QUESTION, PLEASE PROVIDE INFORMATION AS INSTRUCTED ON THE FOLLOWING PAGE: Have you ever been convicted of any CRIMINAL OFFENSE involving dishonesty or a breach of trust?	Yes	No
To facilitate the process of obtaining a credit and background check, please provide the following:		
1. Any other names which you have used:		
2. Previous address (if your address changed over the past 2 years):		
3. Name of Spouse:		

PRIVACY ACT NOTICE

The Privacy Act of 1974 (Public Law 93-579) requires that you be advised as to the legal authority, purpose and uses of the information solicited by this form. Pursuant to Sections 104 and 205(d) of the Federal Credit Union Act, the information in this form is requested for the purpose of completing the investigation required for a new Federal credit union. The information in this form will be primarily used in considering the soundness of the management for the proposed Federal credit union. However, this form may be disclosed to any of the following sources: a congressional office in response to your inquiry to that office; an appropriate Federal, state or local authority in the investigation or enforcement of a statute or regulation; or employees of a Federal agency for audit purposes. Failure to complete this form or omission of any item of information, except for disclosure of your social security number, may result in a delay in the process for chartering the proposed Federal credit union. In accordance with Section 792.68 of NCUA's regulations, you are not required to furnish your social security number on this form. Your social security number, if voluntarily provided, will be used to more easily verify the information required by this form. No penalty will result to you as a management official or to the chartering of the proposed Federal credit union if you do not provide your social security number.

Further information needed if answer to CRIMINAL OFFENSE question on the previous page was YES:

CRIMINAL OFFENSE:

Nature of offense:

Date of occurrence:

Date of conviction:

Sentence conferred:

(Attach a separate sheet if space provided is not adequate)

CRIMINAL OFFENSE GUIDELINES

The Federal Credit Union Act, Subchapter II, Section 205(d), requires that, except with the written consent of the NCUA Board, no person shall serve as director, officer, committee member, or employee of an insured credit union who has been convicted or who is hereafter convicted, of any criminal offense involving dishonesty or breach of trust. To assist the NCUA Board in making a determination of the fitness of a person who is selected to serve and who the organizer believes is qualified to serve as an official, the specific information above will need to be furnished.

If the NCUA Board believes that, in view of the facts presented and the date of the offense, they can give their consent to the appointment they will so advise that person in writing. If on the other hand, the NCUA Board believes after careful consideration that they cannot in good conscience give their written consent to the appointment they will contact the organizer and ask that another person be selected for the position. The person selected will have to complete a Report of Official and Agreement to Serve.

An indication of whether the bonding company would agree to provide coverage should be included if the person is to serve as treasurer. Bonding company agrees to provide coverage: YES NO

AUTHORIZATION TO OBTAIN A CREDIT REPORT

The National Credit Union Administration (NCUA) may evaluate the competence, experience, character, and integrity of any individual who is to serve as an official, employee, or committee member of a federally insured credit union, in accordance with §1790a of the Federal Credit Union Act and Chapter 1, §V.B.4 of the NCUA Chartering and Field of Membership Manual.

NCUA may disapprove any individual whose employment it believes will not be in the best interest of the credit union or of the public. To assist in the evaluation process, NCUA may obtain and review an individual's credit report.

Your signature on this document authorizes NCUA to obtain a copy of your credit report.

Last
First
Middle

Social Security Number:

Date of Birth:

Signature

Date