

Director of the Office of National Examinations and Supervision.

Regional Office means the office of NCUA located in the designated geographical areas in which the office of the federally insured credit union is located or, for ONES credit unions, the Office of National Examinations and Supervision.

State means a state of the United States, the District of Columbia, any of the several territories and possessions of the United States, and the Commonwealth of Puerto Rico.

Troubled condition means: (1) In the case of an insured natural person credit union:

(i) A federal credit union that has been assigned a 4 or 5 CAMELS composite rating by NCUA; or

(ii) A federally insured, state-chartered credit union that has been assigned a 4 or 5 CAMELS composite rating by either NCUA, after an on-site contact, or its state supervisor; or

(iii) A federal credit union or a federally insured, state-chartered credit union that has been granted assistance under section 208 of the Federal Credit Union Act, 12 U.S.C. 1788, that remains outstanding and unextinguished.

(2) In the case of an insured corporate credit union:

(i) A Federal credit union that has been assigned a 4 or 5 CAMELS rating by NCUA; or

(ii) A federally insured, state-chartered credit union that has been assigned a 4 or 5 CAMELS rating by either NCUA, after an on-site contact, or its state supervisor; or

(iii) A Federal credit union or a federally insured, state-chartered credit union that has been granted assistance under section 208 of the Federal Credit Union Act, 12 U.S.C. 1788, that remains outstanding and unextinguished.

Unimpaired capital and surplus means the same as “paid-in and unimpaired capital and surplus,” as defined in paragraph (f) of this section.

[36 FR 23794, Dec. 15, 1971. Redesignated and amended at 66 FR 65624, Dec. 20, 2001; 86 FR 59288, Oct. 27, 2021]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 700.2, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at www.govinfo.gov.

PART 701—ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS

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APPENDIX A TO PART 701—FEDERAL CREDIT UNION BYLAWS

APPENDIX B TO PART 701—CHARTERING AND FIELD OF MEMBERSHIP MANUAL

AUTHORITY: 12 U.S.C. 1752(5), 1755, 1756, 1757, 1758, 1759, 1761a, 1761b, 1766, 1767, 1782, 1784, 1785, 1786, 1787, 1788, 1789. Section 701.6 is also authorized by 15 U.S.C. 3717. Section 701.31 is also authorized by 15 U.S.C. 1601 *et seq.*; 42 U.S.C. 1981 and 3601-3610. Section 701.35 is also authorized by 42 U.S.C. 4311-4312.

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§ 701.1 Federal credit union chartering, field of membership modifications, and conversions.

National Credit Union Administration policies concerning chartering, field of membership modifications, and conversions, also known as the Chartering and Field of Membership Manual, are set forth in appendix B to this part and are available on-line at <http://www.ncua.gov>.

[75 FR 36263, June 25, 2010]

§ 701.2 Federal credit union bylaws.

(a) Federal credit unions must operate in accordance with their approved bylaws. The Federal Credit Union Bylaws are hereby published as appendix A to part 701 pursuant to 5 U.S.C. 552(a)(1) and accompanying regulations. Federal credit unions may adopt amendments to their bylaws as provided in the Bylaws, with the approval of the Board.

(b) Copies of the Federal Credit Union Bylaws may be obtained at <http://www.ncua.gov> or by request addressed to ogc-mail@ncua.gov or National Credit Union Administration, 1775 Duke Street, Alexandria, VA 22314.

(c) The National Credit Union Administration may issue revisions or amendments of the Federal Credit Union Bylaws from time to time. An historic file of amendments or revisions is maintained and made available for inspection at the National Credit Union Administration, 1775 Duke Street, Alexandria, VA 22314.

[72 FR 61500, Oct. 31, 2007]

§ 701.3 Member inspection of credit union books, records, and minutes.

(a) *Member inspection rights.* A group of members of a Federal credit union has the right, upon submission of a petition to the credit union as described in paragraph (b) of this section, to inspect and copy nonconfidential portions of the credit union's:

(1) Accounting books and records; and

(2) Minutes of the proceedings of the credit union's members, board of directors, and committees of directors.

(b) *Petition for inspection.* The petition must describe the particular records to be inspected and state a proper purpose

for the inspection, that is, a purpose related to the protection of the members' financial interests in the credit union. The petition must state that the petitioners as a whole, or certain named petitioners, agree to pay the direct and reasonable costs associated with search and duplication of requested material. The petition must also state that the inspection is not desired for any purpose other than the stated purpose; that the members signing the petition will not sell or offer for sale any information obtained from the credit union; and that the members signing the petition have not within five years preceding the signature date sold or offered for sale any information acquired from the credit union or aided or abetted any person in procuring any information from the credit union for purposes of sale. The petition must name one member, and one alternate member, who will represent the petitioners on issues such as inspection procedures, costs, and potential disputes. At least one percent of the credit union's members, with a minimum of 20 members and a maximum of 500 members, must sign the petition. Each member who signs the petition must have been a member of the credit union for at least 180 days at the time the petitioners submit the petition to the credit union.

(c) *Inspection procedures.* (1) A Federal credit union must respond to petitioners within 14 days of receiving a petition. In its response, a credit union must inform petitioners either that it will provide inspection of the requested material and, if so, when, or, if a credit union is going to withhold all or part of the requested material, it must inform petitioners what part of the requested material it intends to withhold and the reasons for withholding the requested material. As soon as possible after receiving a petition, a credit union must schedule inspection and copying of nonconfidential requested material it determines petitioners may inspect and copy.

(2) Inspection may be made in person or by agent or attorney and at any reasonable time or times. The credit union may, at its option, skip inspection and deliver copies of requested documents

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directly to the petitioners. Member inspection rights under this section are in addition to any other member inspection rights afforded by the credit union's charter or bylaws or other Federal law or Federal regulation.

(3) If the credit union denies inspection because the petitioners have failed to obtain the minimum number of valid signatures, the credit union must inform the petitioners which signatures were not valid and why.

(d) *Confidential books, records, and minutes.* Members do not have the right to inspect any portion of the books, records, or minutes of a Federal credit union if:

(1) Federal law or regulation prohibits disclosure of that portion;

(2) The publication of that portion could cause the credit union predictable and substantial financial harm;

(3) That portion contains nonpublic personal information as defined in 12 CFR 1016.3; or

(4) That portion contains information about credit union employees or officials the disclosure of which would constitute a clearly unwarranted invasion of personal privacy.

(e) *Costs.* A Federal credit union may charge petitioners the direct and reasonable costs associated with search and duplication. The credit union may not charge for other costs, including indirect costs or attorney's fees.

(f) *Dispute resolution.* (1) In the event of a dispute between a federal credit union and its members concerning a petition for inspection or the associated costs, either party may submit the dispute to the regional director. The regional director, after obtaining the views of both parties, will direct the credit union either to withhold the disputed materials or to make them available for member inspection and copying. The regional director may place conditions upon release. The decision of the regional director is a final agency decision and is not appealable to the Board.

(2) The regional director has the discretion to refer any dispute to the credit union's supervisory committee for review and resolution. If petitioners are not satisfied with the supervisory committee's response, they may resub-

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mit the dispute to the regional director.

[72 FR 56253, Oct. 3, 2007, as amended at 78 FR 32544, May 31, 2013]

§ 701.4 General authorities and duties of Federal credit union directors.

(a) *General direction and control of a Federal credit union.* The board of directors is responsible for the general direction and control of the affairs of each Federal credit union. While a Federal credit union board of directors may delegate the execution of operational functions to Federal credit union personnel, the ultimate responsibility of each Federal credit union's board of directors for that Federal credit union's direction and control is non-delegable.

(b) *Duties of Federal credit union directors.* Each Federal credit union director has the duty to:

(1) Carry out his or her duties as a director in good faith, in a manner such director reasonably believes to be in the best interests of the membership of the Federal credit union as a whole, and with the care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances;

(2) Administer the affairs of the Federal credit union fairly and impartially and without discrimination in favor of or against any particular member;

(3) At the time of election or appointment, or within a reasonable time thereafter, not to exceed six months, have at least a working familiarity with basic finance and accounting practices, including the ability to read and understand the Federal credit union's balance sheet and income statement and to ask, as appropriate, substantive questions of management and the internal and external auditors; and

(4) Direct management's operations of the Federal credit union in conformity with the requirements set forth in the Federal Credit Union Act, this chapter, other applicable law, and sound business practices.

(c) *Authority regarding staff and outside consultants.* (1) In carrying out its duties and responsibilities, each Federal credit union's board of directors and all its committees have authority

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to retain staff and outside counsel, independent accountants, financial advisors, and other outside consultants at the expense of the Federal credit union.

(2) Federal credit union staff providing services to the board of directors or any committee of the board under paragraph (c)(1) of this section may be required by the board of directors or such committee to report directly to the board or such committee, as appropriate.

(3) In discharging board or committee duties a director who does not have knowledge that makes reliance unwarranted is entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, prepared or presented by any of the persons specified in paragraph (d).

(d) *Reliance.* A director may rely on:

(1) One or more officers or employees of the Federal credit union who the director reasonably believes to be reliable and competent in the functions performed or the information, opinions, reports or statements provided;

(2) Legal counsel, independent public accountants, or other persons retained by the Federal credit union as to matters involving skills or expertise the director reasonably believes are matters:

(i) Within the particular person's professional or expert competence, and

(ii) As to which the particular person merits confidence; and

(3) A committee of the board of directors of which the director is not a member if the director reasonably believes the committee merits confidence.

[75 FR 81385, Dec. 28, 2010]

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§ 701.6 Fees paid by Federal credit unions.

(a) *Basis for assessment.* Each calendar year, or as otherwise directed by the NCUA Board, each Federal credit union shall pay an operating fee to the NCUA for the current fiscal year (January 1 to December 31) in accordance with a schedule fixed by the Board from time to time.

(1) *General.* The operating fee shall be based on the average of total assets of each Federal credit union based on data reported in NCUA Forms 5300 and 5310 from the four quarters immediately preceding the time the Board approves the agency's budget or as otherwise determined pursuant to paragraph (b) of this section.

(2) *Exclusions from total assets.* For purposes of calculating the operating fee, total assets shall not include any loans on the books of a natural person Federal credit union made under the Small Business Administration's Paycheck Protection Program, 15 U.S.C. 636(a)(36), or any similar program approved for exclusion by the NCUA Board.

(b) *Coverage.* The operating fee shall be paid by each Federal credit union engaged in operations as of January 1 of each calendar year in accordance with paragraph (a) of this section, except as otherwise provided by this paragraph (b).

(1) *New charters.* A newly chartered Federal credit union will not pay an operating fee until the year following the first full calendar year after the date chartered.

(2) *Conversions.* (i) In the first calendar year following conversion:

(A) A federally insured state-chartered credit union that converts to a Federal credit union charter must pay an operating fee based on the average assets reported in the year of conversion on NCUA Forms 5300 or 5310 from the four quarters immediately preceding the time the Board approves the agency's budget in the year of conversion.

(B) An entity not insured by the NCUA that converts to a Federal credit union charter must pay an operating fee based on the assets, or average thereof, reported on NCUA Forms 5300 or 5310 for any one or more quarters immediately preceding the time the Board approves the agency's budget in the year of conversion.

(ii) A Federal credit union converting to a different charter will not receive a refund of any operating fees paid to the NCUA.

(3) *Mergers.* (i) In the first calendar year following merger:

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(A) A continuing Federal credit union that has merged with one or more federally insured credit unions must pay an operating fee based on the average combined total assets of the Federal credit union and any merged federally insured credit unions as reported on NCUA Forms 5300 or 5310 in the four quarters immediately preceding the time the Board approves the agency’s budget in the merger year.

(B) For purposes of this paragraph (b)(3), a purchase and assumption transaction where the continuing Federal credit union purchases all or essentially all of the assets of another depository institution shall be deemed a merger.

(ii) A Federal credit union that merges with a Federal or state-chartered credit union, or an entity not insured by the NCUA, will not receive a refund of any operating fee paid to the NCUA.

(4) *Liquidations.* A Federal credit union placed in liquidation will not pay any operating fee after the date of liquidation.

(c) *Notification.* Each Federal credit union shall be notified at least 30 days in advance of the schedule of fees to be paid. A Federal credit union may submit written comments to the Board for consideration regarding the existing fee schedule. Any subsequent revision to the schedule shall be provided to each Federal credit union at least 15 days before payment is due.

(d) *Assessment of Administrative Fee and Interest for Delinquent Payment.* Each Federal credit union shall pay to the Administration an administrative fee, the costs of collection, and interest on any delinquent payment of its operating fee. A payment will be considered delinquent if it is postmarked later than the date stated in the notice to the credit union provided under §701.6(c). The National Credit Union Administration may waive or abate charges or collection of interest if circumstances warrant.

(1) The administrative fee for a delinquent payment shall be an amount fixed from time to time by the National Credit Union Administration Board and based upon the administrative costs of such delinquent payments

to the Administration in the preceding year.

(2) The costs of collection shall be the actual hours expended by Administration personnel multiplied by the average hourly salary and benefits costs of such personnel as determined by the National Credit Union Administration Board.

(3) The interest rate charged on any delinquent payment shall be the U.S. Department of the Treasury Tax and Loan Rate in effect on the date when the payment is due as provided in 31 U.S.C. 3717.

(4) If a credit union makes a combined payment of its operating fee and its share insurance deposit as provided in §741.4 of this chapter and such payment is delinquent, only one administrative fee will be charged and interest will be charged on the total combined payment.

[44 FR 27380, May 10, 1979, as amended at 50 FR 20745, May 20, 1985; 55 FR 1799, Jan. 19, 1990; 59 FR 33421, June 29, 1994; 60 FR 58503, Nov. 28, 1995; 74 FR 29936, June 24, 2009; 84 FR 1604, Feb. 5, 2019; 85 FR 86803, Dec. 31, 2020]

§§ 701.7–701.13 [Reserved]

§ 701.14 Change in official or senior executive officer in credit unions that are newly chartered or are in troubled condition.

(a) *Statement of scope and purpose.* Section 212 of the Federal Credit Union Act (12 U.S.C. 1790a) sets forth conditions under which a credit union must notify NCUA in writing of any proposed changes in its board of directors, committee members or senior executive staff. The regulation only applies in cases of newly chartered credit unions and credit unions in troubled condition.

(b) *Definitions.* For the purposes of this section:

(1) *Committee member* means any individual who serves as an official of the credit union in the capacity of a credit committee member or supervisory committee member.

(2) *Senior executive officer* means a credit union’s chief executive officer (typically this individual holds the title of president or treasurer/manager), any assistant chief executive officer (e.g., any assistant president, any

vice president or any assistant treasurer/manager) and the chief financial officer (controller). The term “senior executive officer” also includes employees of an entity, such as a consulting firm, hired to perform the functions of positions covered by the regulation.

(3) In the case of an insured natural person credit union, *Troubled condition* means:

(i) A federal credit union that has been assigned a 4 or 5 CAMELS composite rating by NCUA; or

(ii) A federally insured, state-chartered credit union that has been assigned a 4 or 5 CAMELS composite rating by either NCUA, after an on-site contact, or its state supervisor; or

(iii) A federal credit union or a federally insured, state-chartered credit union that has been granted assistance under section 208 of the Federal Credit Union Act, 12 U.S.C. 1788, that remains outstanding and unextinguished.

(4) In the case of an insured corporate credit union, *Troubled condition* means:

(i) A Federal credit union that has been assigned a 4 or 5 CAMELS rating by NCUA; or

(ii) A federally insured, state-chartered credit union that has been assigned a 4 or 5 CAMELS rating by either NCUA, after an on-site contact, or its state supervisor; or

(iii) A Federal credit union or a federally insured, state-chartered credit union that has been granted assistance under section 208 of the Federal Credit Union Act, 12 U.S.C. 1788, that remains outstanding and unextinguished.

(c) *Procedures for Notice of Proposed Change in Official or Senior Executive Officer*—(1) *Prior Notice Requirement*. An insured credit union must give NCUA written notice at least 30 days before the effective date of any addition or replacement of a member of the board of directors or committee member or the employment or change in responsibilities of any individual to a position of senior executive officer if:

(i) The credit union has been chartered for less than two years; or

(ii) The credit union meets the definition of troubled condition in paragraph (b)(3) or (4) of this section.

(2) *Waiver of Prior Notice*—(i) *Waiver requests*. Parties may petition the ap-

propriate Regional Director for a waiver of the prior notice required under this section. Waiver may be granted if it is found that delay could harm the credit union or the public interest.

(ii) *Automatic waiver*. In the case of the election of a new member of the board of directors or credit committee member at a meeting of the members of a federally insured credit union, the prior 30-day notice is automatically waived and the individual may immediately begin serving, provided that a complete notice is filed with the appropriate Regional Director within 48 hours of the election. If NCUA disapproves a director or credit committee member, the board of directors of the credit union may appoint its own alternate, to serve until the next annual meeting, contingent on NCUA approval.

(iii) *Effect on disapproval authority*. A waiver does not affect the authority of NCUA to issue a Notice of Disapproval within 30 days of the waiver or within 30 days of any subsequent required notice.

(3) *Filing procedures*—(i) *Where to file*. Notices will be filed with the appropriate Regional Director or, in the case of a corporate credit union or a ONES credit union under part 700 of this chapter, with the Director of the Office of National Examinations and Supervision. All references to Regional Director will, for corporate credit unions and ONES credit unions under part 700 of this chapter, mean the Director of Office of National Examinations and Supervision. State-chartered federally insured credit unions will also file a copy of the notice with their state supervisor.

(ii) *Contents*. The notice must contain information about the competence, experience, character, or integrity of the individual on whose behalf the notice is submitted. The Regional Director or his or her designee may require additional information. The information submitted must include the identity, personal history, business background, and experience of the individual, including material business activities and affiliations during the past five years, and a description of any material pending legal or administrative proceedings in which the individual is a

party and any criminal indictment or conviction of the individual by a state or federal court. Each individual on whose behalf the notice is filed must attest to the validity of the information filed. At the option of the individual, the information may be forwarded to the Regional Director by the individual; however, in such cases, the credit union must file a notice to that effect.

(iii) *Processing.* Within ten calendar days after receiving the notice, the Regional Director will inform the credit union either that the notice is complete or that additional, specified information is needed and must be submitted within 30 calendar days. If the initial notice is complete, the Regional Director will issue a written decision of approval or disapproval to the individual and the credit union within 30 calendar days of receipt of the notice. If the initial notice is not complete, the Regional Director will issue a written decision within 30 calendar days of receipt of the original notice plus the amount of time the credit union takes to provide the requested additional information. If the additional information is not submitted within 30 calendar days of the Regional Director's request, the Regional Director may either disapprove the proposed individual or review the notice based on the information provided. If the credit union and the individual have submitted all requested information and the Regional Director has not issued a written decision within the applicable time period, the individual is approved.

(d) *Commencement of Service.* A proposed director, committee member, or senior executive officer may begin service after the end of the 30-day period or any other additional period as provided under paragraph (c)(3)(iii) of this section, unless the NCUA disapproves the notice before the end of the period.

(e) *Notice of disapproval.* NCUA may disapprove the individual serving as a director, committee member or senior executive officer if it finds that the competence, experience, character, or integrity of the individual with respect to whom a notice under this section is submitted indicates that it would not be in the best interests of the members

of the credit union or of the public to permit the individual to be employed by, or associated with, the credit union. The Notice of Disapproval will advise the parties of their rights to request reconsideration from the Regional Director and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

[55 FR 43086, Oct. 26, 1990, as amended at 59 FR 36042, July 15, 1994; 60 FR 31911, June 19, 1995; 64 FR 28717, May 27, 1999; 66 FR 65624, Dec. 20, 2001; 69 FR 62562, Oct. 27, 2004; 75 FR 34620, June 18, 2010; 78 FR 4029, Jan. 18, 2013; 78 FR 32544, May 31, 2013; 78 FR 77564, Dec. 26, 2013; 82 FR 50291, Oct. 30, 2017; 86 FR 59288, Oct. 27, 2021; 87 FR 45009, July 27, 2022]

§§ 701.15–701.18 [Reserved]

§ 701.19 Benefits for employees of Federal credit unions.

(a) *General authority.* A federal credit union may provide employee benefits, including retirement benefits, to its employees and officers who are compensated in conformance with the Act and the bylaws, individually or collectively with other credit unions. The kind and amount of these benefits must be reasonable given the federal credit union's size, financial condition, and the duties of the employees.

(b) *Plan trustees and custodians.* Where a federal credit union is the benefit plan trustee or custodian, the plan must be authorized and maintained in accordance with the provisions of part 724 of this chapter. Where the benefit plan trustee or custodian is a party other than a federal credit union, the benefit plan must be maintained in accordance with applicable laws governing employee benefit plans, including any applicable rules and regulations issued by the Secretary of Labor, the Secretary of the Treasury, or any other federal or state authority exercising jurisdiction over the plan.

(c) *Investment authority.* A federal credit union investing to fund an employee benefit plan obligation is not subject to the investment limitations of the Act and part 703 or, as applicable, part 704, of this chapter and may purchase an investment that would

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otherwise be impermissible if the investment is directly related to the federal credit union's obligation or potential obligation under the employee benefit plan and the federal credit union holds the investment only for as long as it has an actual or potential obligation under the employee benefit plan.

(d) *Defined benefit plans.* Under paragraph (c) of this section, a federal credit union may invest to fund a defined benefit plan if the investment meets the conditions provided in that paragraph. If a federal credit union invests to fund a defined benefit plan that is not subject to the fiduciary responsibility provisions of part 4 of the Employee Retirement Income Security Act of 1974, it should diversify its investment portfolio to minimize the risk of large losses unless it is clearly prudent not to do so under the circumstances.

(e) *Liability insurance.* No federal credit union may occupy the position of a fiduciary, as defined in the Employee Retirement Income Security Act of 1974 and the rules and regulations issued by the Secretary of Labor, unless it has obtained appropriate liability insurance as described and permitted by Section 410(b) of the Employee Retirement Income Security Act of 1974.

(f) *Definitions.* For this section, defined benefit plan has the same meaning as in 29 U.S.C. 1002(35) and employee benefit plan has the same meaning as in 29 U.S.C. 1002(3).

[68 FR 23027, Apr. 30, 2003]

§ 701.20 Suretyship and guaranty.

(a) *Scope.* This section authorizes a federal credit union to enter into a suretyship or guaranty agreement as an incidental powers activity. This section does not apply to the guaranty of public deposits or the assumption of liability for member accounts.

(b) *Definitions.* A *suretyship* binds a federal credit union with its principal to pay or perform an obligation to a third person. Under a *guaranty* agreement, a federal credit union agrees to satisfy the obligation of the principal only if the principal fails to pay or per-

form. The *principal* is the person primarily liable, for whose performance of his obligation the surety or guarantor has become bound.

(c) *Requirements.* The suretyship or guaranty agreement must be for the benefit of a principal that is a member and is subject to the following conditions:

(1) The federal credit union limits its obligations under the agreement to a fixed dollar amount and a specified duration;

(2) The federal credit union's performance under the agreement creates an authorized loan that complies with the applicable lending regulations, including the limitations on loans to one member or associated members or officials for purposes of §§ 701.21(c)(5), (d); 723.4(c); and

(3) The federal credit union obtains a segregated deposit from the member that is sufficient in amount to cover the federal credit union's total potential liability.

(d) *Collateral.* A segregated deposit under this section includes collateral:

(1) In which the federal credit union has perfected its security interest (for example, if the collateral is a printed security, the federal credit union must have obtained physical control of the security, and, if the collateral is a book entry security, the federal credit union must have properly recorded its security interest); and

(2) That has a market value, at the close of each business day, equal to 100 percent of the federal credit union's total potential liability and is composed of:

(i) Cash;

(ii) Obligations of the United States or its agencies;

(iii) Obligations fully guaranteed by the United States or its agencies as to principal and interest; or

(iv) Notes, drafts, or bills of exchange or banker's acceptances that are eligible for rediscount or purchase by a Federal Reserve Bank; or

(3) That has a market value equal to 110 percent of the federal credit union's total potential liability and is composed of:

(i) Real estate, the value of which is established by a signed appraisal or evaluation in accordance with part 722

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of this chapter. In determining the value of the collateral, the federal credit union must factor in the value of any existing senior mortgages, liens or other encumbrances on the property except those held by the principal to the suretyship or guaranty agreement; or

(ii) Marketable securities that the federal credit union is authorized to invest in. The federal credit union must ensure that the value of the security is 110 percent of the obligation at all times during the term of the agreement.

[69 FR 8547, Feb. 25, 2004, as amended at 84 FR 10975, Mar. 25, 2019]

§ 701.21 Loans to members and lines of credit to members.

(a) *Statement of scope and purpose.* Section 701.21 complements the provisions of section 107(5) of the Federal Credit Union Act (12 U.S.C. 1757(5)) authorizing Federal credit unions to make loans to members and issue lines of credit (including credit cards) to members. Section 107(5) of the Act contains limitations on matters such as loan maturity, rate of interest, security, and prepayment penalties. Section 701.21 interprets and implements those provisions. In addition, § 701.21 states the NCUA Board's intent concerning preemption of state laws, and expands the authority of Federal credit unions to enforce due-on-sale clauses in real property loans. Also, while § 701.21 generally applies to Federal credit unions only, certain provisions apply to loans made by federally insured, state-chartered credit unions as specified in § 741.203 of this chapter. Part 722 of this chapter sets forth requirements for appraisals for certain real estate secured loans made under § 701.21 and any other applicable lending authority. Finally, it is noted that § 701.21 does not apply to loans by Federal credit unions to other credit unions (although certain statutory limitations in section 107 of the Act apply), nor to loans to credit union organizations which are governed by section 107(5)(D) of the Act and part 712 of this chapter.

(b) *Relation to other laws*—(1) *Preemption of state laws.* Section 701.21 is promulgated pursuant to the NCUA Board's exclusive authority as set forth

in section 107(5) of the Federal Credit Union Act (12 U.S.C. 1757(5)) to regulate the rates, terms of repayment and other conditions of Federal credit union loans and lines of credit (including credit cards) to members. This exercise of the Board's authority preempts any state law purporting to limit or affect:

(i)(A) Rates of interest and amounts of finance charges, including:

(1) The frequency or the increments by which a variable interest rate may be changed;

(2) The index to which a variable interest rate may be tied;

(3) The manner or timing of notifying the borrower of a change in interest rate;

(4) The authority to increase the interest rate on an existing balance;

(B) Late charges; and

(C) Closing costs, application, origination, or other fees;

(ii) Terms of repayment, including:

(A) The maturity of loans and lines of credit;

(B) The amount, uniformity, and frequency of payments, including the accrual of unpaid interest if payments are insufficient to pay all interest due;

(C) Balloon payments; and

(D) Prepayment limits;

(iii) Conditions related to:

(A) The amount of the loan or line of credit;

(B) The purpose of the loan or line of credit;

(C) The type or amount of security and the relation of the value of the security to the amount of the loan or line of credit;

(D) Eligible borrowers; and

(E) The imposition and enforcement of liens on the shares of borrowers and accommodation parties.

(2) *Matters not preempted.* Except as provided by paragraph (b)(1) of this section, it is not the Board's intent to preempt state laws that do not affect rates, terms of repayment and other conditions described above concerning loans and lines of credit, for example:

(i) Insurance laws;

(ii) Laws related to transfer of and security interests in real and personal property (see, however, paragraph (g)(6) of this section concerning the use and exercise of due-on-sale clauses);

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(iii) Conditions related to:

(A) Collection costs and attorneys' fees;

(B) Requirements that consumer lending documents be in "plain language;" and

(C) The circumstances in which a borrower may be declared in default and may cure default.

(3) *Other Federal law.* Except as provided by paragraph (b)(1) of this section, it is not the Board's intent to preempt state laws affecting aspects of credit transactions that are primarily regulated by Federal law other than the Federal Credit Union Act, for example, state laws concerning credit cost disclosure requirements, credit discrimination, credit reporting practices, unfair credit practices, and debt collection practices. Applicability of state law in these instances should be determined pursuant to the preemption standards of the relevant Federal law and regulations.

(4) *Examination and enforcement.* Except as otherwise agreed by the NCUA Board, the Board retains exclusive examination and administrative enforcement jurisdiction over Federal credit unions. Violations of Federal or applicable state laws related to the lending activities of a Federal credit union should be referred to the appropriate NCUA regional office.

(5) *Definition of State law.* For purposes of paragraph (b) of this section "state law" means the constitution, laws, regulations and judicial decisions of any state, the District of Columbia, the several territories and possessions of the United States, and the Commonwealth of Puerto Rico.

(c) *General rules—(1) Scope.* The following general rules apply to all loans to members and, where indicated, all lines of credit (including credit cards) to members, except as otherwise provided in the remaining provisions of § 701.21.

(2) *Written policies.* The board of directors of each Federal credit union shall establish written policies for loans and lines of credit consistent with the relevant provisions of the Act, NCUA's regulations, and other applicable laws and regulations.

(3) *Credit applications and overdrafts.* Consistent with policies established by

the board of directors, the credit committee or loan officer shall ensure that a credit application is kept on file for each borrower supporting the decision to make a loan or establish a line of credit. A credit union may advance money to a member to cover an account deficit without having a credit application from the borrower on file if the credit union has a written overdraft policy. The policy must: set a cap on the total dollar amount of all overdrafts the credit union will honor consistent with the credit union's ability to absorb losses; establish a time limit not to exceed forty-five calendar days for a member either to deposit funds or obtain an approved loan from the credit union to cover each overdraft; limit the dollar amount of overdrafts the credit union will honor per member; and establish the fee and interest rate, if any, the credit union will charge members for honoring overdrafts.

(4) *Maturity—(i) In general.* The maturity of a loan to a member may not exceed 15 years. Lines of credit are not subject to a statutory or regulatory maturity limit. Amortization of line of credit balances and the type and amount of security on any line of credit shall be as determined by contract between the Federal credit union and the member/borrower. In the case of a lending action that qualifies as a "new loan" under GAAP, the new loan's maturity is calculated from the new date of origination.

(ii) *Exceptions.* Notwithstanding the general 15-year maturity limit on loans to members, a federal credit union may make loans with maturities:

(A) As specified in the law, regulations or program under which a loan is secured, in full or in part, by the insurance or guarantee of, or with an advance commitment to purchase the loan, in full or in part, by the Federal Government, a State government or any agency of either, as provided in paragraph (e) of this section;

(B) of up to 20 years or such longer term as is provided in paragraph (f) of this section; and

(C) of up to 40 years or such longer term as is provided in paragraph (g) of this section.

(5) *Ten percent limit.* No loan or line of credit advance may be made to any

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member if such loan or advance would cause that member to be indebted to the Federal credit union upon loans and advances made to the member in an aggregate amount exceeding 10% of the credit union's total unimpaired capital and surplus. In the case of loan participations as defined in § 701.22(a) of this part and commercial loans as defined in § 723.2 of this chapter, additional limitations apply as set forth in § 701.22(b)(5)(iv) of this part and § 723.4(c) of this chapter.

(6) *Early payment.* A member may repay a loan, or outstanding balance on a line of credit, prior to maturity in whole or in part on any business day without penalty.

(7) *Loan interest rates—(i) General.* Except when the Board establishes a higher maximum rate, federal credit unions may not extend credit to members at rates exceeding 15 percent per year on the unpaid balance inclusive of all finance charges. Federal credit unions may use variable rates of interest but only if the effective rate over the term of a loan or line of credit does not exceed the maximum permissible rate.

(ii) *Temporary rates.* (A) At least every 18 months, the Board will determine if federal credit unions may extend credit to members at an interest rate exceeding 15 percent. After consultation with appropriate congressional committees, the Department of Treasury, and other federal financial institution regulatory agencies, the Board may establish a rate exceeding the 15 percent per year rate, if it determines money market interest rates have risen over the preceding six-month period and prevailing interest rate levels threaten the safety and soundness of individual federal credit unions as evidenced by adverse trends in liquidity, capital, earnings, and growth.

(B) When the Board establishes a higher maximum rate, the Board will provide notice to federal credit unions of the adjusted rate by issuing a *Letter to Federal Credit Unions*, as well as providing information in other NCUA publications and in a statement for the press.

(C) Federal credit unions may continue to charge rates exceeding the established maximum rate only on exist-

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ing loans or lines of credit made before the effective date of any lowering of the maximum rate.

(iii) *Payday alternative loans (PALs I)—(A) Minimum requirements for PALs I.* Notwithstanding any other provision of this section, a federal credit union may charge an interest rate that is 1000 basis points above the maximum interest rate established by the Board under paragraph (c)(7)(ii) of this section provided the federal credit union is offering closed-end credit, as defined in § 1026.2(a)(10) of this title, in accordance with the following conditions:

(1) The principal of the payday alternative loan is not less than \$200 or more than \$1,000;

(2) The payday alternative loan has a minimum maturity of one month and a maximum maturity of six months;

(3) The federal credit union does not make more than three payday alternative loans provided under either this paragraph (c)(7)(iii) or paragraph (c)(7)(iv) of this section in any rolling six-month period to any one borrower and does not make more than one payday alternative loan provided under either this paragraph (c)(7)(iii) or paragraph (c)(7)(iv) of this section at a time to any borrower;

(4) The federal credit union does not rollover any payday alternative loan provided under this paragraph (c)(7)(iii) or paragraph (c)(7)(iv) of this section, provided that the prohibition against rollovers does not apply to an extension of a payday alternative loan term within the maximum loan term set forth in paragraph (c)(7)(iii)(A)(3) of this section that does not include any additional fees assessed or extend additional credit to the borrower;

(5) The federal credit union fully amortizes the payday alternative loan;

(6) The federal credit union requires the borrower to be a member of the credit union for at least one month before receiving a payday alternative loan provided under this paragraph (c)(7)(iii);

(7) The federal credit union charges a reasonable application fee to all members applying for a new payday alternative loan offered under this paragraph (c)(7)(iii) that reflects the actual costs associated with processing the

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application, but that in no case exceeds \$20; and

(8) The federal credit union includes, in its written lending policies, a limit on the aggregate dollar amount of payday alternative loans made under this paragraph (c)(7)(iii) and paragraph (c)(7)(iv) of this section that does not exceed an aggregate of 20% of net worth and implements appropriate underwriting guidelines to minimize risk, such as, requiring a borrower to verify employment by providing at least two recent pay stubs.

(B) *PALs I guidance and best practices.* In developing a successful payday alternative loan program, a federal credit union should consider how the program would benefit a member's financial well-being while considering the higher degree of risk associated with this type of lending. The guidance and best practices are intended to help federal credit unions minimize risk and develop a successful program, but are not an exhaustive checklist and do not guarantee a successful program with a low degree of risk.

(1) *Program features.* Several features that may increase the success of a payday alternative loan program and enhance member benefit include adding a savings component, financial education, reporting of members' payment of payday alternative loans to credit bureaus, or electronic loan transactions as part of a payday alternative loan program. In addition, although a federal credit union cannot require members to authorize a payroll deduction, a federal credit union should encourage or incentivize members to utilize payroll deduction.

(2) *Underwriting.* Federal credit unions should develop minimum underwriting standards that account for a member's need for quickly available funds, while adhering to principles of responsible lending. Underwriting standards should address required documentation for proof of employment or income, including at least two recent paycheck stubs. Federal credit unions should be able to use a borrower's proof of recurring income as the key criterion in developing standards for maturity lengths and loan amounts so a borrower can manage repayment of the loan. For members with established ac-

counts, federal credit unions should only need to review a member's account records and proof of recurring income or employment.

(3) *Risk avoidance.* Federal credit unions should consider risk avoidance strategies, including requiring members to participate in direct deposit and conducting a thorough evaluation of the federal credit union's resources and ability to engage in a payday alternative loan program.

(iv) *Payday alternative loans (PALs II)*—(A) *Minimum requirements for PALs II.* Notwithstanding any other provision of this section, a federal credit union may charge an interest rate that is 1000 basis points above the maximum interest rate established by the Board under paragraph (c)(7)(ii) of this section provided the federal credit union is offering closed-end credit, as defined in § 1026.2(a)(10) of this title, in accordance with the following conditions:

(1) The principal of the payday alternative loan is not more than \$2,000;

(2) The payday alternative loan has a minimum maturity of one month and a maximum maturity of 12 months;

(3) The federal credit union does not make more than three payday alternative loans provided either under paragraph (c)(7)(iii) of this section or this paragraph (c)(7)(iv) in any rolling six-month period to any one borrower and does not make more than one payday alternative loan provided under either paragraph (c)(7)(iii) of this section or this paragraph (c)(7)(iv) at a time to any borrower;

(4) The federal credit union does not rollover any payday alternative loan provided under paragraph (c)(7)(iii) of this section or this paragraph (c)(7)(iv), provided that the prohibition against rollovers does not apply to an extension of a payday alternative loan term within the maximum loan term set forth in paragraph (c)(7)(iv)(A)(3) of this section that does not include any additional fees assessed or extend additional credit to the borrower;

(5) The federal credit union fully amortizes the payday alternative loan;

(6) The federal credit union charges a reasonable application fee to all members applying for a new payday alternative loan offered under this paragraph (c)(7)(iv) that reflects the actual

costs associated with processing the application, but that in no case exceeds \$20;

(7) The federal credit union does not assess a fee or charge, including a non-sufficient funds fee, on the borrower's account pursuant to the federal credit union's overdraft service, as defined in § 1005.17(a) of this title, in connection with any payday alternative loan provided under this paragraph (c)(7)(iv); and

(8) The federal credit union includes, in its written lending policies, a limit on the aggregate dollar amount of payday alternative loans made under paragraph (c)(7)(iii) of this section and this paragraph (c)(7)(iv) that does not exceed an aggregate of 20% of net worth and implements appropriate underwriting guidelines to minimize risk, such as, requiring a borrower to verify employment by providing at least two recent pay stubs.

(B) *PALs II guidance and best practices.* In developing a successful payday alternative loan program, a federal credit union should consider how the program would benefit a member's financial well-being while considering the higher degree of risk associated with this type of lending. The guidance and best practices are intended to help federal credit unions minimize risk and develop a successful program, but are not an exhaustive checklist and do not guarantee a successful program with a low degree of risk.

(1) *Program features.* Several features that may increase the success of a payday alternative loan program and enhance member benefit include adding a savings component, financial education, reporting of members' payment of payday alternative loans to credit bureaus, or electronic loan transactions as part of a payday alternative loan program. In addition, although a federal credit union cannot require members to authorize a payroll deduction, a federal credit union should encourage or incentivize members to utilize payroll deduction.

(2) *Underwriting.* Federal credit unions should develop minimum underwriting standards that account for a member's need for quickly available funds, while adhering to principles of responsible lending. Underwriting

standards should address required documentation for proof of employment or income, including at least two recent paycheck stubs. Federal credit unions should be able to use a borrower's proof of recurring income as the key criterion in developing standards for maturity lengths and loan amounts so a borrower can manage repayment of the loan. For members with established accounts, federal credit unions should only need to review a member's account records and proof of recurring income or employment.

(3) *Risk avoidance.* Federal credit unions should consider risk avoidance strategies, including requiring members to participate in direct deposit and conducting a thorough evaluation of the federal credit union's resources and ability to engage in a payday alternative loan program.

(8)(i) Except as otherwise provided herein, no official or employee of a Federal credit union, or immediate family member of an official or employee of a Federal credit union, may receive, directly or indirectly, any commission, fee, or other compensation in connection with any loan made by the credit union.

(ii) For the purposes of this section:

Compensation includes non-monetary items, except those of nominal value.

Immediate family member means a spouse or other family member living in the same household.

Loan includes line of credit.

Official means any member of the board of directors or a volunteer committee.

Person means an individual or an organization.

Senior management employee means the credit union's chief executive officer (typically, this individual holds the title of President or Treasurer/Manager), any assistant chief executive officers (e.g., Assistant President, Vice President, or Assistant Treasurer/Manager), and the chief financial officer (Comptroller).

Volunteer official means an official of a credit union who does not receive compensation from the credit union solely for his or her service as an official.

(iii) This section does not prohibit:

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(A) Payment, by a Federal credit union, of salary to employees;

(B) Payment, by a Federal credit union, of an incentive or bonus to an employee based on the credit union's overall financial performance;

(C) Payment, by a Federal credit union, of an incentive or bonus to an employee, other than a senior management employee, in connection with a loan or loans made by the credit union, provided that the board of directors of the credit union establishes written policies and internal controls in connection with such incentive or bonus and monitors compliance with such policies and controls at least annually.

(D) Receipt of compensation from a person outside a Federal credit union by a volunteer official or non-senior-management employee of the credit union, or an immediate family member of a volunteer official or employee of the credit union, for a service or activity performed outside the credit union, provided that no referral has been made by the credit union or the official, employee, or family member.

(9) *Indirect lending and indirect leasing arrangements*—(i) *Definitions*. For purposes of this chapter, the following definitions apply:

Indirect leasing arrangement means a written agreement to purchase leases from the leasing company where the purchaser makes the final underwriting decision, and the lease agreement is assigned to the purchaser very soon after it is signed by the member and the leasing company.

Indirect lending arrangement means a written agreement to purchase loans from the loan originator where the purchaser makes the final underwriting decision regarding making the loan, and the loan is assigned to the purchaser very soon after the inception of the obligation to extend credit.

(ii) *Indirect lending*. A loan acquired pursuant to an indirect lending arrangement, and that meets the requirements of this section, is classified as a loan and not the purchase of a loan for purposes of this chapter.

(iii) *Indirect leasing*. A lease acquired pursuant to an indirect leasing arrangement, and that meets the requirements of part 714 of this chapter, is classified as a lease and not the pur-

chase of a lease for purposes of this chapter.

(d) *Loans and lines of credit to officials*—(1) *Purpose*. Sections 107(5)(A) (iv) and (v) of the Act require the approval of the board of directors of the Federal credit union in any case where the aggregate of loans to an official and loans on which the official serves as endorser or guarantor exceeds \$20,000 plus pledged shares. This paragraph implements the requirement by establishing procedures for determining whether board of directors' approval is required. The section also prohibits preferential treatment of officials.

(2) *Official*. An "official" is any member of the board of directors, credit committee or supervisory committee.

(3) *Initial approval*. All applications for loans or lines of credit on which an official will be either a direct obligor or an endorser, cosigner or guarantor shall be initially acted upon by either the board of directors, the credit committee or a loan officer, as specified in the Federal credit union's bylaws.

(4) *Board of Directors' review*. The board of directors shall, in any case, review and approve or deny an application on which an official is a direct obligor, endorser, cosigner or guarantor if the following computation produces a total in excess of \$20,000:

(i) Add:

(A) The amount of the current application.

(B) The outstanding balances of loans, including the used portion of an approved line of credit, extended to or endorsed, cosigned or guaranteed by the official.

(C) The total unused portion of approved lines of credit extended to or endorsed, cosigned or guaranteed by the official.

(ii) From the above total subtract:

(A) The amount of shares pledged by the official on loans or lines of credit extended to or endorsed, cosigned or guaranteed by the official.

(B) The amount of shares to be pledged by the official on the loan or line of credit applied for.

(5) *Nonpreferential treatment*. The rates, terms and conditions on any loan or line of credit either made to, or endorsed or guaranteed by—

(i) An official,

(ii) An immediate family member of an official, or

(iii) Any individual having a common ownership, investment or other pecuniary interest in a business enterprise with an official or with an immediate family member of an official shall not be more favorable than the rates, terms and conditions for comparable loans or lines of credit to other credit union members. “Immediate family member” means a spouse or other family member living in the same household.

(e) *Insured, guaranteed, and advance commitment loans.* Notwithstanding the general 15-year maturity limit on loans to members in paragraph (c)(4) of this section, a loan secured, in full or in part, by the insurance or guarantee of, or with an advance commitment to purchase the loan, in full or in part, by the Federal Government, a State government or any agency of either, may be made for the maturity and under the terms and conditions, including rate of interest, specified in the law, regulations or program under which the insurance, guarantee or commitment is provided.

(f) *20-Year Loans.* (1) Notwithstanding the general 15-year maturity limit on loans to members in paragraph (c)(4) of this section, a federal credit union may make loans with maturities of up to 20 years in the case of:

(i) A loan to finance the purchase of a mobile home if the mobile home will be used as the member-borrower’s residence and the loan is secured by a first lien on the mobile home, and the mobile home meets the requirements for the home mortgage interest deduction under the Internal Revenue Code,

(ii) A second mortgage loan (or a nonpurchase money first mortgage loan in the case of a residence on which there is no existing first mortgage) if the loan is secured by a residential dwelling which is the residence of the member-borrower, and

(iii) A loan to finance the repair, alteration, or improvement of a residential dwelling which is the residence of the member-borrower.

(2) For purposes of this paragraph (f), mobile home may include a recreational vehicle, house trailer or boat.

(3) Notwithstanding the general 20-year maturity limit on second mortgage loans, a federal credit union participating in the Department of the Treasury’s Making Home Affordable Program may extend the term of a modified second mortgage to match the term of a modified first mortgage, in accordance with applicable program guidelines.

(g) *Long-Term Mortgage Loans—(1) Authority.* Notwithstanding the general 15-year maturity limit on loans to members in paragraph (c)(4) of this section, a federal credit union may make residential real estate loans to members, including loans secured by manufactured homes permanently affixed to the land, with maturities of up to 40 years, or such longer period as may be permitted by the NCUA Board on a case-by-case basis, subject to the conditions of this paragraph (g).

(2) *Statutory limits.* The loan shall be made on a one to four family dwelling that is or will be the principal residence of the member-borrower and the loan shall be secured by a perfected first lien in favor of the credit union on such dwelling (or a perfected first security interest in the case of either a residential cooperative or a leasehold or ground rent estate).

(3) *Loan application.* The loan application shall be a completed standard Federal Housing Administration, Veterans Administration, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association or Federal Home Loan Mortgage Corporation/Federal National Mortgage Association application form. In lieu of use of a standard application the Federal credit union may have a current attorney’s opinion on file stating that the forms in use meet the requirements of applicable Federal, state and local laws.

(4) *Security instrument and note.* The security instrument and note shall be executed on the most current version of the FHA, VA, FHLMC, FNMA, or FHLMC/FNMA Uniform Instruments for the jurisdiction in which the property is located. No prepayment penalty shall be allowed, although a Federal credit union may require that any partial prepayments be made on the date monthly installments are due and be in the amount of that part of one or more

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monthly installments that would be applicable to principal. In lieu of use of a standard security instrument and note, the Federal credit union may have a current attorney's opinion on file stating that the security instrument and note in use meet the requirements of applicable Federal, state and local laws.

(5) *First lien, territorial limits.* The loan shall be secured by a perfected first lien or first security interest in favor of the credit union supported by a properly executed and recorded security instrument. No loan shall be secured by a residence located outside the United States of America, its territories and possessions, or the Commonwealth of Puerto Rico.

(6) *Due-on-sale clauses.* (i) Except as otherwise provided herein, the exercise of a due-on-sale clause by a Federal credit union is governed exclusively by section 341 of Pub. L. 97-320 and by any regulations issued by the Federal Home Loan Bank Board implementing section 341.

(ii) In the case of a contract involving a long-term (greater than fifteen years), fixed rate first mortgage loan which was made or assumed, including a transfer of the lien property subject to the loan, during the period beginning on the date a State adopted a constitutional provision or statute prohibiting the exercise of due-on-sale clauses, or the date on which the highest court of such state has rendered a decision (or if the highest court has not so decided, the date on which the next highest court has rendered a decision resulting in a final judgment if such decision applies statewide) prohibiting such exercise, and ending on October 15, 1982, a Federal credit union may exercise a due-on-sale clause in the case of a transfer which occurs on or after November 18, 1982, unless exercise of the due-on-sale clause would be based on any of the following:

(A) The creation of a lien or other encumbrance subordinate to the lender's security instrument which does not relate to a transfer of rights of occupancy in the property;

(B) The creation of a purchase money security interest for household appliances;

(C) A transfer by devise, descent, or operation of law on the death of a joint tenant or tenant by the entirety;

(D) The granting of a leasehold interest of 3 years or less not containing an option to purchase;

(E) A transfer to a relative resulting from the death of a borrower;

(F) A transfer where the spouse or children of the borrower become an owner of the property;

(G) A transfer resulting from a decree of a dissolution of marriage, a legal separation agreement, or from an incidental property settlement agreement, by which the spouse of the borrower becomes an owner of the property;

(H) A transfer into an inter vivos trust in which the borrower is and remains a beneficiary and which does not relate to a transfer of rights of occupancy in the property; or

(I) Any other transfer or disposition described in regulations promulgated by the Federal Home Loan Bank Board.

(7) *Assumption of real estate loans by nonmembers.* A Federal credit union may permit a nonmember to assume a member's mortgage loan in conjunction with the nonmember's purchase of the member's principal residence, provided that the nonmember assumes only the remaining unpaid balance of the loan, the terms of the loan remain unchanged, and there is no extension of the original maturity date specified in the loan agreement with the member. An assumption is impermissible if the original loan was made with the intent of having a nonmember assume the loan.

(h) *Third-party servicing of indirect vehicle loans.* (1) A federally insured credit union must not acquire any vehicle loan, or any interest in a vehicle loan, serviced by a third-party servicer if the aggregate amount of vehicle loans and interests in vehicle loans serviced by that third-party servicer and its affiliates would exceed:

(i) 50 percent of the credit union's net worth during the initial thirty months of that third-party servicing relationship; or

(ii) 100 percent of the credit union's net worth after the initial thirty months of that third-party servicing relationship.

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(2) Regional directors may grant a waiver of the limits in paragraph (h)(1) of this section to permit greater limits upon written application by a credit union. In determining whether to grant or deny a waiver, a regional director will consider:

(i) The credit union's understanding of the third-party servicer's organization, business model, financial health, and the related program risks;

(ii) The credit union's due diligence in monitoring and protecting against program risks;

(iii) If contracts between the credit union and the third-party servicer grant the credit union sufficient control over the servicer's actions and provide for replacing an inadequate servicer; and

(iv) Other factors relevant to safety and soundness.

(3) A regional director will provide a written determination on a waiver request within 45 calendar days after receipt of the request; however, the 45-day period will not begin until the requesting credit union has submitted all necessary information to the regional director. If the regional director does not provide a written determination within the 45-day period the request is deemed denied. A credit union may request the regional director to reconsider a denied waiver request and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

(4) For purposes of paragraph (h) of this section:

(i) The term "third-party servicer" means any entity, other than a federally-insured depository institution or a wholly-owned subsidiary of a federally-insured depository institution, that receives any scheduled, periodic payments from a borrower pursuant to the terms of a loan and distributes payments of principal and interest and any other payments with respect to the amounts received from the borrower as may be required pursuant to the terms of the loan. The term also excludes any servicing entity that meets the following three requirements:

(A) Has a majority of its voting interests owned by federally-insured credit unions;

(B) Includes in its servicing agreements with credit unions a provision that the servicer will provide NCUA with complete access to its books and records and the ability to review its internal controls as deemed necessary by NCUA in carrying out NCUA's responsibilities under the Act; and

(C) Has its credit union clients provide a copy of the servicing agreement to their regional directors.

(ii) The term "its affiliates," as it relates to the third-party servicer, means any entities that:

(A) Control, are controlled by, or are under common control with, that third-party servicer; or

(B) Are under contract with that third-party servicer or other entity described in paragraph (h)(4)(ii)(A) of this section.

(iii) The term "vehicle loan" means any installment vehicle sales contract or its equivalent that is reported as an asset under generally accepted accounting principles. The term does not include:

(A) Loans made directly by a credit union to a member, or

(B) Loans in which neither the third-party servicer nor any of its affiliates are involved in the origination, underwriting, or insuring of the loan or the process by which the credit union acquires its interest in the loan.

(iv) The term "net worth" means the retained earnings balance of the credit union at quarter end as determined under generally accepted accounting principles and as further defined in § 702.2 of this chapter.

[49 FR 30685, Aug. 1, 1984]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 701.22, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at www.govinfo.gov.

§ 701.22 Loan participations.

This section applies only to loan participations as defined in paragraph (a) of this section. It does not apply to the purchase of an investment interest in a pool of loans. This section establishes the requirements a federally insured credit union must satisfy to purchase a participation in a loan. Federally insured, state-chartered credit unions are required by § 741.225 of this chapter to

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comply with the loan participation requirements of this section. This section does not apply to corporate credit unions, as that term is defined in § 704.2 of this chapter.

(a) For purposes of this section, the following definitions apply:

Associated borrower means any other person or entity with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower. This means any person or entity named as a borrower or debtor in a loan or extension of credit, or any other person or entity, such as a drawer, endorser, or guarantor, engaged in a common enterprise with the borrower, or deriving a direct benefit from the loan to the borrower. Exceptions to this definition for partnerships, joint ventures and associations are as follows:

(1) If the borrower is a partnership, joint venture or association, and the other person with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower is a member or partner of the borrower, and neither a direct benefit nor a common enterprise exists, such other person is not an associated borrower.

(2) If the borrower is a member or partner of a partnership, joint venture, or association, and the other entity with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower is the partnership, joint venture, or association and the borrower is a limited partner of that other entity, and by the terms of a partnership or membership agreement valid under applicable law, the borrower is not held generally liable for the debts or actions of that other entity, such other entity is not an associated borrower.

(3) If the borrower is a member or partner of a partnership, joint venture, or association, and the other person with a shared ownership, investment, or other pecuniary interest in a business or commercial endeavor with the borrower is another member or partner of the partnership, joint venture, or association, and neither a direct benefit nor a common enterprise exists, such other person is not an associated borrower.

Common enterprise means:

(1) The expected source of repayment for each loan or extension of credit is the same for each borrower and no individual borrower has another source of income from which the loan (together with the borrower's other obligations) may be fully repaid. An employer will not be treated as a source of repayment because of wages and salaries paid to an employee, unless the standards described in paragraph (2) are met;

(2) Loans or extensions of credit are made:

(i) To borrowers who are related directly or indirectly through common control, including where one borrower is directly or indirectly controlled by another borrower; and

(ii) Substantial financial interdependence exists between or among the borrowers. Substantial financial interdependence means 50 percent or more of one borrower's gross receipts or gross expenditures (on an annual basis) are derived from transactions with another borrower. Gross receipts and expenditures include gross revenues or expenses, intercompany loans, dividends, capital contributions, and similar receipts or payments; or

(3) Separate borrowers obtain loans or extensions of credit to acquire a business enterprise of which those borrowers will own more than 50 percent of the voting securities or voting interests.

Control means a person or entity directly or indirectly, or acting through or together with one or more persons or entities:

(1) Owns, controls, or has the power to vote 25 percent or more of any class of voting securities of another person or entity;

(2) Controls, in any manner, the election of a majority of the directors, trustees, or other persons exercising similar functions of another person or entity; or

(3) Has the power to exercise a controlling influence over the management or policies of another person or entity.

Credit union means any federal or state-chartered credit union.

Credit union service organization means any credit union service organization meeting the requirements of part 712 of this chapter. This term does not include trade associations or membership organizations principally composed of credit unions.

Direct benefit means the proceeds of a loan or extension of credit to a borrower, or assets purchased with those proceeds, that are transferred to another person or entity, other than in a bona fide arm's-length transaction where the proceeds are used to acquire property, goods, or services.

Eligible organization means a credit union, credit union organization, or financial organization.

Financial organization means any federally chartered or federally insured financial institution; and any state or federal government agency and its subdivisions.

Loan participation means a loan where one or more eligible organizations participate pursuant to a written agreement with the originating lender, and the written agreement requires the originating lender's continuing participation throughout the life of the loan.

Originating lender means the participant with which the borrower initially or originally contracts for a loan and who, thereafter or concurrently with the funding of the loan, sells participations to other lenders. Originating lender includes a participant that acquires a loan through an indirect lending arrangement as defined under § 701.21(c)(9).

(b) A federally insured credit union may purchase a participation interest in a loan from an eligible organization only if the loan is one the purchasing credit union is empowered to grant and the following additional conditions are satisfied:

(1) The purchase complies with all regulatory requirements to the same extent as if the purchasing federally insured credit union had originated the loan, including, for example, the loans-to-one-borrower provisions in § 701.21(c)(5) of this part for federal credit unions and § 723.4 of the member business loans rule in part 723 of this chapter for all federally insured credit unions;

(2) The purchasing federally insured credit union has executed a written loan participation agreement with the originating lender and the agreement meets the minimum requirements for a loan participation agreement as described in paragraph (d) of this section;

(3) The originating lender retains an interest in each participated loan. If the originating lender is a federal credit union, the retained interest must be at least 10 percent of the outstanding balance of the loan through the life of the loan. If the originating lender is any other type of eligible organization, the retained interest must be at least 5 percent of the outstanding balance of the loan through the life of the loan, unless a higher percentage is required under applicable state law;

(4) The borrower becomes a member of one of the participating credit unions before the purchasing federally insured credit union purchases a participation interest in the loan; and

(5) The purchase complies with the purchasing federally insured credit union's internal written loan participation policy, which, at a minimum, must:

(i) Establish underwriting standards for loan participations;

(ii) Establish a limit on the aggregate amount of loan participations that may be purchased from any one originating lender, not to exceed the greater of \$5,000,000 or 100 percent of the federally insured credit union's net worth, unless this amount is waived by the appropriate regional director, and, in the case of a federally insured state-chartered credit union, with prior written concurrence of the appropriate state supervisory authority;

(iii) Establish limits on the amount of loan participations that may be purchased by each loan type, not to exceed a specified percentage of the federally insured credit union's net worth; and

(iv) Establish a limit on the aggregate amount of loan participations that may be purchased with respect to a single borrower, or group of associated borrowers, not to exceed 15 percent of the federally insured credit union's net worth, unless waived by the appropriate regional director, and, in the case of a federally insured state-

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chartered credit union, with prior written concurrence of the appropriate state supervisory authority.

(c) To seek a waiver from any of the limitations in paragraph (b) of this section, a federally insured credit union must submit a written request to its regional director with a full and detailed explanation of why it is requesting the waiver. Within 45 calendar days of receipt of a completed waiver request, including all necessary supporting documentation and, if appropriate, any written concurrence, the regional director will provide the federally insured credit union a written response. The regional director's decision will be based on safety and soundness and other considerations; however, the regional director will not grant a waiver to a federally insured State-chartered credit union without the prior written concurrence of the appropriate State supervisory authority. A federally insured credit union may request the regional director to reconsider a denied waiver request and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

(d) A loan participation agreement must:

(1) Be properly executed by authorized representatives of all parties under applicable law;

(2) Be properly authorized by the federally insured credit union's board of directors or, if the board has so delegated in its policy, a designated committee or senior management official, under the federally insured credit union's bylaws and all applicable law;

(3) Be retained in the federally insured credit union's office (original or copies); and

(4) Include provisions which, at a minimum, address the following:

(i) Prior to purchase, the identification of the specific loan participation(s) being purchased, either directly in the agreement or through a document which is incorporated by reference into the agreement;

(ii) The interest that the originating lender will retain in the loan to be participated. If the originating lender is a federal credit union, the retained interest must be at least 10 percent of the outstanding balance of the loan

through the life of the loan. If the originating lender is any other type of eligible organization, the retained interest must be at least 5 percent of the outstanding balance of the loan through the life of the loan, unless a higher percentage is required under state law;

(iii) The location and custodian for original loan documents;

(iv) An explanation of the conditions under which parties to the agreement can gain access to financial and other performance information about a loan, the borrower, and the servicer so the parties can monitor the loan;

(v) An explanation of the duties and responsibilities of the originating lender, servicer, and participants with respect to all aspects of the participation, including servicing, default, foreclosure, collection, and other matters involving the ongoing administration of the loan; and

(vi) Circumstances and conditions under which participants may replace the servicer.

[78 FR 37956, June 25, 2013, as amended at 81 FR 13553, Mar. 14, 2016; 82 FR 50291, Oct. 30, 2017; 84 FR 1605, Feb. 5, 2019; 84 FR 10976, Mar. 25, 2019; 85 FR 22014, Apr. 21, 2020; 85 FR 62210, Oct. 2, 2020; 85 FR 83409, Dec. 22, 2020; 86 FR 72520, Dec. 22, 2021; 88 FR 67600, Sept. 29, 2023]

§ 701.23 Purchase, sale, and pledge of eligible obligations.

This section governs a Federal credit union's purchase, sale, or pledge of all or part of a loan to one of its own members, subject to certain exceptions. For purchases of eligible obligations, except as otherwise described under paragraph (b) of this section, the borrower must be a member of the purchasing Federal credit union before the purchase is made.

(a) *Definitions.* For purposes of this section:

Eligible obligation means a whole loan or part of a loan (other than a note held by a liquidating credit union) that does not meet the definition of a loan participation under § 701.22(a).

Liquidating credit union means:

(i) In the case of a voluntary liquidation, a credit union is a liquidating credit union as of the date the members vote to approve liquidation.

(ii) In the case of an involuntary liquidation, a credit union is a liquidating credit union as of the date the board of directors is served an order of liquidation issued by either the NCUA or the state supervisory authority.

Student loan means a loan granted to finance the borrower's attendance at an institution of higher education or at a vocational school, which is secured by and on which payment of the outstanding principal and interest has been deferred in accordance with the insurance or guarantee of the Federal Government, of a state government, or any agency of either.

(b) *Purchase of loans*—(1) *Purchase of obligations from any source*. A Federal credit union may purchase, in whole or in part, within the limitations of the board of directors' written purchase policies:

(i) *Eligible obligations*. Eligible obligations of its members, from any source, if either: (A) They are loans it is empowered to grant or (B) they are refinanced with the consent of the borrowers, within 60 days after they are purchased, so that they are loans it is empowered to grant;

(ii) *Notes of a liquidating credit union's individual members*. Notes of a liquidating credit union's individual members, from the liquidating credit union;

(iii) *Student loans*. Student loans, from any source, if the purchaser is granting student loans on an ongoing basis and if the purchase will facilitate the purchasing credit union's packaging of a pool of such loans to be sold or pledged on the secondary market; and

(iv) *Real estate-secured loans*. Real estate-secured loans, from any source, if the purchaser is granting real estate-secured loans pursuant to § 701.21 on an ongoing basis and if the purchase will facilitate the purchasing credit union's packaging of a pool of such loans to be sold or pledged on the secondary mortgage market. A pool must include a substantial portion of the credit union's members' loans and must be sold promptly.

(2) *Purchases of obligations from a FICU*. A Federal credit union may purchase and hold the following obligations, provided that it would be empowered to grant them:

(i) *Eligible obligations*. Eligible obligations without regard to whether they are obligations of its members, provided they are purchased from a federally insured credit union and the obligations are either:

(A) Loans the purchasing credit union is empowered to grant; or

(B) Loans refinanced with the consent of the borrowers, within 60 days after they are purchased, so that they are loans the purchasing credit union is empowered to grant;

(ii) *Notes of a liquidating credit union*. Notes of a liquidating credit union, without regard to whether they are notes of the liquidating credit union's members;

(iii) *Student loans*. Student loans provided they are purchased from a federally insured credit union only;

(iv) *Real estate-secured loans*. Real estate-secured loans provided they are purchased from a federally insured credit union only;

(3) *Other requirements*. A Federal credit union may make purchases in accordance with this paragraph (b), provided:

(i) The board of directors or investment committee approves the purchase;

(ii) A written agreement and a schedule of the eligible obligations covered by the agreement are retained by the purchaser; and

(iii) For purchases under paragraph (b)(1)(ii) of this section, any advance written approval required by § 741.8 of this chapter is obtained before consummation of such purchase.

(4) *Five-percent limitation*. The aggregate of the unpaid balance of notes purchased under paragraphs (b)(1)(ii) and (b)(2)(ii) of this section shall not exceed 5 percent of the unimpaired capital and surplus of the purchaser.

(5) *Grandfathered purchases*. Subject to safety and soundness considerations, a Federal credit union may hold any of the loans described in paragraph (b) of this section that were acquired before October 30, 2023; provided the transaction complied with this section at the time the transaction was executed.

(6) *Written purchase policies*. Purchases of eligible obligations and notes of liquidating credit unions must comply with the purchasing Federal credit

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union's internal written purchase policies, which must:

(i) Require that the purchasing Federal credit union conduct due diligence on the seller of the loans and other counterparties to the transaction prior to the purchase.

(ii) Establish risk assessment and risk management process requirements that are commensurate with the size, scope, type, complexity, and level of risk posed by the planned loan purchase activities.

(iii) Establish internal underwriting and ongoing monitoring standards that are commensurate with the size, scope, type, complexity, and level of risk posed by the loan purchase activities. Underwriting and ongoing monitoring standards must address the borrower's creditworthiness and ability to repay, and the support provided by collateral if the collateral was used as part of the credit decision.

(iv) Require that the written purchase agreement include:

(A) The specific loans being purchased (either directly in the agreement or through a document that is incorporated by reference into the agreement);

(B) The location and custodian for the original loan documents;

(C) An explanation of the duties and responsibilities of the seller, servicer, and all parties with respect to all aspects of the loans being purchased, including servicing, default, foreclosure, collection, and other matters involving the ongoing administration of the loans, if applicable; and

(D) The circumstances and conditions under which the parties to the agreement may replace the servicer when the seller retains the servicing rights for the loans being purchased, if applicable.

(v) Establish portfolio concentration limits by loan type and risk category in relation to net worth that are commensurate with the size, scope, and complexity of the credit union's loan purchases. The policy limits must consider the potential impact of loan concentrations on the purchasing credit union's earnings, loan loss reserves, and net worth.

(vi) Address when a legal review of agreements or contracts will be per-

formed to ensure that the legal and business interests of the credit union are protected against undue risk.

(c) *Sale.* A Federal credit union may sell, in whole or in part, to any source, eligible obligations of its members, eligible obligations purchased in accordance with paragraph (b)(1)(ii) of this section, student loans purchased in accordance with paragraph (b)(1)(iii) of this section, and real estate loans purchased in accordance with paragraph (b)(1)(iv) of this section, within the limitations of the board of directors' written sale policies, *Provided:*

(1) The board of directors or investment committee approves the sale;

(2) A written agreement, and a schedule of the eligible obligations covered by the agreement, is retained by the selling credit union that identifies the specific loans being sold either directly in the agreement or through a document that is incorporated by reference into the agreement; and

(3) A review of the written agreement is completed that includes the terms, recourse, and risk-sharing arrangements, and, as applicable, loan administration and controls, to ensure that the selling Federal credit union's legal and business interests are protected from undue risks.

(d) *Pledge.* (1) A Federal credit union may pledge, in whole or in part, to any source, eligible obligations of its members, eligible obligations purchased in accordance with paragraph (b)(1)(ii) of this section, student loans purchased in accordance with paragraph (b)(1)(iii) of this section, and real estate loans purchased in accordance with paragraph (b)(1)(iv) of this section, within the limitations of the board of directors' written pledge policies, *Provided:*

(i) The board of directors or investment committee approves the pledge;

(ii) Copies of the original loan documents are retained; and

(iii) A written agreement covering the pledging arrangement is retained by the credit union that pledges the eligible obligations.

(2) The pledge agreement shall identify the eligible obligations covered by the agreement.

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(e) *Servicing.* A Federal credit union may agree to service any eligible obligation it purchases or sells in whole or in part.

(f) *10 Percent limitation.* The total indebtedness owing to any Federal credit union by any person, inclusive of retained and reacquired interests, shall not exceed 10 percent of its unimpaired capital and surplus.

(g) *Payments and compensation—(1) Conflicts of interest.* No federal credit union official, employee, or their immediate family member may receive, directly or indirectly, any compensation in connection with that credit union's purchase, sale, or pledge of an eligible obligation under the provisions of § 701.23.

(2) *Permissible payments.* This section does not prohibit:

(i) A federal credit union's payment of salary to employees;

(ii) A federal credit union's payment of an incentive or bonus to an employee based on the credit union's overall financial performance;

(iii) A federal credit union's payment of an incentive or bonus to an employee, other than a senior management employee, in connection with that credit union's purchase, sale or pledge of an eligible obligation. This payment is permissible if the board of directors establishes a written policy and internal controls for the incentive or bonus program and monitors compliance with the policy and controls at least annually; and

(iv) Payment by a person other than the federal credit union of compensation to a volunteer official, non-senior management employee, or their immediate family member, for a service or activity performed outside the credit union provided that the federal credit union, the official, employee, or their immediate family member has not made a referral.

(3) *Business associates and family members.* All transactions under this section with business associates or family members not specifically prohibited by paragraph (g)(1) of this section must be conducted at arm's length and in the interest of the federal credit union.

(4) *Definitions.* The definitions in § 701.21(c)(8)(ii) of this part apply to this section.

(h) *Additional authority—(1) Expanded purchase authority.* A federal credit union may submit a written request to its regional director seeking expanded authority to purchase loans described in paragraph (b)(2) of this section, if it is not otherwise authorized by this section. The written request must include the following:

(i) A copy of the credit union's purchase policy;

(ii) The types of eligible obligations under paragraph (b)(2) of this section that the credit union seeks to purchase;

(iii) An explanation of the need for additional authority; and

(iv) An analysis of the credit union's prior experience with the purchase of eligible obligations.

(2) *Approval process.* A regional director will provide a written determination on a request for expanded authority within 60 calendar days after receipt of the request; however, the 60-day period will not begin until the requesting credit union has submitted all necessary information to the regional director. The regional director will inform the requesting credit union, in writing, of the date the request was received and of any additional documentation that the regional director requires in support of the request. If the regional director approves the request, the regional director will establish a limit on loan purchases as appropriate and subject to the limitations in this section. If the regional director does not notify the credit union of the action taken on its request within 60 calendar days of the receipt of the request or the receipt of additional requested supporting information, whichever occurs later, the credit union may purchase loans it requested under paragraph (b)(2) of this section.

(3) *Appeal to NCUA Board.* A Federal credit union may request the regional director to reconsider a denied request for expanded authority and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

[44 FR 27071, May 9, 1979, as amended at 46 FR 38680, July 29, 1981. Redesignated at 49 FR 30688, Aug. 1, 1984]

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting § 701.23, see the List of CFR

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Sections Affected, which appears in the Finding Aids section of the printed volume and at www.govinfo.gov.

§ 701.24 Refund of interest.

(a) The board of directors of a Federal credit union may authorize an interest refund to members who paid interest to the credit union during any dividend period and who are members of record at the close of business on the last day of such dividend period. Interest refunds may be made for a dividend period only if dividends on share accounts have been declared and paid for that period.

(b) The amount of interest refund to each member shall be determined as a percentage of the interest paid by the member. Such percentage may vary according to the type of extension of credit and the interest rate charged.

(c) The board of directors may exclude from an interest refund:

(1) A particular type of extension of credit;

(2) Any extension of credit made at a particular interest rate; and

(3) Any extension of credit that is presently delinquent or has been delinquent within the period for which the refund is being made.

[53 FR 19747, May 31, 1988]

§ 701.25 Loans to credit unions.

(a) *Limits.* A Federal credit union may make loans, including investments in Subordinated Debt, to other credit unions, including corporate credit unions and privately insured credit unions, subject to the following limits:

(1) *Aggregate limit.* The aggregate principal amount of loans to other credit unions may not exceed 25 percent of the Federal credit union's paid-in and unimpaired capital and surplus.

(2) *Single borrower limit.* The aggregate principal amount of loans made to any one credit union may not exceed the greater of 15 percent of the Federal credit union's net worth, as defined in part 702 of this chapter, at the time of the closing of the loan or \$100,000, plus an additional 10 percent of the Federal credit union's net worth if the amount that exceeds the Federal credit union's 15 percent general limit is fully secured at all times with a perfected security

interest by readily marketable collateral as defined in § 723.2 of this chapter.

(b) *Approval and policies.* A Federal credit union's board of directors must approve all loans to other credit unions and establish written policies for making such loans. The written policies must, at a minimum, include the following:

(1) How the Federal credit union will manage the credit risk of loans to other credit unions; and

(2) The limits on the aggregate principal amount of loans the Federal credit union can make to other credit unions. The policies must specify the limits on the aggregate principal amount of loans the Federal credit union can make to all other credit unions and the aggregate principal amount of loans the Federal credit union can make to any single credit union; provided that any limits included in such policies do not exceed the limits in this section.

(c) *Investment in Subordinated Debt—*
(1) *Eligibility.* A Federal credit union may only invest, directly or indirectly, in the Subordinated Debt of federally insured, natural person credit unions, or in loans or obligations issued by a privately insured credit union that are subordinate to the private insurer; provided that the investing Federal credit union:

(i) Has at the time of the investment, a capital classification of "well capitalized," as defined in part 702 of this chapter;

(ii) Does not have any outstanding Subordinated Debt or Grandfathered Secondary Capital, in each case with respect to which it was the Issuing Credit Union (as defined in part 702 of this chapter); and

(iii) Is not eligible to issue Subordinated Debt or Grandfathered Secondary Capital pursuant to an unexpired approval from the NCUA under subpart D of part 702 of this chapter.

(2) *Aggregate limit—*(i) *Aggregate limit.* A Federal credit union's aggregate investment (direct or indirect) in the Subordinated Debt and Grandfathered Secondary Capital of any federally insured, natural person credit union, and in loans or obligations issued by a privately insured credit union that are subordinate to the private insurer, may

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not cause such aggregate investment to exceed, at the time of the investment, the lesser of:

(A) 25 percent of the investing Federal credit union's net worth at the time of the investment; and

(B) Any amount of net worth in excess of seven percent (7%) of total assets.

(ii) *Calculation of aggregate limit.* The amount subject to the limit in paragraph (c)(2)(i)(A) of this section is calculated at the time of investment, and is based on a Federal credit union's aggregate outstanding:

(A) Investment in Subordinated Debt;

(B) Investment in Grandfathered Secondary Capital;

(C) Investment in loans or obligations issued by a privately insured credit union that are subordinate to the private insurer; and

(D) Loans or portion of loans made by the credit union that is secured by any Subordinated Debt, Grandfathered Secondary Capital, or loans or obligations issued by a privately insured credit union that are subordinate to the private insurer.

(3) *Indirect investment.* A Federal credit union must determine its indirect exposure by calculating its proportional ownership share of each exposure held in a fund, or similar indirect investment. The Federal credit union's exposure to the fund is equal to the exposure held by the fund as if they were held directly by the Federal credit union, multiplied by the Federal credit union's proportional ownership share of the fund.

[86 FR 11072, Feb. 23, 2021]

§ 701.26 Credit union service contracts.

A Federal credit union may act as a representative of and enter into a contractual agreement with one or more credit unions or other organizations for the purpose of sharing, utilizing, renting, leasing, purchasing, selling, and/or joint ownership of fixed assets or engaging in activities and/or services which relate to the daily operations of credit unions. Agreements must be in writing, and shall advise all parties subject to the agreement that the goods and services provided shall be

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subject to examination by the NCUA Board to the extent permitted by law.

[47 FR 30462, July 14, 1982, as amended at 63 FR 10756, Mar. 5, 1998]

§§ 701.27-701.29 [Reserved]

§ 701.30 Services for nonmembers within the field of membership.

Federal credit unions may provide the following services to persons within their fields of membership, regardless of membership status:

(a) Selling negotiable checks including travelers checks, money orders, and other similar money transfer instruments (including international and domestic electronic fund transfers and remittance transfers, as defined in section 919 of the Electronic Fund Transfer Act); and

(b) Cashing checks and money orders for a fee.

[71 FR 62876, Oct. 27, 2006, as amended at 76 FR 44762, July 27, 2011]

§ 701.31 Nondiscrimination requirements.

(a) *Definitions.* As used in this part, the term:

(1) *Application* carries the meaning of that term as defined in 12 CFR 1002.2(f) (Regulation B)

(2) *Dwelling* carries the meaning of that term as defined in 42 U.S.C. 3602(b) (Fair Housing Act), which is as follows: "Any building, structure, or portion thereof which is occupied as, or designed or intended for occupancy as, a residence by one or more families, and any vacant land which is offered for sale or lease for the construction or location thereon of any building, structure, or portion thereof"; and

(3) *Real estate-related loan* means any loan for which application is made to finance or refinance the purchase, construction, improvement, repair, or maintenance of a dwelling.

(b) *Nondiscrimination in Lending.* (1) A Federal credit union may not deny a real estate-related loan, nor may it discriminate in setting or exercising its rights pursuant to the terms or conditions of such a loan, nor may it discourage an application for such a loan, on the basis of the race, color, national

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origin, religion, sex, handicap, or familial status (having children under the age of 18) of:

- (i) Any applicant or joint applicant;
- (ii) Any person associated, in connection with a real estate-related loan application, with an applicant or joint applicant;
- (iii) The present or prospective owners, lessees, tenants, or occupants of the dwelling for which a real estate-related loan is requested;
- (iv) The present or prospective owners, lessees, tenants, or occupants of other dwellings in the vicinity of the dwelling for which a real estate-related loan is requested.

(2) With regard to a real estate-related loan, a Federal credit union may not consider a lending criterion or exercise a lending policy which has the effect of discriminating on the basis of race, color, national origin, religion, sex, handicap, or familial status (having children under the age of 18). Guidelines concerning possible exceptions to this provision appear in paragraph (e)(1) of this section.

(3) Consideration of any of the following factors in connection with a real estate-related loan is not necessary to a Federal credit union's business, generally has a discriminatory effect, and is therefore prohibited:

- (i) The age or location of the dwelling;
- (ii) Zip code of the applicant's current residence;
- (iii) Previous home ownership;
- (iv) The age or location of dwellings in the neighborhood of the dwelling;
- (v) The income level of residents in the neighborhood of the dwelling.

Guidelines concerning possible exceptions to this provision appear in paragraph (e)(2) of this section.

(c) *Nondiscrimination in appraisals.* (1) A Federal credit union may not rely upon an appraisal of a dwelling if it knows or should know that the appraisal is based upon consideration of the race, color, national origin, religion, sex, handicap, or familial status (having children under the age of 18) of:

- (i) Any applicant or joint applicant;
- (ii) Any person associated, in connection with a real estate-related loan application, with an applicant or joint applicant;

(iii) The present or prospective owners, lessees, tenants, or occupants of the dwelling for which a real estate-related loan is requested;

(iv) The present or prospective owners, lessees, tenants, or occupants of other dwellings in the vicinity of the dwelling for which a real estate-related loan is requested.

(2) With respect to a real-estate related loan, a Federal credit union may not rely upon an appraisal of a dwelling if it knows or should know that the appraisal is based upon consideration of a criterion which has the effect of discriminating on the basis of race, color, national origin, religion, sex, handicap, or familial status (having children under the age of 18). Guidelines concerning possible exceptions to this provision appear in paragraph (e)(1) of this section.

(3) A Federal credit union may not rely upon an appraisal that it knows or should know is based upon consideration of any of the following criteria, for such criteria generally have a discriminatory effect, and are not necessary to a Federal credit union's business:

- (i) The age or location of the dwelling;
- (ii) The age or location of dwellings in the neighborhood of the dwelling;
- (iii) The income level of the residents in the neighborhood of the dwelling.

(4) Notwithstanding paragraph (c)(3) of this section, it is recognized that there may be factors concerning location of the dwelling which can be properly considered in an appraisal. If any such factor(s) is relied upon, it must be specifically documented in the appraisal, accompanied by a brief statement demonstrating the necessity of using such factor(s). Guidelines concerning the consideration of location factors appear in paragraph (e)(3) of this section.

(5) Each Federal credit union shall make available, to any requesting member/applicant, a copy of the appraisal used in connection with that member's application for a loan to be secured by a subordinate lien on a dwelling. The appraisal shall be available for a period of 25 months after the applicant has received notice from the Federal credit union of the action

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taken by the Federal credit union on the application for a loan to be secured by a subordinate lien on a dwelling.

(d) *Nondiscrimination in advertising.* No federal credit union may engage in any form of advertising of real estate-related loans that indicates the credit union discriminates on the basis of race, color, religion, national origin, sex, handicap, or familial status in violation of the Fair Housing Act. Advertisements must not contain any words, symbols, models or other forms of communication that suggest a discriminatory preference or policy of exclusion in violation of the Fair Housing Act or the Equal Credit Opportunity Act.

(1) *Advertising notice of nondiscrimination compliance.* Any federal credit union that advertises real estate-related loans must prominently indicate in such advertisement, in a manner appropriate to the advertising medium and format used, that the credit union makes such loans without regard to race, color, religion, national origin, sex, handicap, or familial status.

(i) With respect to written and visual advertisements, a credit union may satisfy the notice requirement by including in the advertisement a copy of the logotype, with the legend “Equal Housing Lender,” from the poster described in paragraph (d)(3) of this section or a copy of the logotype, with the legend “Equal Housing Opportunity,” from the poster described in § 110.25(a) of the United States Department of Housing and Urban Development’s (HUD) regulations (24 CFR 110.25(a)).

(ii) With respect to oral advertisements, a credit union may satisfy the notice requirement by a spoken statement that the credit union is an “Equal Housing Lender” or an “Equal Opportunity Lender.”

(iii) When an oral advertisement is used in conjunction with a written or visual advertisement, the use of either of the methods specified in paragraphs (d)(1)(i) or (ii) of this section will satisfy the notice requirement.

(iv) A credit union may use any other method reasonably calculated to satisfy the notice requirement.

(2) *Lobby notice of nondiscrimination.* Every federal credit union that engages in real estate-related lending must display a notice of nondiscrimination. The notice must be placed in the public lobby of the credit union and in the public area of each office where such loans are made and must be clearly visible to the general public. The notice must incorporate either a facsimile of the logotype and language appearing in paragraph (d)(3) of this section or the logotype and language appearing at 24 CFR 110.25(a). Posters containing the logotype and language appearing in paragraph (d)(3) of this section may be obtained from the regional offices of the National Credit Union Administration.

(3) *Logotype and notice of nondiscrimination compliance.* The logotype and text of the notice required in paragraph (d)(2) of this section shall be as follows:



EQUAL HOUSING LENDER

We Do Business in Accordance With
Federal Fair Lending Laws

UNDER THE FEDERAL FAIR HOUSING ACT, IT IS ILLEGAL, ON THE BASIS OF RACE, COLOR, NATIONAL ORIGIN, RELIGION, SEX, HANDICAP, OR FAMILIAL STATUS (HAVING CHILDREN UNDER THE AGE OF 18), TO:

- Deny a loan for the purpose of purchasing, constructing, improving, repairing or maintaining a dwelling, or deny any loan secured by a dwelling; or
- Discriminate in fixing the amount, interest rate, duration, application procedures or other terms or conditions of such a loan, or in appraising property.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED
AGAINST, YOU SHOULD SEND A COMPLAINT TO:

Assistant Secretary for Fair Housing and Equal Opportunity
Department of Housing & Urban Development Washington,
D.C. 20410

For processing under the Federal Fair Housing Act
and to:

National Credit Union Administration
Office of Consumer Protection
Alexandria, VA 22314-3428

For processing under NCUA Regulations

UNDER THE EQUAL CREDIT OPPORTUNITY ACT, IT IS ILLEGAL
TO DISCRIMINATE IN ANY CREDIT TRANSACTION:

- On the basis of race, color, national origin, religion, sex, marital status, or age,
- Because income is from public assistance, or
- Because a right was exercised under the Consumer Credit Protection Act.

IF YOU BELIEVE YOU HAVE BEEN DISCRIMINATED
AGAINST, YOU SHOULD SEND A COMPLAINT TO:

National Credit Union Administration
Office of Consumer Protection
Alexandria, VA 22314-3428

NCUA 1582
(Revised 2/2012)

(e) *Guidelines.* (1) Compliance with the Fair Housing Act is achieved when each loan applicant's creditworthiness is evaluated on an individual basis, without presuming that the applicant has certain characteristics of a group.

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If certain lending policies or procedures do presume group characteristics, they may violate the Fair Housing Act, even though the characteristics are not based upon race, color, sex, national origin, religion, handicap, or familial status. Such a violation occurs when otherwise facially nondiscriminatory lending procedures (either general lending policies or specific criteria used in reviewing loan applications) have the effect of making real estate-related loans unavailable or less available on the basis of race, color, sex, national origin, religion, handicap, or familial status. Note, however, that a policy or criterion which has a discriminatory effect is not a violation of the Fair Housing Act if its use achieves a legitimate business necessity which cannot be achieved by using less discriminatory standards. It is also important to note that the Equal Credit Opportunity Act and Regulation B prohibit discrimination, either per se or in effect, on the basis of the applicant's age, marital status, receipt of public assistance, or the exercise of any rights under the Consumer Credit Protection Act.

(2) Paragraph (b)(3) of this section prohibits consideration of certain factors because of their likely discriminatory effect and because they are not necessary to make sound real estate-related loans. For purposes of clarification, the prohibited use of location factors in this section is intended to prevent abandonment of areas in which a Federal credit union's members live or want to live. It is not intended to require loans in those areas that are geographically remote from the FCU's main or branch offices or that contravene the parameters of a Federal credit union's charter. Further, this prohibition does not preclude requiring a borrower to obtain flood insurance protection pursuant to the National Flood Insurance Act and part 760 of NCUA's Rules and Regulations, nor does it preclude involvement with Federal or state housing insurance programs which provide for lower interest rates for the purchase of homes in certain urban or rural areas. Also, the legitimate use of location factors in an appraisal does not constitute a violation of the provision of paragraph (b)(3)

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of this section, which prohibits consideration of location of the dwelling. Finally, the prohibited use of prior home ownership does not preclude a Federal credit union from considering an applicant's payment history on a loan which was made to obtain a home. Such action entails consideration of the payment record on a previous loan in determining creditworthiness; it does not entail consideration of prior home ownership.

(3)(i) Paragraph (c)(3) of this section prohibits consideration of the age or location of a dwelling in a real estate-related loan appraisal. These restrictions are intended to prohibit the use of unfounded or unsubstantiated assumptions regarding the effect upon loan risk of the age of a dwelling or the physical or economic characteristics of an area. Appraisals should be based on the present market value of the property offered as security (including consideration of specific improvements to be made by the borrower) and the likelihood that the property will retain an adequate value over the term of the loan.

(ii) The term "age of the dwelling" does not encompass structural soundness. In addition, the age of the dwelling may be used by an appraiser as a basis for conducting further inspections of certain structural aspects of the dwelling. Paragraph (c)(3) of this section does, however, prohibit an unsubstantiated determination that a house over X years in age is not structurally sound.

(iii) With respect to location factors, paragraph (c)(4) of this section recognizes that there may be location factors which may be considered in an appraisal, and requires that the use of any such factors be specifically documented in the appraisal. These factors will most often be those location factors which may negatively affect the short range future value (up to 3-5 years) of a property. Factors which in some cases may cause the market value of a property to decline are recent zoning changes or a significant number of abandoned homes in the immediate vicinity of the property. However, not all zoning changes will cause a decline in property values, and proximity to abandoned buildings may not

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affect the market value of a property because the cause of abandonment is unrelated to high risk. Proper considerations include the condition and utility of the improvement and various physical factors such as street conditions, amenities such as parks and recreation areas, availability of public utilities and municipal services, and exposure to flooding and land faults.

[54 FR 46223, Nov. 2, 1989, as amended at 59 FR 36041, July 15, 1994; 66 FR 48206, Sept. 19, 2001; 77 FR 16426, Mar. 21, 2012; 77 FR 71084, Nov. 29, 2012; 79 FR 75748, Dec. 19, 2014]

§ 701.32 Payment on shares by public units and nonmembers.

(a) *Authority.* A Federal credit union may, to the extent permitted under Section 107(6) of the Act and this section, receive payments on shares, (regular shares, share certificates, and

share draft accounts) from public units and political subdivisions thereof (as those terms are defined in §745.1) and nonmember credit unions, and to the extent permitted under the Act, this section and §701.34, receive payments on shares (regular shares, share certificates, and share draft accounts) from other nonmembers.

(b) *Limitations*—(1) *Aggregate limit on public unit and nonmember shares.* Except as permitted under paragraph (c) of this section, a federal credit union may not receive public unit and nonmember shares in excess of the greater of:

(i) 50 percent of the net amount of paid-in and unimpaired capital and surplus less any public unit and nonmember shares, as measured at the time of acceptance of each public unit or nonmember share (*i.e.*,

Total public unit and nonmember shares

Paid-in and unimpaired capital and surplus – *Total public unit and nonmember shares* =

Maximum of 50%); or

(ii) \$3 million.

(2) *Required due diligence.* Before receiving public unit or nonmember shares that, taken together with any borrowings, exceed 70 percent of paid-in and unimpaired capital and surplus, the board of directors must adopt a specific written plan concerning the intended use of these funds that is consistent with prudent risk management principles.

(c) The limitations herein do not apply to accounts maintained in accordance with §701.37 (Treasury Tax and Loan Depositories; Depositories and Financial Agents of the Government) and matching funds required by §705.5(g) (Community Development Revolving Loan Program for Credit Unions). Once a loan granted pursuant to part 705 is repaid, nonmember share deposits accepted to meet the match-

ing requirement are subject to this section.

[54 FR 31184, July 27, 1989, as amended at 54 FR 51384, Dec. 15, 1989; 55 FR 1794, Jan. 19, 1990; 58 FR 21645, Apr. 23, 1993; 59 FR 26102, May 19, 1994; 61 FR 3790, Feb. 2, 1996; 76 FR 67587, Nov. 2, 2011; 77 FR 31991, May 31, 2012; 82 FR 50291, Oct. 30, 2017; 84 FR 58309, Oct. 31, 2019]

§ 701.33 Reimbursement, insurance, and indemnification of officials and employees.

(a) *Official.* An *official* is a person who is or was a member of the board of directors, credit committee or supervisory committee, or other volunteer committee established by the board of directors.

(b) *Compensation.* (1) Only one board officer, if any, may be compensated as an officer of the board. The bylaws must specify the officer to be compensated, if any, as well as the specific duties of each of the board officers. No

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other official may receive compensation for performing the duties or responsibilities of the board or committee position to which the person has been elected or appointed.

(2) For purposes of this section, the term *compensation* specifically excludes:

(i) Payment (by reimbursement to an official or direct credit union payment to a third party) for reasonable and proper costs incurred by an official in carrying out the responsibilities of the position to which that person has been elected or appointed, if the payment is determined by the board of directors to be necessary or appropriate in order to carry out the official business of the credit union, and is in accordance with written policies and procedures, including documentation requirements, established by the board of directors. Such payments may include the payment of travel costs for officials and one guest per official;

(ii) Provision of reasonable health, accident and related types of personal insurance protection, supplied for officials at the expense of the credit union: *Provided*, that such insurance protection must exclude life insurance; must be limited to areas of risk, including accidental death and dismemberment, to which the official is exposed by reason of carrying out the duties or responsibilities of the official's credit union position; must cease immediately upon the insured person's leaving office, without providing residual benefits other than from pending claims, if any; except that a credit union must comply with federal and state laws providing departing officials the right to maintain health insurance coverage at their own expense and

(iii) Indemnification and related insurance consistent with paragraph (c) of this section.

(c) *Indemnification.* (1) A Federal credit union may indemnify its officials and current and former employees for expenses reasonably incurred in connection with judicial or administrative proceedings to which they are or may become parties by reason of the performance of their official duties.

(2) Indemnification shall be consistent either with the standards applicable to credit unions generally in the

state in which the principal or home office of the credit union is located, or with the relevant provisions of the Model Business Corporation Act. A Federal credit union that elects to provide indemnification shall specify whether it will follow the relevant state law or the Model Business Corporation Act. Indemnification and the method of indemnification may be provided for by charter or bylaw amendment, contract or board resolution, consistent with the procedural requirements of the applicable state law or the Model Business Corporation Act, as specified. A charter or bylaw amendment must be approved by the National Credit Union Administration.

(3) A Federal credit union may purchase and maintain insurance on behalf of its officials and employees against any liability asserted against them and expenses incurred by them in their official capacities and arising out of the performance of their official duties to the extent such insurance is permitted by the applicable state law or the Model Business Corporation Act.

(4) Notwithstanding paragraphs (c)(1) through (3) of this section, a federal credit union may not indemnify a dual employee for duties performed for any employer other than the federal credit union. For purposes of this subsection, a dual employee is a federal credit union employee who also performs work functions for another entity as part of a sharing arrangement between the federal credit union and the other entity.

(5) Notwithstanding paragraphs (c)(1) through (3) of this section, a Federal credit union may not indemnify an official or employee for personal liability related to any decision made by that individual on a matter significantly affecting the fundamental rights and interests of the Federal credit union's members where the decision giving rise to the claim for indemnification is determined by a court to have constituted gross negligence, recklessness, or willful misconduct. Matters affecting the fundamental rights and interests of Federal credit union members include charter and share insurance conversions and terminations.

(6) A Federal credit union may, before final disposition of a proceeding

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referred to in paragraph (c)(5) of this section, advance funds to pay for or reimburse the expenses, including legal fees, reasonably incurred in connection with the proceeding by an official or employee who is a party to the proceeding because that individual is or was an official or employee of the credit union if:

(i) The disinterested members of the credit union's board of directors (or in the event there are fewer than two disinterested directors, the supervisory committee), in good faith, determine in writing after due investigation and consideration that the official or employee acted in good faith and in a manner he or she reasonably believed to be in the best interests of the credit union's members;

(ii) The disinterested members of the credit union's board of directors (or the supervisory committee, as the case may be), in good faith, determine in writing after due investigation and consideration that the payment or reimbursement of the expenses will not materially adversely affect the credit union's safety and soundness; and

(iii) The official or employee provides:

(A) A written affirmation of the individual's reasonable good faith belief that the relevant standard of conduct described in §701.4(b) of this chapter has been met by the individual; and

(B) A written undertaking to repay the credit union for any funds advanced or reimbursed, to the extent not covered by payments from insurance, if the official or employee is not entitled to indemnification under paragraph (c)(5) of this section.

(7) To the extent a Federal credit union has elected to follow State law or the Model Business Corporation Act in accordance with paragraph (c)(2) of this section, the credit union must substitute the phrase "in the best interests of the members" for any language indicating that fiduciary duties are owed to persons or entities other than the members of the credit union, including, but not limited to, language such as "in the best interests of the

credit union" or "in the best interests of the corporation."

[53 FR 29642, Aug. 8, 1988, as amended at 57 FR 54503, Nov. 19, 1992; 66 FR 65629, Dec. 20, 2001; 72 FR 30246, May 31, 2007; 75 FR 81386, Dec. 28, 2010]

§ 701.34 Designation of low income status.

(a) *Designation of low-income status.*

(1) Based on data obtained through examinations, NCUA will notify a federal credit union that it qualifies for designation as a low-income credit union if a majority of its membership qualifies as low-income members. A federal credit union that wishes to receive the designation must notify NCUA in writing within 90 days of receipt of any NCUA notifications.

(2) Low-income members are those members whose family income is 80% 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% or less than the total median earnings for individuals for the metropolitan area where they live or national metropolitan area, whichever is greater. NCUA will use the statewide or national, non-metropolitan area median family income instead of the metropolitan area or national metropolitan area median family income for members living outside a metropolitan area. Member earnings will be estimated based on data reported by the U.S. Census Bureau for the geographic area where the member lives. The term "low-income members" also includes those members enrolled as students in a college, university, high school, or vocational school.

(3) Federal credit unions that do not receive notification that they qualify for a low-income credit union designation but believe they qualify may submit information to NCUA to demonstrate they qualify for a low-income credit union designation. For example, federal credit unions may provide actual member income from loan applications or surveys to demonstrate a majority of their membership is low-income members. Actual member income data must be compared to a like category of statistical data, for example, actual individual member income may

only be compared to total median earnings for individuals for the metropolitan area where they live or national metropolitan area, whichever is greater. A Federal credit union may rely on a sample of membership income data drawn from loan files or a member survey provided the Federal credit union can demonstrate the sample is a statistically valid, random sample by submitting with its data a narrative describing its sampling technique and evidence supporting the validity of the analysis, including the actual data set used in the analysis. The random sample must be representative of the membership, must be sufficient in both number and scope on which to base conclusions, and must have a minimum confidence level of 95% and a confidence interval of 5%. A Federal credit union must draw the sample either entirely from loan files or entirely from the survey, and must not combine a loan file review with a survey. NCUA will provide a response to the Federal credit union within 60 days of its submission.

(4) If NCUA determines a low-income designated Federal credit union no longer meets the criteria for the designation, NCUA will notify the Federal credit union in writing, and the Federal credit union must, within five years, meet the criteria for the designation or come into compliance with the regulatory requirements applicable to Federal credit unions that do not have a low-income designation. The designation will remain in effect during the five-year period. If a Federal credit union does not requalify and has secondary capital or nonmember deposit accounts with a maturity beyond the five-year period, NCUA may extend the time for a Federal credit union to come into compliance with regulatory requirements to allow the Federal credit union to satisfy the terms of any account agreements. A Federal credit union may request NCUA to reconsider a determination that it no longer meets the criteria for the designation and/or file an appeal with the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

(5) Any credit union with a low-income credit union designation on Janu-

ary 1, 2009 will have five years from that date to meet the criteria for low-income designation under paragraph (a)(1) of this section, unless NCUA determines a longer time is required to allow the low-income credit union to satisfy the terms of a secondary capital or nonmember deposit account agreement.

(6) *Definitions.* The following definitions apply to this section:

Median family income and total median earnings for individuals are income statistics reported by the U.S. Census Bureau. The applicable income data can be obtained via the American Community Survey on the Census Bureau's web page at <http://www.census.gov>.

Metropolitan area means an area designated by the Office of Management and Budget pursuant to 31 U.S.C. 1104(d), 44 U.S.C. 3504(c), and Executive Order 10253 (June 13, 1951) (as amended).

(b) [Reserved]

[61 FR 3790, Feb. 2, 1996, as amended at 61 FR 50695, 50697, Sept. 27, 1996; 64 FR 72270, Dec. 27, 1999; 65 FR 21131, Apr. 20, 2000; 71 FR 4238, Jan. 26, 2006; 73 FR 71912, Nov. 26, 2008; 75 FR 7342, Feb. 19, 2010; 75 FR 47172, Aug. 5, 2010; 75 FR 57843, Sept. 23, 2010; 76 FR 36979, June 24, 2011; 76 FR 80227, Dec. 23, 2011; 78 FR 4032, Jan. 18, 2013; 82 FR 50291, Oct. 30, 2017; 85 FR 62210, Oct. 2, 2020; 86 FR 11072, Feb. 23, 2021]

§ 701.35 Share, share draft, and share certificate accounts.

(a) Federal credit unions may offer share, share draft, and share certificate accounts in accordance with section 107(6) of the Act (12 U.S.C. 1757(6)) and the board of directors may declare dividends on such accounts as provided in section 117 of the Act (12 U.S.C. 1763).

(b) A Federal credit union shall accurately represent the terms and conditions of its share, share draft, and share certificate accounts in all advertising, disclosures, or agreements, whether written or oral.

(c) A Federal credit union may, consistent with this section, parts 707 and 740 of this subchapter, other federal law, and its contractual obligations, determine the types of fees or charges and other matters affecting the opening, maintaining and closing of a share,

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share draft or share certificate account. State laws regulating such activities are not applicable to federal credit unions.

(d) For purposes of this section, "state law" means the constitution, statutes, regulations, and judicial decisions of any state, the District of Columbia, the several territories and possessions of the United States, and the Commonwealth of Puerto Rico.

[47 FR 17979, Apr. 27, 1982, as amended at 50 FR 4637, Feb. 1, 1985; 58 FR 50445, Sept. 27, 1993]

§ 701.36 Federal credit union occupancy and disposal of acquired and abandoned premises.

(a) *Scope.* Section 107(4) of the Federal Credit Union Act (12 U.S.C. 1757(4)) authorizes a federal credit union to purchase, hold, and dispose of property necessary or incidental to its operations. This section interprets and implements that provision by establishing occupancy and disposal requirements for acquired and abandoned premises, and by prohibiting certain transactions. This section applies only to federal credit unions.

(b) *Definitions.* For purposes of this section:

Abandoned premises means premises previously used to transact credit union business but no longer used for that purpose. It also means premises originally acquired to transact future credit union business but no longer intended for that purpose.

Immediate family member means a spouse or other family member living in the same household.

Partially occupy means occupation and use, on a full-time basis, of at least fifty percent of each of the premises by the federal credit union, or the federal credit union and a credit union service organization in which the federal credit union has a controlling interest in accordance with Generally Accepted Accounting Principles (GAAP).

Premises means any office, branch office, suboffice, service center, parking lot, other facility, or real estate where the federal credit union transacts or will transact business.

Senior management employee means the federal credit union's chief executive officer, any assistant chief execu-

tive officers, and the chief financial officer. For example, these individuals typically hold the title of President or Treasurer/Manager, Assistant President, Vice President or Assistant Treasurer/Manager, and Comptroller.

Unimproved land or unimproved real property means:

(1) Raw land or land without development, significant buildings, structures, or site preparation;

(2) Land that has never had improvements;

(3) Land that was improved at one time but has functionally reverted to its unimproved state; or

(4) Land that has been improved, but the improvements serve no purpose for the federal credit union's planned use of the property.

(c) *Premises not currently used to transact credit union business.* (1) If a federal credit union acquires premises, including unimproved land or unimproved real property, it must partially occupy each of them within a reasonable period, but no later than six years after the date of acquisition. NCUA may waive the partial occupation requirements. To seek a waiver, a federal credit union must submit a written request to its Regional Office and fully explain why it needs the waiver. The Regional Director will provide the federal credit union a written response, either approving or disapproving the request. The Regional Director's decision will be based on safety and soundness considerations.

(2) A federal credit union must make diligent efforts to dispose of abandoned premises and any other real property it does not intend to use in transacting business. The federal credit union must seek fair market value for the property, and record its efforts to dispose of abandoned premises. After premises have been abandoned for four years, the federal credit union must publicly advertise the property for sale. The federal credit union must complete the sale within five years of abandonment, unless NCUA waives this requirement. To seek a waiver, a federal credit union must submit a written request to its Regional Office and fully explain why it needs the waiver. The Regional Director will provide the federal credit

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union a written response, either approving or disapproving the request. The Regional Director's decision will be based on safety and soundness considerations.

(d) *Prohibited transactions.* (1) A federal credit union must not acquire, or lease for one year or longer, premises from any of the following, unless NCUA waives this prohibition:

(i) A member of the federal credit union's board of directors, credit committee, supervisory committee, or senior management, or an immediate family member of such individual;

(ii) A corporation in which a member of the federal credit union's board of directors, credit committee, supervisory committee, or senior management, or an immediate family member of such individual, is an officer or director, or has a stock interest of 10 percent or more; or

(iii) A partnership, limited liability company, or other entity in which a member of the federal credit union's board of directors, credit committee, supervisory committee, or senior management, or an immediate family member of such individual, is a general partner, or a limited partner or entity member with an interest of 10 percent or more.

(2) A federal credit union must not lease for one year or longer premises from any of its employees if the employee is directly involved in acquiring premises, unless the federal credit union's board of directors determines the employee's involvement is not a conflict of interest.

(3) All transactions with business associates or family members not specifically prohibited by this section must be conducted at arm's length and in the interest of the federal credit union.

(4) To seek a waiver from any of the prohibitions in this paragraph (d), a federal credit union must submit a written request to its Regional Office and fully explain why it needs the waiver. Within 45 days of the receipt of the waiver request or all necessary documentation, whichever is later, the Regional Director will provide the federal credit union a written response, either approving or disapproving its request. The Regional Director's decision will be based on safety and soundness con-

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siderations and a determination as to whether a conflict of interest exists.

[78 FR 57252, Sept. 18, 2013, as amended at 80 FR 45850, Aug. 3, 2015; 81 FR 93580, Dec. 21, 2016; 85 FR 22014, Apr. 21, 2020; 85 FR 83409, Dec. 22, 2020; 86 FR 72520, Dec. 22, 2021]

§ 701.37 Treasury tax and loan depositories; depositories and financial agents of the Government.

(a) *Definitions.* (1) *Treasury Tax and Loan (TT&L) Remittance Account* means a nondividend-paying account, the balance of which is subject to the right of immediate withdrawal, established for receipt of payments of Federal taxes and certain United States obligations under United States Treasury Department regulations.

(2) *TT&L Note Account* means an account subject to the right of immediate call, evidencing funds held by depositories electing the note option under United States Treasury Department regulations.

(3) *Treasury General Account* means an account, established under United States Treasury Department regulations, in which a zero balance may be maintained and from which the entire balance may be withdrawn by the depositor immediately under all circumstances except closure of the credit union.

(4) *U.S. Treasury Time Deposit—Open Account* means a nondividend-bearing account, established under United States Treasury Department regulations, which generally may not be withdrawn until the expiration of 14 days after the date of the United States Treasury Department's written notice of intent to withdraw.

(b) Subject to regulation of the United States Treasury Department, a Federal credit union may serve as a Treasury tax and loan depository, a depository of Federal taxes, a depository of public money, and a financial agent of the United States Government. In serving in these capacities, a Federal credit union may maintain the accounts defined in subsection (a), pledge collateral, and perform the services described under United States Treasury Department regulations for institutions acting in these capacities.

(c) Funds held in a TT&L Remittance Account, a TT&L Note Account, a

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Treasury General Account, and a U.S. Treasury Time Deposit—Open Account shall be considered deposits of public funds. Funds held in a TT&L Remittance Account and a TT&L Note Account shall be added together and insured up to a maximum of \$250,000 in the aggregate. Funds held in a Treasury General Account and a U.S. Treasury Time Deposit—Open Account shall be added together and insured up to a maximum of \$250,000 in the aggregate.

(d) Funds held in a TT&L Remittance Account, a TT&L Note Account, a Treasury General Account, and U.S. Treasury Time Deposit—Open Account are not subject to the 60-day notice requirement of Article III, section 5(a) of the Federal Credit Union Bylaws.

[54 FR 18471, May 1, 1989, as amended at 78 FR 4030, Jan. 18, 2013]

§ 701.38 Borrowed funds.

(a) Federal credit unions may borrow funds from any source; provided that:

(1) The borrowing is evidenced by a written contract, such as a signed promissory note, that sets forth the terms and conditions including, at a minimum, maturity, prepayment, interest rate, method of computation of interest, and method of payment; and

(2) The written contract and any solicitation with respect to such borrowing contain clear and conspicuous language indicating that:

(i) The funds represent money borrowed by the Federal credit union; and

(ii) The funds do not represent shares and, therefore, are not insured by the National Credit Union Administration.

(b) A Federal credit union is subject to the maximum borrowing authority of an aggregate amount not exceeding 50 percent of its paid-in and unimpaired capital and surplus. Provided that any Federal credit union may discount with or sell to any Federal intermediate credit bank any eligible obligations up to the amount of its paid-in and unimpaired capital (12 U.S.C. 1757(9)).

[86 FR 11072, Feb. 23, 2021]

§ 701.39 Statutory lien.

(a) *Definitions.* Within this section, each of the following terms has the meaning prescribed below:

(1) *Except as otherwise provided by law or except as otherwise provided by federal law* is a qualifying phrase referring to a federal and/or state law, as the case may be, which supersedes a requirement of this section. It is the responsibility of the credit union to ascertain whether such statutory or case law exists and is applicable;

(2) *Impress* means to attach to a member's account and is the act which makes the lien enforceable against that account;

(3) *Member* means any member who is primarily, secondarily or otherwise responsible for an outstanding financial obligation to the credit union, including without limitation an obligor, maker, co-maker, guarantor, co-signer, endorser, surety or accommodation party;

(4) *Notice* means written notice to a member disclosing, in plain language, that the credit union has the right to impress and enforce a statutory lien against the member's shares and dividends in the event of failure to satisfy a financial obligation, and may enforce the right without further notice to the member. Such notice must be given at the time, or at any time before, the member incurs the financial obligation;

(5) *Statutory lien* means the right granted by section 107(11) of the Federal Credit Union Act, 12 U.S.C. 1757(11), to a federal credit union to establish a right in or claim to a member's shares and dividends equal to the amount of that member's outstanding financial obligation to the credit union, as that amount varies from time to time.

(b) *Superior claim.* Except as otherwise provided by law, a statutory lien gives the federal credit union priority over other creditors when claims are asserted against a member's account(s).

(c) *Impressing a statutory lien.* Except as otherwise provided by federal law, a credit union can impress a statutory lien on a member's account(s)—

(1) *Account records.* By giving notice thereof in the member's account agreement(s) or other account opening documentation; or

(2) *Loan documents.* In the case of a loan, by giving notice thereof in a loan

document signed or otherwise acknowledged by the member(s); or

(3) *By-Law or policy.* Through a duly adopted credit union by-law or policy of the board of directors, of which the member is given notice.

(d) *Enforcing a statutory lien*—(1) *Application of funds.* Except as otherwise provided by federal law, a federal credit union may enforce its statutory lien against a member's account(s) by debiting funds in the account and applying them to the extent of any of the member's outstanding financial obligations to the credit union.

(2) *Default required.* A federal credit union may enforce its statutory lien against a member's account(s) only when the member fails to satisfy an outstanding financial obligation due and payable to the credit union.

(3) *Neither judgment nor set-off required.* A federal credit union need not obtain a court judgment on the member's debt, nor exercise the equitable right of set-off, prior to enforcing its statutory lien against the member's account.

[64 FR 56956, Oct. 22, 1999]

APPENDIX A TO PART 701—FEDERAL CREDIT UNION BYLAWS

INTRODUCTION

Effective Date

The National Credit Union Administration (NCUA) Board first incorporated the Federal Credit Union (FCU) Bylaws as Appendix A to Part 701 of the NCUA's regulations on November 30, 2007. FCUs may retain previously adopted versions of the FCU Bylaws including the November 30, 2007 version. Unless an FCU has adopted bylaws before January 2, 2020, it must adopt these revised bylaws.

Adoption of All or Part of These Bylaws

Although FCUs may retain any previously approved version of the FCU Bylaws, the NCUA Board encourages FCUs to adopt the revised bylaws because it believes they provide greater clarity and flexibility for credit unions and their officials and members. FCUs may also adopt portions of the revised bylaws and retain the remainder of previously approved bylaws, but the NCUA Board cautions FCUs to be extremely careful in making the decision. FCUs must be careful because they run the risk of having inconsistent or conflicting provisions because of the various options the revised bylaws

provide, as well as other revisions in the text.

Bylaw Amendments

1. The FCU Bylaws contain provisions allowing FCU boards to select from an option or range of options or to fill in a blank. The "fill-in-the-blank" provisions are changes to the FCU's bylaws. Thus, they require a two-thirds vote of the FCU's board of directors. As long as the board selects from the permissible options, the FCU does not need to submit the change to the NCUA for its approval.

2. FCUs continue to have the flexibility to request bylaw amendments. The NCUA must approve all bylaw amendments except for the provisions noted above. In the past, the NCUA has published a "Standard Bylaw Amendments" booklet containing a list of "standard" preapproved and optional amendments not included in the FCU Bylaws. That document remains on the NCUA's website for historical purposes. However, FCUs may not adopt amendments from the "Standard Bylaw Amendments" booklet, as the FCU Bylaws include sufficient flexibility to make a separate list of standard bylaw amendments unnecessary. Thus, the NCUA no longer makes a distinction between "standard" and "nonstandard" bylaw amendments. Consequently, the NCUA considers any change to the FCU Bylaws that is not a "fill-in-the-blank" provision or part of a range of options to be a bylaw amendment that requires the NCUA approval.

3. The procedure for approval of a bylaw amendment is as follows:

a. The FCU must submit its request to the Office of Credit Union Resources and Expansion (CURE).

b. The request must include:

1. The section of the FCU Bylaws to be amended;

2. The reason for, or purpose of, the amendment;

3. An explanation of why the amendment is desirable and what it will accomplish for the federal credit union; and

4. The specific wording of the proposed amendment.

c. CURE will advise the credit union within 60 days if it approved the proposed amendment after its review and, if necessary, consultation with the NCUA's Office of General Counsel. If CURE does not reach a decision within 60 days, the proposed amendment is considered to be denied unless CURE requests an extension of time from the federal credit union and the credit union agrees to such a request. If CURE reaches an adverse decision or CURE fails to render a decision within the agreed timeframe, the credit union may appeal that decision in accordance with the procedures set out in subpart B to part 746 of this chapter. If CURE fails to render a timely decision, within thirty days

it must provide the FCU with a written notice of its failure to render a timely decision and a statement of any concerns that CURE has with the bylaw amendment request.

4. Federal credit unions considering an amendment may find it useful to review the bylaws section of the agency website, which includes the NCUA's Office of General Counsel opinions on proposed bylaw amendments.¹ Opinions issued after April 2006 include the language of the approved amendment.

Because each decision by CURE is made on a case-by-case basis that depends on the unique facts and circumstances applicable to each FCU, the credit union must submit a proposed amendment to the NCUA for review under the procedure listed above, even if the NCUA previously approved an identical or similar amendment for another credit union.

The Nature of the FCU Bylaws

1. The Federal Credit Union Act requires the NCUA Board to prepare bylaws for federal credit unions.² The FCU Bylaws address a broad range of matters concerning a credit union's organization and governance, the relationship of the credit union to its members, and the procedures and rules a credit union follows.

The FCU Bylaws supplement the broad provisions of:

- A federal credit union's charter, which establishes the existence of a federal credit union;
- The Federal Credit Union Act, which establishes the powers of federal credit unions; and
- The NCUA's regulations, which implement the Federal Credit Union Act.

As a legal matter, a federal credit union's bylaws must conform to, and cannot be inconsistent with, any provision of its charter, the Federal Credit Union Act, the NCUA's regulations, or other laws or regulations applicable to the credit union's operations.

2. The NCUA expects federal credit unions and their members will make every effort to resolve bylaw disputes using the credit union's internal member complaint resolution process. If a bylaw dispute cannot be resolved internally, credit union officials or members should contact the regional office with oversight over the credit union for assistance in resolving the dispute.

3. The NCUA has discretion to take administrative actions when a credit union is not in compliance with its bylaws. If a potential violation is identified, the NCUA will carefully consider all of the facts and circumstances in deciding whether to take enforcement action. The NCUA will not gen-

erally take action against minor or technical violations, but emphasizes that it retains discretion to enforce the FCU Bylaws in appropriate cases, such as safety and soundness concerns or threats to fundamental, material credit union member rights.

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BYLAWS

Federal Credit Union, Charter No. _____
(A corporation chartered under the laws of the United States)

ARTICLE I. NAME—PURPOSES

Section 1. *Name.* The name of this credit union is as stated in Section 1 of its charter (approved organization certificate).

Section 2. *Purposes.* This credit union is a member-owned, democratically operated, not-for-profit organization managed by a volunteer board of directors. Its stated mission is to meet the credit and savings needs of members, especially individuals of modest means. The purpose of this credit union is to promote thrift among its members by affording them an opportunity to accumulate their savings and to create a source of credit for provident or productive purposes. *The credit union may add business as one of its purposes by placing a comma after "provident" and inserting "business."*

ARTICLE II. QUALIFICATIONS FOR MEMBERSHIP

Section 1. *Field of membership.* The field of membership of this credit union is limited to that stated in Section 5 of its charter.

Section 2. *Membership application procedures.* Persons eligible for membership under Section 5 of the charter must sign a membership application on approved forms. The applicant becomes a member upon approval of the application by a membership officer,

¹ <http://www.ncua.gov/Legal/Pages/BylawByYear.aspx>.

² 12 U.S.C. 1758.

after subscription to at least one share, payment of the initial installment, and payment of a uniform entrance fee if required by the board. If the membership officer denies a person's membership application, the credit union must explain the reasons for the denial in writing upon written request.

Section 3. *Maintenance of membership share required.* A member who withdraws all shareholdings or fails to comply with the time requirements for restoring his or her account balance to par value in Article III, section 3, ceases to be a member. By resolution, the board may require persons readmitted to membership to pay another entrance fee.

Section 4. *Continuation of membership.*

(a) *Once a member, always a member.* Once a member, always a member until the person or organization chooses to withdraw its membership or is expelled under the Act and Article XIV of these bylaws.

(b) *Limitation of services.* Notwithstanding any provision of these bylaws, the board of directors may adopt a policy that limits credit union services to any member not in good standing.

Section 5. *Member in good standing.* Members in good standing retain all their rights and privileges in the credit union. A member not in good standing may be subject to a policy that limits credit union services. A member not in good standing is one who has engaged in any of the conduct in Article XIV, section 3, related to for-cause expulsion. In the event of a suspension of service, the member will be notified of what accounts or services have been discontinued. Subject to Article XIV and any applicable limitation of services policy approved by the board, members not in good standing retain their right to attend, participate, and vote at the annual and special meetings of the members and maintain a share account.

ARTICLE III. SHARES OF MEMBERS

Section 1. *Par value.* The par value of each share is \$ _____. Subscriptions to shares are payable at the time of subscription, or in installments of at least \$ _____ per month.

FCUs may establish differing par values for different classes of members or types of accounts (such as students, minors, or non-natural persons), provided this action does not violate any federal, state or local anti-discrimination laws. Below are some options an FCU can choose. The FCU may also establish differing par values for other classes of members not listed below. List all established par values in Section 1.

_____ Option. *Par value for minors.* The par value of each share for members _____ years of age or younger is \$ _____. Subscriptions to shares are payable at the time of subscription, or in installments of at least \$ _____ per month.

_____ Option. *Par value for students.* The par value of each share for students is \$ _____. Subscriptions to shares are payable at the time of subscription, or in installments of at least \$ _____ per month.

A student is defined as anyone enrolled full-time or part-time in _____.

_____ Option. *Par value for non-natural persons.* The par value of each share for non-natural persons is \$ _____. Subscriptions to shares are payable at the time of subscription, or in installments of at least \$ _____ per month.

To establish membership, the member must subscribe to one par value of share. The share does not have to be in a regular share account. The board may choose the best account for the characteristics of its membership.

_____ Option A—*Regular Share account required to establish membership*

To establish membership in the credit union, the member must subscribe to one share in a regular share account.

_____ Option B—_____ *account required to establish membership.*

To established members in the credit union, the member must subscribe to one share in the stated account or accounts (note the account(s) in the blank above).

Section 2. *Cap on shares held by one person.* The board may establish, by resolution, the maximum amount of shares that any one member may hold.

Section 3. *Time periods for payment and maintenance of membership share.* The credit union will terminate from membership a member who:

- Fails to complete payment of one share within _____ of admission to membership, or

- Fails to complete payment of one share within _____ from the increase in the par value of shares, or

- Reduces the share balance below the par value of one share and does not increase the balance to at least the par value of one share within _____ of the reduction.

Section 4. *Transferability.* Members may transfer shares to another member in any form approved by the board. Shares that accrue credits for unpaid dividends retain those credits when transferred.

Section 5. *Withdrawals.* Members may withdraw money paid in on shares provided that:

(a) The board has the right, at any time, to require members, or a subset of members, to give up to 60 days written notice of intention to withdraw all or part of the amounts they paid in.

(b) [Reserved].

(c) A member delinquent on any loan or obligation to the credit union may not withdraw their shares below the delinquent amount without the written approval of the credit committee or loan officer. This withdrawal restriction also applies if the member

is a comaker, endorser, or guarantor of a delinquent loan. Coverage of overdrafts under an overdraft protection policy does not constitute delinquency for purposes of this paragraph. Shares issued in an irrevocable trust as provided in Section 6 of this article are not subject to withdrawal restrictions except as stated in the trust agreement.

(d) The share account of a deceased member (other than one held in joint tenancy with another member) may be continued until the close of the dividend period in which the administration of the deceased's estate is completed.

(e) The board can impose a fee for excessive share withdrawals from regular share accounts. By resolution, the board can set the number of withdrawals not subject to a fee and the amount of the fee subject to regulations relevant to the advertising and disclosure of terms and conditions on member accounts.

Section 6. *Trusts.* Shares may be issued in a revocable or irrevocable trust, subject to the following:

Shares issued in a revocable trust—the settlor must be a member of this credit union in his or her own right.

Shares issued in an irrevocable trust—either the settlor or the beneficiary must be a member of this credit union.

Both a revocable and irrevocable trust must state the name of the beneficiary. A trust may be a member of the credit union as an entity if all parties to the trust, including all settlors, beneficiaries and trustees, are within the credit union's field of membership.

Shares issued through a pension plan authorized by the rules and regulations will be treated as an irrevocable trust unless otherwise indicated in the rules and regulations.

Section 7. *Joint accounts and membership requirements.* Select one option and check the box corresponding to that option.

___ Option A—Separate account not required to establish membership.

Owners of a joint account may both be members of the credit union without opening separate accounts. For joint membership, both owners are required to fulfill all of the membership requirements including each member purchasing and maintaining at least one share in the account and filling out the membership card.

___ Option B—Separate account required to establish membership.

Each member must purchase and maintain at least one share in a share account that names the member as the sole or primary owner. Being named as a joint owner of a joint account is not sufficient to establish membership.

ARTICLE IV. MEETINGS OF MEMBERS

Section 1. *Annual meeting.* The board must hold the annual meeting of the members [in-

sert time for annual meeting, for example, “during the month of March/on the third Saturday of April/no later than March 31”], in the county in which any office of the credit union is located or within a radius of 100 miles of an office, at the time and place as the board determines and announces in the notice of the annual meeting. This credit union may permit virtual attendance and participation in the annual meeting, provided that an in-person meeting complying with the geographic requirements of this paragraph is also held.

Section 2. *Notice of meetings required.* a. The secretary must give written notice to each member at least 30 but no more than 75 days before the date of any annual meeting. The secretary must give written notice to each member at least 7 days before the date of any special meeting of the members and at least 45 but no more than 90 days before the date of any meeting to vote on a merger with another credit union. The secretary may deliver the notice in person, by mail to the member's address, or, for members who have opted to receive statements and notices electronically, by electronic mail. The secretary must give notice of the annual meeting by posting the notice in a conspicuous place in the office of this credit union where members may read it at least 30 days before the meeting. The secretary must also prominently display the notice on the credit union's website if such credit union maintains a website.

b. All special meeting notices must state the purpose of the meeting. The officials and members may only transact business related to the stated purpose at the meeting.

Section 3. *Special meetings.* a. The board chair, the board of directors by majority vote, or the supervisory committee as provided in these bylaws may call a special meeting of the members. The chair must call and hold a special meeting within 30 days of the receipt of a written request from 25 members or 5% of the members as of the date of the request, whichever number is larger. However, a request of no more than 750 members may be required to call a special meeting.

b. The credit union may hold a special meeting at any location permitted for the annual meeting.

Section 4. *Items of business for annual meeting and rules of order for annual and special meetings.* The suggested order of business at annual meetings of members is—

(a) Ascertain that a quorum is present.

(b) Reading and approval or correction of the minutes of the last meeting.

(c) Report of directors, if there is one. For credit unions participating in the Community Development Revolving Loan Program, the directors must report on the credit

union's progress on providing needed community services, if required by NCUA Regulations.

(d) Report of the financial officer or the chief management official.

(e) Report of the credit committee, if there is one.

(f) Report of the supervisory committee, as required by Section 115 of the Act.

(g) Unfinished business.

(h) New business other than elections.

(i) Elections, as required by Section 111 of the Act.

(j) Adjournment.

(k) To the extent consistent with these bylaws, the board will conduct all meetings of the members according to _____. The order of business for the annual meeting may vary from the suggested order, provided it includes all required items and complies with the rules of procedure adopted by the credit union.

The credit union must fill in the blank with one of the following authorities, noting the edition to be used: Democratic Rules of Order, The Modern Rules of Order, Robert's Rules of Order, or Sturgis' Standard Code of Parliamentary Procedure.

Section 5. *Quorum.* Except as otherwise provided, 15 members constitute a quorum at annual or special meetings. If a quorum is not present, the board may adjourn to a date at least 7 but not more than 14 days thereafter. The members present at any adjourned meeting will constitute a quorum, regardless of the number of members present. The board must give the same notice for the adjourned meeting as prescribed in Section 2 of this article for the original meeting, except that they must give notice at least 5 days before the date of the meeting fixed in the adjournment.

ARTICLE V. ELECTIONS

The Credit Union must select one of the four voting options. The board may print the credit union's bylaws with the option selected or retain this copy and check the box of the option selected. All options continue with Section 3 of this article.

Option A1—In-Person Elections; Nominating Committee and Nominations From Floor

Section 1. *Nomination procedures.* At least 30 days before each annual meeting, the chair will appoint a nominating committee of three or more members. The nominating committee will nominate at least one member for each vacancy, including any unexpired term vacancy, for which elections are being held, and determine that the members nominated are agreeable to the placing of their names in nomination and will accept office if elected. The nominating committee must widely publicize the call for nominations to all members by any medium and

interview each member that meets any qualifications established by the nominating committee.

Section 2. *Election procedures.* After placing the nominations of the nominating committee before the members, the chair calls for nominations from the floor. When nominations are closed, the chair appoints election tellers. The election tellers distribute the ballots, collect the ballots and tally the votes, and the chair announces the results. Except when there is only one nominee for each open office, all elections are by ballot and determined by the plurality of vote. If there is only one nominee for each open office, the chair may take a voice vote or declare the election of each nominee by general consent or acclamation.

Option A2—In-Person Elections; Nominating Committee and Nominations by Petition

Section 1. *Nomination procedures.* a. At least 120 days before each annual meeting the chair will appoint a nominating committee of three or more members. The nominating committee will nominate at least one member for each vacancy, including any unexpired term vacancy, for which elections are being held, and determine that the members nominated are agreeable to the placing of their names in nomination and will accept office if elected. The nominating committee must widely publicize the call for nominations to all members by any medium and interview each member that meets any qualifications established by the nominating committee.

b. At least 90 days before the annual meeting, the nominating committee files its nominations with the secretary of the credit union. At least 75 days before the annual meeting, the secretary notifies, in writing, all members eligible to vote that they may make nominations for vacancies by petition signed by 1% of the members with a minimum of 20 and a maximum of 500. The secretary may use electronic mail to notify members who have opted to receive notices or statements electronically.

c. The written notice must specify that the credit union will not conduct the election by ballot and there will be no nominations from the floor when the number of nominees equals the number of open positions.

d. The notice will include, in a form approved by the board of directors, a brief statement of qualifications and biographical data for each nominee submitted by the nominating committee. Each nominee by petition must submit a similar statement of qualifications and biographical data with the petition.

e. The written notice must state the closing date for receiving nominations by petition. At least 40 days before the annual meeting, nominee(s) must file the nomination petition with the secretary of the credit

union. To be effective, nominee(s) must include a signed certificate with the nomination petition stating that they are agreeable to nomination and will serve if elected to office.

f. At least 35 days before the annual meeting, the secretary will post the nominations by petition along with those of the nominating committee in a conspicuous place in each credit union office and on the credit union's website (if the credit union maintains a website).

Section 2. *Election procedures.* a. The secretary must place all persons nominated by either the nominating committee or by petition before the members. When nominations are closed, the chair appoints the election tellers. The election tellers distribute the ballots, collect the ballots, and tally the votes, and the chair announces the results. Except when there is only one nominee for each open office, all elections are by ballot and determined by the plurality of vote.

b. There are no nominations from the floor if there are sufficient nominations by the nominating committee or by petition to provide at least one nominee for each open position. If there are nominations from the floor and they result in more nominees than open positions, the chair will close nominations, and appoint election tellers. The election tellers distribute the ballots, collect the ballots and tally the votes, and the chair announces the results. If there is only one nominee for each open office, the chair may take a voice vote or declare the election of each nominee by general consent or acclamation.

Option A3—Election by Ballot Boxes or Voting Machine; Nominating Committee and Nomination by Petition

Section 1. *Nomination procedures.* a. At least 120 days before each annual meeting, the chair will appoint a nominating committee of three or more members. The nominating committee will nominate at least one member for each vacancy, including any unexpired term vacancy, for which elections are being held, and determine that the members nominated are agreeable to the placing of their names in nomination and will accept office if elected. The nominating committee must widely publicize the call for nominations to all members by any medium and interview each member that meets any qualifications established by the nominating committee.

b. At least 90 days before the annual meeting, the nominating committee files its nominations with the secretary of the credit union. At least 75 days before the annual meeting, the secretary notifies, in writing, all members eligible to vote that they may make nominations for vacancies by petition signed by 1% of the members with a minimum of 20 and a maximum of 500. The sec-

retary may use electronic mail to notify members who have opted to receive notices or statements electronically.

c. The written notice must specify that the credit union will not conduct the election by ballot and there will be no nominations from the floor when the number of nominees equals the number of open positions.

d. The notice will include, in a form approved by the board of directors, a brief statement of qualifications and biographical data for each nominee submitted by the nominating committee. Each nominee by petition must submit a similar statement of qualifications and biographical data with the petition.

e. The written notice must state the closing date for receiving nominations by petition. At least 40 days before the annual meeting, nominee(s) must file the nomination petition with the secretary of the credit union. To be effective, nominee(s) must include a signed certificate with the nomination petition stating that they are agreeable to nomination and will serve if elected to office.

f. At least 35 days before the annual meeting, the secretary will post the nominations by petition along with those of the nominating committee in a conspicuous place in each credit union office and on the credit union's website (if the credit union maintains a website).

Section 2. *Election procedures.* The plurality of the vote determines all elections. The election is conducted by ballot boxes or voting machines, subject to the following conditions:

(a) The board of directors will appoint the election tellers;

(b) At least 10 days before the annual meeting, the secretary will direct the preparation and placement of ballot boxes, printed ballots, or voting machines if there are sufficient nominations made by the nominating committee or by petition to provide more nominees than open positions. The secretary will place the boxes or voting machines in conspicuous locations as determined by the board of directors. The secretary will post the names of the candidates near the boxes or voting machines. The posting will include a brief statement of the candidates' qualifications and biographical data in a form approved by the board of directors;

(c) The members have 24 hours to vote at conspicuous locations as the board determines. After 24 hours, election tellers will open the ballot boxes or voting machines, tally the vote, place the tally in the ballot boxes, and reseal the ballot boxes. The election tellers are responsible at all times for the ballot boxes or voting machines and the integrity of the vote. The election tellers will keep a record of all persons voting and must assure themselves that each person voting is entitled to vote; and

(d) The election tellers will take the ballot boxes to the annual meeting and place them in conspicuous locations with the names of the candidates posted near them. At the annual meeting, the election tellers will distribute printed ballots to those in attendance who have not voted. Members will deposit their votes in the ballot boxes placed by the election tellers. After giving the members an opportunity to vote at the annual meeting, the chair will close balloting. The election tellers will open the ballot boxes, tally the vote, and add the vote to the previous count. The chair will then announce the result of the vote.

Option A4—Election by Electronic Device (Including But Not Limited to Telephone and Electronic Mail) or Mail Ballot; Nominating Committee and Nominations by Petition

Section 1. *Nomination procedures.* a. At least 120 days before each annual meeting, the chair will appoint a nominating committee of three or more members. The nominating committee will nominate at least one member for each vacancy, including any unexpired term vacancy, for which elections are being held, and determine that the members nominated are agreeable to the placing of their names in nomination and will accept office if elected. The nominating committee must widely publicize the call for nominations to all members by any medium and interview each member that meets any qualifications established by the nominating committee.

b. At least 90 days before the annual meeting, the nominating committee files its nominations with the secretary of the credit union. At least 75 days before the annual meeting, the secretary notifies, in writing, all members eligible to vote that they may make nominations for vacancies by petition signed by 1% of the members with a minimum of 20 and a maximum of 500. The secretary may use electronic mail to notify members who have opted to receive notices or statements electronically.

c. The written notice must specify that the credit union will not conduct the election by ballot and there will be no nominations from the floor when the number of nominees equals the number of open positions.

d. The notice will include, in a form approved by the board of directors, a brief statement of qualifications and biographical data for each nominee submitted by the nominating committee. Each nominee by petition must submit a similar statement of qualifications and biographical data with the petition.

e. The written notice must state the closing date for receiving nominations by petition. At least 40 days before the annual meeting, nominee(s) must file the nomination petition with the secretary of the credit union. To be effective, nominee(s) must in-

clude a signed certificate with the nomination petition stating that they are agreeable to nomination and will serve if elected to office.

f. At least 35 days before the annual meeting, the secretary will post the nominations by petition along with those of the nominating committee in a conspicuous place in each credit union office and on the credit union's website (if the credit union maintains a website).

Section 2. *Election procedures.* The plurality of vote determines all elections. The election is conducted by electronic device or mail ballot, subject to the following conditions:

(a) The board of directors will appoint the election tellers;

(b) At least 30 days before the annual meeting, the secretary will ensure either a printed ballot or notice of ballot is mailed to all members eligible to vote if there are sufficient nominations made by the nominating committee or by petition to provide more nominees than open positions. The secretary may use electronic mail to provide the notice of ballot to members who have opted to receive notices or statements electronically;

(c) If the credit union conducts its elections electronically, the secretary will ensure the transmission of the following materials to each eligible voter using the following procedures:

(1) One notice of balloting stating the names of the candidates for the board of directors and the candidates for other separately identified offices or committees. The notice must include a brief statement of qualifications and biographical data for each candidate in a form approved by the board of directors. The secretary may use electronic mail to provide the notice of ballot to members who have opted to receive notices or statements electronically.

(2) One mail ballot that conforms to Section 2(d) of this article, as well as instructions for the electronic election procedure, including how to access and use the system and the timeframe for voting. The instructions will state that members without the requisite electronic device necessary to vote on the system may vote by submitting the enclosed mail ballot and specify the date the mail ballot must be received by the credit union. For members who have opted to receive notices or statements electronically, the mail ballot is not required and the secretary may use electronic mail to provide the instructions for the electronic election procedure.

(3) The election tellers verify, or cause to be verified, the name of the voter and their credit union account number as registered in the electronic balloting system. The election tellers will test the integrity of the balloting system at regular intervals during the election period.

(4) Election tellers must receive ballots no later than midnight, 5 calendar days before the annual meeting.

(5) Election tellers will tally the vote and the chair will make the result of the vote public at the annual meeting.

(6) If the electronic balloting system malfunctions, the board of directors may, in its discretion, hold the election by mail ballot only. The mail ballots must conform to Section 2(d) of this article and the secretary must mail them once more to all eligible members 30 days before the annual meeting. The board may make reasonable adjustments to the voting time frames above, or postpone the annual meeting when necessary, to complete the elections before the annual meeting.

(d) If the credit union conducts its election by mail ballot, the secretary will ensure the mailing of the following materials to each member using the following procedures:

(1) One ballot, clearly identified as the ballot, with the names of the candidates for the board of directors and the candidates for other separately identified offices or committees printed in random order. A brief statement of qualifications and biographical data for each candidate, in a form approved by the board of directors, will accompany the ballot;

(2) One ballot envelope, with instructions to place the completed ballot placed in the envelope and seal the envelope;

(3) One identification form the member completes that includes their name, address, signature and credit union account number;

(4) One mailing envelope that instructs the member to insert the sealed ballot envelope and the identification form. The mailing envelope must have prepaid postage and be preaddressed for return to the election tellers;

(5) When properly designed with features that preserve the secrecy of the ballot, the ballot, identification form, and prepaid postage and preaddressed return envelope may be combined;

(6) The election tellers will verify, or cause to be verified, the name and credit union account number of the voter as appearing on the identification form. The tellers will retain the verified identification form and the sealed ballot envelope until the vote count is completed. In the event of a questionable or challenged identification form, the tellers must retain the identification form and sealed ballot envelope together until the verification or challenge is resolved;

(7) Election tellers must receive ballots mailed to them no later than midnight 5 days before the date of the annual meeting;

(8) The election tellers will tally the vote. They will verify the result at the annual meeting and the chair will make the result of the vote public at the annual meeting.

All Options Continue Here

Section 3. *Order of nominations.* Nominations may be in the following order:

(a) Nominations for directors.

(b) Nominations for credit committee members, if applicable. Elections may be by separate ballots following the same order as the above nominations or, if preferred, may be by one ballot for all offices.

Section 4. *Proxy and agent voting.* Members cannot vote by proxy. A member other than a natural person may vote through an agent designated in writing for the purpose.

Section 5. *One vote per member.* Irrespective of the number of shares, no member has more than one vote.

Section 6. *Submission of information regarding credit union officials to NCUA.* The secretary must forward the names and business addresses of board members, board officers, executive committee, credit committee members, if applicable, and supervisory committee members to the Administration in accordance with the Act and regulations in the manner as required by the Administration.

Section 7. *Minimum age requirement.* Members must be at least _____ years of age by the date of the meeting (or for appointed offices, the date of appointment) in order to vote at meetings of the members, hold elective or appointive office, sign nominating petitions, or sign petitions requesting special meetings.

The credit union may select the following option:

Section 7. Members must be at least _____ years of age by the date of the meeting in order to vote at meetings of the members, sign nominating petitions, or sign petitions requesting special meetings. Members must be at least _____ years of age to hold elective or appointive office.

The Credit Union's board should adopt a resolution inserting an age no greater than 18, or the age of majority under the state law applicable to the credit union, in the blank space for voting, or not greater than 21 for holding elective or appointive office.

The Credit Union may select the absentee ballot provision in conjunction with the selected voting procedure. The board may do this by printing the credit union's bylaws with this provision or by retaining this copy and checking the box.

Section 8. *Absentee ballots.* The board of directors may authorize the use of absentee ballots in conjunction with the other procedures authorized in this article, subject to the following conditions:

(a) The board of directors will appoint the election tellers;

(b) If there are sufficient nominations made by the nominating committee or by petition to provide more than one nominee for each open position, at least 30 days before

the annual meeting, the secretary will ensure a printed ballot is mailed to all members of the credit union who are eligible to vote and who have submitted a written or electronic request for an absentee ballot;

(c) The secretary will ensure the following materials are mailed to each eligible voter who submitted a written or electronic request for an absentee ballot:

(1) One ballot, clearly identified as the ballot, with the names of the candidates for the board of directors and the candidates for other separately identified offices or committees printed in random order. A brief statement of qualifications and biographical data for each candidate, in a form approved by the board of directors, will accompany the ballot;

(2) One ballot envelope clearly marked with instructions to place the completed ballot placed in the envelope and seal the envelope;

(3) One identification form the member completes that includes their name, address, signature and credit union account number;

(4) One mailing envelope that instructs the member to insert the sealed ballot envelope and the identification form. The mailing envelope must have prepaid postage and be preaddressed for return to the election tellers;

(5) When properly designed with features that preserve the secrecy of the ballot, the ballot, identification form, and prepaid postage and preaddressed return envelope may be combined;

(d) The election tellers will verify, or cause to be verified, the name and credit union account number of the voter as appearing on the identification form. The tellers will retain the verified identification and the sealed ballot envelope until the vote count is completed. In the event of a questionable or challenged identification form, the tellers must retain the identification form and the sealed ballot envelope together until the verification or challenge is resolved. If more than one voting procedure is used, the tellers must verify that no eligible voter voted more than one time;

(e) Election tellers must receive ballots mailed to them no later than midnight 5 days before the date of the annual meeting;

(f) Members or authorized personnel will deposit absentee ballots in the ballot boxes taken to the annual meeting or included in a precount in accordance with procedures specified in Article V, Section 2; and

(g) If a member has chosen to receive statements and notices electronically, the credit union may provide notices required in this section by email and provide instructions for voting by electronic means instead of mail ballots.

ARTICLE VI. BOARD OF DIRECTORS

Section 1. *Number of members.* The board consists of _____ directors, all of whom must be members. By resolution, the board may change the number of directors to an odd number not fewer than 5 or more than 15. The board may not reduce the number of directors unless there is a corresponding vacancy as a result of a death, resignation, expiration of a term of office, or other action provided by these bylaws. The board must file a copy of the resolution covering any increase or decrease in the number of directors with the official copy of the bylaws.

Section 2. *Composition of board and committees.*

____ (Fill in the number, which may be zero) director(s) may be a paid employee of the credit union. The board may appoint a management official who _____ (may or may not) be a member of the board and one or more assistant management officials who _____ (may or may not) be a member of the board. If the board permits the management official or assistant management official(s) to serve on the board, he or she may not serve as the chair.

____ (Fill in the number, which may be zero) immediate family members, or those persons living in the same household, of a director may be a paid employee of the credit union.

The total number of directors serving who fall into the categories below must not constitute a majority of the board:

- Management official plus assistant management official(s) plus other employees;
- Immediate family members or persons in the same household as the management official, assistant management official(s), and other employees; or
- Management official plus assistant management official(s) plus other employees, plus immediate family members or persons in the same household as management officials, assistant management officials, and other employees.

____ (Fill in the number, which may be zero) committee member(s) may be a paid employee of the credit union. _____ (Fill in the number, which may be zero) immediate family members, or those persons living in the same household, of a committee member(s) may be a paid employee of the credit union.

The board may also choose the option below:

____ No director or committee member, who is not then a paid employee of the credit union, may become a paid employee of this credit union for a minimum of _____ (Fill in the number, which may be zero) years from the date the official terminates his or her position as a director or committee member.

You can also add “unless the employee position to be filled exists as a result of a death or disability” after committee member.

For this section, you can correct the syntax by omitting the plural(s) if applicable.

Section 3. *Terms of office.* Terms for directors are for periods of 2 or 3 years as decided by the board. All terms must be for the same number of years and until the election and qualification of successors. Terms are set and staggered at the first meeting, or when the number of directors changes, so that approximately an equal number of terms expire at each annual meeting.

Section 4. *Vacancies.* The directors, by majority vote, will fill any vacancy on the board, credit committee, if applicable, or supervisory committee as soon as possible. If all director positions become vacant at once, the supervisory committee immediately becomes the temporary board of directors and must follow the procedures in Article IX, Section 3. Directors and credit committee members appointed to fill a vacancy hold office only until the next annual meeting. The FCU’s members then vote to select a candidate to fill the remainder of the original director’s unexpired term. Members of the supervisory committee appointed to fill a vacancy on the supervisory committee hold office through the remainder of the unexpired term.

Section 5. *Regular and special meetings.* The board must hold a regular meeting each month at the time and place fixed by resolution. The board must conduct one regular meeting each calendar year in person. If a quorum of the board is present at the in-person meeting, the remaining board members may participate by audio or video teleconference. The board may conduct the other regular meetings by audio or video teleconference. The chair, or in the chair’s absence the ranking vice chair, may call a special meeting of the board at any time and must do so upon written request of a majority of the directors. The chair, or in the chair’s absence the ranking vice chair, will fix the time and place of special meetings unless the board directs otherwise. The board will give notice of all meetings in the manner set by resolution. The board may conduct special meetings by audio or video teleconference. The board may take action and vote on resolutions without a meeting. The board must first obtain unanimous consent for the action in writing or by electronically recorded means.

Section 6. *Board responsibilities.* The board has the general direction and control of the affairs of this credit union. The board is responsible for performing all the duties customarily done by boards of directors. This includes but is not limited to:

(a) Directing the affairs of the credit union in accordance with the Act, these bylaws, the rules and regulations and sound business practices.

(b) Establishing programs to achieve the purposes of this credit union as stated in Article I, Section 2, of these bylaws.

(c) Establishing lending policies, a loan collection program, and authorizing the charge-off of uncollectible loans.

(d) Establishing policies to address training for directors and volunteer officials in areas such as ethics and fiduciary responsibility, regulatory compliance, and accounting.

(e) Ensuring that staff and volunteers who handle the receipt, payment or custody of money or other property of this credit union; or property in its custody as collateral or otherwise, are properly bonded in accordance with the Act and regulations.

(f) Performing additional acts and exercising additional powers as required or authorized by applicable law and regulation.

If the credit union has an elected credit committee, you do not need to check a box. If the credit union has no credit committee check Option 1, and if it has an appointed credit committee check Option 2.

Option 1. No Credit Committee.

(g) Reviewing denied loan applications of members who file written requests for review.

(h) Appointing one or more loan officers and delegating to those officers the power to approve or disapprove loans, lines of credit or advances from lines of credit.

(i) In its discretion, appointing a loan review (the credit union may fill in another name if desired) committee to review loan denials and delegating to the committee the power to overturn denials of loan applications. The committee will function as a mid-level appeal committee for the board. The board must review all loans denied by the committee upon written request of the member.

The credit union may select one of three options for the makeup and term of the committee. Enter the option selected _____

Option A. The committee must consist of three members with a term of office of _____ (enter no more than 3) years. The committee may not have more than one loan officer.

Option B. The committee must consist of three members and two alternates. The term of office of the committee members will be for _____ (enter no more than 3) years. The board may appoint any number of lending professionals within the organization to the committee, provided that no loan officer may review any loan that he or she denied. At least 3 members of the committee must review loan denials, none of whom have been a party to denying the loan.

Option C. The board may, by resolution, change the number of committee members to an odd number no less than three and no more than seven. The board will determine the length of each committee member’s term

upon appointment and stagger terms as necessary to prevent a complete turnover of committee members. The board must file a copy of the resolution covering any increase or decrease in the number of committee members with the official copy of the bylaws of this credit union. The committee will act by majority vote of members present at a meeting. The committee may not have more than one loan officer.

Option 2. Appointed Credit Committee.

(g) Appointing an odd number of credit committee members as provided in Article VIII of these bylaws.

Section 7. *Quorum.* A majority of directors, including any vacant positions, constitutes a quorum for the transaction of business at any meeting. A majority of the directors holding office constitutes a quorum to fill any vacancies as stated in Section 4 of this article. Less than a quorum may adjourn from time to time until a quorum is in attendance.

Section 8. *Attendance and removal.* a. If a director or a credit committee member, if applicable, fails to attend regular meetings of the board or credit committee, respectively, for 3 consecutive months, (choose one of the following) _____ or 4 meetings within a calendar year, or _____ 4 meetings within any 12 consecutive months or otherwise fails to perform any significant duties as a director or a credit committee member, the board may declare the office vacant and fill the vacancy as provided in the bylaws.

b. The board may remove any board officer from office for failure to perform any significant duties as an officer. Prior to removal, the board must give the officer reasonable notice and an opportunity to respond to the issues.

c. When any board officer, membership officer, executive committee member or investment committee member is absent, disqualified, or otherwise unable to perform the duties of the office, the board may by resolution designate another member of this credit union to fill the position temporarily. The board may also, by resolution, designate another member or members of this credit union to act on the credit committee when necessary in order to obtain a quorum.

Section 9. *Suspension of supervisory committee members.* The board may suspend any member of the supervisory committee by a majority vote. In the event of a suspension, the board must hold a special meeting of the members at least 7 but no more than 14 days after any suspension. The members will decide whether to remove or to restore the suspended committee member of the supervisory committee.

The credit union may add the optional Section 10 if desired.

Section 10. *Director Emeritus.* The board of directors may appoint any former director who served on the board at least _____ (fill

in the number) years as "Director Emeritus." The board may substitute suitable volunteer service time for some of the board service time provided the candidate has served at least _____ (fill in the number) years on the board. The individuals appointed directors emeritus function as an advisory committee to the board of directors. Terms for directors emeritus are _____ (fill in the number) years. The board may increase or decrease the number of directors emeritus, or shorten or extend any director emeritus's term, by resolution. Unless separately elected or appointed, directors emeritus are not members of any other committee of the credit union. Directors emeritus are not a member or officer of the board of directors; they may not vote on any matter before the board or any other committee of the credit union; they may not receive any compensation from the credit union; and they are not required to attend any meetings or authorized to perform any duties other than providing advice to the credit union's board, staff and other committees as needed.

ARTICLE VII. BOARD OFFICERS, MANAGEMENT OFFICIALS AND EXECUTIVE COMMITTEE

Section 1. *Board officers.* The board elects the following officers from their number: a chair, one or more vice chairs, a financial officer, and a secretary. The board determines the title and rank of each board officer and records them in the addendum to this article. The board may compensate one board officer, the _____, for services as they determine. If the board elects more than one vice chair, the board determines their rank as first vice chair, second vice chair, and so on. The same person may hold the offices of the financial officer and secretary. If the board permits a management official or assistant management official to serve on the board, he or she may not serve as the chair. Unless removed as provided in these bylaws, the board officers elected at the first meeting of the board hold office until the first meeting of the board following the first annual meeting of the members and until the election and qualification of their respective successors.

Section 2. *Election and term of office.* The board must hold a meeting not later than 7 days after the annual meeting to elect officers. Board officers hold office for a 1-year term and until the election and qualification of their respective successors. Any person elected to fill a vacancy caused by the death, resignation, or removal of an officer is elected by the board to serve only for the unexpired term of that officer and until a successor is duly elected and qualified.

Section 3. *Duties of Chair.* The chair presides at all meetings of the members and at all meetings of the board, unless disqualified

through suspension by the supervisory committee. The chair also performs other duties customarily assigned to the office of the chair or duties directed to perform by resolution of the board that are not inconsistent with the Act, regulations, and these bylaws.

Section 4. *Approval required.* The board must approve all individuals authorized to sign all notes, checks, drafts, and other orders for disbursement of credit union funds.

Section 5. *Vice chair.* The ranking vice chair has and may exercise all the powers, authority, and duties of the chair during the chair's absence or inability to act.

Section 6. *Duties of financial officer.* i. The financial officer manages this credit union under the control and direction of the board unless the board has appointed a management official to act as general manager. Subject to limitations, controls and delegations the board may impose, the financial officer will:

(a) Have charge over all funds, securities, valuable papers and other assets of this credit union.

(b) Provide and maintain full and complete records of all the assets and liabilities of this credit union in accordance with prescribed law, regulation, and Administration guidance.

(c) Within 20 days after the close of each month, prepare and submit to the board a financial statement showing the condition of this credit union as of the end of the month, including a summary of delinquent loans; and post a copy of the statement in a conspicuous place in the office of the credit union where it will remain until replaced by the next month's financial statement.

(d) Ensure that financial and other reports the Administration may require are prepared and sent.

(e) Within standards and limitations set by the board, employ sufficient staff to run the credit union, and have the power to remove these employees.

(f) Perform other duties customarily assigned to the office of the financial officer or duties assigned by board resolution that are not inconsistent with the Act, regulations, and these bylaws.

ii. The board may employ one or more assistant financial officers, none of whom may also hold office as chair or vice chair. The board may authorize them, under the direction of the financial officer, to perform any of the duties falling to the financial officer, including the signing of checks. When designated by the board, any assistant financial officer may also act as financial officer during the financial officer's temporary absence or temporary inability to act.

Section 7. *Duties of management official and assistant management official.* The board may appoint a management official who is under the direction and control of the board or of the financial officer as determined by the

board. The board may assign any or all of the responsibilities of the financial officer described in Section 6 of this article. The board will determine the title and rank of each management official and record them in the addendum to this article. The board may employ one or more assistant management officials. The board may authorize assistant management officials under the direction of the management official, to perform any of the duties falling to the management official, including the signing of checks. When designated by the board, any assistant management official may also act as management official during the management official's temporary absence or temporary inability to act.

Section 8. *Board powers regarding employees.* The board employs, fixes the compensation, and prescribes the duties of employees as necessary, and has the power to remove employees, unless it has delegated these powers to the financial officer or management official. Management does not have the power or duty to employ, prescribe the duties of, or remove necessary clerical and auditing assistance employed or used by the supervisory committee or remove any loan officer appointed by the credit committee.

The credit union may select one of the following options and add it to the end of Section 8.

No director or committee member, who is not then a paid employee of the credit union, may become a paid employee of this credit union for a minimum of _____ (Fill in the number, which may be zero) years from the date the official terminates his or her position as a director or committee member.

No director, committee member, immediate family member of a director or committee member, or person in the same household as a director or committee member, who is not then a paid employee of this credit union, may become a paid employee of the credit union for a minimum of _____ (Fill in the number, which may be zero) years from the date the official terminates his or her position as a director or committee member.

No director, committee member, immediate family member of a director or committee member, or person in the same household as a director or committee member, who is not then a paid employee of the credit union, may become a paid employee of this credit union for a minimum of _____ (Fill in the number, which may be zero) years from the date the official terminates his or her position as a director or committee member, unless the employee position to be filled exists as a result of a death or disability.

No official, who is not already a paid employee of this credit union, may become a paid employee of this credit union for a minimum of _____ (Fill in the number, which

may be zero) years from the date the official terminates his or her position as a director or committee member, unless the employee position to be filled exists as a result of death or disability. The term "official" in this bylaw means a person who is a member of the board of directors, supervisory committee, or other volunteer committee established by the board of directors.

Section 9. *Duties of secretary.* The secretary prepares and maintains full and correct records of all meetings of the members and of the board. The secretary will prepare a record of each respective meeting within 7 days after its completion. The secretary must promptly inform the Administration in writing of any change in the address of the office of this credit union or the location of its principal records. The secretary provides the proper notice of all meetings of the members in the manner prescribed in these bylaws. The secretary also performs other duties as directed by resolution of the board that are not inconsistent with the Act, regulation, and these bylaws. The board may employ one or more assistant secretaries, none of whom may also hold office as chair, vice chair, or financial officer, and may authorize them under direction of the secretary to perform any of the duties assigned to the secretary.

Section 10. *Executive committee.* As authorized by the Act, the board may appoint an

executive committee of not fewer than three directors to serve at its pleasure, to act for it with respect to the board's specifically delegated functions. When making delegations to the executive committee, the board must be specific with regard to the committee's authority and limitations related to the particular delegation. The board may also authorize any of the following to act upon membership applications under conditions the board and these bylaws may prescribe: an executive committee; a membership officer(s) appointed by the board from the membership, other than a board member paid as an officer; the financial officer; any assistant to the paid officer of the board or to the financial officer; or any loan officer. The board may not compensate the executive committee member or membership officer as such.

Section 11. *Investment committee.* The board may appoint an investment committee composed of not less than two, to serve at its pleasure to have charge of making investments under rules and procedures established by the board. The board may not compensate any member of the investment committee as such.

Addendum: The board must list the positions of the board officers and management officials of this credit union. They are as follows:

Position	Credit union title	Officer or official name
Board Chair. Vice Chair. Treasurer. Secretary. Management Official. Other 1. Other 2. Other 3. Other 4.		

Select Option 1 if the credit union has a credit committee and Option 2 if it does not have a credit committee.

ARTICLE VIII. OPTION 1 CREDIT COMMITTEE

Section 1. *Credit committee members.* The credit committee consists of _____ members. All the members of the credit committee must be members of this credit union. The board determines the number of members on the credit committee, which must be an odd number and may not be fewer than 3 and no more than 7. The board may not reduce the number of members unless there is a corresponding vacancy as a result of a death, resignation, expiration of a term of office, or other action provided by these bylaws. The board must file a copy of the resolution covering any increase or decrease in the number of committee members with the

official copy of the bylaws of this credit union.

Section 2. *Terms of office.* Regular terms of office for elected credit committee members are for periods of either 2 or 3 years as the board determines. All regular terms are for the same number of years and until the election and qualification of successors. The board will fix the regular terms at the beginning or upon any increase or decrease in the number of committee members so that approximately an equal number of regular terms expire at each annual meeting. The board determines the periods for the regular terms of office for appointed credit committee members and records these periods in the board's minutes.

Section 3. *Officers of credit committee.* The credit committee chooses from their number a chair and a secretary. The secretary of the

committee prepares and maintains full and correct records of all actions taken by it. They must prepare those records within 3 days after the action. The same person may hold the offices of the chair and secretary.

Section 4. *Credit committee powers.* The credit committee may, by majority vote of its members, appoint one or more loan officers to serve at its pleasure. The committee may delegate to them the power to approve loan applications, share withdrawals, releases and substitutions of security, within limits specified by the committee and within limits of applicable law and regulations. The committee may not appoint more than one of its members as a loan officer. Each loan officer must furnish to the committee a record of each approved or not approved transaction within 7 days of the date of the filing of the application or request. This record becomes a part of the committee's records. The committee must act on all applications or requests not approved by a loan officer. No individual may disburse funds of this credit union for any application or share withdrawal that the individual has approved as a loan officer.

Section 5. *Credit committee meetings.* The credit committee must hold at least one meeting a month and as frequently as required to complete the business of this credit union. The committee will give notice of meetings to its members in the manner it prescribes by resolution.

Section 6. *Credit committee duties.* For each loan, the credit committee or loan officer must review the character and financial condition of the applicant and their surety, if any. The credit committee or loan officer will ascertain the applicant's ability to fully and promptly repay the loan. The credit union may use an automated loan processing system to conduct this review, subject to the conditions set forth in Section 7, below. Where appropriate, the credit committee or loan officers should provide, or refer applicants to, financial counseling assistance.

Section 7. *Unapproved loans prohibited.* The credit committee must approve all loans. If the credit union uses an automated lending system, the credit committee must review all loan applications the system has denied and review at least a sample of approved loans to screen for fraud and ensure the automated system is functioning within the lending policies the board has established.

Section 8. *Lending procedures.* The credit committee, loan officer, or automated system determines the required security, if any, and the terms of repayment for each application. All lending decisions and loan terms must comply with applicable law and regulations, these bylaws, and board policy. The security furnished must be adequate in quality and character as well as consistent with sound lending practices. When the credit union does not have the funds available to

make all the loans requested, the credit committee should give preference, in all cases, to the smaller applications if the need and credit factors are nearly equal.

ARTICLE VIII. OPTION 2 LOAN OFFICERS (NO CREDIT COMMITTEE)

Section 1. *Records of loan officer; prohibition on loan officer disbursing funds.* Each loan officer must maintain a record of each approved or not approved transaction within 7 days of the filing of the application or request. This record then becomes a part of the records of the credit union. No individual may disburse funds of this credit union for any application or share withdrawal that the individual has approved as a loan officer.

Section 2. *Loan officer duties.* For each loan, the loan officer must review the character and financial condition of the applicant and their surety, if any. The loan officer will ascertain the applicant's ability to fully and promptly repay the loan. The credit union may use an automated loan processing system to conduct this review, subject to the conditions set forth in Section 3, below. Where appropriate, the loan officer should provide, or refer applicants to, financial counseling assistance.

Section 3. *Unapproved loans prohibited.* The loan officer must approve all loans. Loan terms and rates must comply with applicable law and regulations. If the credit union uses an automated lending system, the loan officer must review all loan applications the system has denied, and review at least a sample of approved loans to screen for fraud and ensure the automated system is functioning within the lending policies the board has established.

Section 4. *Lending procedures.* The loan officer or automated lending system determine the required security, if any, and the terms of repayment for each application. All lending decisions and loan terms must comply with applicable law and regulation, these bylaws, and board policy. The security furnished must be adequate in quality and character as well as consistent with sound lending practices. When the credit union does not have the funds available to make all the loans requested, the loan officer should give preference, in all cases, to the smaller applications if the need and credit factors are nearly equal.

ARTICLE IX. SUPERVISORY COMMITTEE

Section 1. *Appointment and membership.* The board appoints the supervisory committee from members of this credit union. One of the committee members may be a director other than the financial officer or the paid officer of the board. The board determines the number of members on the committee, which may not be fewer than 3 or more than

5. No member of the credit committee, if applicable, or employee of this credit union may be appointed to the committee. Terms of committee members are for periods of 1, 2, or 3 years as decided by the board.

However, all terms are for the same number of years and until the appointment and qualification of successors. Terms are set and staggered at the beginning, or on the increase or decrease in the number of committee members so that approximately an equal number of terms expire at each annual meeting.

Section 2. *Officers of supervisory committee.* The supervisory committee members choose from their number a chair and a secretary. The secretary prepares, maintains, and has custody of all records of the committee's actions. The same person may hold the offices of chair and secretary.

Section 3. *Duties of supervisory committee.*

a. The supervisory committee makes, or arranges for, the audits, and prepares and submits the written reports required by the Act and regulations. The committee may employ and use the clerical and auditing assistance required to carry out its responsibilities. The committee may request the board to provide compensation for this assistance. It will prepare and forward to the Administration required reports.

b. If all director positions become vacant at once, the supervisory committee immediately assumes the role of the board of directors. The supervisory committee acting as the board must generally call and hold a special meeting to elect a board. That board will serve until the next annual meeting. They must hold the special meeting at least 7 but no more than 14 days after all director positions became vacant. Nominations for the board at the special meeting are by petition or from the floor. However, the supervisory committee may forego the special meeting if the next annual meeting will occur within 45 days after all the director positions become vacant.

c. The supervisory committee acting as the board may not act on policy matters. However, directors elected at a special meeting have the same powers as directors elected at the annual meeting.

Section 4. *Verification of accounts.* The supervisory committee will cause the verification of the accounts of members with the records of the financial officer from time to time and not less frequently than as required by the Act and regulations. The committee must maintain a record of this verification.

Section 5. *Powers of supervisory committee—removal of directors and credit committee members.* By unanimous vote, the supervisory committee may suspend any director, board officer, or member of the credit committee. In the event of a suspension, the supervisory committee must call a special meeting of the

members to act on the suspension. They must hold the meeting at least 7 but no more than 14 days after the suspension. The chair of the committee acts as chair of the meeting unless the members select another person to act as chair.

Section 6. *Powers of supervisory committee—special meetings.* By majority vote, the supervisory committee may call a special meeting of the members to: consider any violation of the provisions of the Act, the regulations, the credit union's charter or bylaws; or to consider any practice of this credit union the committee deems to be unsafe or unauthorized.

ARTICLE X. ORGANIZATION MEETING

Section 1. *Initial meeting.* When making an application for a federal credit union charter, the subscribers to the organization certificate must meet to elect a board of directors and a credit committee, if applicable. The Agency may revoke the charter for failure to start operations within 60 days after receipt of the approved organization certificate unless the Agency approves an extension of time.

Section 2. *Election of directors and credit committee.* The subscribers elect a chair and a secretary for the meeting. The subscribers then elect a board of directors and a credit committee, if applicable. The elected directors or committee members will hold office until the first annual meeting of the members and until the election of their respective successors. Every person elected under this section or appointed under Section 3 of this article, must become a member within 30 days if they are not already. If any person elected as a director or committee member or appointed as a supervisory committee member does not become a member within 30 days of election or appointment, the office will automatically become vacant and be filled by the board.

Section 3. *Election of board officers.* Promptly after the elections held under the provisions of Section 2 of this article, the board must meet to elect the board officers. The officers will hold office until the first meeting of the board of directors after the first annual meeting of the members and until the election of their respective successors. The board also appoints a supervisory committee at this meeting as provided in Article IX, Section 1, of these bylaws and a credit committee, if applicable. The appointed members hold office until the first regular meeting of the board after the first annual meeting of the members and until the appointment of their respective successors.

After five years of operation, the credit union may select the following:

Article X of the bylaws shall be amended to read as follows:

Reserved.

National Credit Union Administration

Pt. 701, App. A

ARTICLE XI. LOANS AND LINES OF CREDIT TO MEMBERS

Section 1. *Loan purposes.* The credit union may make loans to members for provident or productive purposes in accordance with applicable law and regulations.

The credit union may add business as one of its purposes by placing a comma after "provident" and inserting "business."

Section 2. *Delinquency.* Any member whose loan is delinquent may be required to pay a late charge as determined by the board of directors.

ARTICLE XII. DIVIDENDS

Section 1. *Power of board to declare dividends.* The board sets dividend periods and declares dividends as permitted by the Act and applicable law and regulation.

ARTICLE XIII. RESERVED

ARTICLE XIV. EXPULSION AND WITHDRAWAL

Section 1. *Expulsion procedure.* A credit union may expel a member in one of three ways. The first way is through a special meeting. Under this option, a credit union must call a special meeting of the members, provide the member the opportunity to be heard, and obtain a two-thirds vote of the members present at the special meeting to expel a member. The second way to expel a member is under a nonparticipation policy given to each member that follows the requirements found in the Act. The third way to expel a member is by a two-thirds vote of a quorum of the directors of the credit union. A credit union can only expel a member for cause and through a vote of the directors of the credit union if it follows the policy for expulsion in section 2.

Section 2. A credit union's directors may vote to expel a member for cause if the credit union has provided a written copy of this Article or the optional standard disclosure notice to each member of the credit union. The communication of the policy, along with all notices required under this section, must be legible, written in plain language, reasonably understandable by ordinary members, and may be provided electronically only in the case of members who have elected to receive electronic communications from the credit union.

If a member will be subject to expulsion, the member shall be notified in writing in advance, along with the reason for such expulsion. The notice must include, at minimum, (i) relevant dates, (ii) sufficient detail for the member to understand the grounds for expulsion, (iii) the member's right to request a hearing, (iv) how to request a hearing, (v) the procedures related to the hearing, (vi) notification that, if a hearing is not requested, membership will terminate after 60 calendar days, and (vii) if applicable, a

general statement on the effect of expulsion related to the member's accounts or loans at the credit union. The notice cannot include only conclusory statements regarding the reason for the member's expulsion. The notice must also tell the member that any complaints related to the member's potential expulsion should be submitted to NCUA's Consumer Assistance Center if the complaint cannot be resolved directly with the credit union. The FCU must maintain a copy of the provided notice for its records. The notice shall be provided in person, by mail to the member's address, or, if the member has elected to receive electronic communications from the credit union, may be provided electronically.

A member shall have 60 calendar days from the date of receipt of a notification to request a hearing from the board of directors of the credit union. A member is not entitled to attend the hearing in person, but the member must be provided a meaningful opportunity to present the member's case orally to the FCU board through a video-conference hearing. The member may choose to provide a written submission to the Board instead of a hearing with oral statements. If a member cannot participate in a video-conference hearing, then the FCU may offer a telephonic hearing. If a member does not request a hearing or provide a written submission, the member shall be expelled after the end of the 60-day period after receipt of the notice. If a member requests a hearing, the board of directors must provide the member with a hearing. At the hearing, the board of directors may not raise any rationale for expulsion that is not explicitly included in the notice to the member.

After the hearing, the board of directors of the credit union must hold a vote within 30 calendar days on expelling the member. If a member is expelled, either through the expiration of the 60-day period or a vote to expel the member after a hearing, written notice of the expulsion must be provided to the member in person, by mail to the member's address, or, if the member has elected to receive electronic communications from the credit union, may be provided electronically. The notice must provide information on the effect of the expulsion, including information related to account access and any deductions by the credit union related to amounts due. The notice must also tell the member that any complaints related to their expulsion should be submitted to NCUA's Consumer Assistance Center if the complaint cannot be resolved directly with the credit union. The notice must also state that the member has an opportunity to request reinstatement.

A member expelled under this authority must be given an opportunity to request reinstatement of membership. The FCU may act on a reinstatement request through a

majority vote of a quorum of the directors of the credit union, a majority vote of the members of the credit union present at a special meeting, or a majority vote of members at an annual meeting, provided the annual meeting occurs within 90 days of the member's reinstatement request. If the FCU holds a meeting of the members to vote on the reinstatement request, an in-person vote is not required. An FCU is only required to hold a board vote or special meeting in response to a member's first reinstatement request following expulsion.

FCUs are required to maintain records related to any member expelled through a vote of the directors of the credit union for six years.

Section 3. The term cause in this Article means (A) a substantial or repeated violation of the membership agreement of the credit union; (B) a substantial or repeated disruption, including dangerous or abusive behavior, to the operations of a credit union, as defined below; or (C) fraud, attempted fraud, or conviction of other illegal conduct in relation to the credit union, including the credit union's employees conducting business on behalf of the credit union.

If the FCU is considering expulsion of a member due to repeated non-substantial violations of the membership agreement or repeated disruptions to the credit union's operations, the credit union must provide written notice to the member at least once prior to the notice of expulsion, and the violation or conduct must be repeated within two years after having been notified of the violation. The written notice must state the specific nature of the violation or conduct and that if the violation or conduct occurs again, the member may be expelled from the credit union.

Dangerous or abusive behavior includes the following: (1) violence, intimidation, physical threats, harassment, or physical or verbal abuse of officials or employees of the credit union, members, or agents of the credit union. This only includes (a) actions while on credit union premises or otherwise related to credit union activities, and through use of telephone, mail, email, or other electronic method; (b) behavior that causes or threatens damage to credit union property; or (c) unauthorized use or access of credit union property. Expressions of frustration with the credit union or its employees through elevated volume and tone; expressions of intent to seek lawful recourse, regardless of perceived merit; or repeated interactions with credit union employees are insufficient to constitute dangerous or abusive behavior. Additionally, members cannot be expelled due to or in retaliation for their complaints to the NCUA or any other regulatory agency or law enforcement, and members who are employees or former employees

of the FCU cannot be expelled for any protected whistleblower activities.

Section 4. Expulsion or withdrawal does not relieve a member of any liability to the credit union. The credit union will pay all of the member's shares upon the member's expulsion or withdrawal less any amounts due to the credit union.

Section 5. An expulsion of a member pursuant to section 2 shall be done individually, on a case-by-case basis, and neither the NCUA Board nor any credit union may expel a class of members.

ARTICLE XV. MINORS

Section 1. *Minors permitted to own shares.* The credit union may issue shares in the name of a minor. State law governs the rights of minors to transact business with this credit union.

ARTICLE XVI. GENERAL

Section 1. *Compliance with law and regulation.* The members, directors, officers, and employees of this credit union must exercise all power, authority, duties, and functions according to the provisions of these bylaws in strict conformity with the provisions of applicable law and regulations, and the credit union's charter and bylaws.

Section 2. *Confidentiality.* The officers, directors, members of committees and employees of this credit union must keep all member transactions and all information respecting their personal affairs in confidence, unless otherwise directed by state or federal law.

Section 3. *Removal of directors and committee members.* Notwithstanding any other provisions in these bylaws, any director or committee member of this credit union may be removed from office by the affirmative vote of a majority of the members present at a special meeting called for the purpose, but only after an opportunity has been given to be heard. If member votes at a special meeting result in the removal of all directors, the supervisory committee immediately becomes the temporary board of directors and must follow the procedures in Article IX, Section 3.

Section 4. *Conflicts of interest prohibited.* No director, committee member, officer, agent, or employee of this credit union may participate in any manner, directly or indirectly, in the consideration or determination of any question affecting his or her pecuniary or personal interest or the pecuniary interest of any corporation, partnership, or association (other than this credit union) in which he or she is directly or indirectly interested.

If the board receives a matter affecting any director's interest, the director must withdraw from the consideration or determination of that matter. If the remaining qualified directors present at the meeting

plus the disqualified director or directors constitute a quorum, the remaining qualified directors, by majority vote, may exercise with respect to this matter all the powers of the board. In the event of the disqualification of any member of the credit committee, if applicable, or the supervisory committee, that committee member must withdraw from the deliberation or determination.

Section 5. *Records.* The board must preserve copies of the organization certificate of this credit union, its bylaws, any amendments to the bylaws, and any special authorizations by the Administration. The board must attach copies of the organization certificate and field of membership amendments as an appendix to these bylaws. The board must record all returns of nominations, elections, and proceedings of all regular and special meetings of the members and directors in the minutes of this credit union. The respective chair or presiding officer and the person serving as secretary of the meeting must sign all minutes of the meetings of the members, the board, and the committees. All copies and records maintained under this section may be stored physically or electronically provided that the information is readily accessible to the directors, committee members of this credit union, members, and the Administration. Moreover, signatures may be provided electronically where permissible under federal or state law.

Section 6. *Availability of credit union records.* All books of account and other records of this credit union must be available upon request at all times to the directors, committee members of this credit union, and members provided they have a proper purpose for obtaining the records. If this credit union maintains a website currently or in the future, the board must post the bylaws of this credit union on the website. The board must also make the charter and bylaws of this credit union available for inspection by any member, upon request. If the member requests a copy of the charter or bylaws, the board will provide a copy to the member. The board may provide this copy to the member in physical or electronic copy. If the member requests a physical copy, the board may charge a reasonable fee for the physical copy.

Section 7. *Member contact information.* Members must keep the credit union informed of their current mailing address or, if the member has elected to receive electronic communications, their current email address.

Section 8. *Indemnification.* (a) Subject to the limitations in §701.33(c)(5) through (c)(7) of the regulations, the credit union may elect to indemnify to the extent authorized by (check one).

- Law of the State of _____;
 Model Business Corporation Act;

The following individuals from any liability asserted against them and expenses reasonably incurred by them in connection with judicial or administrative proceedings to which they are or may become parties by reason of the performance of their official duties (check as appropriate).

- Current officials.
 Former officials.
 Current employees.
 Former employees.

(b) The credit union may purchase and maintain insurance on behalf of the individuals indicated in paragraph (a) of this section against any liability asserted against them and expenses reasonably incurred by them in their official capacities and arising out of the performance of their official duties to the extent such insurance is permitted by the applicable State law or the Model Business Corporation Act.

(c) The term “official” in this bylaw means a person who is a member of the board of directors, credit committee, supervisory committee, other volunteer committee (including elected or appointed loan officers or membership officers), established by the board of directors.

Section 9. *Pronouns, Singular and Plural.* Unless the context requires otherwise, words denoting the singular may be construed as denoting the plural, words of the plural may be construed as denoting the singular, and words of one gender may be construed as denoting such other gender as is appropriate.

ARTICLE XVII. AMENDMENTS OF BYLAWS AND CHARTER

Section 1. *Amendment procedures.* The board may adopt amendments of these bylaws by an affirmative two-thirds vote of the directors. Written NCUA approval is required for the amendment of the bylaws to become effective. After adopting amendments, the credit union will update the bylaws posted on its website (if such credit union maintains a website) and ensure that members seeking to inspect the bylaws receive the most current version of the bylaws. To adopt amendments to the credit union’s charter, board members must vote at a duly held meeting after receiving prior written notice of the meeting and a copy of the proposed amendment or amendments with the notice. Written NCUA approval is required for the amendment to the charter to become effective.

ARTICLE XVIII. DEFINITIONS

Section 1. *General definitions.* When used in these bylaws the terms:

- “Act” means the Federal Credit Union Act, as amended.
 “Administration” means the National Credit Union Administration.

“Agency” means the Regional Director, the Director of the Office of National Examinations and Supervision, or the Director of the Office of Credit Union Resources and Expansion.

“Applicable law and regulations” means the Federal Credit Union Act and rules and regulations issued thereunder or other applicable federal and state statutes and rules and regulations issued thereunder as the context indicates.

“Board” means board of directors of the federal credit union.

“Board officers” means:

1. “Chair” means Presiding Board officer, President of the Board, Presiding Board Officer, or Chairperson.
2. “Vice Chair” means Vice President.
3. “Financial Officer” means Treasurer.
4. “Secretary” means Recording Officer.
5. “Management Official” means General Manager, Manager, President, or Chief Executive Officer.

“Charter” means the approved organization certificate and field of membership issued by the National Credit Union Administration or one of its predecessors. It is the document that authorizes a group to operate as a credit union, defines the fundamental limits of its operating authority, and includes the persons the credit union is permitted to accept for membership.

“Field of membership” means the persons (including organizations and other legal entities) a credit union is permitted to accept for membership.

“Immediate family member” means spouse, child, sibling, parent, grandparent, grandchild, stepparents, stepchildren, stepsiblings, and adoptive relationships.

“Loans” means any type of loan product the credit union offers. This includes, but is not limited to, consumer loans, lines of credit, credit cards, member business loans, commercial loans, and real estate loans.

“Management” means the Board, Financial Officer, and Management Official.

“Member” means a person must:

1. Be eligible for membership under Section 5 of the charter;
2. Sign membership forms as approved by the credit union board;
3. Subscribe to at least one share (par value) of stock;
4. Pay the initial installment;
5. Pay an entrance fee, if required; and
6. Be eligible to vote upon reaching the minimum age the credit union establishes for voting and participation in the affairs of the credit union.

“Membership Officer” means a majority of the board of directors, a majority of the members of a duly authorized executive committee, or an individual(s) appointed by the board of directors to serve as such.

“NCUA Board” means the Board of the National Credit Union Administration.

“Person in the same household” means an individual living in the same residence maintaining a single economic unit.

“Regulation” or “regulations” means rules and regulations issued by the NCUA Board.

“Share” or “shares” means all classes of shares and share certificates that may be held in accordance with applicable law and regulations.

Official NCUA Commentary—Federal Credit Union Bylaws

ARTICLE II. QUALIFICATIONS FOR MEMBERSHIP

i. *Entrance fee:* FCUs may not vary the entrance fee among different classes of members (such as students, minors, or non-natural persons) because the Act requires a uniform fee. FCUs may, however, eliminate the entrance fee for all applicants.

ii. *Membership application procedures:* Under section 113 of the Act,³ the board acts upon applications for membership. However, the board can appoint membership officers from among the members of the credit union. Such membership officers cannot be a paid officer of the board, the financial board officer, any assistant to the paid officer of the board or to the financial officer, or any loan officer. As described under section 2 of this Article, an applicant becomes a member upon approval by a membership officer and payment of at least one share (or installment) and uniform entrance fee, if applicable.

(iii) *Violent, belligerent, disruptive, or abusive members:* Many credit unions have confronted the issue of handling a violent, belligerent, disruptive, or abusive individual. Doing so is not a simple matter insofar as it requires the credit union to balance the need to preserve the safety of individual staff, other members, and the integrity of the workplace, on one hand, with the rights of the affected member on the other. In accordance with the Act and applicable legal interpretations, there is a reasonably wide range within which FCUs may fashion a policy that addresses these interrelated responsibilities.

Thus, an individual who has become violent, belligerent, disruptive, or abusive may be prohibited from entering the premises or making telephone contact with the credit union, and the individual may be severely restricted in terms of eligibility for products or services. So long as the individual is not barred from exercising the right to vote at annual meetings and is allowed to maintain a regular share account, the FCU may fashion and implement a policy that is reasonably designed to preserve the safety of its employees and the integrity of the workplace. The policy need not be identical nor applied uniformly in all cases; there is room

³ See 12 U.S.C. 1761b.

for flexibility and a customized approach to fit the circumstances. In fact, the NCUA anticipates that in some circumstances, such as violence or a credible threat of violence against another member or credit union staff in the FCU or its surrounding property, an FCU may take immediate action to restrict most, if not all, services to the member. This may occur along a parallel track as the credit union begins the process of expelling the member under Article XIV. In other situations, such as a member who frequently writes checks with insufficient funds, the FCU may attempt to resolve the matter with the member before limiting check writing services. Once a limitation of services policy is adopted or revised, members must receive notice. The FCU should disclose the policy to new members when they join and notify existing members of the policy at least 30 calendar days before it becomes effective. The credit union's board has the option to adopt the amendment addressing members in good standing.

ARTICLE III. SHARES OF MEMBERS

i. Installments: FCUs may insert zero for the number of installments. The Act allows membership upon the payment of the initial installment of a membership share, but the NCUA no longer views this provision as requiring FCUs to offer the option of paying for the membership share in installments.

ii. Par value: FCUs may establish differing par values for different classes of members or types of accounts (such as students, minors, or non-natural persons), provided this action does not violate any federal, state or local antidiscrimination laws. For example, an FCU may want to establish a higher par value for recent credit union members, without requiring long-time members to bring their accounts up to the new par value. A differing par value may also be permissible for different types of accounts, such as requiring a higher par value for a member with only a share draft account. If a credit union adopts differing par values, all of the possible par values must be stated in section 1. The FCU Bylaws include several options for differing par values. The credit union may select one or more of these or establish its own.

iii. Regular share account: To establish membership, the member must subscribe to one par value of share. The share does not have to be in a regular share account. The bylaws include two options. One option requires the member to have a regular share account to open membership, and one option allows them to use any other account. The board may select which option to use. If the board does not select an option, the member must have a regular share account to open an account. Please note, if the board selects an account other than the regular share, the

requirements of Article III, section 3 still apply. The member must maintain one share to remain a member.

iv. Reduction in share balance below par value: When a member's account balance falls below the par value, section 3 of this article requires FCUs to allow members a minimum time period to restore their account balance to the par value before membership is terminated. FCUs may not delete this requirement or delete references to this requirement in Article II, section 3. If the share balance falls below the par value and does not increase the balance within the time set by the board, membership is terminated.

v. Trusts: Trusts and shares issued in trust can be a complicated subject. For purposes of the FCU Bylaws, perhaps the main issue is the distinction between revocable and irrevocable trusts. In the case of a revocable trust, the individual who establishes the trust is essentially still in control of the funds during his lifetime. Thus, the account owner can change the designated beneficiary at any time, and he or she can determine whether the identified beneficiary actually receives any money simply by deciding to withdraw the funds before his or her own death. Accordingly, the requirement in the case of revocable trust accounts is simply that the owner of the funds be a member of the FCU. Furthermore, provided the owner of the funds is within the field of membership and eligible for membership, he or she may use the vehicle of the payable-on-death or revocable trust account itself as the method of becoming a member. There is no requirement that the account holder first establish a regular share account to become a member. In accordance with legal opinions issued by the NCUA's Office of General Counsel, an individual may fulfill the requirement of becoming a member by subscribing to the equivalent of the par value of one share, which can be done through the opening of any type of account the credit union offers.⁶

There is no requirement that the beneficiaries be members, since they may never actually come to own the funds or have a right to them. Furthermore, in the case of a revocable trust, since it is essentially indistinguishable from the member, there is no need for the trust to have a separate account number assigned or for it to be viewed as a legal entity separate from the member who set it up.

In the case of an irrevocable trust, the requirements are somewhat different. Membership requirements here may be met though either the settlor, who is the original owner of the funds, or the beneficiary, who obtains an equitable, beneficial interest in the funds

⁶See OGC Op. No. 92-0522 (June 15, 1992).

once the trust is established. So long as one or the other is eligible for membership, the credit union may accept the account. Furthermore, as with revocable trusts, the membership obligation can be met through the opening of the trust account itself; it is not required that the beneficiary or the settlor have previously established a separate, regular share account. Most irrevocable trusts have a trustee who has administrative responsibility for the account, and so the credit union will typically deal with the trustee for purposes such as sending monthly statements and year-end tax reporting. However, the trustee need not actually be a member of the credit union, and the credit union need not necessarily view the trust account as a separate legal entity, with its own separate tax ID number. Instead, it need only verify and confirm the eligibility of either the settlor or the beneficiary (or all of the settlors or all of the beneficiaries in the case of multiple settlors or beneficiaries) to join the credit union.

A trust itself, either revocable or irrevocable, may be a member of the credit union in its own right if all parties to the trust, including all settlors, beneficiaries and trustees, are within the field of membership.⁷ If all parties to the trust are within a credit union's field of membership, the trust will qualify as "an organization of such persons," which is a standard clause in FCU fields of membership.

ARTICLE IV. MEETINGS OF MEMBERS

i. Annual and special meetings: FCUs are encouraged to provide a live webcast of annual and special meetings for interested members, and/or post a video of the annual meeting on the FCU's website. The NCUA Board encourages this policy for FCUs that currently have a website.

ARTICLE V. ELECTIONS

i. Eligibility requirements: The Act and the FCU Bylaws contain the only eligibility requirements for membership on an FCU's board of directors, which are as follows:

(a) The individual must be a member of the FCU before distribution of ballots;

(b) The individual cannot have been convicted of a crime involving dishonesty or breach of trust unless the NCUA Board has waived the prohibition for the conviction; and

(c) The individual meets the minimum age requirement established under Article V, §7 of the FCU Bylaws.

Anyone meeting the three eligibility requirements may run for a seat on the board of directors if properly nominated. It is the nominating committee's duty to ascertain that all nominated candidates, including

those nominated by petition, meet the eligibility requirements.

ii. Nomination criteria for nominating committee: The Act and the FCU Bylaws do not prohibit a board of directors from establishing reasonable criteria, in addition to the eligibility requirements, for a nominating committee to follow in making its nominations, such as financial experience, years of membership, or conflict of interest provisions. The board's nomination criteria, however, applies only to individuals nominated by the nominating committee; they cannot be imposed on individuals who meet the eligibility requirements and are properly nominated from the floor or by petition.

iii. Candidates' names on ballots: When producing an election ballot, the FCU's secretary may order the names of the candidates on the ballot using any method for selection provided it is random and used consistently from year to year so as to avoid manipulation or favoritism.

iv. Secret ballots: An FCU must establish an election process that assures members their votes remain confidential and secret from all interested parties. If the election process does not separate the member's identity from the ballot, FCUs should use a third-party teller that has sole control over completed ballots. If the ballots are designed so that members' identities remain secret and are not disclosed on the ballot, FCUs may use election tellers from the FCU. In any case, FCU employees, officials, and members must not have access to ballots identifying members or to information that links members' votes to their identities.

v. Plurality voting: At least one nominee must be nominated for each vacant seat. When there are more nominees than seats open for election, the nominees who receive the greatest number of votes are elected to the vacant seats.

vi. Minimum age requirement: The age the board selects may not be greater than eighteen or the age of majority under the state law applicable to the credit union, whichever is lower.

vii. Electronic voting: Some members lack digital access or wish to have a choice to vote non-electronically. The FCU Bylaws protect members who cannot or choose not to vote electronically. For those members who vote electronically, credit unions have the flexibility to use as many forms of electronic voting (phone, internet, etc.) as they wish.

viii. Voting methods: Options A1, A2 and A3 provide for in-person voting at the annual meeting, or, for Option A3, by voting machine. Option A4 provides for remote voting by electronic device or mail ballot. The NCUA has approved several bylaw amendments for FCUs that combine in-person and remote options for member voting. The NCUA encourages FCUs using one of the first

⁷ OGC Op. No. 99–1110 (Feb. 25, 2000).

three options to consider whether they can also incorporate mail ballots or electronic voting. Likewise, the NCUA encourages FCUs using Option A4 to consider whether they can also provide a means to vote for members who come to the annual meeting but have not voted in the election, such as a paper ballot.

ix. Uncontested elections: Options A2, A3 and A4 provide for election by acclamation or consensus when the number of nominees for board positions equals the number of positions to be filled. These options do not permit nominations from the floor at the meeting, so a petition is the only way for members to nominate a candidate not on the nominating committee's slate. Accordingly, section (1)(c) in each of these options requires the notice to members to include the fact that there are no nominations from the floor at the meeting, as well as a notice that the credit union will not conduct a vote by ballot if the number of nominees equals the number of positions to be filled. The FCU Bylaws do not require a particular procedure for uncontested elections.

The contents of the notice to members required in section (1)(c) does not alter the basic election procedures the credit union has selected. Should the number of the nominating committee nominees fall below the number of positions to be filled after the member notice is sent, this section does not permit nominations from the floor. Only option A1 permits nominations from the floor.

x. Nomination procedures: Under all options under this Article, the nominating committee must widely publicize the call for nominations to all members by any medium. This requirement can be satisfied by publicizing the information to a large audience, whether by newsletter, email, or any other satisfactory medium that reaches as many members as possible. The NCUA emphasizes that member participation is important during an election, and FCUs must make sure that members are aware of the nomination process.

ARTICLE VI. BOARD OF DIRECTORS

i. Vacancies: In accordance with the Act, when a vacancy on the board of directors occurs between annual elections, the remaining directors are to appoint a replacement. This replacement will serve as a director until the next annual meeting. The vacancy is then to be filled at the next annual meeting through the normal membership voting process, with the newly elected director serving out the remainder of the original term.⁸ The number of director positions may be changed to any odd number between 5 and 15, inclusive, but a position may not be eliminated if it is currently an occupied position.

⁸12 U.S.C. 1761(a).

As the bylaw itself specifies, no reduction in the number of director positions may be made unless there is a corresponding vacancy, caused by death, resignation, expiration of term or other action permissible under the FCU Bylaws. In other words, the FCU may not arbitrarily propose to reduce the number of director positions and terminate one or more incumbent directors.

ii. Director emeritus: As a matter of board policy, the board may establish the position of director emeritus for former directors who faithfully fulfilled their responsibilities as members of the board for at least a specified minimum number of years. The board may determine that director emeritus status confers authority to attend board meetings and to participate in discussions and other board events; however, directors emeritus may not vote on any matter before the board or exercise any official duties of a director. The position is essentially an honorary title designed to recognize and reward the good service of those designated and to retain some of their institutional knowledge for the benefit of the board and the FCU. The decision to establish a director emeritus position, as well as the selection of individuals to become directors emeritus, is solely within the discretion of the board. The board may establish a director emeritus position by adopting either the optional bylaw amendment or a board policy.

To assist them in providing advice, Directors emeriti have access to confidential information, including but not limited to the credit union's examination reports and CAMEL ratings, to the same extent as members of the board. Directors emeriti are also subject to the same confidentiality and conflict of interest standards applicable to directors.

iii. Associate directors: The board may also establish the position of associate director through board policy. This position is designed to provide qualified individuals with an opportunity to gain exposure to board meetings and discussions but without formal director responsibility or the right to vote. It may be thought of as an apprenticeship position in which the incumbent receives training and knowledge about the business of the board, with the expectation that the experience will prepare him or her for an eventual election to a director position. As with the director emeritus position, the decision to establish an associate director position, as well as the selection of individuals to become associate directors, is solely within the discretion of the board.

To assist their learning process, the board may determine to permit associate directors to have access to confidential information, including but not limited to the credit union's examination reports and CAMEL ratings, to the same extent as members of the board. Associate directors are also subject to

the same confidentiality and conflict of interest standards applicable to directors.

iv. Composition of the board: The NCUA Board encourages the composition of the board of directors to reflect the field of membership of the FCU.

v. Notice to members of change in size of board: The NCUA encourages FCUs changing the size of their boards to post a notice of the change on the FCU's website (if the FCU maintains a website). An FCU is not required to establish and maintain a website solely for this purpose, however. An FCU that does not maintain a website can post such a notice in a conspicuous place in the office of the FCU, such as at the teller window or on the front door of the FCU.

ARTICLE VII. BOARD OFFICERS, MANAGEMENT OFFICIALS AND EXECUTIVE COMMITTEE

i. Board officers: As specified in this bylaw, members of the board are elected by the credit union membership to the board itself. Once on the board, the directors themselves vote to select individuals from among their number to serve as officers of the board (chair, one or more vice chairs, secretary and financial officer). One board officer may be compensated as such for services he or she performs in that capacity. The offices of financial officer and secretary may be held by the same person.

Members of the board must hold the vote for the specified officer positions at the first board meeting following the annual meeting of the members. This board meeting should be held not later than seven days after the annual meeting. The Act requires the credit union to file a record of the names and addresses of the executive offices, members of the supervisory committee, credit committee, and loan officers with the Administration within ten days after election or appointment.⁹ The NCUA's regulations also require federally insured credit unions to file NCUA Form 4501 or its equivalent within 10 days after an election or appointment of senior management or volunteer officials.¹⁰

Officers hold their respective officer positions for a term of one year, until the first board meeting that follows the next annual meeting of the members. At that board meeting, officer positions are again filled. Each board officer holds his or her position until the election and qualification of his or her successor. Thus, a board officer who is re-elected to the position he or she is currently holding serves for another year. Where another director is chosen to fill the position, he or she takes office effective as of the date of the election, assuming he or she is qualified—meaning simply that he or she was properly elected by the membership to

the board in the first place and is in good standing as a director.

As specified in this bylaw, the board chair presides at all board meetings. In the absence of the chair or his or her inability to act, the vice chair presides at the meeting. In the absence or inability to act of both the chair and the vice chair, those directors who are present may select from among their number an individual director to act as temporary chair for that particular meeting. Actions taken by the board under the direction of the temporary chair have the same validity and effect as if taken under the direction of the chair or the vice chair, provided a quorum of the board, including the temporary chair, is present. If the board secretary is absent for any reason from a meeting, the chair (or acting chair) must select another director to fulfill the secretary's function at the meeting.

ii. Committee Membership: The NCUA encourages FCUs to publicize the names of the members of each FCU committee to FCU members. FCUs could provide this information either on the FCU's public website or to the portion of the website only accessible to members after logging in. The NCUA encourages this policy for FCUs that have a website. An FCU is not required to establish and maintain a website solely for this purpose, however. Providing a short description of the committee's duties also assists members in better understanding the leadership structure of the FCU.

ARTICLE VIII. CREDIT COMMITTEE OR LOAN OFFICERS

Many FCUs now use automated systems for accepting loan applications, loan underwriting, and loan processing, as permitted by several of the NCUA Office of General Counsel's legal opinions. The bylaws reflect that FCUs may use automated lending systems, as long as the credit committee or a loan officer: (1) reviews the loans the automated system granted for fraud and other purposes; and (2) reviews loans the automated system denied.

ARTICLE IX. SUPERVISORY COMMITTEE

i. Nominations: The Act requires that the FCU's board appoint the members of the Supervisory Committee. It is permissible for the board to seek nominations from members before making Supervisory Committee appointments.

ARTICLE XIV. EXPULSION AND WITHDRAWAL

As noted in the commentary to Article II, there is a wide range of measures available to the credit union in responding to abusive or unreasonably disruptive members. A credit union can limit services under Article II for a member not in good standing. A credit union may also expel the member for cause

⁹ 12 U.S.C. 1761(b).

¹⁰ 12 CFR 741.6.

after a two-thirds vote of the credit union's directors.¹¹ Dangerous and abusive behavior is considered any violent, belligerent, unreasonably disruptive, or abusive behavior. Examples of dangerous and abusive conduct include, but are not limited to, a member threatening physical harm to employees, a member repeatedly and unwelcomely giving gifts to or asking tellers on dates, a member repeatedly using racial or sexist language towards employees, and a member threatening to follow a loan officer home for denying a loan.

A credit union must provide notice of the expulsion to the member. The notice must include the reason for the expulsion, and if a hearing was conducted or written testimony provided, the credit union should provide a response to the member's statements. The notice must be specific and not just include conclusory statements regarding the reason for the member's expulsion. For example, a general statement that the member's behavior has been deemed abusive and the member is being subject to expulsion procedures would be insufficient as an explanation. A credit union is prohibited from expelling a class of members under this provision. That would include a board acting to remove all delinquent members or class of delinquent members.

If a special meeting of the members is called to expel the member, only in-person voting is permitted in conjunction with the special meeting, so that the affected member has an opportunity to present the member's case and respond to the credit union's concerns. However, an in-person meeting is not required if a member is expelled by a two-thirds vote of the board of directors. In addition, FCUs should consider the commentary under Article XVI about members using accounts for unlawful purposes.

Optional Standard Disclosure of Expulsion Policy

We may terminate your membership in [name of FCU] in one of three ways. The first way is through a special meeting. Under this option, we may call a special meeting of the members, provide you an opportunity to be heard, and obtain a two-thirds vote of the members present at the special meeting in favor of your expulsion. The second way to terminate your membership is under a non-participation policy given to each member that follows certain requirements. The third way to terminate your membership is by a two-thirds vote of a quorum of the directors of the credit union for cause.

Cause is defined as follows: (A) a substantial or repeated violation of [name of membership agreement] with [us]; (B) a substantial or repeated disruption, including dan-

gerous or abusive behavior, to the credit union's operations; or (C) fraud, attempted fraud, or a conviction of other illegal conduct that a member has been convicted of in relation to [us], including in connection with our employees conducting business on behalf of us.

Before the board votes on an expulsion, [we] must provide written notice to your mail address (or email, if applicable) on record or personally provide the written notice. [We] must provide the specific reasons for the expulsion and allow you an opportunity to rebut those reasons through a hearing if you choose. It is your responsibility to keep your contact information with [us] up to date, and to open and read notices from [us]. Unless [we] determine to allow otherwise, there is no right to an in-person hearing with the board. If you fail to request a hearing within 60 calendar days of receipt of the notice, you will be expelled. You may submit any complaints about your pending expulsion or expulsion to NCUA's Consumer Assistance Center if the complaint cannot be resolved with the credit union.

[We] will confirm any expulsion with a letter with information on the effect of the expulsion and how you can request reinstatement. Expulsion or withdrawal from membership does not relieve a member of liability to the credit union, and we may demand immediate repayment of the money you owe to us after expulsion, subject to any applicable contract terms and conditions.

For additional information on expulsion and a copy of our expulsion policy, see [Article XIV of our Bylaws].

ARTICLE XVI. GENERAL

i. Special meeting requirements: To remove a director under section 3 of this Article requires a majority vote of members present at a special meeting called for the purpose of voting on removal. The bylaw requires that the affected director have the "opportunity to be heard." NCUA interprets this provision as requiring the vote to occur at an in-person meeting rather than by mail ballot. At an in-person meeting, the director subject to the removal vote can make his or her case before the members. The director removal provisions derive from provisions of the Act, as follows:

- The bylaws govern the conduct of special meetings;¹²
- Members must have the opportunity to vote, at a meeting, on the Supervisory Committee's suspension of a director;¹³ and

¹² 12 U.S.C. 1760.

¹³ 12 U.S.C. 1761d.

¹¹ See 12 U.S.C. 1764.

• FCU members may be expelled by vote of members present at a meeting called for that purpose.¹⁴

ii. Unlawful purposes: FCUs expressed concerns that some members may be using their accounts for unlawful purposes. Section 1 of this Article specifies that the credit union, its powers and duties, and the functions of its members, officers and directors, are all strictly circumscribed by law and regulation. Insofar as this provision is included in the bylaws, an FCU need not adopt a specific policy or requirement that members conform their use of credit union products or services to lawful purposes. Furthermore, the existence of this bylaw provides ample support should an FCU determine to impose strict limits on products and services available to any individual who is found to be using the FCU in furtherance of unlawful purposes.

iii. Posting of bylaws on website: FCUs that maintain a website must post a copy of the FCU's bylaws on the website. After adopting amendments, FCUs must post an updated copy of the bylaws. An FCU is not required to establish and maintain a website solely for this purpose, however.

[84 FR 53289, Oct. 4, 2019, as amended at 88 FR 48065, July 26, 2023]

APPENDIX B TO PART 701—CHARTERING AND FIELD OF MEMBERSHIP MANUAL

CHAPTER 1 — FEDERAL CREDIT UNION CHARTERING

I—GOALS OF NCUA CHARTERING POLICY

The National Credit Union Administration's (NCUA) chartering and field of membership policies are directed toward achieving the following goals:

- To encourage the formation of credit unions;
- To uphold the provisions of the Federal Credit Union Act;⁹²
- To promote thrift and credit extension;
- To promote credit union safety and soundness; and
- To make quality credit union service available to all eligible persons.

NCUA may grant a charter to single occupational/associational groups, multiple groups, or communities if:

- The occupational, associational, or multiple groups possess an appropriate common bond or the community represents a well-defined local community, neighborhood, or rural district;
- The subscribers are of good character and are fit to represent the proposed credit union; and
- The establishment of the credit union is economically advisable.

Generally, these are the primary criteria that NCUA will consider. In unusual circumstances, however, NCUA may examine other factors, such as other federal law or public policy, in deciding if a charter should be approved.

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

II—TYPES OF CHARTERS

The Federal Credit Union Act recognizes three types of federal credit union charters—single common bond (occupational and associational), multiple common bond (more than one group each having a common bond of occupation or association), and community.

The requirements that must be met to charter a federal credit union are described in Chapter 2. Special rules for credit unions serving low-income groups are described in Chapter 3.

If a federal credit union charter is granted, Section 5 of the charter will describe the credit union's field of membership, which defines those persons and entities eligible for membership. Generally, federal credit unions are only able to grant loans and provide services to persons within the field of membership who have become members of the credit union.

III—SUBSCRIBERS

Federal credit unions are generally organized by persons who volunteer their time and resources and are responsible for determining the interest, commitment, and economic advisability of forming a federal credit union. The organization of a successful federal credit union takes considerable planning and dedication.

Persons interested in organizing a Federal credit union should contact one of the credit union trade associations or the NCUA Office of Credit Union Resources and Expansion. Lists of NCUA offices and credit union trade associations are shown in the appendices. NCUA will provide information to groups interested in pursuing a federal charter and will assist them in contacting an organizer.

While anyone may organize a credit union, a person with training and experience in chartering new federal credit unions is generally the most effective organizer. However, extensive involvement by the group desiring credit union service is essential.

The functions of the organizer are to provide direction, guidance, and advice on the chartering process. The organizer also provides the group with information about a credit union's functions and purpose as well

¹⁴ 12 U.S.C. 1764(a).

⁹² 12 U.S.C. 1751 *et seq.*

as technical assistance in preparing and submitting the charter application. Close communication and cooperation between the organizer and the proposed members are critical to the chartering process.

The Federal Credit Union Act requires that seven or more natural persons—the “subscribers”—present to NCUA for approval a sworn organization certificate stating at a minimum:

- The name of the proposed federal credit union;
- The location of the proposed federal credit union and the territory in which it will operate;
- The names and addresses of the subscribers to the certificate and the number of shares subscribed by each;
- The initial par value of the shares;
- The detailed proposed field of membership; and
- The fact that the certificate is made to enable such persons to avail themselves of the advantages of the Federal Credit Union Act.

Willfully and knowingly making false statements on any of the required documentation filed in obtaining a federal credit union charter may be grounds for federal criminal prosecution under 18 U.S.C. 1001.

IV—ECONOMIC ADVISABILITY

IV.A—General

Before chartering a federal credit union, NCUA must be satisfied that the institution will be viable and that it will provide needed services to its members. Economic advisability, which is a key factor in determining whether a potential charter will have a reasonable opportunity to succeed, is essential in order to qualify for a credit union charter.

NCUA will conduct an independent on-site investigation of each charter application to ensure that the proposed credit union can be successful. In general, the success of any credit union depends on: (a) The character and fitness of management; (b) the depth of the members’ support; and (c) present and projected market conditions.

IV.B—Proposed Management’s Character and Fitness

The Federal Credit Union Act requires NCUA to ensure that the subscribers are of good “general character and fitness.” Prospective officials and employees will be the subject of credit and background investigations. The investigation report must demonstrate each applicant’s ability to effectively handle financial matters. Employees and officials should also be competent, experienced, honest and of good character. Factors that may lead to disapproval of a prospective official or employee include criminal convictions, indictments, and acts of fraud and dishonesty. Further, factors such

as serious or unresolved past due credit obligations and bankruptcies disclosed during credit checks may disqualify an individual.

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

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

IV.C—Member Support

Economic advisability is a major factor in determining whether the credit union will be chartered. An important consideration is the degree of support from the field of membership. The charter applicant must be able to demonstrate that membership support is sufficient to ensure viability.

NCUA has not set a minimum field of membership size for chartering a federal credit union. Consequently, groups of any size may apply for a credit union charter and be approved if they demonstrate economic advisability. However, it is important to note that often the size of the group is indicative of the potential for success. For that reason, a charter application with fewer than 3,000 primary potential members (*e.g.*, employees of a corporation or members of an association) may not be economically advisable. Therefore, a charter applicant with a proposed field of membership of fewer than 3,000 primary potential members may have to provide more support than an applicant with a larger field of membership. For example, a small occupational or associational group may be required to demonstrate a commitment for long-term support from the sponsor.

IV.D—Present and Future Market Conditions—Business Plan

The ability to provide effective service to members, to compete in the marketplace, and to adapt to changing market conditions are key to the survival of any enterprise. Before NCUA will charter a credit union, a

business plan based on realistic and supportable projections and assumptions must be submitted.

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

- Mission statement;
- Analysis of market conditions, including if applicable, geographic, demographic, employment, income, housing, and other economic data;
- Evidence of member support;
- Goals for shares, loans, and for number of members;
- Financial services needed/desired;
- Financial services to be provided to members of all segments within the field of membership;
- How/when services are to be implemented;
- Organizational/management plan addressing qualification and planned training of officials/employees;
- Continuity plan for directors, committee members and management staff;
- Operating facilities, to include office space/equipment and supplies, safeguarding of assets, insurance coverage, etc.;
- Type of record-keeping and data processing system;
- Detailed semiannual pro forma financial statements (balance sheet, income and expense projections) for 1st and 2nd year, including assumptions—*e.g.*, loan and dividend rates;
- Plans for operating independently;
- Written policies (shares, lending, investments, funds management, capital accumulation, dividends, collections, etc.);
- Source of funds to pay expenses during initial months of operation, including any subsidies, assistance, etc., and terms or conditions of such resources; and
- Evidence of sponsor commitment (or other source of support) if subsidies are critical to success of the federal credit union. Evidence may be in the form of letters, contracts, financial statements from the sponsor, and any other such document on which the proposed federal credit union can substantiate its projections.

While the business plan may be prepared with outside assistance, the subscribers and proposed officials must understand and support the submitted business plan.

V—STEPS IN ORGANIZING A FEDERAL CREDIT UNION

V.A—Getting Started

Following the guidance contained throughout this policy, the organizers should submit wording for the proposed field of membership (the persons, organizations and other legal entities the credit union will serve) to NCUA early in the application process for written preliminary approval. The proposed field of

membership must meet all common bond or community requirements.

Once the field of membership has been given preliminary approval, the organizer should conduct an organizational meeting to elect seven to ten persons to serve as subscribers. The subscribers should locate willing individuals capable of serving on the board of directors, credit committee, supervisory committee, and as chief operating officer/manager of the proposed credit union.

Subsequent organizational meetings may be held to discuss the progress of the charter investigation, to announce the proposed slate of officials, and to respond to any questions posed at these meetings.

If NCUA approves the charter application, the subscribers, as their final duty, will elect the board of directors of the proposed federal credit union. The new board of directors will then appoint the supervisory committee.

V. B—Charter Application Documentation

V.B.1—General

As discussed previously in this Chapter, the organizer of a federal credit union charter must, at a minimum, provide evidence that:

- The group(s) possess an appropriate common bond or the geographical area to be served is a well-defined local community, neighborhood, or rural district;
- The subscribers, prospective officials, and employees are of good character and fitness; and
- The establishment of the credit union is economically advisable.

As part of the application process, the organizer must submit the following forms, which are available in appendix 4 of this Manual:

- Federal Credit Union Investigation Report, NCUA 4001;
- Organization Certificate, NCUA 4008;
- Report of Official and Agreement To Serve, NCUA 4012;
- Application and Agreements for Insurance of Accounts, NCUA 9500; and
- Certification of Resolutions, NCUA 9501.

Each of these forms is described in more detail in the following sections.

V.B.2—Federal Credit Union Investigation Report, NCUA 4001

The application for a new federal credit union will be submitted on NCUA 4001. State-chartered credit unions applying for conversion to a federal charter will use NCUA 4000. (See Chapter 4 for a full discussion.) The organizer is required to certify the information and recommend approval or disapproval, based on the investigation of the request.

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V.B.3—Organization Certificate, NCUA 4008

This document, which must be completed by the subscribers, includes the seven criteria established by the Federal Credit Union Act. NCUA staff assigned to the case will assist in the proper completion of this document.

V.B.4—Report of Official and Agreement To Serve, NCUA 4012

This form documents general background information of each official and employee of the proposed federal credit union. Each official and employee must complete and sign this form. The organizer must review each of the NCUA 4012s for elements that would prevent the prospective official or employee from serving. Further, such factors as serious, unresolved past due credit obligations and bankruptcies disclosed during credit checks may disqualify an individual.

V.B.5—Application and Agreements for Insurance of Accounts, NCUA 9500

This document contains the agreements with which federal credit unions must comply in order to obtain National Credit Union Share Insurance Fund (NCUSIF) coverage of member accounts. The document must be completed and signed by both the chief executive officer and chief financial officer. A federal credit union must qualify for federal share insurance.

V.B.6—Certification of Resolutions, NCUA 9501

This document certifies that the board of directors of the proposed federal credit union has resolved to apply for NCUSIF insurance of member accounts and has authorized the chief executive officer and recording officer to execute the Application and Agreements for Insurance of Accounts. Both the chief executive officer and recording officer of the proposed federal credit union must sign this form.

VI—NAME SELECTION

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

- Is not already being officially used by another federal credit union;
- Will not be confused with NCUA or another federal or state agency, or with another credit union; and

- Does not include misleading or inappropriate language.

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

The word "community," while not required, can only be included in the name of federal credit unions that have been granted a community charter.

VII—NCUA REVIEW

VII.A—General

Once NCUA receives a complete charter application package, an acknowledgment of receipt will be sent to the organizer. During the review process, a staff member will be assigned to perform an on-site contact with the proposed officials and others having an interest in the proposed federal credit union.

NCUA staff will review the application package and verify its accuracy and reasonableness. A staff member will inquire into the financial management experience and the suitability and commitment of the proposed officials and employees, and will make an assessment of economic advisability. The staff member will also provide guidance to the subscribers in the proper completion of the Organization Certificate, NCUA 4008.

Credit and background investigations may be conducted concurrently by NCUA with other work being performed by the organizer and subscribers to reduce the likelihood of delays in the chartering process.

The staff member will analyze the prospective credit union's business plan for realistic projections, attainable goals, adequate service to all segments of the field of membership, sufficient start-up capital, and time commitment by the proposed officials and employees. Any concerns will be reviewed with the organizer and discussed with the prospective credit union's officials. Additional on-site contacts by NCUA staff may be necessary. The organizer and subscribers will be expected to take the steps necessary to resolve any issues or concerns. Such resolution efforts may delay processing the application.

NCUA staff will then make a recommendation to the Office of Credit Union Resources and Expansion Director regarding the charter application. The recommendation may include specific provisions to be included in a Letter of Understanding and Agreement. In most cases, NCUA will require the prospective officials to adhere to certain operational guidelines. Generally, the agreement is for a limited term of two to four years. A sample Letter of Understanding and Agreement is found in appendix 2.

VII.B—Office of Credit Union Resources and Expansion Director Approval

Once approved, the board of directors of the newly formed federal credit union will

receive a signed charter and standard bylaws from the Office of Credit Union Resources and Expansion Director. Additionally, the officials will be advised of the name of the examiner assigned responsibility for supervising and examining the credit union.

VII.C—Office of Credit Union Resources and Expansion Director Disapproval

When the Office of Credit Union Resources and Expansion Director disapproves any charter application, in whole or in part, the organizer will be informed in writing of the specific reasons for the disapproval. Where applicable, the Office of Credit Union Resources and Expansion Director will provide information concerning options or suggestions that the applicant could consider for gaining approval or otherwise acquiring credit union service. The letter of denial will include the procedures for appealing the decision.

VII.D—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies a charter application, in whole or in part, that decision may be appealed to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the prospective group may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the request for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial.

VII.E—Commencement of Operations

Assistance in commencing operations is generally available through the various credit union trade organizations listed in appendix 5.

All new federal credit unions are also encouraged to establish a mentor relationship with a knowledgeable, experienced credit union individual or an existing, well-operated credit union. The mentor should provide guidance and assistance to the new credit union through attendance at meetings and general oversight. Upon request, NCUA will provide assistance in finding a qualified mentor.

VIII—FUTURE SUPERVISION

Each federal credit union will be examined regularly by NCUA to determine that it remains in compliance with applicable laws

and regulations and to determine that it does not pose undue risk to the NCUSIF. The examiner will contact the credit union officials shortly after approval of the charter in order to arrange for the initial examination (usually within the first six months of operation).

The examiner will be responsible for monitoring the progress of the credit union and providing the necessary advice and guidance to ensure it is in compliance with applicable laws and regulations. The examiner will also monitor compliance with the terms of any required Letter of Understanding and Agreement. Typically, the examiner will require the credit union to submit copies of monthly board minutes and financial statements.

The Federal Credit Union Act requires all newly chartered credit unions, up to two years after the charter anniversary date, to obtain NCUA approval prior to appointment of any new board member, credit or supervisory committee member, or senior executive officer. Section 701.14 of the NCUA Rules and Regulations sets forth the notice and application requirements. If NCUA issues a Notice of Disapproval, the newly chartered credit union is prohibited from making the change.

NCUA may disapprove an individual serving as a director, committee member or senior executive officer if it finds that the competence, experience, character, or integrity of the individual indicates it would not be in the best interests of the members of the credit union or of the public to permit the individual to be employed by or associated with the credit union. If a Notice of Disapproval is issued, the credit union may appeal the decision to the NCUA Board.

IX—CORPORATE FEDERAL CREDIT UNIONS

A corporate federal credit union is one that is operated primarily for the purpose of serving other credit unions. Corporate federal credit unions are not governed by this manual, but instead operate under and are administered by the NCUA Office of National Examinations and Supervision.

X—GROUPS SEEKING CREDIT UNION SERVICE

NCUA will attempt to assist any group in chartering a credit union or joining an existing credit union. If the group is not eligible for federal credit union service, NCUA will refer the group to the appropriate state supervisory authority where different requirements may apply.

XI—FIELD OF MEMBERSHIP DESIGNATIONS

NCUA will designate a credit union based on the following criteria:

Single Occupational: If a credit union serves a single occupational sponsor, such as ABC Corporation, it will be designated as an

occupational credit union. A single occupational common bond credit union may also serve a trade, industry, or profession (TIP), such as all teachers.

Single Associational: If a credit union serves a single associational sponsor, such as the Knights of Columbus, it will be designated as an associational credit union.

Multiple Common Bond: If a credit union serves more than one group, each of which has a common bond of occupation and/or association, it will be designated as a multiple common bond credit union.

Community: All community credit unions will be designated as such, followed by a description of their geographic boundaries, including but not limited to city or county boundaries, roadways, rivers, transportation lines.

Credit unions desiring to confirm or submit an application to change their designations should contact the Office of Credit Union Resources and Expansion.

XII—FOREIGN BRANCHING

A federal credit union is permitted to serve foreign nationals within its field of membership wherever such individuals reside if management has the ability and resources to serve them. Before a credit union opens a branch outside the United States, it must submit an application to do so and have prior written approval of the regional director or Office of National Examinations and Supervision Director. A federal credit union may establish a service facility on a United States military installation or United States embassy without prior NCUA approval.

CHAPTER 2 — FIELD OF MEMBERSHIP REQUIREMENTS FOR FEDERAL CREDIT UNIONS

I—INTRODUCTION

I.A.1—General

As set forth in Chapter 1, the Federal Credit Union Act provides for three types of federal credit union charters—single common bond (occupational or associational), multiple common bond (multiple groups), and community. Section 109 (12 U.S.C. 1759) of the Federal Credit Union Act addresses the membership requirements for each type of charter.

The field of membership, which is specified in Section 5 of the charter, defines those persons and entities eligible for membership. A single common bond federal credit union consists of one group having a common bond of occupation or association. A multiple common bond federal credit union consists of more than one group, each of which has a common bond of occupation or association. A community federal credit union consists of persons or organizations within a well-defined local community, neighborhood, or rural district.

Once chartered, a federal credit union can amend its field of membership; however, the same common bond or community requirements for chartering the credit union must be satisfied. Since there are differences in the three types of charters, special rules apply to each, which are fully discussed in the following sections of this Chapter.

I.A.2—Special Low-Income Rules

Generally, federal credit unions can only grant loans and provide services to persons who have joined the credit union. The Federal Credit Union Act states that one of the purposes of federal credit unions is “to serve the productive and provident credit needs of individuals of modest means.” Although field of membership requirements are applicable, special rules set forth in Chapter 3 may apply to low-income designated credit unions and those credit unions assisting low-income groups or to a federal credit union that adds an underserved community to its field of membership.

II—OCCUPATIONAL COMMON BOND

II.A.1—General

A single occupational common bond federal credit union may include in its field of membership all persons and entities who share that common bond. NCUA permits a person’s membership eligibility in a single occupational common bond group to be established in five ways:

- Employment (or a contractual relationship equivalent to employment) in a single corporation or other legal entity makes that person part of a single occupational common bond;
- Employment in a corporation or other legal entity with a controlling ownership interest (which shall not be less than 10 percent) in or by another legal entity makes that person part of a single occupational common bond;
- Employment in a corporation or other legal entity which is related to another legal entity (such as a company under contract and possessing a strong dependency relationship with another company) makes that person part of a single occupational common bond;
- Employment or attendance at a school makes that person part of a single occupational common bond (see Chapter 2, Section III.A.1); or
- Employment in the same Trade, Industry, or Profession (TIP) (see Chapter 2, Section II.A.2).

A geographic limitation is not a requirement for a single occupational common bond. However, for purposes of describing the field of membership, the geographic areas being served may be included in the charter. For example:

- Employees, officials, and persons who work regularly under contract in Miami, Florida for ABC Corporation and subsidiaries;

- Employees of ABC Corporation who are paid from ***;

- Employees of ABC Corporation who are supervised from ***;

- Employees of ABC Corporation who are headquartered in ***; and/or

- Employees of ABC Corporation who work in the United States.

The corporation or other legal entity (*i.e.*, the employer) may also be included in the common bond—*e.g.*, “ABC Corporation.” The corporation or legal entity will be defined in the last clause in Section 5 of the credit union’s charter.

A charter applicant must provide documentation to establish that the single occupational common bond requirement has been met.

Some examples of valid single occupational common bonds are:

- Employees of the Hunt Manufacturing Company who work in West Chester, Pennsylvania. (common bond—same employer with geographic definition);

- Employees of the Buffalo Manufacturing Company who work in the United States. (common bond—same employer with geographic definition);

- Employees, elected and appointed officials of municipal government in Parma, Ohio. (common bond—same employer with geographic definition);

- Employees of Johnson Soap Company and its majority owned subsidiary, Johnson Toothpaste Company, who work in, are paid from, are supervised from, or are headquartered in Augusta and Portland, Maine. (common bond—parent and subsidiary company with geographic definition);

- Employees of MMLLJS contractor who work regularly at the U.S. Naval Shipyard in Bremerton, Washington. (common bond—employees of contractors with geographic definition);

- Employees, doctors, medical staff, technicians, medical and nursing students who work in or are paid from the Newport Beach Medical Center, Newport Beach, California. (single corporation with geographic definition);

- Employees of JLS, Incorporated and MJM, Incorporated working for the LKM Joint Venture Company in Catalina Island, California. (common bond—same employer—ongoing dependent relationship);

- Employees of and students attending Georgetown University. (common bond—same occupation);

- Employees of all the schools supervised by the Timbrook Board of Education in Timbrook, Georgia. (common bond—same employer); or

- All licensed nurses in Fairfax County, Virginia. (occupational common bond TIP).

In contrast, some examples of insufficiently defined single occupational common bonds are:

- Employees of manufacturing firms in Seattle, Washington. (no defined occupational sponsor; overly broad TIP);

- Persons employed or working in Chicago, Illinois. (no occupational common bond).

II.A.2—Trade, Industry, or Profession

A common bond based on employment in a trade, industry, or profession can include employment at any number of corporations or other legal entities that—while not under common ownership—have a common bond by virtue of producing similar products, providing similar services, or participating in the same type of business.

While proposed or existing single common bond credit unions have some latitude in defining a trade, industry, or profession occupational common bond, it cannot be defined so broadly as to include groups in fields which are not closely related. For example, the manufacturing industry, energy industry, communications industry, retail industry, or entertainment industry would not qualify as a TIP because each industry lacks the necessary commonality. However, textile workers, realtors, nurses, teachers, police officers, or U.S. military personnel are closely related and each would qualify as a TIP.

The common bond relationship must be one that demonstrates a narrow commonality of interests within a specific trade, industry, or profession. If a credit union wants to serve a physician TIP, it can serve all physicians, but that does not mean it can also serve all clerical staff in the physicians’ offices. However, if the TIP is based on the health care industry, then clerical staff would be able to be served by the credit union because they work in the same industry and have the same commonality of interests.

If a credit union wants to include the airline services industry, it can serve airline and airport personnel but not passengers. Clients or customers of the TIP are not eligible for credit union membership (*e.g.*, patients in hospitals). Any company that is involved in more than one industry cannot be included in an industry TIP (*e.g.*, a company that makes tobacco products, food products, and electronics). However, employees of these companies may be eligible for membership in a variety of trade/profession occupational common bond TIPs.

Although a TIP should be narrowly defined, and ordinarily would not include third-party vendors and other suppliers, it may include, on a case by case basis, employees of types of entities that have a “strong dependency relationship” and work directly

with other types of entities within the industry. In this context, a “strong dependency relationship” between a TIP entity and its supplier/vendor must be demonstrated by their reliance on each other as measured by the presence of indicators of a likelihood that the absence of one would cause the other to suffer a material decline in either revenue, functionality or productivity.

Under this definition, a firm whose employees are specially trained to protect nuclear facilities, and whose employees work primarily at such facilities, could be a part of a TIP based on the firm’s participation in the nuclear energy industry.

Other “strong relationship” indicators NCUA would consider include the regularity or frequency of work that employees of the entity perform at facilities directly related to the industry, or the degree to which employees must adjust their work practices to adapt to the needs of the industry. For example, a company’s focus on producing specialized confectionary products for a hotel chain could add that company to a hospitality industry TIP. A credit union seeking to include a clause of this type in its TIP charter must provide a brief narrative identifying indicators that support the existence of a strong dependency relationship between the TIP entity and its individual supplier/vendors.

Likewise, an FCU may serve employees of companies within the commercial airline industry that have a strong dependency relationship with airlines or airports, without the limitation that these employees work at an airport. However, these employees must work directly with the following: Air transportation of freight, air courier services; air passenger services; airport baggage handling; airport security; commercial airport janitorial services; maintenance, servicing, and repair services; and on board airline food services. The employees of those entities have a narrow commonality of interests, share the single occupational common bond, and can be included within the Air Transportation Industry field of membership.

In general, except for credit unions serving a national field of membership or operating in multiple states, a geographic limitation is required for a TIP credit union. The geographic limitation will be part of the credit union’s charter and generally correspond to its current or planned operational area. More than one federal credit union may serve the same trade, industry, or profession, even if both credit unions are in the same geographic location.

This type of occupational common bond is only available to single common bond credit unions. A TIP cannot be added to a multiple common bond or community field of membership.

To obtain a TIP designation, the proposed or existing credit union must submit a re-

quest to the Office of Credit Union Resources and Expansion Director. New charter applicants must follow the documentation requirements in Chapter 1. New charter applicants and existing credit unions must submit a business plan on how the credit union will serve the group with the request to serve the TIP. The business plan also must address how the credit union will verify the TIP. Examples of such verification include state licenses, professional licenses, organizational memberships, pay statements, union membership, or employer certification. The Office of Credit Union Resources and Expansion Director must approve this type of field of membership before a credit union can serve a TIP. Credit unions converting to a TIP can retain members of record but cannot add new members from its previous group or groups, unless the group or groups are part of the TIP.

Section II.B on Occupational Common Bond Amendments does not apply to a TIP common bond. Removing or changing a geographical limitation will be processed as a housekeeping amendment. If safety and soundness concerns are present, the Office of Credit Union Resources and Expansion Director may require additional information before the request can be processed.

Section II.H, on Other Persons Eligible for Credit Union Membership, applies to TIP based credit unions except for the corporate account provision which only applies to industry based TIPs. Credit unions with industry based TIPs may include corporations as members because they have the same commonality of interests as all employees in the industry. For example, an airline service TIP (industry) can serve an airline carrier (corporate account); however, a nurses TIP (profession) could not serve a hospital (corporate account) because not everyone working in the hospital shares the same profession.

If a TIP designated credit union wishes to convert to a different TIP or employer-based occupational common bond, or different charter type, it only retains members of record after the conversion. The Office of Credit Union Resources and Expansion Director, for safety and soundness reasons, may approve a TIP designated credit union to convert to its original field of membership.

II.B—OCCUPATIONAL COMMON BOND AMENDMENTS

II.B.1—General

Section 5 of every single occupational federal credit union’s charter defines the field of membership the credit union can legally serve. Only those persons or legal entities specified in the field of membership can be served. There are a number of instances in which Section 5 must be amended by NCUA.

First, a group sharing the credit union's common bond is added to the field of membership. This may occur through various ways including agreement between the group and the credit union directly, or through a merger, corporate acquisition, purchase and assumption (P&A), or spin-off.

Second, if the entire field of membership is acquired by another corporation, the credit union can serve the employees of the new corporation and any subsidiaries after receiving NCUA approval.

Third, a federal credit union qualifies to change its common bond from:

- A single occupational common bond to a single associational common bond;
- A single occupational common bond to a community charter; or
- A single occupational common bond to a multiple common bond.

Fourth, a federal credit union removes a portion of the group from its field of membership through agreement with the group, a spin-off, or because a portion of the group is no longer in existence.

An existing single occupational common bond federal credit union that submits a request to amend its charter must provide documentation to establish that the occupational common bond requirement has been met. The Office of Credit Union Resources and Expansion Director must approve all amendments to an occupational common bond credit union's field of membership.

II.B.2—Restructuring

If the single common bond group that comprises a federal credit union's field of membership undergoes a substantial restructuring, the result is often that portions of the group are sold or spun off. This requires a change to the credit union's field of membership. NCUA will not permit a single common bond credit union to maintain in its field of membership a sold or spun-off group to which it has been providing service unless the group otherwise qualifies for membership in the credit union or the credit union converts to a multiple common bond credit union.

If the group comprising the single common bond of the credit union merges with, or is acquired by, another group, the credit union can serve the new group resulting from the merger or acquisition after receiving a housekeeping amendment.

II.B.3—Economic Advisability

Prior to granting a common bond expansion, NCUA will examine the amendment's likely effect on the credit union's operations and financial condition. In most cases, the information needed for analyzing the effect of adding a particular group will be available to NCUA through the examination and financial and statistical reports; however, in par-

ticular cases, the Office of Credit Union Resources and Expansion Director may require additional information prior to making a decision.

II.B.4—Documentation Requirements

A federal credit union requesting a common bond expansion must submit an Application for Field of Membership Amendment (NCUA 4015-EZ) to the Office of Credit Union Resources and Expansion Director. An authorized credit union representative must sign the request.

II.C—NCUA'S PROCEDURES FOR AMENDING THE FIELD OF MEMBERSHIP

II.C.1—General

All requests for approval to amend a federal credit union's charter must be submitted to the Office of Credit Union Resources and Expansion Director.

II.C.2—Office of Credit Union Resources and Expansion Director Decision

NCUA staff will review all amendment requests in order to ensure compliance with NCUA policy.

Before acting on a proposed amendment, the Office of Credit Union Resources and Expansion Director may require an on-site review. In addition, the Office of Credit Union Resources and Expansion Director may, after taking into account the significance of the proposed field of membership amendment, require the applicant to submit a business plan addressing specific issues.

The financial and operational condition of the requesting credit union will be considered in every instance. NCUA will carefully consider the economic advisability of expanding the field of membership of a credit union with financial or operational problems.

In most cases, field of membership amendments will only be approved for credit unions that are operating satisfactorily. Generally, if a federal credit union is having difficulty providing service to its current membership, or is experiencing financial or other operational problems, it may have more difficulty serving an expanded field of membership.

Occasionally, however, an expanded field of membership may provide the basis for reversing current financial problems. In such cases, an amendment to expand the field of membership may be granted notwithstanding the credit union's financial or operational problems. The applicant credit union must clearly establish that the expanded field of membership is in the best interest of the members and will not increase the risk to the NCUSIF.

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II.C.3—Office of Credit Union Resources and Expansion Director Approval

If the Office of Credit Union Resources and Expansion Director approves the requested amendment, the credit union will be issued an amendment to Section 5 of its charter.

II.C.4—Office of Credit Union Resources and Expansion Director Disapproval

When the Office of Credit Union Resources and Expansion Director disapproves any application, in whole or in part, to amend the field of membership under this chapter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- Options to consider, if appropriate, for gaining approval; and
- Appeal procedure.

II.C.5—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies a field of membership expansion request, merger, or spin-off, that decision may be appealed to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the request for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial.

II.D—MERGERS, PURCHASE AND ASSUMPTIONS, AND SPIN-OFFS

In general, other than the addition of common bond groups, there are three additional ways a federal credit union with a single occupational common bond can expand its field of membership:

- By taking in the field of membership of another credit union through a common bond or emergency merger;
- By taking in the field of membership of another credit union through a common bond or emergency purchase and assumption (P&A); or
- By taking a portion of another credit union's field of membership through a common bond spin-off.

II.D.1—Mergers

Generally, the requirements applicable to field of membership expansions found in this chapter apply to mergers where the continuing credit union has a federal charter.

That is, the two credit unions must share a common bond.

Where the merging credit union is state-chartered, the common bond rules applicable to a federal credit union apply.

Mergers must be approved by the NCUA regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union, and, as applicable, the state regulators.

If a single occupational credit union wants to merge into a multiple common bond or community credit union, Section IV.D or Section V.D of this Chapter, respectively, should be reviewed.

II.D.2—Emergency Mergers

An emergency merger may be approved by NCUA without regard to common bond or other legal constraints. An emergency merger involves NCUA's direct intervention and approval. The credit union to be merged must either be insolvent or in danger of insolvency, as defined in the Glossary, and NCUA must determine that:

- An emergency requiring expeditious action exists;
- Other alternatives are not reasonably available; and
- The public interest would best be served by approving the merger.

If not corrected, conditions that could lead to insolvency include, but are not limited to:

- Abandonment by management;
- Loss of sponsor;
- Serious and persistent recordkeeping problems; or
- Serious and persistent operational concerns.

In an emergency merger situation, NCUA will take an active role in finding a suitable merger partner (continuing credit union). NCUA is primarily concerned that the continuing credit union has the financial strength and management expertise to absorb the troubled credit union without adversely affecting its own financial condition and stability.

As a stipulated condition to an emergency merger, the field of membership of the merging credit union may be transferred intact to the continuing federal credit union without regard to any common bond restrictions. Under this authority, therefore, a single occupational common bond federal credit union may take into its field of membership any dissimilar charter type.

The common bond characteristic of the continuing credit union in an emergency merger does not change. That is, even though the merging credit union is a multiple common bond or community, the continuing credit union will remain a single

common bond credit union. Similarly, if the merging credit union is also an unlike single common bond, the continuing credit union will remain a single common bond credit union. Future common bond expansions will be based on the continuing credit union's original single common bond.

Emergency mergers involving federally insured credit unions in different NCUA field regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union and, as applicable, the state regulators.

II.D.3—Purchase and Assumption (P&A)

Another alternative for acquiring the field of membership of a failing credit union is through a consolidation known as a P&A. A P&A has limited application because, in most cases, the failing credit union must be placed into involuntary liquidation. In the few instances where a P&A may be appropriate, the assuming federal credit union, as with emergency mergers, may acquire the entire field of membership if the emergency merger criteria are satisfied. However, if the P&A does not meet the emergency merger criteria, it must be processed under the common bond requirements.

In a P&A processed under the emergency criteria, specified loans, shares, and certain other designated assets and liabilities, without regard to common bond restrictions, may also be acquired without changing the character of the continuing federal credit union for purposes of future field of membership amendments.

If the purchased and/or assumed credit union's field of membership does not share a common bond with the purchasing and/or assuming credit union, then the continuing credit union's original common bond will be controlling for future common bond expansions.

P&As involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the purchased and/or assumed credit union and, as applicable, the state regulators.

II.D.4—Spin-Offs

A spin-off occurs when, by agreement of the parties, a portion of the field of membership, assets, liabilities, shares, and capital of a credit union are transferred to a new or existing credit union. A spin-off is unique in that usually one credit union has a field of

membership expansion and the other loses a portion of its field of membership.

All common bond requirements apply regardless of whether the spun-off group becomes a new credit union or goes to an existing federal charter.

The request for approval of a spin-off must be supported with a plan that addresses, at a minimum:

- Why the spin-off is being requested;
- What part of the field of membership is to be spun off;
- Whether the affected credit unions have a common bond (applies only to single occupational credit unions);
- Which assets, liabilities, shares, and capital are to be transferred;
- The financial impact the spin-off will have on the affected credit unions;
- The ability of the acquiring credit union to effectively serve the new members;
- The proposed spin-off date; and
- Disclosure to the members of the requirements set forth above.

The spin-off request must also include current financial statements from the affected credit unions and the proposed voting ballot.

For federal credit unions spinning off a group, membership notice and voting requirements and procedures are the same as for mergers (see part 708 of the NCUA Rules and Regulations), except that only the members directly affected by the spin-off—those whose shares are to be transferred—are permitted to vote. Members whose shares are not being transferred will not be afforded the opportunity to vote. All members of the group to be spun off (whether they voted in favor, against, or not at all) will be transferred if the spin-off is approved by the voting membership. Voting requirements for federally insured state credit unions are governed by state law.

Spin-offs involving federally insured credit unions in different NCUA regions must be approved by all regional directors and, if applicable, Office of National Examinations and Supervision Director where the credit unions are headquartered and the state regulators, as applicable. Spin-offs in the same region also require approval by the state regulator, as applicable. Spin-offs involving the creation of a new federally insured credit union require the approval of the Office of Credit Union Resources and Expansion Director. The Office of Credit Union Resources and Expansion also provides advice regarding field of membership compatibility when appropriate.

II.E—OVERLAPS

II.E.1—General

An overlap exists when a group of persons is eligible for membership in two or more credit unions. NCUA will permit single occupational federal credit unions to overlap any

other charter without performing an overlap analysis.

II.E.2—Organizational Restructuring

A federal credit union's field of membership will always be governed by the common bond descriptions contained in Section 5 of its charter. Where a sponsor organization expands its operations internally, by acquisition or otherwise, the credit union may serve these new entrants to its field of membership if they are part of the common bond described in Section 5. NCUA will permit a complete overlap of the credit unions' fields of membership.

If a sponsor organization sells off a group, new members can no longer be served unless they otherwise qualify for membership in the credit union or it converts to a multiple common bond charter.

Credit unions must submit documentation explaining the restructuring and providing information regarding the new organizational structure.

II.E.3—Exclusionary Clauses

An exclusionary clause is a limitation precluding the credit union from serving the primary members of a portion of a group otherwise included in its field of membership. NCUA no longer grants exclusionary clauses. Those granted prior to the adoption of this new Chartering and Field of Membership Manual will remain in effect unless the credit unions agree to remove them or one of the affected credit unions submits a house-keeping amendment to have it removed.

II.F—CHARTER CONVERSION

A single occupational common bond federal credit union may apply to convert to a community charter provided the field of membership requirements of the community charter are met. Groups within the existing charter which cannot qualify in the new charter cannot be served except for members of record, or groups or communities obtained in an emergency merger or P&A. A credit union must notify all groups that will be removed from the field of membership as a result of conversion. Members of record can continue to be served. Also, in order to support a case for a conversion, the applicant federal credit union may be required to develop a detailed business plan as specified in Chapter 2, Section V.A.3.

A single occupational common bond federal credit union may apply to convert to a multiple common bond charter by adding a non-common bond group that is within a reasonable proximity of a service facility. Groups within the existing charter may be retained and continue to be served. However, future amendments, including any expansions of the original single common bond

group, must be done in accordance with multiple common bond policy.

II.G—REMOVAL OF GROUPS FROM THE FIELD OF MEMBERSHIP

A credit union may request removal of a portion of the common bond group from its field of membership for various reasons. The most common reasons for this type of amendment are:

- The group is within the field of membership of two credit unions and one wishes to discontinue service;
- The federal credit union cannot continue to provide adequate service to the group;
- The group has ceased to exist;
- The group does not respond to repeated requests to contact the credit union or refuses to provide needed support; or
- The group initiates action to be removed from the field of membership.

When a federal credit union requests an amendment to remove a group from its field of membership, the Office of Credit Union Resources and Expansion Director will determine why the credit union desires to remove the group. If the Office of Credit Union Resources and Expansion Director concurs with the request, membership will continue for those who are already members under the "once a member, always a member" provision of the Federal Credit Union Act.

II.H—OTHER PERSONS ELIGIBLE FOR CREDIT UNION MEMBERSHIP

A number of persons, by virtue of their close relationship to a common bond group, may be included, at the charter applicant's option, in the field of membership. These include the following:

- Spouses of persons who died while within the field of membership of this credit union;
- Employees of this credit union;
- Persons retired as pensioners or annuitants from the above employment;
- Volunteers;
- Members of the immediate family or household;
- Honorably discharged veterans who served in any of the Armed Services of the United States listed in this charter;
- Organizations of such persons; and
- Corporate or other legal entities in this charter.

Immediate family is defined as spouse, child, sibling, parent, grandparent, or grandchild. This includes stepparents, stepchildren, stepsiblings, and adoptive relationships.

Household is defined as persons living in the same residence maintaining a single economic unit.

Membership eligibility is extended only to individuals who are members of an "immediate family or household" of a credit union member. It is not necessary for the primary

member to join the credit union in order for the immediate family or household member of the primary member to join, provided the immediate family or household clause is included in the field of membership. However, it is necessary for the immediate family member or household member to first join in order for that person's immediate family member or household member to join the credit union. A credit union can adopt a more restrictive definition of immediate family or household.

Volunteers, by virtue of their close relationship with a sponsor group, may be included. Examples include volunteers working at a hospital or school.

Under the Federal Credit Union Act, once a person becomes a member of the credit union, such person may remain a member of the credit union until the person chooses to withdraw or is expelled from the membership of the credit union. This is commonly referred to as "once a member, always a member." The "once a member, always a member" provision does not prevent a credit union from restricting services to members who are no longer within the field of membership.

III—ASSOCIATIONAL COMMON BOND

III.A.1—General

A single associational federal credit union may include in its field of membership, regardless of location, all members and employees of a recognized association. A single associational common bond consists of individuals (natural persons) and/or groups (non-natural persons) whose members participate in activities developing common loyalties, mutual benefits, and mutual interests. Separately chartered associational groups can establish a single common bond relationship if they are integrally related and share common goals and purposes. For example, two or more churches of the same denomination, Knights of Columbus Councils, or locals of the same union can qualify as a single associational common bond. Individuals and groups eligible for membership in a single associational credit union can include the following:

- Natural person members of the association (for example, members of a union or church members);
- Non-natural person members of the association;
- Employees of the association (for example, employees of the labor union or employees of the church); and
- The association.

Generally, a single associational common bond does not include a geographic definition and can operate nationally. However, a proposed or existing federal credit union may limit its field of membership to a single association or geographic area. NCUA may

impose a geographic limitation if it is determined that the applicant credit union does not have the ability to serve a larger group or there are other operational concerns. All single associational common bonds should include a definition of the group that may be served based on the association's charter, bylaws, and any other equivalent documentation.

Applicants for a single associational common bond federal credit union charter or a field of membership amendment to include an association must provide, at the request of NCUA, a copy of the association's charter, bylaws, or other equivalent documentation, including any legal documents required by the state or other governing authority. The associational sponsor itself may also be included in the field of membership—*e.g.*, "Sprocket Association"—and will be shown in the last clause of the field of membership.

III.A.1.a—Threshold Requirement Regarding the Purpose for Which an Associational Group Is Formed and the Totality of the Circumstances Criteria

As a threshold matter, when reviewing an application to include an association in a federal credit union's field of membership, NCUA will determine if the association has been formed primarily for the purpose of expanding credit union membership. If NCUA makes such a determination, then the analysis ends and the association is denied inclusion in the federal credit union's field of membership. If NCUA determines that the association was formed to serve some other separate function as an organization, then NCUA will apply the following totality of the circumstances test to determine if the association satisfies the associational common bond requirements. The totality of the circumstances test consists of the following factors:

1. Whether the association provides opportunities for members to participate in the furtherance of the goals of the association;
2. Whether the association maintains a membership list;
3. Whether the association sponsors other activities;
4. Whether the association's membership eligibility requirements are authoritative;
5. Whether members pay dues;
6. Whether the members have voting rights; to meet this requirement, members need not vote directly for an officer, but may vote for a delegate who in turn represents the members' interests;
7. The frequency of meetings; and
8. Separateness—NCUA reviews if there is corporate separateness between the group and the federal credit union. The group and the federal credit union must operate in a way that demonstrates the separate corporate existence of each entity. Specifically, this means the federal credit union's and the

group's respective business transactions, accounts, and corporate records are not intermingled.

No one factor alone is determinative of membership eligibility as an association. The totality of the circumstances controls over any individual factor in the test. However, NCUA's primary focus will be on factors 1-4.

III.A.1.b—Pre-Approved Groups

NCUA automatically approves the below groups as satisfying the associational common bond provisions. NCUA only approves regular members of an approved group. Honorary, affiliate, or non-regular members do not qualify.

These groups are:

1. Alumni associations;
2. Religious organizations, including churches or groups of related churches;
3. Electric cooperatives;
4. Homeowner associations;
5. Labor unions;
6. Scouting groups;
7. Parent teacher associations (PTAs) organized at the local level to serve a single school district;
8. Chamber of commerce groups (members only and not employees of members);
9. Athletic booster clubs whose members have voting rights;
10. Fraternal organizations or civic groups with a mission of community service whose members have voting rights;
11. Organizations having a mission based on preserving or furthering the culture of a particular national or ethnic origin; and
12. Organizations promoting social interaction or educational initiatives among persons sharing a common occupational profession.

III.A.1.c—Additional Information

A support group whose members are continually changing or whose duration is temporary may not meet the single associational common bond criteria. Each class of member will be evaluated based on the totality of the circumstances. Individuals or honorary members who only make donations to the association are not eligible to join the credit union.

Student groups (*e.g.*, students enrolled at a public, private, or parochial school) may constitute either an associational or occupational common bond. For example, students enrolled at a church sponsored school could share a single associational common bond with the members of that church and may qualify for a federal credit union charter. Similarly, students enrolled at a university, as a group by itself, or in conjunction with the faculty and employees of the school, could share a single occupational common

bond and may qualify for a federal credit union charter.

Tenant groups, consumer groups, and other groups of persons having an "interest in" a particular cause and certain consumer cooperatives may also qualify as an association.

Associations based primarily on a client-customer relationship do not meet associational common bond requirements. Health clubs are an example of a group not meeting associational common bond requirements, including YMCAs. However, having an incidental client-customer relationship does not preclude an associational charter as long as the associational common bond requirements are met. For example, a fraternal association that offers insurance, which is not a condition of membership, may qualify as a valid associational common bond.

III.A.2—Subsequent Changes to Association's Bylaws

If the association's membership or geographical definitions in its charter and bylaws are changed subsequent to the effective date stated in the field of membership, the credit union must submit the revised charter or bylaws for NCUA's consideration and approval prior to serving members of the association added as a result of the change.

III.A.3—Sample Single Associational Common Bonds

Some examples of associational common bonds are:

- Regular members of Locals 10 and 13, IBEW, in Florida, who qualify for membership in accordance with their charter and bylaws in effect on May 20, 2001;
- Members of the Hoosier Farm Bureau in Grant, Logan, or Lee Counties of Indiana, who qualify for membership in accordance with its charter and bylaws in effect on March 7, 1997;
- Members of the Shalom Congregation in Chevy Chase, Maryland;
- Regular members of the Corporate Executives Association, located in Westchester, New York, who qualify for membership in accordance with its charter and bylaws in effect on December 1, 1997;
- Members of the University of Wisconsin Alumni Association, located in Green Bay, Wisconsin;
- Members of the Marine Corps Reserve Officers Association; or
- Members of St. John's Methodist Church and St. Luke's Methodist Church, located in Toledo, Ohio.

Some examples of insufficiently defined single associational common bonds are:

- All Lutherans in the United States (too broadly defined); or

- Veterans of U.S. military service (group is too broadly defined; no formal association of all members of the group).

Some examples of unacceptable single associational common bonds are:

- Alumni of Amos University (no formal association);
- Customers of Fleetwood Insurance Company (policyholders or primarily customer/client relationships do not meet associational standards);
- Employees of members of the Reston, Virginia, Chamber of Commerce (not a sufficiently close tie to the associational common bond); or
- Members of St. John's Lutheran Church and St. Mary's Catholic Church located in Anniston, Alabama (churches are not of the same denomination).

III.B—ASSOCIATIONAL COMMON BOND AMENDMENTS

III.B.1—General

Section 5 of every associational federal credit union's charter defines the field of membership the credit union can legally serve. Only those persons who, or legal entities that, join the credit union and are specified in the field of membership can be served. There are three instances in which Section 5 must be amended by NCUA.

First, a group that shares the credit union's common bond is added to the field of membership. This may occur through various ways including agreement between the group and the credit union directly, or through a merger, purchase and assumption (P&A), or spin-off.

Second, a federal credit union qualifies to change its common bond from:

- A single associational common bond to a single occupational common bond;
- A single associational common bond to a community charter; or
- A single associational common bond to a multiple common bond.

Third, a federal credit union removes a portion of the group from its field of membership through agreement with the group, a spin-off, or a portion of the group that is no longer in existence.

An existing single associational federal credit union that submits a request to amend its charter must provide documentation to establish that the associational common bond requirement has been met. The Office of Credit Union Resources and Expansion Director must approve all amendments to an associational common bond credit union's field of membership.

III.B.2—Organizational Restructuring

If the single common bond group that comprises a federal credit union's field of membership undergoes a substantial restructuring, the result is often that portions of

the group are sold or spun off. This is an event requiring a change to the credit union's field of membership. NCUA may not permit a single associational credit union to maintain in its field of membership a sold or spun-off group to which it has been providing service unless the group otherwise qualifies for membership in the credit union or the credit union converts to a multiple common bond credit union.

If the group comprising the single common bond of the credit union merges with, or is acquired by, another group, the credit union can serve the new group resulting from the merger or acquisition after receiving a housekeeping amendment.

III.B.3—Economic Advisability

Prior to granting a common bond expansion, NCUA will examine the amendment's likely impact on the credit union's operations and financial condition. In most cases, the information needed for analyzing the effect of adding a particular group will be available to NCUA through the examination and financial and statistical reports; however, in particular cases, the Office of Credit Union Resources and Expansion Director may require additional information prior to making a decision.

III.B.4—Documentation Requirements

A federal credit union requesting a common bond expansion must submit an Application for Field of Membership Amendment (NCUA 4015-EZ) to the Office of Credit Union Resources and Expansion Director. An authorized credit union representative must sign the request.

III.C—NCUA PROCEDURES FOR AMENDING THE FIELD OF MEMBERSHIP

III.C.1—General

All requests for approval to amend a federal credit union's charter must be submitted to the Office of Credit Union Resources and Expansion Director.

III.C.2—Office of Credit Union Resources and Expansion Director Decision

NCUA staff will review all amendment requests in order to ensure conformance to NCUA policy.

Before acting on a proposed amendment, the Office of Credit Union Resources and Expansion Director may require an on-site review. In addition, the Office of Credit Union Resources and Expansion Director may, after taking into account the significance of the proposed field of membership amendment, require the applicant to submit a business plan addressing specific issues.

The financial and operational condition of the requesting credit union will be considered in every instance. The economic advisability of expanding the field of membership of a credit union with financial or operational problems must be carefully considered.

In most cases, field of membership amendments will only be approved for credit unions that are operating satisfactorily. Generally, if a federal credit union is having difficulty providing service to its current membership, or is experiencing financial or other operational problems, it may have more difficulty serving an expanded field of membership.

Occasionally, however, an expanded field of membership may provide the basis for reversing current financial problems. In such cases, an amendment to expand the field of membership may be granted notwithstanding the credit union's financial or operational problems. The applicant credit union must clearly establish that the expanded field of membership is in the best interest of the members and will not increase the risk to the NCUSIF.

III.C.3—Office of Credit Union Resources and Expansion Director Approval

If the Office of Credit Union Resources and Expansion Director approves the requested amendment, the credit union will be issued an amendment to Section 5 of its charter.

III.C.4—Office of Credit Union Resources and Expansion Director Disapproval

When the Office of Credit Union Resources and Expansion Director disapproves any application, in whole or in part, to amend the field of membership under this chapter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- Options to consider, if appropriate, for gaining approval; and
- Appeal procedures.

III.C.5—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies a field of membership expansion request, merger, or spin-off, that decision may be appealed to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial or explain extenuating circumstances that precluded the inclusion of existing material evidence or information that should have been filed with the request for reconsid-

eration. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the request for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial. A petitioner may seek a second reconsideration based on new material evidence or information or extenuating circumstances that precluded the inclusion of such information in the previous request.

III.D—MERGERS, PURCHASE AND ASSUMPTIONS, AND SPIN-OFFS

In general, other than the addition of common bond groups, there are three additional ways a federal credit union with a single associational common bond can expand its field of membership:

- By taking in the field of membership of another credit union through a common bond or emergency merger;
- By taking in the field of membership of another credit union through a common bond or emergency purchase and assumption (P&A); or
- By taking a portion of another credit union's field of membership through a common bond spin-off.

III.D.1—Mergers

Generally, the requirements applicable to field of membership expansions found in this section apply to mergers where the continuing credit union is a federal charter. That is, the two credit unions must share a common bond.

Where the merging credit union is state-chartered, the common bond rules applicable to a federal credit union apply.

Mergers must be approved by the NCUA regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union, and, as applicable, the state regulators.

If a single associational credit union wants to merge into a multiple common bond or community credit union, Section IV.D or Section V.D of this Chapter, respectively, should be reviewed.

III.D.2—Emergency Mergers

An emergency merger may be approved by NCUA without regard to common bond or other legal constraints. An emergency merger involves NCUA's direct intervention and approval. The credit union to be merged must either be insolvent or in danger of insolvency, as defined in the Glossary, and NCUA must determine that:

- An emergency requiring expeditious action exists;
- Other alternatives are not reasonably available; and
- The public interest would best be served by approving the merger.

If not corrected, conditions that could lead to insolvency include, but are not limited to:

- Abandonment by management;
- Loss of sponsor;
- Serious and persistent record-keeping problems; or
- Serious and persistent operational concerns.

In an emergency merger situation, NCUA will take an active role in finding a suitable merger partner (continuing credit union). NCUA is primarily concerned that the continuing credit union has the financial strength and management expertise to absorb the troubled credit union without adversely affecting its own financial condition and stability.

As a stipulated condition to an emergency merger, the field of membership of the merging credit union may be transferred intact to the continuing federal credit union without regard to any common bond restrictions. Under this authority, therefore, a single associational common bond federal credit union may take into its field of membership any dissimilar charter type.

The common bond characteristic of the continuing credit union in an emergency merger does not change. That is, even though the merging credit union is a multiple common bond or community, the continuing credit union will remain a single common bond credit union. Similarly, if the merging credit union is an unlike single common bond, the continuing credit union will remain a single common bond credit union. Future common bond expansions will be based on the continuing credit union's single common bond.

Emergency mergers involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union and, as applicable, the state regulators.

III.D.3—Purchase and Assumption (P&A)

Another alternative for acquiring the field of membership of a failing credit union is through a consolidation known as a P&A. A P&A has limited application because, in most cases, the failing credit union must be placed into involuntary liquidation. In the few instances where a P&A may be appropriate, the assuming federal credit union, as with emergency mergers, may acquire the entire field of membership if the emergency

merger criteria are satisfied. However, if the P&A does not meet the emergency merger criteria, it must be processed under the common bond requirements.

In a P&A processed under the emergency criteria, specified loans, shares, and certain other designated assets and liabilities, without regard to common bond restrictions, may also be acquired without changing the character of the continuing federal credit union for purposes of future field of membership amendments.

If the purchased and/or assumed credit union's field of membership does not share a common bond with the purchasing and/or assuming credit union, then the continuing credit union's original common bond will be controlling for future common bond expansions.

P&As involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the purchased and/or assumed credit union and, as applicable, the state regulators.

III.D.4—Spin-Offs

A spin-off occurs when, by agreement of the parties, a portion of the field of membership, assets, liabilities, shares, and capital of a credit union are transferred to a new or existing credit union. A spin-off is unique in that usually one credit union has a field of membership expansion and the other loses a portion of its field of membership.

All common bond requirements apply regardless of whether the spun-off group becomes a new credit union or goes to an existing federal charter.

The request for approval of a spin-off must be supported with a plan that addresses, at a minimum:

- Why the spin-off is being requested;
- What part of the field of membership is to be spun off;
- Whether the affected credit unions have the same common bond (applies only to single associational credit unions);
- Which assets, liabilities, shares, and capital are to be transferred;
- The financial impact the spin-off will have on the affected credit unions;
- The ability of the acquiring credit union to effectively serve the new members;
- The proposed spin-off date; and
- Disclosure to the members of the requirements set forth above.

The spin-off request must also include current financial statements from the affected credit unions and the proposed voting ballot.

For federal credit unions spinning off a group, membership notice and voting requirements and procedures are the same as

for mergers (see part 708 of the NCUA Rules and Regulations), except that only the members directly affected by the spin-off—those whose shares are to be transferred—are permitted to vote. Members whose shares are not being transferred will not be afforded the opportunity to vote. All members of the group to be spun off (whether they voted in favor, against, or not at all) will be transferred if the spin-off is approved by the voting membership. Voting requirements for federally insured state credit unions are governed by state law.

Spin-offs involving federally insured credit unions in different NCUA regions must be approved by all regional directors and, if applicable, Office of National Examinations and Supervision Director where the credit unions are headquartered and the state regulators, as applicable. Spin-offs in the same region also require approval by the state regulator, as applicable. Spin-offs involving the creation of a new federally insured credit union require the approval of the Office of Credit Union Resources and Expansion Director. The Office of Credit Union Resources and Expansion also provides advice regarding field of membership compatibility when appropriate.

III.E—OVERLAPS

III.E.1—General

An overlap exists when a group of persons is eligible for membership in two or more credit unions. NCUA will permit single associational federal credit unions to overlap any other charters without performing an overlap analysis.

III.E.2—Organizational Restructuring

A federal credit union's field of membership will always be governed by the common bond descriptions contained in Section 5 of its charter. Where a sponsor organization expands its operations internally, by acquisition or otherwise, the credit union may serve these new entrants to its field of membership if they are part of the common bond described in Section 5. NCUA will permit a complete overlap of the credit unions' fields of membership. If a sponsor organization sells off a group, new members can no longer be served unless they otherwise qualify for membership in the credit union or it converts to a multiple common bond.

Credit unions must submit documentation explaining the restructuring and providing information regarding the new organizational structure.

III.E.3—Exclusionary Clauses

An exclusionary clause is a limitation precluding the credit union from serving the primary members of a portion of a group otherwise included in its field of member-

ship. NCUA no longer grants exclusionary clauses. Those granted prior to the adoption of this new Chartering and Field of Membership Manual will remain in effect unless the credit unions agree to remove them or one of the affected credit unions submits a housekeeping amendment to have it removed.

III.F—CHARTER CONVERSIONS

A single associational common bond federal credit union may apply to convert to a community charter provided the field of membership requirements of the community charter are met. Groups within the existing charter which cannot qualify in the new charter cannot be served except for members of record, or groups or communities obtained in an emergency merger or P&A. A credit union must notify all groups that will be removed from the field of membership as a result of conversion. Members of record can continue to be served. Also, in order to support a case for a conversion, the applicant federal credit union may be required to develop a detailed business plan as specified in Chapter 2, Section V.A.3.

A single associational common bond federal credit union may apply to convert to a multiple common bond charter by adding a non-common bond group that is within a reasonable proximity of a service facility. Groups within the existing charter may be retained and continue to be served. However, future amendments, including any expansions of the original single common bond group, must be done in accordance with multiple common bond policy.

III.G—REMOVAL OF GROUPS FROM THE FIELD OF MEMBERSHIP

A credit union may request removal of a portion of the common bond group from its field of membership for various reasons. The most common reasons for this type of amendment are:

- The group is within the field of membership of two credit unions and one wishes to discontinue service;
- The federal credit union cannot continue to provide adequate service to the group;
- The group has ceased to exist;
- The group does not respond to repeated requests to contact the credit union or refuses to provide needed support; or
- The group initiates action to be removed from the field of membership.

When a federal credit union requests an amendment to remove a group from its field of membership, the Office of Credit Union Resources and Expansion Director will determine why the credit union desires to remove the group. If the Office of Credit Union Resources and Expansion Director concurs with the request, membership will continue for those who are already members under the

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“once a member, always a member” provision of the Federal Credit Union Act.

III.H—OTHER PERSONS ELIGIBLE FOR CREDIT UNION MEMBERSHIP

A number of persons by virtue of their close relationship to a common bond group may be included, at the charter applicant’s option, in the field of membership. These include the following:

- Spouses of persons who died while within the field of membership of this credit union;
- Employees of this credit union;
- Volunteers;
- Members of the immediate family or household;
- Honorably discharged veterans who served in any of the Armed Services of the United States in this charter;
- Organizations of such persons; and
- Corporate or other legal entities in this charter.

Immediate family is defined as spouse, child, sibling, parent, grandparent, or grandchild. This includes stepparents, stepchildren, stepsiblings, and adoptive relationships.

Household is defined as persons living in the same residence maintaining a single economic unit.

Membership eligibility is extended only to individuals who are members of an “immediate family or household” of a credit union member. It is not necessary for the primary member to join the credit union in order for the immediate family or household member of the primary member to join, provided the immediate family or household clause is included in the field of membership. However, it is necessary for the immediate family member or household member to first join in order for that person’s immediate family member or household member to join the credit union. A credit union can adopt a more restrictive definition of immediate family or household.

Volunteers, by virtue of their close relationship with a sponsor group, may be included. One example is volunteers working at a church.

Under the Federal Credit Union Act, once a person becomes a member of the credit union, such person may remain a member of the credit union until the person chooses to withdraw or is expelled from the membership of the credit union. This is commonly referred to as “once a member, always a member.” The “once a member, always a member” provision does not prevent a credit union from restricting services to members who are no longer within the field of membership.

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IV—MULTIPLE OCCUPATIONAL/ASSOCIATIONAL COMMON BONDS

IV.A.1—General

A federal credit union may be chartered to serve a combination of distinct, definable single occupational and/or associational common bonds. This type of credit union is called a multiple common bond credit union. Each group in the field of membership must have its own occupational or associational common bond. For example, a multiple common bond credit union may include two unrelated employers, or two unrelated associations, or a combination of two or more employers or associations. Additionally, these groups must be within reasonable geographic proximity of the credit union. That is, the groups must be within the service area of one of the credit union’s service facilities. These groups are referred to as select groups. A multiple common bond credit union cannot include a TIP or expand using single common bond criteria.

Employment in a corporation or other legal entity which is related to another legal entity (such as a company under contract to, and possessing a strong dependency relationship with, the other company) makes that person part of the occupational common bond of a select employee group within a multiple common bond. In this context, a “strong dependency relationship” is a relationship in which the entities rely on each other as measured by a pattern of regularly doing business with each other, for example, as documented by the number, the term length, and the dollar volume of prior and pending contracts between them.

A multiple common bond credit union’s charter may also combine individual occupational groups that each consist of employees of a retailer or other business tenant of an industrial park, a shopping mall, office park or office building (each “a park”). To be able to have this type of clause in its charter, the multiple common bond credit union first must receive a request from an authorized representative of the group or the park to establish credit union service. The park must be within the multiple common bond credit union’s service area, and each occupational group must have fewer than 3,000 employees, who are eligible for membership only for so long as each is employed by a park tenant. Under this clause, a multiple common bond credit union can enroll group employees only while the group’s retail or business employer is a park tenant, but such credit unions are free to serve employees of new groups under the above conditions as each respective employer becomes a park tenant.

A federal credit union’s service area is the area that can reasonably be served by the service facilities accessible to the groups within the field of membership. The service

area will most often coincide with that geographic area primarily served by the service facility. Additionally, the groups served by the credit union must have access to the service facility. The non-availability of other credit union service is a factor to be considered in determining whether the group is within reasonable proximity of a credit union wishing to add the group to its field of membership.

A service facility for multiple common bond credit unions is defined as a place where shares are accepted for members' accounts, loan applications are accepted, or loans are disbursed. This definition includes a credit union-owned branch, a mobile branch, an office operated on a regularly scheduled weekly basis, a credit union-owned ATM, or a credit union-owned electronic facility that meets, at a minimum, these requirements. A service facility also includes a shared branch or a shared branch network location, including a shared ATM or electronic facility that meets the above requirements, if the credit union participates in a shared branching network. This definition does not include the credit union's internet website.

The select group as a whole will be considered to be within a credit union's service area when:

- A majority of the persons in a select group live, work, or gather regularly within the service area;
- The group's headquarters is located within the service area; or
- The group's "paid from" or "supervised from" location is within the service area.

IV.A.2—Sample Multiple Common Bond Field of Membership

An example of a multiple common bond field of membership is:

"The field of membership of this federal credit union shall be limited to the following:

1. Employees of Teltex Corporation who work in Wilmington, Delaware;
2. Partners and employees of Smith & Jones, Attorneys at Law, who work in Wilmington, Delaware;
3. Members of the M&L Association in Wilmington, Delaware, who qualify for membership in accordance with its charter and by-laws in effect on December 31, 1997;
4. Employees of tenants of MJB Office Park under the following conditions:

- Each tenant's employees form an individual occupational group;
- the tenant has fewer than 3,000 employees working at MJB Office Park; and
- those employees work in MJB Office Park's Wilmington, Delaware location."

IV.B—MULTIPLE COMMON BOND AMENDMENTS

IV.B.1—General

Section 5 of every multiple common bond federal credit union's charter defines the field of membership and select groups the credit union can legally serve. Only those persons or legal entities specified in the field of membership can be served. There are a number of instances in which Section 5 must be amended by NCUA.

First, a new select group is added to the field of membership. This may occur through agreement between the group and the credit union directly, or through a merger, corporate acquisition, purchase and assumption (P&A), or spin-off.

Second, a federal credit union qualifies to change its charter from:

- A single occupational or associational charter to a multiple common bond charter;
- A multiple common bond to a single occupational or associational charter;
- A multiple common bond to a community charter; or
- A community to a multiple common bond charter.

Third, a federal credit union removes a group from its field of membership through agreement with the group, a spin-off, or because the group no longer exists.

IV.B.2—Numerical Limitation of Select Groups

An existing multiple common bond federal credit union that submits a request to amend its charter must provide documentation to establish that the multiple common bond requirements have been met. The Office of Credit Union Resources and Expansion Director must approve all amendments to a multiple common bond credit union's field of membership.

NCUA will approve groups to a credit union's field of membership if the agency determines in writing that the following criteria are met:

- The credit union has not engaged in any unsafe or unsound practice, as determined by the Office of Credit Union Resources and Expansion Director, with input from the appropriate regional director or Office of National Examinations and Supervision Director, which is material during the one year period preceding the filing to add the group;
- The credit union is "adequately capitalized" pursuant to Part 702 of NCUA's Rules and Regulations. For low-income credit unions or credit unions chartered less than ten years, the Office of Credit Union Resources and Expansion Director, with input from the appropriate regional director or Office of National Examinations and Supervision Director, may determine that a less than "adequately capitalized" credit union can qualify for an expansion if it is making

reasonable progress toward becoming “adequately capitalized.” For any other credit union, the Office of Credit Union Resources and Expansion Director, with input from the appropriate regional director or Office of National Examinations and Supervision Director, may determine that a less than “adequately capitalized” credit union can qualify for an expansion if it is making reasonable progress toward becoming “adequately capitalized,” and the addition of the group would not adversely affect the credit union’s capitalization level;

- The credit union has the administrative capability to serve the proposed group and the financial resources to meet the need for additional staff and assets to serve the new group;

- Any potential harm the expansion may have on any other credit union and its members is clearly outweighed by the probable beneficial effect of the expansion. With respect to a proposed expansion’s effect on other credit unions, the requirements on overlapping fields of membership set forth in Section IV.E of this Chapter are also applicable; and

- If the formation of a separate credit union by such group is not practical and consistent with reasonable standards for the safe and sound operation of a credit union.

The Federal Credit Union Act presumes that a group of 3,000 or more primary potential members is able to form its own stand-alone credit union unless NCUA determines that it is infeasible to do so for reasons such as:

- (i) The group lacks sufficient volunteer and other resources to support the efficient and effective operation of its own credit union;

- (ii) the group does not meet criteria that the Board has determined to be an important indicator of success in establishing and managing a new credit union, including demographic characteristics such as the geographic location of members, the diversity of ages and income levels among members, and other factors that may affect such a credit union’s financial viability and stability; or

- (iii) the group would be unlikely to operate a safe and sound credit union.

As such, NCUA requires additional information when a multiple common bond credit union applies to add a group of 3,000 or more primary potential members. For groups between 3,000 and 4,999 potential members, NCUA requires documentation indicating the group has a lack of available subsidies, interest among the group’s members, and sufficient resources. For such cases NCUA, in its discretion, will accept a written statement indicating these conditions exist as sufficient documentation the group cannot form its own credit union. Groups with 5,000 or more members will be subject to the standard document requirements as discussed

later in this chapter, requiring a group to fully describe its inability to establish a new single common bond credit union.

IV.B.3—Documentation Requirements

A multiple common bond credit union requesting a select group expansion must submit a formal written request, using the Application for Field of Membership Amendment (NCUA 4015-EZ, NCUA 4015-A or NCUA 4015) to the Office of Credit Union Resources and Expansion Director. An authorized credit union representative must sign the request.

The NCUA 4015-EZ (for groups less than 3,000 potential members) must be accompanied by the following:

- A letter, or equivalent documentation, from the group requesting credit union service. This letter must indicate:

- That the group wants to be added to the applicant federal credit union’s field of membership;

- The number of persons currently included within the group to be added and their locations; and

- The group’s proximity to the credit union’s nearest service facility.

- The most recent copy of the group’s charter and bylaws or equivalent documentation (for associational groups).

The NCUA 4015-A (for groups between 3,000 and 4,999 primary potential members) must be accompanied by the following:

- A letter, or equivalent documentation, from the group requesting credit union service. This letter must indicate:

- That the group wants to be added to the federal credit union’s field of membership;

- The number of persons currently included within the group to be added and their locations;

- The group’s proximity to credit union’s nearest service facility, and

- Why the formation of a separate credit union for the group is not practical or consistent with safety and soundness standards because of a lack of available subsidies, interest among the group’s members, and sufficient resources.

The NCUA 4015 (for groups of 5,000 or more primary potential members) must be accompanied by the following:

- A letter, or equivalent documentation, from the group requesting credit union service. This letter must indicate:

- That the group wants to be added to the federal credit union’s field of membership;

- Whether the group presently has other credit union service available;

- The number of persons currently included within the group to be added and their locations;

- The group’s proximity to credit union’s nearest service facility, and

- Why the formation of a separate credit union for the group is not practical or consistent with safety and soundness standards. A credit union need not address every item on the list, simply those issues that are relevant to its particular request:

Member location—whether the membership is widely dispersed or concentrated in a central location.

Demographics—the employee turnover rate, economic status of the group's members, and whether the group is more apt to consist of savers and/or borrowers.

Market competition—the availability of other financial services.

Desired services and products—the type of services the group desires in comparison to the type of services a new credit union could offer.

Sponsor subsidies—the availability of operating subsidies.

The desire of the sponsor—the extent of the sponsor's interest in supporting a credit union charter.

Employee interest—the extent of the employees' interest in obtaining a credit union charter.

Evidence of past failure—whether the group previously had its own credit union or previously filed for a credit union charter.

Administrative capacity to provide services—will the group have the management expertise to provide the services requested.

- If the group is eligible for membership in any other credit union, documentation must be provided to support inclusion of the group under the overlap standards set forth in Section IV.E of this Chapter; and

- The most recent copy of the group's charter and bylaws or equivalent documentation (for associational groups).

IV.B.4—Restructuring

If a select group within a federal credit union's field of membership undergoes a substantial restructuring, a change to the credit union's field of membership may be required if the credit union is to continue to provide service to the select group. NCUA permits a multiple common bond credit union to maintain in its field of membership a sold, spun-off, or merged select group to which it has been providing service. This type of amendment to the credit union's charter is not considered an expansion; therefore, the criteria relating to adding new groups are not applicable.

When two groups merge and each is in the field of membership of a credit union, then both (or all affected) credit unions can serve the resulting merged group, subject to any existing geographic limitation and without regard to any overlap provisions. However, the credit unions cannot serve the other multiple groups that may be in the field of membership of the other credit union.

IV.C—NCUA'S PROCEDURES FOR AMENDING THE FIELD OF MEMBERSHIP

IV.C.1—General

All requests for approval to amend a federal credit union's charter must be submitted to the Office of Credit Union Resources and Expansion Director.

IV.C.2—Office of Credit Union Resources and Expansion Director Decision

NCUA staff will review all amendment requests in order to ensure conformance to NCUA policy.

Before acting on a proposed amendment, the Office of Credit Union Resources and Expansion Director may require an on-site review. In addition, the Office of Credit Union Resources and Expansion Director may, after taking into account the significance of the proposed field of membership amendment, require the applicant to submit a business plan addressing specific issues.

The financial and operational condition of the requesting credit union will be considered in every instance. An expanded field of membership may provide the basis for reversing adverse trends. In such cases, an amendment to expand the field of membership may be granted notwithstanding the credit union's adverse trends. The applicant credit union must clearly establish that the approval of the expanded field of membership meets the requirements of Section IV.B.2 of this Chapter and will not increase the risk to the NCUSIF.

IV.C.3—Office of Credit Union Resources and Expansion Director Approval

If the Office of Credit Union Resources and Expansion Director approves the requested amendment, the credit union will be issued an amendment to Section 5 of its charter.

IV.C.4—Office of Credit Union Resources and Expansion Director Disapproval

When the Office of Credit Union Resources and Expansion Director disapproves any application, in whole or in part, to amend the field of membership under this chapter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- Options to consider, if appropriate, for gaining approval; and
- Appeal procedure.

IV.C.5—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies a field of membership expansion request, merger, or spin-off, that decision may be appealed to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial or explain extenuating circumstances that precluded the inclusion of existing material evidence or information that should have been filed with the request for reconsideration. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the request for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial. A petitioner may seek a second reconsideration based on new material evidence or information or extenuating circumstances that precluded the inclusion of such information in the previous request.

IV.D.—MERGERS, PURCHASE AND ASSUMPTIONS, AND SPIN-OFFS

In general, other than the addition of select groups, there are three additional ways a multiple common bond federal credit union can expand its field of membership:

- By taking in the field of membership of another credit union through a merger;
- By taking in the field of membership of another credit union through a purchase and assumption (P&A); or
- By taking a portion of another credit union's field of membership through a spin-off.

IV.D.1—Voluntary Mergers

a. All Select Groups in the Merging Credit Union's Field of Membership Have Less Than 3,000 Primary Potential Members

A voluntary merger of two or more federal credit unions is permissible as long as each select group in the merging credit union's field of membership has less than 3,000 primary potential members. While the merger requirements outlined in Section 205 of the Federal Credit Union Act must still be met, the requirements of Chapter 2, Section IV.B.2 of this manual are not applicable.

b. One or More Select Groups in the Merging Credit Union's Field of Membership Has 3,000 or More Primary Potential Members

If the merging credit unions serve the same group, and the group consists of 3,000 or more primary potential members, then the ability to form a separate credit union analysis is not required for that group. If the merging credit union has any other groups consisting of 3,000 or more primary potential members, special requirements apply. NCUA will analyze each group of 3,000 or more pri-

mary potential members, except as noted above, to determine whether the formation of a separate credit union by such a group is practical. If the formation of a separate credit union by such a group is not practical because the group lacks sufficient volunteer and other resources to support the efficient and effective operations of a credit union or does not meet the economic advisable criteria outlined in Chapter 1, the group may be merged into a multiple common bond credit union. If the formation of a separate credit union is practical, the group must be spun-off before the merger can be approved.

c. Merger of a Single Common Bond Credit Union Into a Multiple Common Bond Credit Union

A financially healthy single common bond credit union with a primary potential membership of 3,000 or more cannot merge into a multiple common bond credit union, absent supervisory reasons, unless the continuing credit union already serves the same group.

d. Merger Approval

If the merger is approved, the qualifying groups within the merging credit union's field of membership will be transferred intact to the continuing credit union and can continue to be served.

Where the merging credit union is state-chartered, the field of membership rules applicable to a federal credit union apply.

Mergers must be approved by the applicable NCUA regional or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union, and, as applicable, the state regulators.

IV.D.2—Supervisory Mergers

The NCUA may approve the merger of any federally insured credit union when safety and soundness concerns are present without regard to the 3,000 numerical limitation. The credit union need not be insolvent or in danger of insolvency for NCUA to use this statutory authority. Examples constituting appropriate reasons for using this authority are: abandonment of the management and/or officials and an inability to find replacements, loss of sponsor support, serious and persistent record-keeping problems, sustained material decline in financial condition, or other serious or persistent circumstances.

IV.D.3—Emergency Mergers

An emergency merger may be approved by NCUA without regard to common bond or other legal constraints. An emergency merger involves NCUA's direct intervention and

approval. The credit union to be merged must either be insolvent or in danger of insolvency, as defined in the Glossary, and NCUA must determine that:

- An emergency requiring expeditious action exists;
- Other alternatives are not reasonably available; and
- The public interest would best be served by approving the merger.

If not corrected, conditions that could lead to insolvency include, but are not limited to:

- Abandonment by management;
- Loss of sponsor;
- Serious and persistent record-keeping problems; or
- Serious and persistent operational concerns.

In an emergency merger situation, NCUA will take an active role in finding a suitable merger partner (continuing credit union). NCUA is primarily concerned that the continuing credit union has the financial strength and management expertise to absorb the troubled credit union without adversely affecting its own financial condition and stability.

As a stipulated condition to an emergency merger, the field of membership of the merging credit union may be transferred intact to the continuing federal credit union without regard to any field of membership restrictions including numerical limitation requirements. Under this authority, any single occupational or associational common bond, multiple common bond, or community charter may merge into a multiple common bond credit union and that credit union can continue to serve the merging credit union's field of membership. Subsequent field of membership expansions of the continuing multiple common bond credit union must be consistent with multiple common bond policies.

Emergency mergers involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union and, as applicable, the state regulators.

IV.D.4—Purchase and Assumption (P&A)

Another alternative for acquiring the field of membership of a failing credit union is through a consolidation known as a P&A. Generally, the requirements applicable to field of membership expansions found in this chapter apply to purchase and assumptions where the purchasing credit union is a federal charter.

A P&A has limited application because, in most cases, the failing credit union must be placed into involuntary liquidation. How-

ever, in the few instances where a P&A may occur, the assuming federal credit union, as with emergency mergers, may acquire the entire field of membership if the emergency criteria are satisfied. Specified loans, shares, and certain other designated assets and liabilities, without regard to field of membership restrictions, may also be acquired without changing the character of the continuing federal credit union for purposes of future field of membership amendments. Subsequent field of membership expansions must be consistent with multiple common bond policies.

P&As involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the purchased and/or assumed credit union and, as applicable, the state regulators.

IV.D.5—Spin-Offs

A spin-off occurs when, by agreement of the parties, a portion of the field of membership, assets, liabilities, shares, and capital of a credit union are transferred to a new or existing credit union. A spin-off is unique in that usually one credit union has a field of membership expansion and the other loses a portion of its field of membership.

All common bond requirements apply regardless of whether the spun-off group becomes a new charter or goes to an existing federal charter.

The request for approval of a spun-off group must be supported with a plan that addresses, at a minimum:

- Why the spin-off is being requested;
- What part of the field of membership is to be spun off;
- Which assets, liabilities, shares, and capital are to be transferred;
- The financial impact the spin-off will have on the affected credit unions;
- The ability of the acquiring credit union to effectively serve the new members;
- The proposed spin-off date; and
- Disclosure to the members of the requirements set forth above.

The spin-off request must also include current financial statements from the affected credit unions and the proposed voting ballot.

For federal credit unions spinning off a group, membership notice and voting requirements and procedures are the same as for mergers (see part 708 of the NCUA Rules and Regulations), except that only the members directly affected by the spin-off—those whose shares are to be transferred—are permitted to vote. Members whose shares are not being transferred will not be afforded the opportunity to vote. All members of the group to be spun off (whether they voted in

favor, against, or not at all) will be transferred if the spin-off is approved by the voting membership. Voting requirements for federally insured state credit unions are governed by state law.

Spin-offs involving federally insured credit unions in different NCUA regions must be approved by all regional directors and, if applicable, the Office of National Examinations and Supervision Director where the credit unions are headquartered and the state regulators, as applicable. Spin-offs in the same region also require approval by the state regulator, as applicable.

IV.E—OVERLAPS

IV.E.1—General

An overlap exists when a group of persons is eligible for membership in two or more credit unions, including state charters. An overlap is permitted when the expansion's beneficial effect in meeting the convenience and needs of the members of the group proposed to be included in the field of membership outweighs any adverse effect on the overlapped credit union.

Credit unions must investigate the possibility of an overlap with federally insured credit unions prior to submitting an expansion request if the group has 5,000 or more primary potential members. If cases arise where the assurance given to the Office of Credit Union Resources and Expansion Director concerning the unavailability of credit union service is inaccurate, the misinformation may be grounds for removal of the group from the federal credit union's charter.

When an overlap situation requiring analysis does arise, officials of the expanding credit union must ascertain the views of the overlapped credit union. If the overlapped credit union does not object, the applicant must submit a letter or other documentation to that effect. If the overlapped credit union does not respond, the expanding credit union must notify NCUA in writing of its attempt to obtain the overlapped credit union's comments.

NCUA will approve an overlap if the expansion's beneficial effect in meeting the convenience and needs of the members of the group outweighs any adverse effect on the overlapped credit union.

In reviewing the overlap, the Office of Credit Union Resources and Expansion Director will consider:

- The view of the overlapped credit union(s);
- Whether the overlap is incidental in nature—the group of persons in question is so small as to have no material effect on the original credit union;
- Whether there is limited participation by members or employees of the group in the

original credit union after the expiration of a reasonable period of time;

- Whether the original credit union fails to provide requested service;
 - Financial effect on the overlapped credit union;
 - The desires of the group(s);
 - The desire of the sponsor organization;
- and
- The best interests of the affected group and the credit union members involved.

Generally, if the overlapped credit union does not object, and NCUA determines that there is no safety and soundness problem, the overlap will be permitted.

Potential overlaps of a federally insured state credit union's field of membership by a federal credit union will generally be analyzed in the same way as if two federal credit unions were involved. Where a federally insured state credit union's field of membership is broadly stated, NCUA will exclude its field of membership from any overlap protection.

NCUA will permit multiple common bond federal credit unions to overlap community charters without performing an overlap analysis.

IV.E.2—Overlap Issues as a Result of Organizational Restructuring

A federal credit union's field of membership will always be governed by the field of membership descriptions contained in Section 5 of its charter. Where a sponsor organization expands its operations internally, by acquisition or otherwise, the credit union may serve these new entrants to its field of membership if they are part of any select group listed in Section 5. Where acquisitions are made which add a new subsidiary, the group cannot be served until the subsidiary is included in the field of membership through a housekeeping amendment.

A federal credit union's field of membership will always be governed by the field of membership descriptions contained in Section 5 of its charter. Where a sponsor organization expands its operations internally, by acquisition or otherwise, the credit union may serve these new entrants to its field of membership if they are part of any select group listed in Section 5. Where acquisitions are made which add a new subsidiary, the group cannot be served until the subsidiary is included in the field of membership through a housekeeping amendment.

Overlaps may occur as a result of restructuring or merger of the parent organization. When such overlaps occur, each credit union must request a field of membership amendment to reflect the new groups each wishes to serve. The credit union can continue to serve any current group in its field of membership that is acquiring a new group or has been acquired by a new group.

The new group cannot be served by the credit union until the field of membership amendment is approved by NCUA.

Credit unions affected by organizational restructuring or merger should attempt to resolve overlap issues among themselves. Unless an agreement is reached limiting the overlap resulting from the corporate restructuring, NCUA will permit a complete overlap of the credit unions' fields of membership. When two groups merge, or one group is acquired by the other, and each is in the field of membership of a credit union, both (or all affected) credit unions can serve the resulting merged or acquired group, subject to any existing geographic limitation and without regard to any overlap provisions. This is accomplished through a housekeeping amendment.

Credit unions must submit to NCUA documentation explaining the restructuring and provide information regarding the new organizational structure.

IV.E.3—Exclusionary Clauses

An exclusionary clause is a limitation precluding the credit union from serving the primary members of a portion of a group otherwise included in its field of membership. NCUA no longer grants exclusionary clauses. Those granted prior to the adoption of this new Chartering and Field of Membership Manual will remain in effect unless the credit unions agree to remove them or one of the affected credit unions submits a housekeeping amendment to have it removed.

IV.F—CHARTER CONVERSION

A multiple common bond federal credit union may apply to convert to a community charter provided the field of membership requirements of the community charter are met. Groups within the existing charter which cannot qualify in the new charter cannot be served except for members of record, or groups or communities obtained in an emergency merger or P&A. A credit union must notify all groups that will be removed from the field of membership as a result of conversion. Members of record can continue to be served. Also, in order to support a case for a conversion, the applicant federal credit union may be required to develop a detailed business plan as specified in Chapter 2, Section V.A.3.

A multiple common bond federal credit union may apply to convert to a single occupational or associational common bond charter provided the field of membership requirements of the new charter are met. Groups within the existing charter, which do not qualify in the new charter, cannot be served except for members of record, or groups or communities obtained in an emergency merger or P&A. A credit union must notify all groups that will be removed from the

field of membership as a result of conversion.

IV.G—CREDIT UNION REQUESTED REMOVAL OF GROUPS FROM THE FIELD OF MEMBERSHIP

A credit union may request removal of a group from its field of membership for various reasons. The most common reasons for this type of amendment are:

- The group is within the field of membership of two credit unions and one wishes to discontinue service;
- The federal credit union cannot continue to provide adequate service to the group;
- The group has ceased to exist;
- The group does not respond to repeated requests to contact the credit union or refuses to provide needed support;
- The group initiates action to be removed from the field of membership; or
- The federal credit union wishes to convert to a single common bond.

When a federal credit union requests an amendment to remove a group from its field of membership, the Office of Credit Union Resources and Expansion Director will determine why the credit union desires to remove the group. If the Office of Credit Union Resources and Expansion Director concurs with the request, membership will continue for those who are already members under the "once a member, always a member" provision of the Federal Credit Union Act.

IV.H—NCUA SUPERVISORY ACTION TO REMOVE GROUPS FROM THE FIELD OF MEMBERSHIP

NCUA has in place quality control processes that protect the integrity of its field of membership requirements. As part of this obligation, NCUA's Office of Credit Union Resources and Expansion will randomly select groups added through NCUA's Field of Membership Internet Application (FOMIA) system for quality assurance reviews even if the expansion application meets all the conditions for approval. Each FCU is responsible for obtaining certain documentation when seeking to add groups to its field of membership through FOMIA. In addition, as indicated in the FOMIA User Instruction Guide, available on NCUA's Web site, an FCU must permanently retain the documentation from the select group requesting service and the Confirmation Certificate generated at the time the FOMIA request is submitted to NCUA.

As part of the quality assurance process, the Office of Credit Union Resources and Expansion reserves the right to request this documentation at any time. If the FCU fails to provide this documentation when the Office of Credit Union Resources and Expansion requests it, the director of the Office of Credit Union Resources and Expansion may consider removing the group from the FCU's

field of membership and restricting the FCU from using the FOMIA system for future requests. Specifically, as part of the FOMIA quality assurance process, the Office of Credit Union Resources and Expansion staff will do the following:

1. Within 10 days of receiving an application selected for a quality assurance review, notify the FCU of the documentation the Office of Credit Union Resources and Expansion requires. The FCU will have 15 days to provide the necessary documentation. The Office of Credit Union Resources and Expansion will respond to the FCU with a determination on the quality assurance review of the association within 15 days of receiving the requested information;

2. After receiving the additional documentation, if any concerns remain outstanding, the Office of Credit Union Resources and Expansion will again correspond with the FCU and provide a 15-day time frame for correcting the concern. The Office of Credit Union Resources and Expansion will respond to the FCU with a determination on the quality assurance review of the association within 15 days of receiving the requested information; and

3. If the FCU does not provide the requested documentation, or cannot correct the concern, the Office of Credit Union Resources and Expansion Director will deny the application and notify the credit union of its appeal rights.

IV.I—NCUA INVESTIGATION OF POTENTIAL FIELD OF MEMBERSHIP VIOLATIONS

NCUA's Office of Credit Union Resources and Expansion is responsible for investigating field of membership complaints from the public, and matters referred to it from the field. It also pursues corrective action as needed for FCUs with confirmed field of membership violations. Although circumstances can vary with each case, the Office of Credit Union Resources and Expansion will generally adhere to the following process for investigating and addressing potential field of membership violations:

1. Initially correspond with management to outline concerns and request clarifying information within 60 days. The Office of Credit Union Resources and Expansion will also provide context as to the source of NCUA's concerns, such as the discovery of new information about a particular group or an examination finding brought to the attention of the Office of Credit Union Resources and Expansion;

2. If the Office of Credit Union Resources and Expansion does not receive the requested information within 60 days, it will notify the FCU and again request the required information be provided within 30 days;

3. After receiving the additional documentation, if any concerns remain outstanding, the Office of Credit Union Resources

and Expansion will again correspond with the FCU to provide a 60-day time frame for addressing the concern; and

4. If the FCU is unable to correct the concern, and after consultation with the Office of General Counsel and the appropriate Regional Office or Office of National Examinations and Supervision Director, and in accordance with agency guidelines for administrative actions, the Director of the Office of Credit Union Resources and Expansion will remove the group from the FCU's field of membership pursuant to authority delegated by the NCUA Board. Removal of a group is treated the same as an initial denial under the Chartering Manual. In any adverse final determination on removal under the above delegations, the Office of Credit Union Resources and Expansion will notify the FCU of its appeal rights.

NCUA considers the removal of an association from an FCU's field of membership as an action of last resort. If a group is removed, the FCU can no longer add new members from the group, but can continue serving those who are already members of the FCU under the "once a member, always a member" provision of the Federal Credit Union Act. Also, if the group subsequently qualifies due to changes to the group itself, management can submit a new application at that time.

IV.J—OTHER PERSONS ELIGIBLE FOR CREDIT UNION MEMBERSHIP

A number of persons, by virtue of their close relationship to a common bond group, may be included, at the charter applicant's option, in the field of membership. These include the following:

- Spouses of persons who died while within the field of membership of this credit union;
- Employees of this credit union;
- Persons retired as pensioners or annuitants from the above employment;
- Volunteers;
- Members of the immediate family or household;
- Honorably discharged veterans who served in any of the Armed Services of the United States in this charter;
- Organizations of such persons; and
- Corporate or other legal entities in this charter.

Immediate family is defined as spouse, child, sibling, parent, grandparent, or grandchild. This includes stepparents, stepchildren, stepsiblings, and adoptive relationships.

Household is defined as persons living in the same residence maintaining a single economic unit.

Membership eligibility is extended only to individuals who are members of an "immediate family or household" of a credit union member. It is not necessary for the primary member to join the credit union in order for

the immediate family or household member of the primary member to join, provided the immediate family or household clause is included in the field of membership. However, it is necessary for the immediate family member or household member to first join in order for that person's immediate family member or household member to join the credit union. A credit union can adopt a more restrictive definition of immediate family or household.

Volunteers, by virtue of their close relationship with a sponsor group, may be included. Examples include volunteers working at a hospital or church.

Under the Federal Credit Union Act, once a person becomes a member of the credit union, such person may remain a member of the credit union until the person chooses to withdraw or is expelled from the membership of the credit union. This is commonly referred to as "once a member, always a member." The "once a member, always a member" provision does not prevent a credit union from restricting services to members who are no longer within the field of membership.

V—COMMUNITY CHARTER REQUIREMENTS

V.A.1—General

There are two types of community charters. One is based on a single, geographically well-defined local community or neighborhood; the other is a rural district. More than one credit union may serve the same community.

NCUA recognizes four types of affinity on which both a community charter and a rural district can be based—persons who live in, worship in, attend school in, or work in the community or rural district. Businesses and other legal entities within the community boundaries or rural district may also qualify for membership.

NCUA has established the following requirements for community charters:

- The geographic area's boundaries must be clearly defined; and
- The area is a well-defined local community or a rural district.

V.A.2—Definition of Well-Defined Local Community and Rural District

In addition to the documentation requirements in Chapter 1 to charter a credit union, a community credit union applicant must provide additional documentation addressing the proposed area to be served and community service policies, as well as the business plan requirements set forth in this Chapter. An applicant must meet all of these requirements to obtain NCUA approval.

An applicant has the burden of demonstrating to NCUA that the proposed community area meets the statutory requirements of being: (1) Well-defined, and (2) a

local community or rural district. The applicant also has the burden of demonstrating that with respect to the proposed community, it has the capacity to provide financial services to low- and moderate-income areas of the community. The agency will reject any application that fails to establish the criteria set forth above.

For an applicant seeking a community charter for a Statistical Area with multiple political jurisdictions with a population of 2.5 million people or more, the Office of Credit Union Resources and Expansion (CURE) shall: (1) Publish a notice in the FEDERAL REGISTER seeking comment from interested parties about the proposed community and (2) conduct a public hearing about this application.

"Well-defined" means the proposed area has specific geographic boundaries. Geographic boundaries may include a city, township, county (single, multiple, or portions of a county) or a political equivalent, school districts, or a clearly identifiable neighborhood.

The well-defined local community requirement is met if:

- Single Political Jurisdiction—the area to be served is a recognized Single Political Jurisdiction, *i.e.*, a city, county, or their political equivalent, or any single portion thereof.

- Statistical Area—A statistical area is all or an individual portion of a Combined Statistical Area (CSA) or a Core-Based Statistical Area (CBSA) designated by the U.S. Census Bureau, including a Metropolitan Statistical Area. To meet the well-defined local community requirement, the CSA or CBSA or a portion thereof, must be contiguous and have a population of 2.5 million or less people. An individual portion of a statistical area need not conform to internal boundaries within the area, such as metropolitan division boundaries within a Core-Based Statistical Area.

- Compelling Evidence of Common Interests or Interaction—In lieu of a statistical area as defined above, this option is available when a credit union seeks to initially charter a community credit union; to expand an existing community; or to convert to a community charter. Under this option, the credit union must demonstrate that the areas in question are contiguous and further demonstrate a sufficient level of common interests or interaction among area residents to qualify the area as a local community. For that purpose, an applicant must submit for NCUA approval a narrative, supported by appropriate documentation, establishing that the area's residents meet the requirements of a local community.

To assist a credit union in developing its narrative, Appendix 6 of this Manual identifies criteria a narrative should address, and

which NCUA will consider in deciding a credit union's application to: Initially charter a community credit union; to expand an existing community, including by an adjacent area addition; or to convert to a community charter. In any case, the credit union must demonstrate, through its business and marketing plans, its ability and commitment to serve the entire community for which it seeks NCUA approval.

An area of any geographic size qualifies as a Rural District if:

- The proposed district has well-defined, contiguous geographic boundaries;
- The total population of the proposed district does not exceed 1,000,000;
- Either more than 50% of the proposed district's population resides in census blocks or other geographic units that are designated as rural by either the Consumer Financial Protection Bureau or the United States Census Bureau, OR the district has a population density of 100 persons or fewer per square mile; and
- The boundaries of the well-defined rural district do not exceed the outer boundaries of the states that are *immediately contiguous* to the state in which the credit union maintains its headquarters (*i.e.*, not to exceed the outer perimeter of the layer of states immediately surrounding the headquarters state).

The common bond affinity groups that apply to well-defined local communities also apply to Rural Districts.

The requirements in Chapter 2, Sections V.A.4 through V.G also apply to a credit union that serves a rural district.

V.A.3—Previously Approved Communities

If NCUA has determined that a specific geographic area is a well-defined local community, then a new applicant need not reestablish that fact as part of its application to serve the exact area. The new applicant must, however, note NCUA's previous determination as part of its overall application. An applicant applying for an area that is not exactly the same as a previously approved well defined local community must comply with the current criteria in place for determining a well-defined local community.

V.A.4—Business Plan Requirements for a Community Credit Union

A community credit union is frequently more susceptible to competition from other local financial institutions and generally does not have substantial support from any single sponsoring company or association. As a result, a community credit union will often encounter financial and operational factors that differ from an occupational or associational charter. Its diverse membership may require special marketing programs targeted to different segments of the community. For example, the lack of payroll

deduction creates special challenges in the development and promotion of savings programs and in the collection of loans. Accordingly, to support an application for a community charter, an applicant Federal credit union must develop a business plan incorporating the following data:

- Pro forma financial statements for a minimum of 24 months after the proposed conversion, including the underlying assumptions and rationale for projected member, share, loan, and asset growth;
- Anticipated financial impact on the credit union, including the need for additional employees and fixed assets, and the associated costs;
- A description of the current and proposed office/branch structure, including a general description of the location(s); parking availability, public transportation availability, drive-through service, lobby capacity, or any other service feature illustrating community access;
- A marketing plan addressing how the community will be served for the 24-month period after the proposed conversion to a community charter, including detailing: How the credit union will implement its business plan; the unique needs of the various demographic groups in the proposed community; how the credit union will market to each group, particularly underserved groups; which community-based organizations the credit union will target in its outreach efforts; the credit union's marketing budget projections dedicating greater resources to reaching new members; and the credit union's timetable for implementation, not just a calendar of events;
- Details, terms and conditions of the credit union's financial products, programs, and services to be provided to the entire community; and
- Maps showing the current and proposed service facilities, ATMs, political boundaries, major roads, and other pertinent information.

An existing Federal credit union may apply to convert to a community charter. Groups currently in the credit union's field of membership, but outside the new community credit union's boundaries, may not be included in the new community charter. Therefore, the credit union must notify groups that will be removed from the field of membership as a result of the conversion. Members of record can continue to be served.

Before approval of an application to convert to a community credit union, NCUA must be satisfied that the credit union will be viable and capable of providing services to its members.

Community credit unions will be expected to regularly review and to follow, to the fullest extent economically possible, the marketing and business plans submitted with their applications. Additionally, NCUA will

follow-up with an FCU every year for three years after the FCU has been granted a new or expanded community charter, and at any other intervals NCUA believes appropriate, to determine if the FCU is satisfying the terms of its marketing and business plans.

An FCU failing to satisfy those terms will be subject to supervisory action. As part of this review process, the regional office or Office of National Examinations and Supervision Director will report to the NCUA Board instances where an FCU is failing to satisfy the terms of its marketing and business plan and indicate what supervisory actions the region or ONES intends to take.

V.A.5—Community Boundaries

The geographic boundaries of a community Federal credit union are the areas defined in its charter. The boundaries can usually be defined using political borders, streets, rivers, railroad tracks, or other static geographical feature.

A community that is a recognized legal entity may be stated in the field of membership—for example, “Gus Township, Texas,” “Isabella City, Georgia,” or “Fairfax County, Virginia.”

A community that is an entire United States Census Bureau designated Core Based Statistical Area or Combined Statistical Area may be stated in the field of membership—for example, “Fort Wayne, IN Metropolitan Statistical Area,” “Albany, GA Metropolitan Statistical Area,” or “Syracuse-Auburn, NY Combined Statistical Area.”

V.A.6—Special Community Charters

A community field of membership may include persons who work or attend school in a particular industrial park, shopping mall, office building or complex, or similar development. The proposed field of membership must have clearly defined geographic boundaries.

V.A.7—Ample Community Fields of Membership

A community charter does not have to include all four affinities (*i.e.*, live, work, worship, or attend school in a community). Some examples of community fields of membership are:

- Persons who live, work, worship, or attend school in, and businesses located in the area of Johnson City, Tennessee, bounded by Fern Street on the north, Long Street on the east, Fourth Street on the south, and Elm Avenue on the west;
- Persons who live or work in Green County, Maine;
- Persons who live, worship, work (or regularly conduct business in), or attend school on the University of Dayton campus, in Dayton, Ohio;

- Persons who work for businesses located in Clifton Country Mall, in Clifton Park, New York;

- Persons who live, work, or worship in the Binghamton, New York, Core Based Statistical Area, consisting of Broome and Tioga Counties, New York (a qualifying Core Based Statistical Area in its entirety);

- Persons who live, work, worship, or attend school in the portion of the Oklahoma City, OK Metropolitan Statistical Area that includes Canadian and Oklahoma counties, Oklahoma (two contiguous counties in a portion of a qualifying Core Based Statistical Area that has seven counties in total); or

- Persons who live, work, worship, or attend school in Uinta County or Lincoln County, Wyoming, a rural district.

Some examples of insufficiently defined local communities, neighborhoods, or rural districts are:

- Persons who live or work within and businesses located within a ten-mile radius of Washington, DC (not a permitted community);

- Persons who live or work in the industrial section of New York, New York. (not well-defined nor a permitted community); or

- Persons who live or work in the greater Boston area. (not well-defined).

Some examples of unacceptable local communities, neighborhoods, or rural districts are:

- Persons who live or work in the State of California. (not a permitted community). Persons who live in the first congressional district of Florida. (not a permitted community).

V.A.8—Community Selection Requirements and Review

The NCUA will not approve an application for a community charter consisting of all or a portion of a CSA or a CBSA, including an initial application, amendment, or expansion, unless the applicant demonstrates in its business and marketing plan that (1) the credit union will serve a community that is contiguous and (2) the credit union will provide financial services to low- and moderate-income and underserved people, and that the credit union has not selected its service area in order to exclude low- and moderate-income and underserved people or to engage in illegal discrimination. Upon receipt of this material, the NCUA will evaluate the business and marketing plan to ensure that low- and moderate-income and underserved people will be served and that the credit union has not selected the service area in order to exclude such people or to engage in illegal discrimination. This requirement is in addition to the requirement to document in the business and marketing plan the realistic assumptions that support the credit union's viability and its plan to serve its entire FOM.

The NCUA may conduct such further inquiry or evaluation as it deems appropriate, as authorized by 12 U.S.C. 1754 and consistent with the principles of this Manual, other federal laws, and public policy. If the NCUA determines that the credit union's submission is inaccurate or unsupported, it may deny that application on those grounds, regardless of whether the application satisfies the other criteria for initial chartering, amendment, or expansion.

V.B—FIELD OF MEMBERSHIP AMENDMENTS

A community credit union may amend its field of membership by adding additional affinities or removing exclusionary clauses. This can be accomplished with a house-keeping amendment.

A community credit union also may expand its geographic boundaries. Persons who live, work, worship, or attend school within the proposed well-defined local community, neighborhood or rural district must have common interests and/or interact. The credit union must follow the requirements of Section V.A.4 and Section V.A.8 of this chapter.

A community credit union that is based on a Single Political Jurisdiction, a Statistical Area (*e.g.*, Core Based Statistical Area or Combined Statistical Area) or a rural district may expand its geographic boundaries to add a bordering area, provided the area is well defined and the credit union demonstrates that persons who live, work, worship, or attend school within the proposed expanded community (*i.e.*, on both sides of the boundary separating the existing community and the bordering area) have common interests and/or interact. Such a credit union applying to expand its geographic boundaries to add a bordering area must follow a streamlined version of the business plan requirements of Section V.A.4 of this chapter and the expanded community would be subject to the corresponding population limit—2.5 million in the case of a Single Political Jurisdiction, or a Statistical Area and 1 million in the case of a rural district. The streamlined business plan requirements for adding a bordering area are:

- Anticipated marginal financial impact on the credit union of adding the proposed bordering area, including the need for additional employees and fixed assets, and the associated costs;
- A description of the current and, if applicable, proposed office/branch structure specific to serving the proposed bordering area;
- A marketing plan addressing how the new community will be served for the 24-month period after the proposed expansion of a community charter, including detailing how the credit union will address the unique needs of any demographic groups in the proposed bordering community not presently served by the credit union and how the credit union will market to any new groups; and

- Details, terms and conditions of any new financial products, programs, and services to be introduced as part of this expansion.

V.C—NCUA PROCEDURES FOR AMENDING THE FIELD OF MEMBERSHIP

V.C.1—General

All requests for approval to amend a community credit union's charter must be submitted to the Office of Credit Union Resources and Expansion Director. If a decision cannot be made within a reasonable period of time, the Office of Credit Union Resources and Expansion Director will notify the credit union.

V.C.2—NCUA's Decision

The financial and operational condition of the requesting credit union will be considered in every instance. The economic advisability of expanding the field of membership of a credit union with financial or operational problems must be carefully considered.

In most cases, field of membership amendments will only be approved for credit unions that are operating satisfactorily. Generally, if a federal credit union is having difficulty providing service to its current membership, or is experiencing financial or other operational problems, it may have more difficulty serving an expanded field of membership.

Occasionally, however, an expanded field of membership may provide the basis for reversing current financial problems. In such cases, an amendment to expand the field of membership may be granted notwithstanding the credit union's financial or operational problems. The applicant credit union must clearly establish that the expanded field of membership is in the best interest of the members and will not increase the risk to the NCUSIF.

V.C.3—NCUA Approval

If the requested amendment is approved by NCUA, the credit union will be issued an amendment to Section 5 of its charter.

V.C.4—NCUA Disapproval

When NCUA disapproves any application to amend the field of membership, in whole or in part, under this chapter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- If appropriate, options or suggestions that could be considered for gaining approval; and
- Appeal procedures.

V.C.5—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies a field of membership expansion request, merger, or spin-off, that decision may be appealed to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial or explain extenuating circumstances that precluded the inclusion of existing material evidence or information that should have been filed with the request for reconsideration. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the request for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial. A petitioner may seek a second reconsideration based on new material evidence or information or extenuating circumstances that precluded the inclusion of such information in the previous request.

V.D—MERGERS, PURCHASE AND ASSUMPTIONS, AND SPIN-OFFS

There are three additional ways a community federal credit union can expand its field of membership:

- By taking in the field of membership of another credit union through a merger;
- By taking in the field of membership through a purchase and assumption (P&A); or
- By taking a portion of another credit union's field of membership through a spin-off.

V.D.1—Mergers

Generally, the requirements applicable to field of membership expansions apply to mergers where the continuing credit union is a community federal charter.

Where both credit unions are community charters, the continuing credit union must meet the criteria for expanding the community boundaries. A community credit union cannot merge into a single occupational/associational, or multiple common bond credit union, except in an emergency merger. However, a single occupational or associational, or multiple common bond credit union can merge into a community charter as long as the merging credit union has a service facility within the community boundaries or a majority of the merging credit union's field of membership would qualify for membership in the community

charter. While a community charter may take in an occupational, associational, or multiple common bond credit union in a merger, it will remain a community charter.

Groups within the merging credit union's field of membership located outside of the community boundaries may not continue to be served. The merging credit union must notify groups that will be removed from the field of membership as a result of the merger. However, the credit union may continue to serve members of record.

Where a state-chartered credit union is merging into a community federal credit union, the continuing federal credit union's field of membership will be worded in accordance with NCUA policy. Any subsequent field of membership expansions must comply with applicable amendment procedures.

Mergers must be approved by the NCUA regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union, and, as applicable, the state regulators.

V.D.2—Emergency Mergers

An emergency merger may be approved by NCUA without regard to common bond or other legal constraints. An emergency merger involves NCUA's direct intervention and approval. The credit union to be merged must either be insolvent or in danger of insolvency, as defined in the Glossary, and NCUA must determine that:

- An emergency requiring expeditious action exists;
- Other alternatives are not reasonably available; and
- The public interest would best be served by approving the merger.

If not corrected, conditions that could lead to insolvency include, but are not limited to:

- Abandonment by management;
- Loss of sponsor;
- Serious and persistent record-keeping problems; or
- Serious and persistent operational concerns.

In an emergency merger situation, NCUA will take an active role in finding a suitable merger partner (continuing credit union). NCUA is primarily concerned that the continuing credit union has the financial strength and management expertise to absorb the troubled credit union without adversely affecting its own financial condition and stability.

As a stipulated condition to an emergency merger, the field of membership of the merging credit union may be transferred intact to the continuing federal credit union without

regard to any field of membership restrictions, including the service facility requirement. Under this authority, a federal credit union may take in any dissimilar field of membership.

Even though the merging credit union is a single common bond credit union or multiple common bond credit union or community credit union, the continuing credit union will remain a community charter. Future community expansions will be based on the continuing credit union's original community area.

Emergency mergers involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the merging credit union and, as applicable, the state regulators.

V.D.3—Purchase and Assumption (P&A)

Another alternative for acquiring the field of membership of a failing credit union is through a consolidation known as a P&A. Generally, the requirements applicable to community expansions found in this chapter apply to purchase and assumptions where the purchasing credit union is a federal charter.

A P&A has limited application because, in most instances, the failing credit union must be placed into involuntary liquidation. However, in the few instances where a P&A may occur, the assuming federal credit union, as with emergency mergers, may acquire the entire field of membership if the emergency criteria are satisfied.

In a P&A processed under the emergency criteria, specified loans, shares, and certain other designated assets and liabilities may also be acquired without regard to field of membership restrictions and without changing the character of the continuing federal credit union for purposes of future field of membership amendments.

If the P&A does not meet the emergency criteria, then only members of record can be obtained unless they otherwise qualify for membership in the community charter.

P&As involving federally insured credit unions in different NCUA regions must be approved by the regional director or Office of National Examinations and Supervision Director where the continuing credit union is headquartered, with the concurrence of the regional director or Office of National Examinations and Supervision Director of the purchased and/or assumed credit union and, as applicable, the state regulators.

V.D.4—Spin-Offs

A spin-off occurs when, by agreement of the parties, a portion of the field of membership, assets, liabilities, shares, and capital of a credit union are transferred to a new or existing credit union. A spin-off is unique in that usually one credit union has a field of membership expansion and the other loses a portion of its field of membership.

All field of membership requirements apply regardless of whether the spun-off group goes to a new or existing federal charter.

The request for approval of a spin-off must be supported with a plan that addresses, at a minimum:

- Why the spin-off is being requested;
- What part of the field of membership is to be spun off;
- Whether the field of membership requirements are met;
- Which assets, liabilities, shares, and capital are to be transferred;
- The financial impact the spin-off will have on the affected credit unions;
- The ability of the acquiring credit union to effectively serve the new members;
- The proposed spin-off date; and
- Disclosure to the members of the requirements set forth above.

The spin-off request must also include current financial statements from the affected credit unions and the proposed voting ballot.

For federal credit unions spinning off a portion of the community, membership notice and voting requirements and procedures are the same as for mergers (see part 708 of the NCUA Rules and Regulations), except that only the members directly affected by the spin-off—those whose shares are to be transferred—are permitted to vote. Members whose shares are not being transferred will not be afforded the opportunity to vote. All members of the group to be spun off (whether they voted in favor, against, or not at all) will be transferred if the spin-off is approved by the voting membership. Voting requirements for federally insured state credit unions are governed by state law.

V.E—OVERLAPS

V.E.1—General

Generally, an overlap exists when a group of persons is eligible for membership in two or more credit unions. NCUA will permit community credit unions to overlap any other charters without performing an overlap analysis.

V.E.2—Exclusionary Clauses

An exclusionary clause is a limitation precluding the credit union from serving the primary members of a portion of a group or community otherwise included in its field of membership.

NCUA no longer grants exclusionary clauses. Those granted prior to the adoption of this new Chartering and Field of Membership Manual will remain in effect unless the credit unions agree to remove them or one of the affected credit unions submits a house-keeping amendment to have it removed.

V.F—CHARTER CONVERSIONS

A community federal credit union may convert to a single occupational or associational, or multiple common bond credit union. The converting credit union must meet all occupational, associational, and multiple common bond requirements, as applicable. The converting credit union may continue to serve members of record of the prior field of membership as of the date of the conversion, and any groups or communities obtained in an emergency merger or P&A. A change to the credit union's field of membership and designated common bond will be necessary.

A community credit union may convert to serve a new geographical area provided the field of membership requirements of V.A.3 of this chapter are met. Members of record of the original community can continue to be served.

V.G—OTHER PERSONS WITH A RELATIONSHIP TO THE COMMUNITY

A number of persons who have a close relationship to the community may be included, at the charter applicant's option, in the field of membership. These include the following:

- Spouses of persons who died while within the field of membership of this credit union;
- Employees of this credit union;
- Volunteers in the community;
- Members of the immediate family or household; and
- Organizations of such persons

Immediate family is defined as spouse, child, sibling, parent, grandparent, or grandchild. This includes stepparents, stepchildren, stepsiblings, and adoptive relationships.

Household is defined as persons living in the same residence maintaining a single economic unit.

Membership eligibility is extended only to individuals who are members of an "immediate family or household" of a credit union member. It is not necessary for the primary member to join the credit union in order for the immediate family or household member of the primary member to join, provided the immediate family or household clause is included in the field of membership. However, it is necessary for the immediate family member or household member to first join in order for that person's immediate family member or household member to join the credit union. A credit union can adopt a

more restrictive definition of immediate family or household.

Under the Federal Credit Union Act, once a person becomes a member of the credit union, such person may remain a member of the credit union until the person chooses to withdraw or is expelled from the membership of the credit union. This is commonly referred to as "once a member, always a member." The "once a member, always a member" provision does not prevent a credit union from restricting services to members who are no longer within the field of membership.

CHAPTER 3—LOW-INCOME CREDIT UNIONS AND CREDIT UNIONS SERVING UNDERSERVED AREAS

I—INTRODUCTION

One of the primary reasons for the creation of federal credit unions is to make credit available to people of modest means for provident and productive purposes. To help NCUA fulfill this mission, the agency has established special operational policies for federal credit unions that serve low-income groups and underserved areas. The policies provide a greater degree of flexibility that will enhance and invigorate capital infusion into low-income groups, low-income communities, and underserved areas. These unique policies are necessary to provide credit unions serving low-income groups with financial stability and potential for controlled growth and to encourage the formation of new charters as well as the delivery of credit union services in low-income communities.

II—LOW-INCOME CREDIT UNION

II.A—Defined

A credit union serving predominantly low-income members may be designated as a low-income credit union. Section 701.34 of NCUA's Rules and Regulations defines the term "low-income members" as those members:

- Who make less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics; or
- Whose median family income falls at or below 80 percent of the median family income for the nation as established by the Census Bureau.

The term "low-income members" also includes members who are full-time or part-time students in a college, university, high school, or vocational school.

To obtain a low-income designation from NCUA, an existing credit union must establish that a majority of its members meet the low-income definition. An existing community credit union that serves a geographic area where a majority of residents meet the annual income standard is presumed to be serving predominantly low-income members. A low-income designation for a new credit

union charter may be based on a majority of the potential membership.

II.B—Special Programs

A credit union with a low-income designation has greater flexibility in accepting non-member deposits insured by the NCUSIF, are exempt from the aggregate loan limit on business loans, and may offer secondary capital accounts to strengthen its capital base. It also may participate in special funding programs such as the Community Development Revolving Loan Program for Credit Unions (CDRLP) if it is involved in the stimulation of economic development and community revitalization efforts.

The CDRLP provides both loans and grants for technical assistance to low-income credit unions. The requirements for participation in the revolving loan program are in part 705 of the NCUA Rules and Regulations. Only operating credit unions are eligible for participation in this program.

II.C—Low-Income Documentation

A federal credit union charter applicant or existing credit union wishing to receive a low-income designation should forward a separate request for the designation to the Office of Credit Union Resources and Expansion Director, along with appropriate documentation supporting the request.

For community charter applicants, the supporting material should include the median family income or annual wage figures for the community to be served. If this information is unavailable, the applicant should identify the individual zip codes or census tracts that comprise the community and NCUA will assist in obtaining the necessary demographic data.

Similarly, if single occupational or associational or multiple common bond charter applicants cannot supply income data on its potential members, they should provide the Office of Credit Union Resources and Expansion Director with a list which includes the number of potential members, sorted by their residential zip codes, and NCUA will assist in obtaining the necessary demographic data.

An existing credit union can perform a loan or membership survey to determine if the credit union is primarily serving low-income members.

II.D—Third-Party Assistance

A low-income federal credit union charter applicant may contract with a third party to assist in the chartering and low-income designation process. If the charter is granted, a low-income credit union may contract with a third party to provide necessary management services. Such contracts should not exceed the duration of one year subject to renewal.

II.E—Special Rules for Low-Income Federal Credit Unions

In recognition of the unique efforts needed to help make credit union service available to low-income groups, NCUA has adopted special rules that pertain to low-income credit union charters, as well as field of membership additions for low-income credit unions. These special rules provide additional latitude to enable underserved, low-income individuals to gain access to credit union service.

NCUA permits credit union chartering and field of membership amendments based on associational groups formed for the sole purpose of making credit union service available to low-income persons. The association must be defined so that all of its members will meet the low-income definition of Section 701.34 of the NCUA Rules and Regulations. Any multiple common bond credit union can add low-income associations to their fields of membership.

A low-income designated community federal credit union has additional latitude in serving persons who are affiliated with the community. In addition to serving members who live, work, worship, or attend school in the community, a low-income community federal credit union may also serve persons who participate in programs to alleviate poverty or distress, or who participate in associations headquartered in the community.

Examples of a low-income designated community and an associational-based low-income federal credit union are as follows:

- Persons who live in [the target area]; persons who work, worship, attend school, or participate in associations headquartered in [the target area]; persons participating in programs to alleviate poverty or distress which are located in [the target area]; incorporated and unincorporated organizations located in [the target area] or maintaining a facility in [the target area]; and organizations of such persons.

- Members of the Canarsie Economic Assistance League, in Brooklyn, NY, an association whose members all meet the low-income definition of Section 701.34 of the NCUA Rules and Regulations.

III—SERVICE TO UNDERSERVED COMMUNITIES

III.A—General

A multiple common bond federal credit union may include in its field of membership, without regard to location, an “underserved area” as defined by the Federal Credit Union Act, 12 U.S.C. 1759(c)(2).

The addition of an “underserved area” will not change the charter type of the multiple common bond federal credit union. More than one multiple common-bond federal

credit union can serve the same “underserved area,” provided each credit union is approved as provided below.

By adding an “underserved area,” a multiple common bond federal credit union does not become eligible to receive the benefits afforded to low-income designated credit unions, such as expanded use of nonmember deposits and access to the Community Development Revolving Loan Program for Credit Unions.

III.B—“Underserved Area” Defined

The Federal Credit Union Act defines an “underserved area” as (1) a “local community, neighborhood, or rural district” that (2) meets the definition of an “investment area” under section 103(16) of the Community Development Banking and Financial Institutions Act of 1994 (“CDFI”), 12 U.S.C. 4702(16), and (3) is “underserved by other depository institutions” based on data of the NCUA Board and the federal banking agencies.

III.B.1—Local Community

To be eligible for approval as “underserved,” a proposed area must be a well-defined local community, neighborhood, or rural district as defined in Chapter 2, sections V.A.1. and V.A.2. of this Manual.

III.B.2—Investment Area

To be approved as an “underserved area,” the proposed area must meet the CDFI definition of an “investment area.” *Id.* §4702(16). A proposed area that, at the time the credit union applies, is designated in its entirety as an Empowerment Zone or Enterprise Community (*id.* §1391) automatically qualifies as an “investment area”; no further criteria of an “investment area” must be met. *Id.* §4702(16)(B). A proposed area that is not designated as such must qualify as an “investment area” under “the objective criteria of economic distress” developed by the CDFI Fund (“distress criteria”) based on current decennial U.S. Census data, and also must have “significant unmet needs” for loans and financial services that credit unions are authorized to offer to their members. *Id.* §4702(16)(A).

III.B.2.a—Economic Distress Criteria

Geographic Unit(s) By Proposed Area’s Location. The location of a proposed “underserved area” either within or outside of a Metropolitan Statistical Area corresponding to the most recent completed decennial census published by the U.S. Bureau of the Census (“decennial Census”) determines the geographic unit(s) that apply to determine whether the area meets the distress criteria.

Within a Metropolitan Statistical Area. For a proposed area located, in whole or in part, within a Metropolitan Statistical Area, the

permissible geographic units (“Metro units”) for implementing the economic distress criteria are: (i) A census tract; (ii) a block group; and (iii) an American Indian or Alaskan Native area. 12 CFR 1805.201(b)(3)(ii)(B) (2008). For ease of implementation, it is advisable to use a census tract as the proposed area’s Metro unit.

Outside a Metropolitan Statistical Area. For a proposed area that is located entirely outside a Metropolitan Statistical Area, the permissible units (“Non-Metro units”) for implementing the economic distress criteria are: (i) A county or equivalent area; (ii) a minor civil division that is a unit of local government; (iii) an incorporated place; (iv) a census tract; (v) a block numbering area; (vi) a block group; and (vii) an American Indian or Alaskan Native area. *Id.* For ease of implementation, it is advisable to use either a census tract or county, as the case may be, as the proposed area’s Non-Metro unit.

Proposed Area Consisting of a Single Metro Unit. A proposed area consisting of a single whole Metro unit (*e.g.*, a single census tract located within a Metropolitan Statistical Area) must meet one of the following distress criteria, as reported by the most recent decennial Census:

- *Unemployment.* The proposed area’s unemployment rate is at least 1.5 times the national average; or
- *Poverty.* At least 20 percent (20%) of the proposed area’s population lives in poverty; or
- *Median Family Income.* The proposed area’s Median Family Income (“MFI”) is at or below 80 percent (80%) of either the MFI of the corresponding Metropolitan Statistical Area, or of the national MFI for Metro Areas, whichever is greater; or
- *Other Criterion.* Any other economic distress criterion the CDFI Fund may adopt in the future.

Id. §1805.201(b)(3)(ii)(D)(1), (2)(i) and (3) (2008).

Proposed Area Consisting of a Single Non-Metro Unit. A proposed area consisting of a single whole Non-Metro unit (*e.g.*, a single county located outside a Metropolitan Statistical Area) must meet one of the following distress criteria, as reported by the most recent decennial Census:

- *Unemployment.* The proposed area’s unemployment rate is at least 1.5 times the national average; or
- *Poverty.* At least 20 percent (20%) of the proposed area’s population lives in poverty; or
- *Median Family Income.* The proposed area’s MFI is at or below 80 percent (80%) of either the corresponding state’s Non-Metro MFI or the national MFI for Non-Metro Areas, whichever is greater; or
- *Other Criterion.* Any other economic distress criterion the CDFI Fund may adopt in the future.

- *Id.* §1805.201(b)(3)(ii)(D)(1), (2)(ii) and (3) (2008). Alternatively, a proposed area consisting of a single Non-Metro county (located outside a Metropolitan Statistical Area) may instead meet either of the following two criteria, as reported by the decennial Census:

- *County Population Loss.* County's population loss of at least 10 percent (10%) between the most recent and the preceding decennial Census; or

- *County Migration Loss.* County's net migration loss of at least 5 percent (5%) in the 5-year period preceding the most recent decennial Census.

Id. §1805.201(b)(3)(ii)(D)(4)–(5) (2008).

Proposed Area Consisting of Multiple Contiguous Units. When a proposed area consists of either multiple contiguous Metro units (*e.g.*, a group of adjoining census tracts) or multiple contiguous Non-Metro units (*e.g.*, a group of adjoining counties), a population threshold applies when implementing the economic distress criteria. At least 85 percent (85%) of the area's total population must reside within the units that are "distressed," *i.e.*, that meet one of the applicable economic distress criteria above, as reported by the decennial Census (Unemployment, Poverty and MFI for census tracts plus, for counties only, Population Loss and Migration Loss); the balance of the area's population may reside in the non-"distressed" tract(s). The population threshold is met, and the whole proposed area qualifies as "distressed," when the "distressed" units represent at least 85 percent of the area's total population.

III.B.2.b—Proposed Area's "Significant Unmet Needs"

A proposed area that is "distressed" also must display "significant unmet needs" for loans or for one or more of the financial services credit unions are authorized to offer. To meet this criterion, the credit union must include within its Business Plan a section, one page in length, entitled "Significant Unmet Needs for Credit Union Services" ("SUN section") that establishes the existence of such unmet needs by identifying the credit and depository needs of the community and detailing how the credit union plans to serve those needs. The credit union may choose which among the following "credit and depository needs" to address in the SUN section: loans, share draft accounts, savings accounts, check cashing, money orders, certified checks, automated teller machines, deposit taking, safe deposit box services, and similar services. The existence of each "credit and depository need" the credit union identifies and plans to serve must be supported by objective reasons and/or accompanying documentation derived from an identified, authoritative source of the credit

union's choice. Third-party documentation generally is the most compelling.

III.B.3—Underserved by Other Depository Institutions

A proposed area that meets the CDFI definition of an "investment area" (*i.e.*, is "distressed" and has "significant unmet needs") must also be underserved by other insured depository institutions, including credit unions. 12 U.S.C. 1759(c)(2)(A)(ii). This statutory criterion is met when the concentration of depository institution facilities among the population of the proposed area's non-"distressed" tracts—which sets a benchmark level of adequate service—is greater than the concentration of facilities among the population of all of the proposed area's census tracts combined. This establishes the area's concentration of facilities ratio. If there are no non-"distressed" tracts within a proposed area, a non-"distressed" census tract or larger geographic unit (*e.g.*, city or county) of the credit union's choice that adjoins the proposed area may be used to set the benchmark concentration ratio.

Without regard to a proposed area's location within or outside a Metropolitan Statistical Area, this criterion compares two ratios: the ratio of facilities to the population of the non-"distressed" tracts (the benchmark) versus the same facilities-to-population ratio among all the tracts of the proposed area as a whole. If the benchmark ratio is greater than the ratio for the whole area, then the area is "underserved by other depository institutions," and vice versa.

When, as the result of an initial Concentration of Facilities ratio calculation, a proposed area does not qualify as "underserved by other depository institutions," NCUA will exclude non-depository banks (*e.g.*, trust companies) and non-community credit unions (*i.e.*, those institutions unable to serve the general public) from the computation. For the purposes of this analysis, a multiple common bond credit union already serving the area as an underserved area is considered able to serve the general public and thus would not be excluded. With both of these exclusions, NCUA will recalculate the concentration of facilities ratio to determine whether, as a result, the proposed area qualifies as "underserved by other depository institutions."

As one alternative to the concentration of facilities ratio, a proposed area will qualify as "underserved by other depository institutions" if it is designated an "underserved county" by NCUA based on data produced by the Consumer Financial Protection Bureau (available at: <http://www.consumerfinance.gov/guidance/#ruralunderserved>). NCUA will make its list of "underserved counties" available on its Web site.

As another alternative to the concentration of facilities ratio, a proposed area will

qualify as “underserved by other depository institutions” if the credit seeking to serve it, using a metric of its own choosing, provided that it is based on NCUA or other Federal banking agency data, that establishes to NCUA that the proposed area is “underserved by other depository institutions.”

III.C—NCUA Approval

If NCUA approves the request to add an “underserved area,” the credit union will be issued an amendment to Section 5 of its charter.

III.D—Approval to Serve an Already Approved “Underserved Area”

Once a credit union is initially approved to serve an “underserved area,” other credit unions that subsequently apply may be approved to serve the same area. To be approved, the area must qualify as “underserved” at the time the new applicant applies. An applicant must demonstrate that the area continues to be “distressed”, as provided above, only if a new decennial Census has been published since the date the area was last approved. In any case, the applicant must demonstrate that the area still has “significant unmet needs” for loans or credit union services (to qualify as an “investment area”), and remains “underserved by other depository institutions” (to qualify as “underserved”).

III.E—Business Plan

A federal credit union that desires to include an underserved community in its field of membership must first develop, and submit for approval, a business plan specifying how it will serve the community. In addition, the business plan must include a SUN section as provided in section III.B.2.b. above. The credit union will be expected to regularly review the business plan to determine if the community is being adequately served. The Office of Credit Union Resources and Expansion Director may require periodic service status reports from a credit union about the “underserved area” to ensure that the needs of the community are being met, and must require such reports before NCUA allows a multiple common bond federal credit union to add an additional “underserved area.”

III.F—Service Facility

Once an “underserved area” has been added to a federal credit union’s field of membership, the credit union must establish within two years, and maintain, an office or service facility in the community. A service facility is defined as a place where shares are accepted for members’ accounts, loan applications are accepted and loans are disbursed. By definition, a service facility includes a credit union-owned branch, a shared branch,

a mobile branch, an office operated on a regularly scheduled weekly basis, or a credit union-owned electronic facility that meets, at a minimum, the above requirements. A service facility also includes a shared branch or a shared branch network location, including an electronic facility that meets the above requirements, if a credit union participates in a shared branching network.

This definition does not include an ATM or the credit union’s internet website.

IV—APPEAL PROCEDURES FOR DENIAL OF UNDERSERVED AREA

IV.A—NCUA Disapproval

When NCUA disapproves any application to add an “underserved area” in whole or in part, under this chapter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- Options to consider, if appropriate, for gaining approval; and
- Appeal procedures.

IV.B—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies an “underserved area” request, the Federal credit union may appeal that decision to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial or explain extenuating circumstances that precluded the inclusion of existing material evidence or information that should have been filed with the request for reconsideration. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the request for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial. A petitioner may seek a second reconsideration based on new material evidence or information or extenuating circumstances that precluded the inclusion of such information in the previous request.

CHAPTER 4—CHARTER CONVERSIONS

I—INTRODUCTION

A charter conversion is a change in the jurisdictional authority under which a credit union operates.

Federal credit unions receive their charters from NCUA and are subject to its supervision, examination, and regulation.

State-chartered credit unions are incorporated in a particular state, receiving their charter from the state agency responsible for credit unions and subject to the state's regulator. If the state-chartered credit union's deposits are federally insured, it will also fall under NCUA's jurisdiction.

A federal credit union's power and authority are derived from the Federal Credit Union Act and NCUA Rules and Regulations. State-chartered credit unions are governed by state law and regulation. Certain federal laws and regulations also apply to federally insured state chartered credit unions.

There are two types of charter conversions: federal charter to state charter and state charter to federal charter. Common bond and community requirements are not an issue from NCUA's standpoint in the case of a federal to state charter conversion. The procedures and forms relevant to both types of charter conversion are included in appendix 4.

II—CONVERSION OF A STATE CREDIT UNION TO A FEDERAL CREDIT UNION

II.A—General Requirements

Any state-chartered credit union may apply to convert to a federal credit union. In order to do so it must:

- Comply with state law regarding conversion and file proof of compliance with NCUA;
- File the required conversion application, proposed federal credit union organization certificate, and other documents with NCUA;
- Comply with the requirements of the Federal Credit Union Act, *e.g.*, chartering and reserve requirements; and
- Be granted federal share insurance by NCUA.

Conversions are treated the same as any initial application for a federal charter, including an on-site examination by NCUA where appropriate. NCUA will also consult with the appropriate state authority regarding the credit union's current financial condition, management expertise, and past performance. Since the applicant in a conversion is an ongoing credit union, the economic advisability of granting a charter is more readily determinable than in the case of an initial charter applicant.

A converting state credit union's field of membership must conform to NCUA's chartering policy. The field of membership will be phrased in accordance with NCUA chartering policy. However, if the converting credit union is a multiple group charter and the new federal charter is a multiple group, then the new federal charter may retain in its field of membership any group that the state credit union was serving at the time of conversion. Subsequent changes must conform to NCUA chartering policy in effect at that time.

If the converting credit union is a community charter and the new federal charter is community-based, it must meet the community field of membership requirements set forth in Chapter 2, Section V of this manual. If the state-chartered credit union's community boundary is more expansive than the approved federal boundary, only members of record outside of the new community boundary may continue to be served.

The converting credit union, regardless of charter type, may continue to serve members of record. The converting credit union may retain in its field of membership any group or community added pursuant to state emergency provisions.

II.B—Submission of Conversion Proposal to NCUA

The following documents must be submitted with the conversion proposal:

- Conversion of State Charter to Federal Charter (NCUA 4000);
- Organization Certificate (NCUA 4008). Only Part (3) and the signature/notary section should be completed and, where applicable, signed by the credit union officials.
- Report of Officials and Agreement to Serve (NCUA 4012);
- The Application to Convert From State Credit Union to Federal Credit Union (NCUA 4401);
- The Application and Agreements for Insurance of Accounts (NCUA 9500);
- Certification of Resolution (NCUA 9501);
- Written evidence regarding whether the state regulator is in agreement with the conversion proposal; and
- Business plan, as appropriate, including the most current financial report and delinquent loan schedule.

If the state charter is applying to become a federal community charter, it must also comply with the documentation requirements included in Chapter 2, Section V.A.2 of this manual.

II.C—NCUA Consideration of Application To Convert

II.C.1—Review by the Office of Credit Union Resources and Expansion Director

The application will be reviewed to determine that it is complete and that the proposal is in compliance with Section 125 of the Federal Credit Union Act. This review will include a determination that the state credit union's field of membership is in compliance with NCUA's chartering policies. The Office of Credit Union Resources and Expansion Director may make further investigation into the proposal and may require the submission of additional information to support the request to convert.

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II.C.2—On-Site Review

NCUA may conduct an on-site examination of the books and records of the credit union. Non-federally insured credit unions will be assessed an insurance application fee.

II.C.3—Approval by the Office of Credit Union Resources and Expansion Director and Conditions to the Approval

The conversion will be approved by the Office of Credit Union Resources and Expansion Director if it is in compliance with Section 125 of the Federal Credit Union Act and meets the criteria for federal insurance. Where applicable, the Office of Credit Union Resources and Expansion Director will specify any special conditions that the credit union must meet in order to convert to a federal charter, including changes to the credit union's field of membership in order to conform to NCUA's chartering policies. Some of these conditions may be set forth in a Letter of Understanding and Agreement (LUA), which requires the signature of the officials and the appropriate NCUA regional director or Office of National Examinations and Supervision Director.

II.C.4—Notification

The Office of Credit Union Resources and Expansion Director will notify both the credit union and the state regulator of the decision on the conversion.

II.C.5—NCUA Disapproval

When NCUA disapproves any application to convert to a federal charter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- Options to consider, if appropriate, for gaining approval; and
- Appeal procedures.

II.C.6—Appeal of the Office of Credit Union Resources and Expansion Director Decision

If a conversion to a Federal charter is denied by the Office of Credit Union Resources and Expansion Director, the applicant credit union may appeal that decision to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. A request for reconsideration should contain new and material evidence addressing the reasons for the initial denial or explain extenuating circumstances that precluded the inclusion of existing material evidence or information that should have been filed with the request for reconsideration. The Office of Credit Union Resources and Expansion Director will have 30 days from the date of the receipt of the re-

quest for reconsideration to make a final decision. If the request is again denied, the applicant may proceed with the appeal process within 60 days of the date of the last denial. A petitioner may seek a second reconsideration based on new material evidence or information or extenuating circumstances that precluded the inclusion of such information in the previous request.

II.D—Action by Board of Directors

II.D.1—General

Upon being informed of the Office of Credit Union Resources and Expansion Director's preliminary approval, the board must:

- Comply with all requirements of the state regulator that will enable the credit union to convert to a federal charter and cease being a state credit union;
- Obtain a letter or official statement from the state regulator certifying that the credit union has met all of the state requirements and will cease to be a state credit union upon its receiving a federal charter. A copy of this document must be submitted to the Office of Credit Union Resources and Expansion Director;
- Obtain a letter from the private share insurer (includes excess share insurers), if applicable, certifying that the credit union has met all withdrawal requirements. A copy of this document must be submitted to the Office of Credit Union Resources and Expansion Director; and
- Submit a statement of the action taken to comply with any conditions imposed by the Office of Credit Union Resources and Expansion Director in the preliminary approval of the conversion proposal and, if applicable, submit the signed LUA.

II.D.2—Application for a Federal Charter

When the Office of Credit Union Resources and Expansion Director has received evidence that the board of directors has satisfactorily completed the actions described above, the Federal charter and new Certificate of Insurance will be issued.

The credit union may then complete the conversion as discussed in the following section. A credit union may request the Office of Credit Union Resources and Expansion Director to reconsider a denial of a conversion application and/or appeal a denial to the NCUA Board. For more information, refer to Section II.C.6 of this chapter.

II.E—Completion of the Conversion

II.E.1—Effective Date of Conversion

The date on which the Office of Credit Union Resources and Expansion Director approves the Organization Certificate and the Application and Agreements for Insurance of Accounts is the date on which the credit union becomes a federal credit union. The

Office of Credit Union Resources and Expansion Director will notify the credit union and the state regulator of the date of the conversion.

II.E.2—Assumption of Assets and Liabilities

As of the effective date of the conversion, the federal credit union will be the owner of all of the assets and will be responsible for all of the liabilities and share accounts of the state credit union.

II.E.3—Board of Directors' Meeting

Upon receipt of its federal charter, the board will hold its first meeting as a federal credit union. At this meeting, the board will transact such business as is necessary to complete the conversion as approved and to operate the credit union in accordance with the requirements of the Federal Credit Union Act and NCUA Rules and Regulations.

As of the commencement of operations, the accounting system, records, and forms must conform to the standards established by NCUA.

II.E.4—Credit Union's Name

Changing of the credit union's name on all signage, records, accounts, investments, and other documents should be accomplished as soon as possible after conversion. The credit union has 180 days from the effective date of the conversion to change its signage and promotional material. This requires the credit union to discontinue using any remaining stock of "state credit union" stationery immediately, and discontinue using credit cards, ATM cards, etc., within 180 days after the effective date of the conversion, or the reissue date whichever is later. The Office of Credit Union Resources and Expansion Director has the discretion to extend the timeframe for an additional 180 days. Member share drafts with the state-chartered name can be used by the members until depleted.

II.E.5—Reports to NCUA

Within 10 business days after commencement of operations, the recently converted federal credit union must submit to the Office of Credit Union Resources and Expansion Director the following:

- Report of Officials (NCUA 4501); and
- Financial and Statistical Reports, as of the commencement of business of the federal credit union.

III—CONVERSION OF A FEDERAL CREDIT UNION TO A STATE CREDIT UNION

III.A—General Requirements

Any federal credit union may apply to convert to a state credit union. In order to do so, it must:

- Notify NCUA prior to commencing the process to convert to a state charter and state the reason(s) for the conversion;
- Comply with the requirements of Section 125 of the Federal Credit Union Act that enable it to convert to a state credit union and to cease being a federal credit union; and
- Comply with applicable state law and the requirements of the state regulator.

It is important that the credit union provide an accurate disclosure of the reasons for the conversion. These reasons should be stated in specific terms, not as generalities. The federal credit union converting to a state charter remains responsible for the entire operating fee for the year in which it converts.

III.B—Special Provisions Regarding Federal Share Insurance

If the federal credit union intends to continue federal share insurance after the conversion to a state credit union, it must submit an Application for Insurance of Accounts (NCUA 9600) to the Office of Credit Union Resources and Expansion Director at the time it requests approval of the conversion proposal. The Office of Credit Union Resources and Expansion Director has the authority to approve or disapprove the application.

If the converting federal credit union does not intend to continue federal share insurance or if its application for continued insurance is denied, insurance will cease in accordance with the provisions of Section 206 of the Federal Credit Union Act.

If, upon its conversion to a state credit union, the federal credit union will be terminating its federal share insurance or converting from federal to non-federal share insurance, it must comply with the membership notice and voting procedures set forth in Section 206 of the Federal Credit Union Act and part 708 of NCUA's Rules and Regulations, and address the criteria set forth in Section 205(c) of the Federal Credit Union Act.

Where the state credit union will be non-federally insured, federal insurance ceases on the effective date of the charter conversion. If it will be otherwise uninsured, then federal insurance will cease one year after the date of conversion subject to the restrictions in Section 206(d)(1) of the Federal Credit Union Act. In either case, the state credit union will be entitled to a refund of the federal credit union's NCUSIF capitalization deposit after the final date on which any of its shares are federally insured.

The NCUA Board reserves the right to delay the refund of the capitalization deposit for up to one year if it determines that payment would jeopardize the NCUSIF.

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III.C—Submission of Conversion Proposal to NCUA

Upon approval of a proposition for conversion by a majority vote of the board of directors at a meeting held in accordance with the federal credit union's bylaws, the conversion proposal will be submitted to the Office of Credit Union Resources and Expansion Director and will include:

- A current financial report;
- A current delinquent loan schedule;
- An explanation and appropriate documents relative to any changes in insurance of member accounts;
- A resolution of the board of directors;
- A proposed Notice of Special Meeting of the Members (NCUA 4221);
- A copy of the ballot to be sent to all members (NCUA 4506);
- If the credit union intends to continue with federal share insurance, an application for insurance of accounts (NCUA 9600);
- Evidence that the state regulator is in agreement with the conversion proposal; and
- A statement of reasons supporting the request to convert.

III.D—Approval of Proposal to Convert

III.D.1—Review by the Office of Credit Union Resources and Expansion Director

The proposal will be reviewed to determine that it is complete and is in compliance with Section 125 of the Federal Credit Union Act. The Office of Credit Union Resources and Expansion Director may make further investigation into the proposal and require the submission of additional information to support the request.

III.D.2—Conditions to the Approval

The Office of Credit Union Resources and Expansion Director will specify any special conditions that the credit union must meet in order to proceed with the conversion.

III.D.3—Approval by the Office of Credit Union Resources and Expansion Director

The proposal will be approved by the Office of Credit Union Resources and Expansion Director if it is in compliance with Section 125 and, in the case where the state credit union will no longer be federally insured, the notice and voting requirements of Section 206 of the Federal Credit Union Act.

III.D.4—Notification

The Office of Credit Union Resources and Expansion Director will notify both the credit union and the state regulator of the decision on the proposal.

III.D.5—Disapproval

When NCUA disapproves any application to convert to a state charter, the applicant will be informed in writing of the:

- Specific reasons for the action;
- If appropriate, options or suggestions that could be considered for gaining approval; and
- Appeal procedures.

III.D.6—Appeal of Office of Credit Union Resources and Expansion Director Decision

If the Office of Credit Union Resources and Expansion Director denies a conversion to a State charter, the Federal credit union may appeal that decision to the NCUA Board in accordance with the procedures set forth in subpart B to part 746 of this chapter.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Credit Union Resources and Expansion Director for reconsideration. The Office of Credit Union Resources and Expansion Director will have 30 business days from the date of the receipt of the request for reconsideration to make a final decision. If the application is again denied, the credit union may proceed with the appeal process to the NCUA Board within 60 days of the date of the last denial by the Office of Credit Union Resources and Expansion Director.

III.E—Approval of Proposal by Members

The members may not vote on the proposal until it is approved by the Office of Credit Union Resources and Expansion Director. Once approval of the proposal is received, the following actions will be taken by the board of directors:

- The proposal must be submitted to the members for approval and a date set for a meeting to vote on the proposal. The proposal may be acted on at the annual meeting or at a special meeting for that purpose. The members must also be given the opportunity to vote by written ballot to be filed by the date set for the meeting.
- Members must be given advance notice (NCUA 4221) of the meeting at which the proposal is to be submitted. The notice must:
 - Specify the purpose, time and place of the meeting;
 - Include a brief, complete, and accurate statement of the reasons for and against the proposed conversion, including any effects it could have upon share holdings, insurance of member accounts, and the policies and practices of the credit union;
 - Specify the costs of the conversion, *i.e.*, changing the credit union's name, examination and operating fees, attorney and consulting fees, tax liability, etc.;
 - Inform the members that they have the right to vote on the proposal at the meeting, or by written ballot to be filed not later than

the date and time announced for the annual meeting, or at the special meeting called for that purpose;

- Be accompanied by a Federal to State Conversion—Ballot for Conversion Proposal (NCUA 4506); and

- State in **BOLD** face type that the issue will be decided by a majority of members who vote.

- The proposed conversion must be approved by a majority of all of the members who vote on the proposal, a quorum being present, in order for the credit union to proceed further with the proposition, provided federal insurance is maintained. If the proposed state-chartered credit union will not be federally insured, 20 percent of the total membership must participate in the voting, and of those, a majority must vote in favor of the proposal. Ballots cast by members who did not attend the meeting but who submitted their ballots in accordance with instructions above will be counted with votes cast at the meeting. In order to have a suitable record of the vote, the voting at the meeting should be by written ballot as well.

- The board of directors shall, within 10 days, certify the results of the membership vote to the Office of Credit Union Resources and Expansion Director. The statement shall be verified by affidavits of the Chief Executive Officer and the Recording Officer on NCUA 4505.

III.F—Compliance With State Laws

If the proposal for conversion is approved by a majority of all members who voted, the board of directors will:

- Ensure that all requirements of state law and the state regulator have been accommodated;

- Ensure that the state charter or the license has been received within 90 days from the date the members approved the proposal to convert; and

- Ensure that the Office of Credit Union Resources and Expansion Director is kept informed as to progress toward conversion and of any material delay or of substantial difficulties which may be encountered.

If the conversion cannot be completed within the 90-day period, the Office of Credit Union Resources and Expansion Director should be informed of the reasons for the delay. The Office of Credit Union Resources and Expansion Director may set a new date for the conversion to be completed.

III.G—Completion of Conversion

In order for the conversion to be completed, the following steps are necessary:

- The board of directors will submit a copy of the state charter to the Office of Credit Union Resources and Expansion Director within 10 days of its receipt. This will be accompanied by the federal charter and the

federal insurance certificate. A copy of the financial reports as of the preceding month-end should be submitted at this time.

- The Office of Credit Union Resources and Expansion Director will notify the credit union and the state regulator in writing of the receipt of evidence that the credit union has been authorized to operate as a state credit union.

- The credit union shall cease to be a federal credit union as of the effective date of the state charter.

- If the Office of Credit Union Resources and Expansion Director finds a material deviation from the provisions that would invalidate any steps taken in the conversion, the credit union and the state regulator shall be promptly notified in writing. This notice may be either before or after the copy of the state charter is filed with the Office of Credit Union Resources and Expansion Director. The notice will inform the credit union as to the nature of the adverse findings. The conversion will not be effective and completed until the improper actions and steps have been corrected.

- Upon ceasing to be a federal credit union, the credit union shall no longer be subject to any of the provisions of the Federal Credit Union Act, except as may apply if federal share insurance coverage is continued. The successor state credit union shall be immediately vested with all of the assets and shall continue to be responsible for all of the obligations of the federal credit union to the same extent as though the conversion had not taken place. Operation of the credit union from this point will be in accordance with the requirements of state law and the state regulator.

- If the Office of Credit Union Resources and Expansion Director is satisfied that the conversion has been accomplished in accordance with the approved proposal, the federal charter will be canceled.

- There is no federal requirement for closing the records of the federal credit union at the time of conversion or for the manner in which the records shall be maintained thereafter. The converting credit union is advised to contact the state regulator for applicable state requirements.

- The credit union shall neither use the words “Federal Credit Union” in its name nor represent itself in any manner as being a federal credit union.

- Changing of the credit union’s name on all signage, records, accounts, investments, and other documents should be accomplished as soon as possible after conversion. Unless it violates state law, the credit union has 180 days from the effective date of the conversion to change its signage and promotional material. This requires the credit union to discontinue using any remaining stock of “federal credit union” stationery immediately, and discontinue using credit cards,

ATM cards, etc., within 180 days after the effective date of the conversion, or the reissue date, whichever is later. The Office of Credit Union Resources and Expansion Director has the discretion to extend the timeframe for an additional 180 days. Member share drafts with the federal chartered name can be used by the members until depleted. If the state credit union is not federally insured, it must change its name and must immediately cease using any credit union documents referencing federal insurance.

- If the state credit union is to be federally insured, the Office of Credit Union Resources and Expansion Director will issue a new insurance certificate.

APPENDIX 1 GLOSSARY

These definitions apply only for use with this Manual. Definitions are not intended to be all inclusive or comprehensive. This Manual, the Federal Credit Union Act, and NCUA Rules and Regulations, as well as state laws, may be used for further reference.

Adequately capitalized—A credit union is considered “adequately capitalized” when it meets the “adequately capitalized” definition in Part 702 of NCUA’s Rules and Regulations. A multiple common bond credit union must be “adequately capitalized” in order to add new groups to its charter. The Office of Credit Union Resources and Expansion director, with input from the appropriate regional director or Office of National Examinations and Supervision Director, may determine that a less than “adequately capitalized” credit union can qualify for an expansion if it is making reasonable progress toward becoming “adequately capitalized,” and the addition of the group would not adversely affect the credit union’s capitalization level.

Affinity—A relationship upon which a community charter is based. Acceptable affinities include living, working, worshipping, or attending school in a community.

Appeal—The right of a credit union or charter applicant to request a formal review of the Office of Credit Union Resources and Expansion, regional director’s or Office of National Examinations and Supervision Director’s adverse decision by the National Credit Union Administration Board.

Associational common bond—A common bond comprised of members and employees of a recognized association. It includes individuals (natural persons) and/or groups (non-natural persons) whose members participate in activities developing common loyalties, mutual benefits, and mutual interests.

Business plan—Plan submitted by a charter applicant or existing federal credit union addressing the economic advisability of a proposed charter or field of membership addition.

Charter—The document which authorizes a group to operate as a credit union and defines the fundamental limits of its operating

authority, generally including the persons the credit union is permitted to accept for membership. Charters are issued by the National Credit Union Administration for federal credit unions and by the designated state chartering authority for credit unions organized under the laws of that state.

Common bond—The characteristic or combination of characteristics which distinguishes a particular group of persons from the general public. There are two common bonds which can serve as a basis for a group forming a federal credit union or being included in an existing federal credit union’s field of membership: Occupational—employment by the same company, related companies or in a trade, industry, or profession (TIP); and associational—membership in the same association.

Community credit union—A credit union whose field of membership consists of persons who live, work, worship, or attend school in the same well-defined local community, neighborhood, or rural district.

Credit union—A member-owned, not-for-profit cooperative financial institution formed to permit those in the field of membership specified in the charter to save, borrow, and obtain related financial services.

Economic advisability—An overall evaluation of the credit union’s or charter applicant’s ability to operate successfully.

Emergency merger—Pursuant to Section 205(h) of the Federal Credit Union Act, authority of NCUA to merge two credit unions without regard to common bond policy.

Exclusionary clause—A limitation, written in a credit union’s charter, which precludes the credit union from serving a portion of a group which otherwise could be included in its field of membership.

Federal share insurance—Insurance coverage provided by the National Credit Union Share Insurance Fund and administered by the National Credit Union Administration. Coverage is provided for qualified accounts in all federal credit unions and participating state credit unions.

Field of membership—The persons (including organizations and other legal entities) a credit union is permitted to accept for membership.

Household—Persons living in the same residence maintaining a single economic unit.

Housekeeping Amendment—A field of membership amendment to delete groups, change group names, change group locations, remove exclusionary clauses, and to add other persons eligible for credit union membership by virtue of their close relationship to a common bond group or the community for community charters.

Immediate family member—A spouse, child, sibling, parent, grandparent, or grandchild. This includes stepparents, stepchildren, stepsiblings, and adoptive relationships.

In danger of insolvency—In making the determination that a particular credit union is in danger of insolvency, NCUA will establish that the credit union falls into one or more of the following categories:

1. The credit union's net worth is declining at a rate that will render it insolvent within 30 months. In projecting future net worth, NCUA may rely on data in addition to Call Report data. The trend must be supported by at least 12 months of historic data.

2. The credit union's net worth is declining at a rate that will take it under two percent (2%) net worth within 18 months. In projecting future net worth, NCUA may rely on data in addition to Call Report data. The trend must be supported by at least 12 months of historic data.

3. The credit union's net worth, as self-reported on its Call Report, is significantly undercapitalized, and NCUA determines that there is no reasonable prospect of the credit union becoming adequately capitalized in the succeeding 36 months. In making its determination on the prospect of achieving adequate capitalization, NCUA will assume that, if adverse economic conditions are affecting the value of the credit union's assets and liabilities, including property values and loan delinquencies related to unemployment, these adverse conditions will not further deteriorate.

4. The credit union has been granted or received assistance under section 208 of the Federal Credit Union Act, 12 U.S.C. 1788, in the 15 months prior to the Region's determination that the credit union is in danger of insolvency.

Letter of Understanding and Agreement—Agreement between NCUA and federal credit union officials not to engage in certain activities and/or to establish reasonable operational goals. These are normally entered into with new charter applicants for a limited time.

Mentor—An individual who provides guidance and assistance to newly chartered, small, or low-income credit unions. All new federal credit unions are encouraged to establish a mentor relationship with a trained, experienced credit union individual or an existing credit union.

Metropolitan Statistical Area—The Office of Management and Budget defines a metropolitan statistical area as an urbanized area that has at least one urbanized area in excess of 50,000 and "comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting."

Merger—Absorption by one credit union of all of the assets, liabilities and equity of another credit union. Mergers must be approved by the National Credit Union Administration and by the appropriate state regu-

lator whenever a state credit union is involved.

Multiple common bond credit union—A credit union whose field of membership consists of more than one group, each of which has a common bond of occupation or association.

Occupational common bond—Employment by the same entity or related entities or a Trade, Industry, or Profession.

Once a member, always a member—A provision of the Federal Credit Union Act which permits an individual to remain a member of the credit union until he or she chooses to withdraw or is expelled from the membership of the credit union. Under this provision, leaving a group that is named in the credit union's charter does not terminate an individual's membership in the credit union.

Organizations of such persons—An organization or organizations composed exclusively of persons who are within the field of membership of the credit union.

Overlap—The situation which results when a group is eligible for membership in more than one credit union.

Primary potential members—Members or employees who belong to an associational or occupational group.

Purchase and assumption—Purchase of all or part of the assets of and assumption of all or part of the liabilities of one credit union by another credit union. The purchased and assumed credit union must first be placed into involuntary liquidation.

Service area—The area that can reasonably be served by the service facilities accessible to the groups within the field of membership.

Service facility—A place where shares are accepted for members' accounts, loan applications are accepted or loans are disbursed. This definition includes a credit union-owned branch, a mobile branch, an office operated on a regularly scheduled weekly basis, a credit union-owned ATM, or a credit union-owned electronic facility that meets, at a minimum, these requirements. A service facility also includes a shared branch or a shared branch network location, including a shared ATM or other electronic facility, if a credit union participates in a shared branching network. For purposes of serving an underserved area: (1) A service facility is a place where shares are accepted for members' accounts, loan applications are accepted, and loans are disbursed; and (2) a service facility does not include an ATM or shared ATM.

The credit union's internet website is not a service facility.

Single associational common bond credit union—A credit union whose field of membership includes members and employees of a recognized association.

Single common bond credit union—A credit union whose field of membership consists of one group which has a common bond of occupation or association.

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Single occupational common bond credit union—A credit union whose field of membership consists of employees of the same entity or related entities or part of a Trade, Industry, or Profession (TIP).

Spin-off—The transfer of a portion of the field of membership, assets, liabilities, shares, and capital of one credit union to a new or existing credit union.

Subscribers—For a federal credit union, at least seven individuals who sign the charter application and pledge at least one share.

Trade, Industry, or Profession (TIP)—A single occupational common bond credit union based on employment in a trade, industry, or profession including employment at any number of corporations or other legal entities that while not under common owner-

ship—have a common bond by virtue of producing similar products, providing similar services, or participating in the same type of business.

Underserved community—A local community, neighborhood, or rural district that is an “investment area” as defined in Section 103(16) of the Community Development Banking and Financial Institutions Act of 1994. The area must also be underserved based on other NCUA and federal banking agency data.

Unsafe or unsound practice—Any action, or lack of action, which would result in an abnormal risk or loss to the credit union, its members, or the National Credit Union Share Insurance Fund.

APPENDIX 2
LETTER OF UNDERSTANDING AND AGREEMENT

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

Since the purposes of credit unions are to promote thrift and to make funds available for loans to credit union members for provident and productive purposes, and since newly chartered credit unions do not generally have sufficient reserves to cover large losses on loans or meet unduly large liquidity requirements, Federal insurance coverage of member accounts under the National Credit Union Share Insurance Fund will be granted to the above named credit union subject to the conditions listed in this Letter of Understanding and Agreement and in the Organization Certificate and Application and Agreements for Insurance of Accounts. These terms are listed below and are subject to acceptance by authorized credit union officials.

1. The credit union will refrain from soliciting or accepting brokered fund deposits from any source without the prior written approval of the Regional Director.
2. The credit union will refrain from the making of large loans, that is, loans in excess of 5 percent of unimpaired capital and surplus, to any one member or group of members without the prior written approval of the Regional Director.
3. The credit union will not establish or invest in a Credit Union Service Organization (CUSO) without the prior written approval of the Regional Director.
4. The credit union will not enter into any insurance programs whereby the credit union member finances the payment of insurance premiums through loans from the credit union.
5. Any special insurance plan/program, that is, insurance other than usual and normal surety bonding or casualty or liability or loan protection and life savings insurance coverage, which the credit union officials intend to undertake, will be submitted to the Regional Director of the National Credit Union Administration for written approval prior to the officials committing the credit union thereto.
6. The credit union will prepare and mail to the district examiner financial and statistical reports as required by the Federal Credit Union Act and Bylaws by the 20th of each month following that for which the report is prepared.
7. As the credit union's officials gain experience and the credit union achieves target levels of growth and profitability, the above terms and conditions may be renegotiated by the two parties.

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

This Letter of Understanding and Agreement has been voluntarily entered into with the National Credit Union Administration. We agree to comply with all terms and conditions expressed in this Letter of Understanding and Agreement.

Should the NCUA Board determine that these terms and conditions have not been complied with or that the board of directors or other officials have not conducted the affairs of the credit

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union in a sound and prudent manner, the NCUA Board may terminate insurance coverage of the credit union. If actions by the officials, in violation of this Letter of Understanding and Agreement, cause the credit union to become insolvent, the officials assume such personal liability as may result from their actions.

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

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

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

Office of Consumer Financial Protection and Access
Director

_____ Federal Credit Union

By:

Chief Executive Officer Date

Chief Financial Officer Date

Secretary Date

APPENDIX 3

NCUA OFFICES

*Office of Credit Union Resources and Expansion
(CURE)*

1775 Duke Street, Alexandria, VA 22314-3428

Phone: 703-518-1150

Fax: 703-518-6672

Email: DCAMail@NCUA.GOV

The Divisions of Consumer Access (East, Central, and West) within CURE share the responsibility for chartering and field-of-membership matters, low-income designations, charter conversions, and bylaw amendments.

Eastern Region—Alexandria

1775 Duke Street, Alexandria, VA 22314-3428

Phone: 703-519-4600

Fax: 703-519-6674

Email: EasternMail@NCUA.GOV

States in the Eastern Region include: Connecticut, Delaware, the District of Columbia, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia.

Southern Region—Austin

4807 Spicewood Springs Road, Suite 5200,
Austin, TX 78759-8490

Phone: 512-342-5600

Fax: 512-342-5620

Email: SouthernMail@NCUA.GOV

States in the Southern Region include: Alabama, Arkansas, Florida, Georgia, Indiana, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Oklahoma, Tennessee, and Texas, as well as Puerto Rico and the U.S. Virgin Islands.

Western Region—Tempe

1230 West Washington Street, Suite 301,
Tempe, AZ 85281

Phone: 602-302-6000

Fax: 602-302-6024

Email: WesternMail@NCUA.GOV

States in the Western Region include: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Nevada, Oregon, South Dakota, Utah, Washington, Wisconsin, and Wyoming, as well as Guam.

APPENDIX 4

NCUA FORMS

<u>Form Number</u>	<u>Form Title</u>
NCUA 4000	Conversion of State Charter to a Federal Charter – Federal Credit Union Investigation Report
NCUA 4001	Federal Credit Union Investigation Report
NCUA 4008	Organization Certificate
NCUA 4009	Approval of Organization Certificate and Certification of Insurance
NCUA 4012	Report of Official and Agreement to Serve
NCUA 4015	Application for Field of Membership Amendment (use for all multiple common bond expansions involving groups of 5,000 or more persons)
NCUA 4015-A	Application for Field of Membership Amendment (use for all multiple common bond expansions involving groups of 3,000 to 4,999 persons)
NCUA 4015-EZ	Application for Field of Membership Amendment (use for all single common bond expansions and multiple common bond expansions involving groups of less than 3,000 persons)
NCUA 4221	Notice of Meeting of Members to Convert from a Federal to State Chartered Credit Union
NCUA 4401	Application to Convert from a State to a Federal Credit Union
NCUA 4505	Affidavit - Proof of Results of Membership Vote - Proposed Conversion From Federal Credit Union to State Credit Union
NCUA 4506	Federal to State Conversion - Ballot for Conversion Proposal
NCUA 9500	Application and Agreements for Insurance of Accounts
NCUA 9501	Certification of Resolutions
NCUA 9600	Information to be Provided in Support of the Application of a State Chartered Credit Union for Insurance of Accounts

CONVERSION OF STATE CHARTER TO FEDERAL CHARTER
FEDERAL CREDIT UNION INVESTIGATION REPORT

This report must be filled in completely and submitted with the other completed forms listed in Chapter 4 and in the instructions for this form.

A. INFORMATION FOR CHARTER AND BYLAWS

1. Proposed Name: _____ Federal Credit Union
Second Choice of Name: _____ Federal Credit Union

2. Contact Person _____
Bus. Tel. No./Area Code: _____ Res. Tel. No./Area Code _____

3. The credit union will maintain its office at:

(City) (County) (State) (Zip)

4. Permanent mailing address of credit union:

5. Define proposed field of membership (Attach a copy of current state charter field of membership):

6. The board will have (an odd number 5 to 15) _____ members; the credit committee (an odd number, 3 to 7) _____ members; the supervisory committee (3 to 5) _____ members. Each official must complete a Report of Official and Agreement to Serve (NCUA 4012) which is to be submitted with this investigation report.
1.

B. CHARACTER AND FITNESS OF SUBSCRIBERS

7. Type or print the list of the subscribers who have signed the organization certificate (7 not more than 10 persons). Names should be IDENTICAL to signatures on the Organization Certificate (NCUA 4008). Each subscriber listed below has subscribed to at least one share in accordance with Section 103 of the Federal Credit Union Act:

<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>
<i>Name:</i>	<i>Address:</i>
<i>Occupation:</i>	<i>Years of Membership:</i>

ANY ADDITIONAL COMMENTS OR INFORMATION THAT IS DEEMED PERTINENT OR HELPFUL IN GIVING CONSIDERATION TO THIS APPLICATION SHOULD BE INCLUDED AS AN ATTACHMENT.

The undersigned certifies that to the best of his/her knowledge and belief the above information is true and correct.

I do (do not) recommend that a charter be granted to this group.

Signature _____, Organizer

**Organizer's Address: _____

_____**

FORM 4000 INSTRUCTIONS

A. INFORMATION FOR CHARTERS AND BYLAWS

The subscriber should select a name for the proposed credit union. It is the responsibility of the federal credit union organizers to ensure that the proposed federal credit union name does not constitute an infringement on the name of any corporation in its trade area. The last three words in the name must be "Federal Credit Union." Since the name selected should not duplicate exactly the name of an existing credit union, item 1 provides space for a second choice.

The territory of operations of a Federal credit union is described in the field of membership, item 5. The principal office of the credit union will usually be maintained at a location described in the field of membership.

The proposed field of membership should be defined so clearly that it leaves no room for any doubt as to whom the credit union is to serve or the area which it is to operate. Corporations and other organizations referred to in the definition of the field of membership should be designated by the exact names rather than by some local or popular contraction of these names. Any segment of a larger organization should be identified with the parent. The field of membership for each type of common bond and samples are discussed in detail in Chapter 2 of the *"Chartering and Field of Membership Manual."*

With the guidance of the organizer, the subscribers to the Organization Certificate decide on the number of directors and credit committee members. The board and credit committee must be composed of an odd number of members. The supervisory committee is appointed by the board of directors.

B. CHARACTER AND FITNESS OF SUBSCRIBERS

The names and address of the subscribers should be recorded legibly and completely in item 7 of this report. It is from this information that the National Credit Union Administration prepares Section 3 of the charter. The names of the subscribers must be IDENTICAL to their signatures on the Organization Certificate.

C. SUBMITTAL OF CHARTER APPLICATION

In addition to this Investigation Report, the following should be submitted to the Director of NCUA's Office of Consumer Financial Protection and Access:

1. Application to Convert, NCUA 4401 – one original;
2. Written evidence regarding whether the state regulator is in agreement with the conversion proposal;
3. Application and Agreements for Insurance of Accounts, NCUA 9500 - one original;
4. Certificate of Resolution, NCUA 9501 - one original;
5. Organization Certificate, NCUA 4008 - one notarized original. At least seven, *but no more than ten persons*, must sign the organization certificate. The person administering the oath must not be one of the subscribers. The oath on the organization certificate must be executed and show the notary's seal and date the commission expires as required by State law;
6. Report of Official and Agreement to Serve, NCUA 4012 – one original for each board member, credit committee member, and supervisory committee member;
7. Most current financial report and delinquent loan schedule; and
8. Business Plan - refer to Chapter 1 of the *Chartering and Field of Membership Manual* for a discussion of the components of an acceptable business plan.

4-

FEDERAL CREDIT UNION INVESTIGATION REPORT

This form must be filled in completely and submitted with the other completed forms listed in the instructions to this form.

A. INFORMATION FOR CHARTER AND BYLAWS

1. Proposed name: _____ Federal Credit Union
Second choice: _____ Federal Credit Union

2. Contact Person: _____
Business Tel.: _____
Residence Tel.: _____
Address: _____

3. The credit union will maintain its offices at:

(City, State, County, Zip Code)

3a. Proposed permanent mailing address of credit union:

4. Define proposed field of membership: _____

5. The board will have (an odd number, 5 to 15) _____ members; the credit committee will have (an odd number, 3 to 7) _____ members; the supervisory committee will have (3 to 5) _____ members. Each official must complete a Report of Official and Agreement to Serve (NCUA 4012) which is to be submitted with this investigation report.

B. ECONOMIC ADVISABILITY OF ORGANIZING PROPOSED CREDIT UNION

(Attach a separate sheet if space available is not adequate.)

GENERAL INFORMATION

1. Potential membership: _____

NOTE: Number of employees for occupational, active members for associational (or families for religious groups), or population per most recent census for community-type fields of membership.

2. Potential interest (survey results).

NOTE: Sample must consist of a minimum of 250 potential members. Copy of survey form(s) utilized should be attached.

Number of people surveyed: _____
Number of people responding to survey: _____
Number of people pledging an initial deposit: _____
Total dollars pledged: \$ _____
Number pledging systematic savings: __ Total dollars
pledged (per month): \$ _____

3. Number of persons attending the charter-organization meeting: _____

4. Attach a business plan containing, at a minimum, the following elements:

- mission statement;
- analysis of market conditions, including if applicable, geographic, demographic, employment, income, housing, and other economic data;
- evidence of member support;
- goals for shares, loans, and for number of members;
- financial services needed/desired;
- financial services to be provided to members of all segments within the field of membership;
- how/when services are to be implemented;
- organizational/management plan addressing qualification and planned training of officials/employees;
-

- continuity plan for directors, committee members, and management staff;
- operating facilities, to include office space/equipment and supplies, safeguarding of assets, insurance coverage, etc.;
- type of record keeping and data processing system;
- detailed semiannual pro forma financial statements (balance sheet, income and expense projections) for 1st and 2nd year, including assumptions - e.g., loan and dividend rates;
- plans for operating independently;
- written policies (shares, lending, investments, funds management, capital accumulation, dividends, collections, etc.);
- source of funds to pay expenses during initial months of operation, including any subsidies, assistance, etc., and terms or conditions of such resources; and
- evidence of sponsor commitment (or other source of support) if subsidies are critical to success of the federal credit union. Evidence may be in the form of letters, contracts, financial statements from the sponsor, and any other such document on which the proposed federal credit union can substantiate its projections.

5. What potential difficulties do you detect in the elected officials carrying out their management responsibilities or in the FCU achieving its stated objectives?

6. What provisions have been made to overcome potential difficulties?

Dates of planned contacts by organizer to determine progress and to assist the group:

First Contact Date: _____
Second Contact Date: _____
Third Contact Date: _____

SPECIFIC INFORMATION - OCCUPATIONAL (same company) CHARTER APPLICANTS

1. How long has the sponsor company been in existence? _____

2. What was the highest number of employees during the past three years? _____
Lowest number during the past three years? _____ If a large variance,

please explain. _____

3. Are there any contemplated changes in the corporate structure of the company? _____
If yes, explain. _____

4. Have there been any significant changes in the corporate structure in the past three years? _____
If yes, please explain. _____

5. Are there any negotiations now in progress between management and labor that could lead to work stoppages? _____
If yes, please explain. _____

6. If the credit union cannot operate on the employer's property, explain how the credit union will be able to transact business effectively with the members.

7. If the employees to be served by the credit union work in more than one location or city, identify each location with the corresponding number of employees working at each. _____

8. Are there other employees of the company who are not being included in the proposed field of membership? _____ If so, give the number and location of the other employees and explain why they are not included in the proposed credit union's field of membership. _____

**SPECIFIC INFORMATION - OCCUPATIONAL (trade, industry or profession)
CHARTER APPLICANTS**

1. Explain how the credit union will be able to transact business effectively with the members. _____

SPECIFIC INFORMATION - ASSOCIATIONAL CHARTER APPLICANTS

1. State the purpose and goals of the organization sponsoring this charter.

2. List the types of activities and their frequency, which the organization sponsors that provide contact among the members and from which common loyalties, mutual benefits, and mutual interests are developed. _____

**3. In what year was the organization established? _____ Is it incorporated? _____
Where is the headquarters located? _____**

4. Give statistics as to trends in membership during the last five years. _____

**5. What is the frequency of membership meetings? _____
Average attendance: _____ Dues required: \$ _____**

6. State the geographic territory where members reside. _____

7. Submit a copy of the current bylaws of the association, the constitution, articles of incorporation, or equivalent documentation and recent financial statements, i.e. balance sheet, and income and expense statement, with this application.

8. If the bylaws, constitution, articles of incorporation, or equivalent documentation provide for more than one type of membership and if all classes of membership are to be included in the credit union's field of membership, provide justification for the inclusion of other than "regular" members.

SPECIFIC INFORMATION – MULTIPLE COMMON BOND CHARTER APPLICANTS

1. Explain how the credit union will be able to transact business effectively with the members. _____

C. CHARACTER AND FITNESS OF SUBSCRIBERS

1. List of subscribers who have signed the Organization Certificate (7 not more than 10 persons). Names should be IDENTICAL to signature on the Organization Certificate (NCUA 4008). Each subscriber listed below has subscribed to at least one share in accordance with Section 103 of the Federal Credit Union Act:

Name: _____
Address: _____

Occupation: _____
Years of Residence: _____

Name: _____
Address: _____

Occupation: _____
Years of Residence: _____

Name: _____
Address: _____

Occupation: _____
Years of Residence: _____

Name: _____
Address: _____

Occupation: _____
Years of Residence: _____

Name: _____
Address: _____

Occupation: _____
Years of Residence: _____

Name: _____
Address: _____

Occupation: _____
Years of Residence: _____

Name: _____

Address: _____

Occupation: _____

Years of Residence: _____

Name: _____

Address: _____

Occupation: _____

Years of Residence: _____

Name: _____

Address: _____

Occupation: _____

Years of Residence: _____

Name: _____

Address: _____

Occupation: _____

Years of Residence: _____

2. Are all of the subscribers within the field of membership? _____ Do they

appear to be representative of the group described in the definition of the field of membership? _____ If not, explain. _____

3. Does your investigation indicate that the subscribers are persons of good character? _____ If not, explain. _____

4. From your investigation, is it your judgment that the directors and committee members are persons of good character, and that they have the ability and determination to operate a credit union satisfactorily? _____ If not, explain. _____

5. Does it appear that there are any factions within the group which may render smooth and efficient credit union operations difficult? _____ If so, explain. _____

6. Is there any indication that the proposed credit union would be used for selfish gain by any person or group of persons within the group to be served? _____

7. Is an application for a State Charter now pending? _____

8. Has the group ever had a credit union? _____ If so, when did it liquidate or merge? _____

ANY ADDITIONAL COMMENTS OR INFORMATION THAT IS DEEMED PERTINENT OR HELPFUL IN GIVING CONSIDERATION TO THIS APPLICATION SHOULD BE INCLUDED AS AN ATTACHMENT.

The undersigned certifies that to the best of their knowledge and belief the above information is true and correct.

I do (do not) recommend that a charter be granted to this group.

Signature: _____, Organizer

Organizer's Address: _____

Telephone No.: _____ Date: _____

FORM 4001 INSTRUCTIONS**A. INFORMATION FOR CHARTER AND BYLAWS**

The subscriber should select a name for the proposed credit union. It is the responsibility of the federal credit union organizers to ensure that the proposed federal credit union name does not constitute an infringement on the name of any corporation in its trade area. The last three words in the name must be "Federal Credit Union." Since the name selected should not duplicate exactly the name of an existing credit union, Item 1 provides space for a second choice.

The territory of operations of a Federal Credit Union is described in the field of membership, item 4. The principal office of the credit union will usually be maintained at a location described in the field of membership.

The proposed field of membership should be defined so clearly that it leaves no room for any doubt as to whom the credit union is to serve or the area which it is to operate. Corporations and other organizations referred to in the definition of the field of membership should be designated by the exact names rather than by some local or popular contraction of these names. The field of membership for each type of common bond and samples are discussed in detail in Chapter 2 of the *"Chartering and Field of Membership Manual."*

With the guidance of the organizer, the subscribers to the Organization Certificate decide on the number of directors and credit committee members. The board and credit committee must be composed of an odd number of members. The supervisory committee is appointed by the board of directors.

B. ECONOMIC ADVISABILITY OF ORGANIZING PROPOSED CREDIT UNION

This section of the report contains information on the required business plan elements and other information needed to make a decision on the economic advisability of chartering the proposed credit union.

C. CHARACTER AND FITNESS OF SUBSCRIBERS

The names and addresses of the subscribers should be recorded legibly and completely in item C. 1. of this report. It is from this information that the National Credit Union Administration prepares Section 3 of the charter. The names of the subscribers must be IDENTICAL to their signatures on the Organization Certificate.

D. SUBMITTAL OF CHARTER APPLICATION

In addition to this Investigation Report, the following should be submitted to the Director of NCUA's Office of Consumer Financial Protection and Access:

1. Organization Certificate, NCUA 4008 - one notarized original. At least seven, *but no more than ten persons*, must sign the organization certificate. The person administering the oath must not be one of the subscribers. The oath on the organization certificate must be executed and show the notary's seal and date the commission expires as required by State law;
2. Report of Official and Agreement to Serve, NCUA 4012 – one original for each board member, credit committee member, and supervisory committee member;
3. Business Plan - refer to Part B, question 4 of this form and Chapter 1 of the *Chartering and Field of Membership Manual* for a discussion of the components of an acceptable business plan;
4. Application and Agreements for Insurance of Accounts, NCUA 9500 - one original; and
5. Certification of Resolutions, NCUA 9501 - one original.

4. _____

NATIONAL CREDIT UNION ADMINISTRATION

FEDERAL CREDIT UNION

(A corporation chartered under
the laws of the United States)

CHARTER NO. _____

NCUA 4008
PAGE 1

ORGANIZATION CERTIFICATE

_____ FEDERAL CREDIT UNION

Charter No. _____

TO NATIONAL CREDIT UNION ADMINISTRATION:

We, the undersigned, do hereby associate ourselves as a Federal Credit Union for the purposes indicated in and in accordance with the provisions of the Federal Credit Union Act, (12 U.S.C. 1751 et seq.). We hereby request approval of this organization certificate; we hereby apply for insurance of member accounts; we agree to comply with the requirements of said Act, with the terms of this organization certificate and with all laws, rules, and regulations now or hereafter applicable to Federal Credit Unions.

- (1) The name of this credit union shall be _____ Federal Credit Union.
- (2) This credit union will maintain its office and will operate in the territory described in the field of membership.
 - (1)

- (3) The names and addresses of the subscribers to this certificate and the number of shares subscribed by each are as follows:

NAME	ADDRESS	SHARES

- (4) The par value of the shares of this credit union will be stated in the bylaws.

- (5) The field of membership shall be limited to those having the following common bond: _____

- (6) The term of this credit union's existence shall be perpetual: Provided, however, that upon the finding that this credit union is bankrupt or insolvent or has violated any provision of this organization certificate, of the bylaws, of the Federal Credit Union Act including any amendments thereto or thereof, or of any regulations issued thereunder, this organization certificate may be suspended or revoked under the provisions of Section 120(b) of the Federal Credit Union Act.
- (7) This certificate is made to enable the undersigned to avail themselves of the advantages of said Act.
- (8) The management of this credit union, the conduct of its affairs, and the powers, duties, and privileges of its directors, officers, committees and membership shall be set forth in the approved bylaws and any approved amendments thereto or thereof.

IN WITNESS THEREOF we¹ have here unto subscribed our names this

(day) _____	(month) _____	(year) _____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Subscribed before me, an officer competent to administer oaths, at _____
CITY/STATE

this _____
 (day) (month) (year)

Signed _____

Title _____
(Notary public or other competent officer)

¹ At least seven signers none of whom should administer the oath.

APPROVAL OF ORGANIZATION CERTIFICATE
AND
CERTIFICATION OF INSURANCE

Pursuant to the provisions of the Federal Credit Union Act (12 U.S.C. 1751 et seq.), the foregoing organization certificate and insurance of member accounts of _____ Federal Credit Union are approved this

(day)

(month)

(year)

CHAIRPERSON
NATIONAL CREDIT UNION ADMINISTRATION

REPORT OF OFFICIAL AND AGREEMENT TO SERVE

TO: NATIONAL CREDIT UNION ADMINISTRATION

Proposed _____ Federal Credit Union

Title of Prospective Position: _____

Name: _____
Mr./Ms./Mrs. Last, First, Middle

Maiden Name (If Different From Above): _____

Address (Res.): _____
Street, City, State, Zip Code

Telephone Number: (____) _____

Place of Birth: _____ Date of Birth: _____ City/State/Country

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?

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: _____ and,
- 2. Previous address, (if your address changed over the past 2 years):

- 3. Name of Spouse: _____

READ THE FOLLOWING CAREFULLY BEFORE SIGNING

CERTIFICATION AND AGREEMENT TO SERVE

I certify that the information provided on this form is true and correct. Further, I, the undersigned, having been duly designated to occupy the position(s) indicated above, do hereby agree to serve in the above-stated office(s) of this proposed credit union until the first annual meeting held in accordance with the Federal Credit Union Act and the bylaws of this credit union and until the election of my successor(s). I further pledge to carry out the duties and responsibilities commensurate with said office(s) as promulgated by the Federal Credit Union Act and the bylaws of this credit union. I have read the Privacy Act Notice that follows.

Date	Signature	Witness
------	-----------	---------

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

**APPLICATION FOR FIELD OF MEMBERSHIP AMENDMENT
NCUA FORM 4015**

**USE FOR MULTIPLE COMMON BOND EXPANSION FOR GROUPS OF
5,000 OR MORE PERSONS**

Attach a separate application for each group included in your request for expansion. The application must be complete or it will be returned unprocessed.

1. Name and address of credit union: _____ Telephone Number: _____
Charter Number: _____

2. Name and address of group: _____ Telephone Number: _____

If the group is an association:

Include a statement indicating whether the association has been formed primarily for the purpose of expanding credit union membership. Such a group is not eligible for inclusion in a multiple common bond credit union unless it qualifies as a low-income association; and

If the group is an association AND it is NOT one of the categories of pre-approved groups outlined in Chapter 2, Section III.A.1.b of the Chartering Manual:

Include a copy of the association's Charter/Bylaws or other equivalent organizational documentation.

3. Provide the proposed field of membership wording. Use the example wording found in NCUA's *Chartering and Field of Membership Manual*, Chapter 2, Section IV.A.2.

4. How many primary potential members (excluding immediate family and household members) are in the group:

5. (a) What is the distance between the group's location and your credit union's nearest service facility¹ to which the group has access (Reference Chapter 2, Section IV.A.1):

(b) What is the address of this service facility:

(c) Describe the service area² primarily served by the above service facility:

6. Is the group in the field of membership of any other credit union? Yes____
No____

If yes, and the overlapped credit union is not a community credit union or a non-federally insured credit union, please address the following:

Provide the name and location of the other servicing credit union:

Include a letter from the overlapped credit union indicating whether it concurs or objects to the overlap. If the overlapped credit union objects or fails to respond, document attempts to resolve the issue:

¹ A service facility is defined as a place where shares are accepted for members' accounts, loan applications are accepted or loans are disbursed.

² A federal credit union's service area is the area that can reasonably be served by the service facility accessible to the groups within the field of membership. It will most often coincide with that geographic area primarily served by the service facility.

- Explain how the expansion's beneficial effect in meeting the convenience and needs of the members of the group clearly outweighs any adverse effect on the overlapped credit union:

7. Attach a letter, or equivalent documentation, from the group requesting credit union service indicating:

- that the group wants to be added to the federal credit union's field of membership;
- whether the group presently has other credit union service available;
- the number of persons currently included within the group to be added and the group's location(s);
- the group's proximity to the credit union's nearest service facility; and
- why the formation of a separate credit union for the group is not practical. The criteria for demonstrating formation of a separate credit union is not practical are outlined in Chapter 2, Section IV.B.2 of NCUA's Chartering and Field of Membership Manual.

8. Other comments:

Name and title of credit union board-authorized representative (e.g., President/CEO):

 (Typed/Printed Name) (Signature) (Date)

APPLICATION FOR FIELD OF MEMBERSHIP AMENDMENT
NCUA FORM 4015-A

**USE FOR MULTIPLE COMMON BOND EXPANSION FOR GROUPS OF
3,000 to 4,999 PERSONS**

*Attach a separate application for each group included in your request for expansion.
The application must be complete or it will be returned unprocessed.*

1. Name and address of credit union: Telephone Number: _____
Charter Number: _____

2. Name and address of group: Telephone Number: _____

If the group is an association:

Include a statement indicating whether the association has been formed primarily for the purpose of expanding credit union membership. Such a group is not eligible for inclusion in a multiple common bond credit union unless it qualifies as a low-income association; and

If the group is an association AND it is NOT one of the categories of pre-approved groups outlined in Chapter 2, Section III.A.1.b of the Chartering Manual:

Include a copy of the association's Charter/Bylaws or other equivalent organizational documentation.

3. Provide the proposed field of membership wording. Use the example wording found in NCUA's *Chartering and Field of Membership Manual*, Chapter 2, Section IV.A.2.

4. How many primary potential members (excluding immediate family and household members) are in the group:

5. (a) What is the distance between the group's location and your credit union's nearest service facility¹ to which the group has access (Reference Chapter 2, Section IV.A.1):

(b) What is the address of this service facility:

(c) Describe the service area² primarily served by the above service facility:

6. Attach a letter, or equivalent documentation, from the group requesting credit union service indicating:

- that the group wants to be added to the federal credit union's field of membership;
- the number of persons currently included within the group to be added and the group's location(s);
- how the group is within reasonable proximity to the credit union; and the
- formation of a separate credit union for the group is not practical.

Include a statement indicating the formation of a separate credit union is not practical because the group lacks available subsidies, interest among the group's members, and sufficient resources. No additional information or documentation is necessary.

¹ A service facility is defined as a place where shares are accepted for members' accounts, loan applications are accepted or loans are disbursed.

² A federal credit union's service area is the area that can reasonably be served by the service facility accessible to the groups within the field of membership. It will most often coincide with that geographic area primarily served by the service facility.

7. Other comments:

Name and title of credit union board-authorized representative (e.g., President/CEO):

(Typed/Printed Name) _____ (Signature) _____ (Date)

APPLICATION FOR FIELD OF MEMBERSHIP AMENDMENT
NCUA FORM 4015-EZ

**USE FOR MULTIPLE COMMON BOND EXPANSIONS OF LESS THAN 3,000
PERSONS AND ALL SINGLE COMMON BOND EXPANSIONS**

Attach a separate application for each group included in your request for expansion.
The application must be complete or it will be returned unprocessed.

1. Name and address of credit union: _____ Telephone Number: _____
_____ Charter Number: _____

2. Name and address of group: _____ Telephone Number: _____

If the group is an association:

Include a statement indicating whether the association has been formed primarily for the purpose of expanding credit union membership. Such a group is not eligible for inclusion in a multiple common bond credit union unless it qualifies as a low-income association; and

If the group is an association AND it is NOT one of the categories of pre-approved groups outlined in Chapter 2, Section III.A.1.b of the Chartering Manual:

Include a copy of the association's Charter/Bylaws or other equivalent organizational documentation.

3. Provide the proposed field of membership wording: _____

4. **Multiple Common Bond Expansions Only:** Attach a letter, or equivalent documentation, from the group requesting credit union service indicating:

- that the group wants to be added to the federal credit union's field of membership;
- the number of persons to be added and the group's location(s); and
- the group's distance to the credit union's nearest service facility.

National Credit Union Administration

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5. **Single Common Bond Expansions Only:** How the group shares the occupational or associational common bond _____

6. How many primary potential members (excluding immediate family and household members) are in the group: _____

Name and title of credit union board-authorized representative (e.g., President/CEO):

(Typed/Printed Name and Title)

(Signature)

(Date)

**NOTICE OF MEETING OF MEMBERS TO CONVERT
FROM A FEDERAL TO A STATE CHARTERED CREDIT UNION**

_____ FEDERAL CREDIT UNION

(City) (State)

THIS PROPOSITION WILL BE DECIDED BY A MAJORITY OF THE MEMBERS WHO VOTE.

Notice is hereby given that a meeting of the members of _____ Federal Credit Union has been called and will be held at _____ on _____, at _____ o'clock, .M. for the purpose of considering and voting upon the following resolution:

"RESOLVED, That the _____ Federal Credit Union be converted to a credit union chartered under the laws of the State of _____ and that its operation under Federal charter be discontinued.

RESOLVED FURTHER, That the board of directors and the officers of this credit union and are hereby authorized and directed to do all things necessary to effect and to complete the conversion of this credit union from a Federal to State-chartered credit union."

The board of directors of this credit union has given careful consideration to the advantages and the disadvantages of the proposed conversion and believes it to be in the best interest of the members for the following reasons:

The proposed conversion would result in the following disadvantages or adverse changes in services and benefits to the members of the credit union:

The proposed conversion would result in the following costs of conversion (i.e. changing the credit unions name, examination and operating fees, attorney and consulting fees, tax liability, etc.):

The board of directors recommends that the members approve the proposal to convert to a State charter.

The members' accounts will will not continue to be insured by the National Credit Union Share Insurance Fund.

Attached is your ballot. You are urged to bring your ballot to the meeting and to cast your vote after hearing the discussion of the proposal. If you cannot attend the meeting, you are urged to mark your vote, date and sign your ballot, and return it to the following address by no later than the date and the time announced for the meeting of the members:

BY ORDER OF THE BOARD
OF DIRECTORS

TITLE: _____
(CHAIRPERSON)

TITLE: _____
(BOARD SECRETARY)

Issued _____(Date)

APPLICATION TO CONVERT FROM A STATE TO A FEDERAL CREDIT UNION

The _____ Credit Union of _____ (city), _____ (State), incorporated under the laws of the State of _____ on _____ by decision of its board of directors, hereby makes application to the National Credit Union Administration to convert to a Federal credit union.

- 1. Field of membership. Provide a copy of the credit union's charter, articles of incorporation or bylaws, as amended to date.

- 2. Is proposed Federal charter to cover same field of membership? Yes No If answer is "No," explain fully: _____

- 3. Standard financial and statistical reports as of _____ or comparable forms of reports, certified correct by the treasurer and verified by the affidavit of the president or vice-president, are attached.

- 4. A schedule of delinquent loans classified 2 to 6 months, 6 to 12 months, and 12 months and over delinquent is attached.

- 5. The following policies on loans to members are currently in effect in this credit union:

- a. Interest rates on loans: _____
- b. Charges incident to making loans which are passed on to borrowers: _____
- c. Maturity limits: _____
- d. Unsecured loan limit: _____
- e. Secured loan limit: _____
- f. Types of security accepted: _____
- g. Requirements of amortization (Repayment requirements): _____

- 6. Attached is a list of unsecured loans in excess of the amounts stipulated in the Act. (For each loan show account number, original amount, terms, and unpaid balance.)

1.

- 7. Attached is a list of loans with maturities in excess of periods stipulated in the Act and the NCUA Rules and Regulations. (For each loan show account number, original amount, terms, unpaid balance, and security.)
- 8. Types of accounts which members are required or are permitted to maintain:
Share Deposit Other (describe): _____

- 9. Describe any real estate owned by credit union, including a list of its current market value: _____

- 10. Describe and list any investments which are outside of the investment powers of Federal credit unions (Refer to Section 107(7), Federal Credit Union Act): _____

- 11. Names and locations of any depository institutions in which the credit union deposits its funds but which are beyond the purview of deposit powers authorized by Section 107(8) of the Federal Credit Union Act: _____

- 12. Describe any services rendered to or on behalf of members or of the public, other than accepting and maintaining accounts of members and making loans to members: _____

- 13. Describe what you propose to do about any policies, procedures, assets or liabilities which do not comply with the Federal Credit Union Act: _____

- 14. Give specific reasons as to why you desire to convert to a Federal credit union:

We hereby authorize the National Credit Union Administration to examine our books and our records.

We, the undersigned _____ Chief Executive Officer and
_____ Chief Financial Officer of the
_____ Credit _____ of
_____ State of

_____ certify: That we are the duly elected
Chairperson and the Chief Financial Officer, respectfully, of said credit union; that the
statements made in this Application to Convert from a State to a Federal Credit Union
and the schedules attached hereto are true, complete, and correct to the best of our
knowledge and belief and are made in good faith.

TITLE: _____
(CHAIRPERSON)

TITLE: _____
(CHIEF FINANCIAL OFFICER)

**AFFIDAVIT
PROOF OF RESULTS OF MEMBERSHIP VOTE - PROPOSED CONVERSION FROM
FEDERAL CREDIT UNION TO STATE CREDIT UNION**

We, the undersigned _____ chairperson and
_____ secretary of the _____
Federal Credit Union, hereby swear or affirm as follows:

1. That the conversion proposal as set forth in the attached Notice of Meeting of the Members was fully explained to the members present at said meeting of members.

2. That on the date of the said meeting of members there were _____ members of this credit union qualified to vote; _____ members were present at said meeting; of those members present, _____ members voted in favor of the conversion and _____ members voted against the conversion; of those members not present at the meeting but who filed ballots, _____ members voted in favor of the conversion and _____ members voted against the conversion; and that, without duplication of the votes of any member, a total of _____ members voted in favor of the conversion and _____ members voted against the conversion.

4.

3. That the action of the members of this credit union at said meeting is fully and completely recorded in the minutes of said meeting and all ballots cast by the members on the question of conversion, either at the meeting or by delivery to the credit union, are on file with the secretary of this credit union.

TITLE: _____
(CHAIRPERSON)

TITLE: _____
(BOARD SECRETARY)

FEDERAL CREDIT UNION

Subscribed before me, an officer competent to administer oaths, at _____
_____, this _____ (day) (month) (year)

Signed _____

(SEAL)

Title _____
(Notary Public or other
competent officer)

My Commission Expires _____, _____
(year)

FEDERAL TO STATE CONVERSION
BALLOT FOR CONVERSION PROPOSAL

I have read the notice concerning the meeting of the members of the _____ Federal Credit Union called for _____ to consider and to vote upon the following proposition:

"RESOLVED, That the _____ Federal Credit Union be converted to a credit union chartered under the laws of the State of _____ and operation under Federal Charter Number _____ be discontinued.

RESOLVED FURTHER, That the board of directors and the officers of this credit union are hereby authorized and directed to do all things necessary to effect and to complete the conversion of this credit union from a Federal to State-chartered credit union."

I hereby cast my vote on the proposition: (Place an X in the square opposite the appropriate statement.)

I vote for the conversion

I vote against the conversion

(Account Number)

(Signature of Member)

Date: _____

APPLICATION AND AGREEMENTS FOR INSURANCE OF ACCOUNTS

Date: _____

TO: The National Credit Union Administration Board (Board)

The proposed _____ Federal Credit Union

(Street Address)

(City) (State) (Zip Code)

applies for insurance of its accounts as provided in Title II of the Federal Credit Union Act, and in consideration of the granting of insurance, hereby agrees:

1. To pay the reasonable cost of such examinations as the Board may deem necessary in connection with determining the eligibility of the application for insurance.
2. To permit and pay the reasonable cost of such examinations as in the judgment of the Board may from time to time be necessary for the protection of the fund and other insured credit unions.
3. To permit the Board to have access to any information or report with respect to any examination made by or for any public regulatory authority and furnish such additional information with respect thereto as the Board may require.
4. To provide protection and indemnity against burglary, defalcation, and other similar insurable losses, of the type, in the form, and in an amount at least equal to that required by the laws under which the credit union is organized and operates.
5. To maintain such special reserves as the Board, by regulation or in special cases, may require for protecting the interest of members.
6. Not to issue or have outstanding any account or security the form of which, by regulation or in special cases, has not been approved by the Board.
7. To pay and maintain the capitalization deposit required by Title II of the Federal Credit Union Act.
8. To pay the premium charges for insurance imposed by Title II of the Federal Credit Union Act.

9. To comply with the requirements of Title II of the Federal Credit Union Act and of regulations prescribed by the Board pursuant thereto.
10. To permit the Board to have access to all records and information concerning the affairs of the credit union and to furnish such information pertinent thereto that the Board may require.
11. To comply with Title 18 of the United States Code and other pertinent Federal statutes as they may exist or may be hereafter promulgated or amended.

We, the undersigned, certify to the correctness of the information submitted. We, the undersigned, further certify that to the best of our knowledge and belief no proposed officer, committee member, or employee of this credit union has been convicted of any criminal offense involving dishonesty or a breach of trust, except as noted in attachments to this application. We further agree to notify the Board if any proposed or future officer commits a criminal offense.

Chairperson

Chief Financial Officer

Note: A willfully false certification is a criminal offense. U.S. Code, Title 18, Sec. 1001.

CERTIFICATION OF RESOLUTIONS

_____ FEDERAL CREDIT UNION (PROPOSED)

We certify that we are the duly elected and qualified chief executive officer and recording officer of the above-named proposed Federal credit union and that at the charter-organization meeting, the board of directors passed the following resolution and recorded it in its minutes:

"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 further resolved that the president and treasurer be authorized and directed to execute the Application and Agreements for Insurance of Accounts as prescribed by the Board and any other papers and documents required in connection therewith; to pay all expenses and do all other things necessary or proper to secure and continue in force such insurance."

Chief Executive Officer

Recording Officer, Board of Directors

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.
a.

- 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	\$ _____	\$ _____
Totals of the trial balance of the individual ledgers	\$ _____	\$ _____
Differences	\$ _____	\$ _____

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. _____

a.

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.
 - a.

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.

1.

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.

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

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.

If your credit union has the following no. of outstanding loans

You should list the following no. of the largest unpaid balances

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

Under 100
100 to 199
200 to 299
300 to 399
400 or more

5
10
15
20
25

C. Other investments of any type

except:

proceed in descending order by dollar amount until the number specified

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

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.

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.
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
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.

1.

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In support of this application we submit the following schedules:

Schedule No.	Title
---------------------	--------------

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)

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www.nafcu.org
3138 N 10th Street, Suite 300, Arlington, VA
22201-2149, 800-336-4644
National Association of State Credit Union
Supervisors (NASCUS)
www.nascus.org

12 CFR Ch. VII (1-1-24 Edition)

1655 North Fort Myer Drive, Suite 650, Ar-
lington, VA 22209, 703-528-8351
Inclusiv
https://www.inclusiv.org/
39 Broadway, Suite 2140, New York, NY 10006-
3063, 212-809-1850

APPENDIX 6
NARRATIVE CRITERIA TO IDENTIFY A WELL-DEFINED LOCAL COMMUNITY

This Appendix applies when the community a federal credit union (“FCU”) proposes to serve is not a “presumptive community”, under either option in chapter 2, section V.A.2. of Appendix B to Part 701, and thus would not qualify as a well-defined local community (“WDLC”). In that event, this Appendix prescribes the criteria an FCU should address in the narrative it develops and submits to the Board to demonstrate that residents of the community it proposes to serve share common interests and/or interact with each other. The narrative should address the criteria below as the FCU deems appropriate, as well as any other criteria it believes are persuasive, to establish to the Board’s satisfaction the presence, among residents of the proposed community, of indicia of common interests and/or interaction sufficient to qualify the area as a WDLC.

1. Central Economic Hub

The proposed community includes an economic hub. An economic hub is evident when one political jurisdiction (city or county) within a proposed local community has a relatively large percentage of the community’s population or is the primary location for employment. The application needs to identify the major employers and their locations within the proposed community.

Most Persuasive	At least 25 percent of the workers living in the proposed community commute to work in the central economic hub.
Persuasive	Over 15 percent of the workers living in the proposed community commute to work in the central economic hub.
Not Persuasive	Less than 15 percent of the workers living in the proposed community commute to work in the central economic hub.

2. Quasi-Governmental Agencies

The existence of organizations such as economic development commissions, regional planning boards, and labor or transportation districts can be important factors to consider. The more closely their service area matches the area, the greater the showing of interaction and/or common interests.

Most Persuasive	The quasi-governmental agency covers the proposed community exclusively and in its entirety, derives its leadership from the area, represents collaboration that transcends traditional county boundaries, and has meaningful objectives that advance the residents’ common interests in economic development and/or improving quality of life.
Persuasive	The quasi-governmental agency substantially matches the proposed community and carries out objectives that affect the relevant common interests for the entire area’s residents.

Not Persuasive	The quasi-governmental agency does not match the proposed community and carries out only incidentally relevant objectives or carries out meaningful objectives in localized sections of the proposed community.
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3. Governmental Designations

Designation of the proposed community by a government agency as a region or distinct district – such a regional transportation district, a water district, or a tourism district – is a factor that can be considered in determining whether the area is a local community. The more closely the designation matches the area’s geographic boundaries, the greater the value of that evidence in demonstrating interaction and/or common interests.

Most Persuasive	A division of a federal or state agency specifically designates the proposed service area as its area of coverage or as a target area for specific programs.
Persuasive	A division of a federal or state agency designates a regional area that includes the coverage area, but offers special programs tailored to the common interests shared by the residents of the proposed service area.
Not Persuasive	A division of a federal or state agency designates an area as a coverage area that encompasses several local communities.

4. Shared Public Services/Facilities

The existence of shared services and facilities, such as police, fire protection, park districts, public transportation, airports, or public utilities, can contribute to a finding that an area is a community. The more closely the service area matches the geographic boundaries of the community, and the higher the percentage of residents throughout the community using those services or facilities, the more valuable the data.

Most Persuasive	Statistical evidence documents how residents from the entire proposed service area mutually benefit from a public facility. Formal agreements exist that transcend traditional county lines and provide for a common need shared by all of the residents, such as common police or fire protection.
Persuasive	Public facilities exist that cross county lines and cover the majority of the area’s population, but do not cover the area in its entirety.
Not Persuasive	The applicant cites public facilities that serve areas that do not correlate with the proposed service area.

5. Hospitals and Major Medical Facilities

Data on medical facilities should include admittance or discharge statistics providing the ratio of use by residents of each political jurisdiction. The greater the percentage of use by residents throughout the proposed community, the higher the value of this data in showing interaction. The application can also support the importance of an area hospital with documentation that correlates the facility’s target area with the proposed local community and/or discusses the relative distribution of hospitals over a larger area.

Most Persuasive	The applicant provides statistics demonstrating residents from throughout the proposed community use hospitals in the major population or employment center.
Persuasive	Statistical data are not available, but the application demonstrates through other documentation a medical facility is the only viable option for a significant portion of the proposed community's residents.
Not Persuasive	The area has multiple health care facilities at geographically dispersed locations with duplicative services.

6. Colleges and Universities

College enrollment data can be a useful factor in establishing a local community. The higher the percentages of student enrollment at a given campus by residents throughout each part of the community, the greater the value in showing interaction. Additionally, the greater the participation by the college in community initiatives (e.g., partnering with local governments), and the greater the service area of these initiatives, the stronger the value of this factor.

Most Persuasive	The application provides statistical data showing the institutions of higher learning cited attract significant numbers of students from throughout the proposed community.
Persuasive	The statistical data regarding where students live is either inconclusive or unavailable. However, qualitative information exists to demonstrate the institutions’ relevance to the entire proposed community, such as unique educational initiatives to support economic objectives benefiting all residents and/or partnerships with local businesses or high schools.
Not Persuasive	The statistical data tends to support the institutions recruit students from a broad based area transcending the proposed community’s boundaries.

7. Mutual Aid Agreements

The existence of written agreements among law enforcement and fire protection agencies in the area to provide services across multiple jurisdictions can be an important factor.

Most Persuasive	The mutual aid agreements cover the proposed community exclusively and in its entirety, represents collaboration that transcends political boundaries such as city or county limits.
Persuasive	The mutual aid agreements substantially matches the proposed community.
Not Persuasive	The mutual aid agreements do not match the proposed community.

8. Organizations and Clubs

The more closely the service area of an organization or club matches the proposed community's boundaries, and the greater the percentage of membership and services throughout the proposed community, the more relevant the data.

Most Persuasive	Statistical data supports that organizations with meaningful objectives serve the entire proposed community.
Persuasive	Other qualitative documentation exists to support that organizations with meaningful objectives serve the entire proposed community.
Not Persuasive	The applicant lists organizations that either do not cover the proposed community in its entirety or have objectives that are too limited to have a meaningful impact on the residents' common interests.

9. Community Newspaper

A newspaper that is widely read in an area can be an indication of common interests. The higher the household penetration circulation figures throughout the area, the greater the value in showing common interests. Circulation data may include print copies as well as on-line access.

Most Persuasive	Statistical evidence indicates a significant portion of residents from throughout the proposed community read the local general interest newspaper. The paper has local stories focusing on the proposed community and has a marketing target area consistent with the proposed community boundaries.
Persuasive	Local newspapers and periodicals specifically cater to the proposed community.
Not Persuasive	The area lacks a general newspaper that covers the proposed community. There are no specialized publications catering to the entire proposed community.

10. Entertainment and Sporting Events

Data to show the percentage of residents from each political jurisdiction who attend the events. The higher the percentage of residents from throughout the proposed community, the stronger the evidence of interaction. For sporting events, as well as some entertainment events, data on season ticket holders and memberships may be available. As with overall attendance figures, the higher the percentage of residents from throughout the proposed community, the stronger the evidence of interaction.

Most Persuasive	Statistical data exist to support that the venue attracts residents from throughout the proposed community.
Persuasive	Statistical evidence is not available, but other qualitative information documents the importance the venue has for the proposed community.
Not Persuasive	The applicant lists local venues without discussing where users originate from or otherwise documenting the relevance for the residents of the entire area.

11. Local Television and Radio Stations

A television or radio station broadcasting in an area can be an indication of common interests. Data on viewership or listenership in the proposed community can support the existence of a community.

Most Persuasive	Statistical evidence indicates a significant portion of residents from throughout the proposed community view or listen to the local television and radio stations. The media has local stories focusing on the proposed community and has a marketing target area consistent with the proposed community boundaries.
Persuasive	The television and radio stations provide news and sports coverage specifically catering to the proposed community.
Not Persuasive	The area lacks television or radio stations serving the proposed community.

12. Shopping

The narrative must identify the location of the major shopping centers and malls and include the percentage of shoppers coming from each part of the community. The larger the percentage of shoppers from throughout the community, the stronger the case for interaction. While of lesser value than the shopping data, identification of the shopping center's target area can be persuasive.

Most Persuasive	The application provides statistics from a reliable third party source that demonstrates the major shopping facility cited in the application is the major shopping facility for the residents of the entire area.
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Persuasive	The applicant provides documentation supporting how the area’s shopping facilities cluster within the area’s hub and residents do not have other realistic alternatives to meet their shopping needs.
Not Persuasive	The applicant lists large shopping facilities without providing statistics or other documentation that demonstrates relevance to the proposed community.

13. Geography

Some communities face varying degrees of geographic isolation. As such, travel outside the community can be limited by mountain ranges, forests, national parks, deserts, bodies of waters, etc. This factor, and the relative degree of isolation, may help bolster a finding of interaction or common interests.

Most Persuasive	Area is geographically isolated and/or distinct from immediate surrounding area.
Persuasive	Area has geographic commonalities that influence other aspects of the residents’ lives (i.e., tourism, allocation of government resources).
Not Persuasive	The area’s geographic features do not appear to influence other social or economic characteristics of the area.

[81 FR 88424, Dec. 7, 2016, as amended at 82 FR 50291, Oct. 30, 2017; 82 FR 60290, 60292, Dec. 20, 2017; 83 FR 30295, June 28, 2018; 84 FR 1605, Feb. 5, 2019; 85 FR 56513, Sept. 14, 2020; 85 FR 62210, Oct. 2, 2020; 86 FR 66930, Nov. 24, 2021]

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