

7535-01-U

NATIONAL CREDIT UNION ADMINISTRATION

12 CFR Part 701

RIN: 3133-AE31

Chartering and Field of Membership Manual

AGENCY: National Credit Union Administration (NCUA).

ACTION: Proposed rule with request for comments.

SUMMARY: The NCUA Board proposes to comprehensively amend its chartering and field of membership rules to put them in a more efficient framework and to maximize access to federal credit union services to the extent permitted by law. The amendments will implement changes in policy affecting: the definition of a local community, a rural district, and an underserved area; the expansion of multiple common bond credit unions and members' proximity to them; the expansion of single common bond credit unions based on a trade, industry or profession; and the process for applying to charter or expand a federal credit union.

DATES: Comments must be received on or before [INSERT DATE THAT IS 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER.]

ADDRESSES: You may submit comments by any of the following methods (**Please send comments by one method only**):

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.
- NCUA Web Site:
http://www.ncua.gov/RegulationsOpinionsLaws/proposed_regs/proposed_regs.html. Follow the instructions for submitting comments.
- E-mail: Address to regcomments@ncua.gov. Include “[Your name] Comments on Notice of Proposed Rulemaking Regarding Associational Common Bond” in the e-mail subject line.
- Fax: (703) 518-6319. Use the subject line described above for e-mail.
- Mail: Address to Gerard S. Poliquin, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.
- Hand Delivery/Courier: Same as mail address.

PUBLIC INSPECTION: You may view all public comments on NCUA’s website at <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx> as submitted, except for those we cannot post for technical reasons. NCUA will not edit or remove any identifying or contact information from the public comments submitted. You may inspect paper copies of comments in NCUA’s

law library at 1775 Duke Street, Alexandria, Virginia 22314, by appointment weekdays between 9 a.m. and 3 p.m. To make an appointment, call (703) 518–6546 or send an e-mail to OGCMail@ncua.gov.

FOR FURTHER INFORMATION CONTACT: Matthew Biliouris, Deputy Director, or Robert Leonard, Director, Division of Consumer Access, or Rita Woods, Director, Division of Consumer Access South, Office of Consumer Protection, at the above address or telephone (703) 518-1140; or Senior Staff Attorney Steven Widerman or Staff Attorney Marvin Shaw, Office of General Counsel, at the above address or telephone (703) 518-6540.

SUPPLEMENTARY INFORMATION:

I. Background

A. Overview

NCUA’s Chartering and Field of Membership Manual, incorporated as Appendix B to part 701 of its regulations (“Chartering and FOM Manual”),¹ implements the field of membership (“FOM”) requirements established by the Federal Credit Union Act (“the FCU Act”) for federal credit unions (“FCUs”).² An FOM consists of those persons and entities eligible for membership according to an FCU’s type of charter.

In adopting the Credit Union Membership Access Act of 1998 (“CUMAA”), Congress reiterated its longstanding support for credit unions, noting their “specif[ic] mission of meeting the credit

¹ Appendix B to 12 CFR part 701 (“Appendix B”).

² 12 U.S.C. 1759.

and savings needs of consumers, especially persons of modest means.”³ As amended by CUMAA, the FCU Act provides a choice among three charter types: a single group sharing a single occupational or associational common bond;⁴ a multiple common bond, with each group having a distinct occupational or associational common bond among group members;⁵ and a community common bond among persons or organizations within a well-defined local community, neighborhood or rural district.⁶

Based on NCUA’s experience in processing applications for initial approval and subsequent expansion of all three types of charters, the Board periodically updates and revises the Chartering and FOM Manual to ensure adherence to the statutory criteria, limitations and special rules that apply to each charter type, to reflect contemporary practice, and to enhance the user-friendliness of the Chartering and FOM Manual for the benefit of those seeking to charter an FCU, as well as for existing credit unions.

B. Why is NCUA Proposing this Rule?

The proposed rule will modify the Board’s policies affecting the definition of a local community, a rural district, and an underserved area; group members’ proximity to multiple common bond FCUs when they expand; and expansion of single common bond FCUs that serve a trade, industry or profession; and the process for applying to charter or expand an FCU. Consistent with its responsibility under CUMAA to facilitate access to credit unions and their delivery of services, the Board is proposing these policy modifications in order to accomplish several

³ Pub. L. No. 105-219, §2, 112 Sta. 913 (Aug 7, 1998).

⁴ 12 U.S.C. 1759(b)(1).

⁵ *Id.* §1759(b)(2)(A).

⁶ *Id.* §1759(b)(3).

objectives. The first is to ease any undue burdens and restrictions on an FCU's ability to provide services to consumers who are eligible for FCU membership, particularly those of modest means and those who may not currently be members of a credit union. The second is to enhance the menu of strategic options for FOM expansions. The third is to maximize competitive parity between federal and state charters, to the extent allowed by law, while respecting the national system of dual chartering. The Board invites public comments addressing all aspects of the proposed rule.

II. Summary of the Proposed Rule

A. Community Common Bond

As amended in 1998, the FCU Act limits membership in a community credit union to “[p]ersons or organizations within a well-defined local community, neighborhood or rural district.”⁷ It directs the Board to define what constitutes a well-defined local community, neighborhood or rural district for purposes of “making any determination” regarding a community credit union,⁸ and to establish applicable criteria for any such determination.⁹ To qualify as a well-defined local community or rural district, the Board requires the proposed area to have “specific geographic boundaries,” such as those of “a city, township, county (single or multiple portions of a county) or their political equivalent, school districts or a clearly identifiable neighborhood.”¹⁰ The boundaries themselves may consist of political borders, streets, rivers, railroad tracks, or other static geographical feature.¹¹ The Board continues to emphasize interaction and common

⁷ *Id.* §1759(b).

⁸ *Id.* §1759(g)(1)(A).

⁹ *Id.* §1759(g)(1)(B).

¹⁰ Appendix B, Ch. 2, §V.A.2.

¹¹ Appendix B, Ch. 2, §V.A.5.

interests among residents within those boundaries as essential to the viability of a local community.

Since 2010, the Board has provided credit unions the option of two uniform, nationally-recognized, objective geographic units that, by definition, meet the statutory criteria of a well-defined local community, neighborhood or rural district. The first is a “Single Political Jurisdiction . . . or any contiguous portion thereof,” regardless of population.¹² The second is a single U.S. Census Bureau-designated Core Based Statistical Area or one or more Metropolitan Divisions within, or a well-defined portion of either one, subject in any case to a 2.5 million population limit that applies to the Core Based Statistical Area as a whole.¹³ Under either well-defined local community option, a credit union must be able to serve the proposed community or rural district, as demonstrated by its business and marketing plans that must accompany an application for charter approval, expansion or conversion.¹⁴

1. Core Based Statistical Area Population Limit. As explained above, a Core Based Statistical Area qualifies as a well-defined local community only if its population does not exceed 2.5 million. By design, this population limit conforms to the population parameter by which OMB recognizes metropolitan divisions with a Core Based Statistical Area.¹⁵ Upon further consideration in connection with this rule, the Board has decided to retain the 2.5 million population limit, but nonetheless invites public comment on whether to adjust the limit, by what amount, and for what specific reasons.

¹² Appendix B, Ch. 2, §V.A.2.

¹³ Appendix B, Ch. 2, §V.A.2.

¹⁴ Appendix B, Ch. 2, §V.A.4.

¹⁵ <https://www.whitehouse.gov/sites/default/files/omb/bulletins/2015/15-01.pdf> (at page 62).

2. “Core Area” Service Requirement. Since 2010, NCUA has required that when a credit union applies to serve a community consisting of a portion of a Core Based Statistical Area, that portion must include the Core Based Statistical Area’s “core area,” which NCUA defines as the most populated county or named municipality in the Core Based Statistical Area’s title.¹⁶ The primary purpose of this requirement was to acknowledge the core area of a Core Based Statistical Area as the typical focal point for common interests and interaction among residents. An additional purpose was to extend FCU services to low-income persons and underserved areas, both typically located primarily in the core area of a Core Based Statistical Area. NCUA’s review of progress under approved FCUs’ business and marketing plans over the last five years indicates that those credit unions are adequately serving low-income persons and underserved areas without regard to their location within the community. Accordingly, NCUA proposes to repeal the core area requirement as an indicator of service to low-income persons and underserved areas, in favor of its practice of annually reviewing the progress of business and marketing plans for three years following charter approval or expansion, and relying on those plans to assess those service objectives within an original or an expanded community.

3. Population Limit as Applied to a Well-Defined Portion of a Core Based Statistical Area. The Board presently permits a well-defined portion of a Core Based Statistical Area to qualify as a well-defined local community provided the population of the Core Based Statistical Area *as a*

¹⁶ 75 FR 36257, 36260 (June 25, 2010).

whole does not exceed the 2.5 million population limitation,¹⁷ disregarding whether the portion a credit union seeks to serve *alone* meets that limitation. A review of requests to serve a portion of a Core Based Statistical Area that were denied because the population of the *whole* Core Based Statistical Area exceeded 2.5 million has convinced the Board that this is an unnecessarily broad application of the population cap that produces unintended consequences.

To target the 2.5 million population limit strictly to the community a credit union seeks to serve, the Board proposes to modify its “statistical area” definition to specify that “a Core Based Statistical Area, Metropolitan Division, or well-defined portion of either one, must itself have a population of 2.5 million or fewer people.” This will ensure that a portion of a Core Based Statistical Area, or a Metropolitan Division within, qualifies as a well-defined local community when it meets the population limit solely as applied to that portion, even if the Core Based Statistical Area as a whole exceeds the limit.

4. “Combined Statistical Area” as a Single Well-Defined Local Community. As explained above, a Core Based Statistical Area or a Metropolitan Division within a Core Based Statistical Area, or a well-defined portion of either one, qualifies as a well-defined local community subject to a population limit.¹⁸ Acknowledging the interdependence among adjacent Core Based Statistical Areas, the Office of Management and Budget (“OMB”) has recognized 169 Combined Statistical Areas consisting of contiguous Core Based Statistical Areas, and Metropolitan and

¹⁷ Appendix B, Ch. 2, §V.A.2. (“statistical area” definition).

¹⁸ 75 FR 36257 (June 25, 2010).

Micropolitan Statistical Areas within, that complement one another according to objective measurements of social and economic integration among an area's residents.¹⁹

OMB's approach in designating Combined Statistical Areas is consistent with that of the Board in relying on residents' interactions and common interests to define a local community.

Accordingly, the Board proposes to expand the existing single Core Based Statistical Area definition of a well-defined local community to include Combined Statistical Areas as designated by OMB, subject to the 2.5 million population limit. Additionally, in evaluating expansion requests, NCUA will continue its practice of reviewing each FCU's business and marketing plans to determine its capability and success in serving its original and previously expanded community.

5. Addition of an Adjacent Area to a Well-Defined Local Community. Despite the convenience, certainty and staff efficiency of using a Single Political Jurisdiction, a Core Based Statistical Area or a Combined Statistical Area to form a well-defined local community or rural district, areas adjacent to the perimeter of these objective geographic units may lack a credit union presence and/or lack sufficient access to financial services, even though residents on both sides of the perimeter may routinely interact or share common interests with each other. To enable

¹⁹ OMB Bulletin No. 15-01 to Heads of Executive Departments and Establishments (July 15, 2015) defines a Combined Statistical Area as "two or more Metropolitan Statistical Areas, a Metropolitan Statistical Area and a Micropolitan Statistical Area, two or more Micropolitan Statistical Areas, or multiple Metropolitan and Micropolitan Statistical Areas that have social and economic ties as measured by commuting, but at lower levels than are found among counties within Metropolitan and Micropolitan Statistical Areas." OMB characterizes Core Based Statistical Areas as "representing larger regions that reflect broader social and economic interactions, such as wholesaling, commodity distribution, and weekend recreation activities, and are likely to be of considerable interest to regional authorities and the private sector." <https://www.whitehouse.gov/sites/default/files/omb/bulletins/2015/15-01.pdf>

residents of those adjacent areas to access credit union services, the Board proposes to permit the addition of such an area to a community consisting of a Single Political Jurisdiction, Core Based Statistical Area, Combined Statistical Area, or rural district, upon a showing by subjective evidence that residents on both sides of the perimeter interact or share common interests.

The expanded community would be subject to the proposed population limits for community charters (2.5 million) and rural district charters (1 million).²⁰ The more expansive the adjacent area, theoretically even surrounding the original community's entire perimeter, the more challenging and burdensome it may be for a credit union to, first, subjectively demonstrate a sufficient totality of indicia of interaction or common interests among residents of the expanded community,²¹ and then to establish through the credit union's business and marketing plans its ability and commitment to serve the entire expanded community.

The Board recognizes that credit unions seeking to add bordering areas to their existing community or rural district charters historically have already established a proven track record of serving an existing community or rural district and should not be subject to the same requirements as those for a credit union seeking to convert to a community or rural district charter. Therefore, the Board proposes to require a federal credit union seeking to add a bordering area to follow a streamlined set of business plan requirements contained in this rule.

The Board seeks comment on the appropriateness of the proposed set of streamlined requirements, and if any specific items should be added or removed from the proposed criteria.

²⁰ See Rural District Definition discussion later in this same section.

²¹ The proposed rule incorporates guidance identifying compelling indicia of common interests and interaction that would be relevant when a credit union chooses to submit a narrative to NCUA to demonstrate that the residents of the expanded community meet the requirements of a well-defined local community.

The Board also seeks comment on the existing comprehensive business and marketing plan requirements. Finally, the Board is considering whether to limit the availability of this streamlined approach to a federal credit union seeking a certain maximum percentage increase in its field of membership, and is interested in receiving public comment on this aspect of the proposal.

6. Individual Congressional District as a Well-Defined Local Community. Since 1999, the Board has maintained that neither a Congressional district nor a whole state qualifies as a well-defined local community, despite recognizing that both are well-defined.²² These restrictions were never imposed by statute; rather, the Board disallowed whole states and Congressional districts solely as a matter of policy.²³ When imposing these restrictions, the Board recognized that--

in general, a large population in a small geographic area or a small population in a large geographic area, may meet community chartering requirements. Conversely, . . . a large population in a large geographic area will not normally meet community chartering requirements. In so doing, however, the Board has not summarily dismissed or prejudged any potential application. While an area with a large population may require additional documentation, it still may meet the definition of a local community.²⁴

A significant change in circumstances has prompted the Board to reconsider this policy as it applies to Congressional districts—namely that, NCUA has, since 1999, approved 21 Single Political Jurisdictions that each have a population in excess of 1 million, while the average population of the United States' 435 Congressional districts is 710,767.²⁵

²² 63 FR 72013, 72037 (December 30, 1998); Appendix B, Ch. 2, §V.A.2.

²³ 63 FR at 72037. *See also* 75 FR at 36258 (affirming that entire state is not acceptable as WDLC)

²⁴ 63 FR at 72012.

²⁵ <http://www.census.gov/fastfacts>

The most populous of the 435 districts is the “at large” district serving the state of Montana, with a population of 1,023,579; Rhode Island has the smallest average district size at 523,028.²⁶ As measured by population, it is appropriate to recognize each individual Congressional district, as well as the District of Columbia and each U.S. territory represented by a non-voting delegate,²⁷ as local when compared to Single Political Jurisdictions as large in population as Los Angeles County, California (9.6 million), approved by the Board in 2003, and Harris County, Texas (3.45 million), approved by the Board in 2007.

Among residents of Single Political Jurisdictions comprised of towns, cities and counties, the focal point of common interests and interaction tends to be local services, resources and facilities (*e.g.*, taxes, schools, police and fire protection). The proposal acknowledges that Congressional districts, structured for purposes of federal representation, reflect interaction and common interests among each district’s constituents based on issues and matters decided at the federal level that affect them locally (*e.g.*, economic, agricultural, and environmental).

Based on this rationale, the Board proposes to recognize each individual Congressional district as a Single Political Jurisdiction, thus qualifying it as a well-defined local community without regard to population.²⁸

²⁶ *Id.* Seven states presently are comprised of a single Congressional district, effectively giving each a state-wide FOM: Alaska, Delaware, Montana, North Dakota, South Dakota, Vermont and Wyoming.

²⁷ American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands.

²⁸ Appendix B, Ch. 2, §V.A.1.

As in the case of any community charter application, a credit union that applies to serve a Congressional district must submit a business and marketing plan demonstrating its ability and commitment to serve the entire community. The larger the Congressional district, the more challenging and burdensome it may be for an applicant to satisfy this requirement.

If, as a result of redistricting, the boundaries of an individual Congressional district were to be redrawn, the FOM consisting of the original Congressional district would no longer be available to be served by any other FCU. Only an FCU that was approved to serve an FOM comprised of an individual Congressional district would be grandfathered to continue serving that area.

B. Rural District Definition

The Board has, since 2013, imposed two requirements for a proposed area to qualify as a well-defined “Rural District.” The first is that the area’s total population cannot exceed the *greater* of either 250,000 people *or* 3 percent of the population of the state in which the majority of the proposed Rural District’s residents would be located.²⁹ The second is that either at least 50 percent of the proposed Rural District’s population must reside in census blocks or other geographic units the U.S. Census Bureau (“U.S. Census”) designates as “rural,” *or* the proposed Rural District’s population density cannot exceed 100 persons per square mile.³⁰ Independently of these well-defined local community requirements, a credit union must be able to serve the

²⁹ Appendix B, Ch. 2, §V.A.2.

³⁰ *Id.*

proposed Rural District, as demonstrated by its business and marketing plans that must accompany an application for charter approval, expansion or conversion.³¹

1. Population Limits. The 250,000 persons/3 percent population limits were based on the view that a Rural District should have a relatively small, widely disbursed population. However, a compelling countervailing factor continues to weigh against this view: to make the area attractive as a strategic option, a Rural District must have a population sufficient to enable credit unions to achieve a sufficient level of operating efficiencies and scale to deliver products and services. Balancing these opposing population considerations, NCUA proposes to modify the Rural District definition to increase the population limit to 1 million persons. Because the increased population limit would exceed 3 percent of a state's population in all states but one (California), making that alternative redundant, the proposed rule omits it. The Board invites public comment on whether to adjust the proposed 1 million population limit, by what amount, and for what specific reasons.

2. Multi-State Expansion Limit. In 1998, the Board conceded that “While an area with a large population may require additional documentation, it still may meet the definition of a local community. Similarly, multiple counties, particularly in rural areas, may qualify for a community charter.”³² To achieve consistency with U.S. Census recognition of expansive rural areas, the proposed rule modifies the option for an area to qualify as a Rural District either because it is among the “rural counties” identified by the Consumer Financial Protection Bureau

³¹ Appendix B, Ch. 2, §V.A.4.

³² 63 FR at 72012.

“CFPB”),³³ or because the area has a sparse population density of no more than 100 people per square mile. These criteria truly reflect an area’s rural character regardless of its physical size, as shown by the eight states in which the U.S. Census identifies more than 40 percent of the state population as “rural.”³⁴

As revised, the Rural District definition—a 1 million population limit, and either a sparse population density or “rural” designation—would continue to permit a Rural District to extend beyond a single state’s boundaries. To prevent the overexpansion of Rural Districts, however, the Board proposes to prohibit a single well-defined Rural District from exceeding the boundaries of the states that are *immediately contiguous* to the state in which the FCU serving the Rural District is headquartered (*i.e.*, not to exceed the outer perimeter of the layer of states immediately bordering the headquarters state).

C. Underserved Areas

The FCU Act authorizes the NCUA Board to allow multiple common bond credit unions to serve members residing in an “underserved area,” provided the FCU establishes and maintains a facility in the area.³⁵ For an area to be “underserved,” it must qualify: (1) as a well-defined local community, neighborhood or rural district;³⁶ (2) as an “investment area” under the Community Development Banking and Financial Institutions Act (“CDFI Act”);³⁷ and (3) as “underserved” by other depository institutions (as defined [by the CDFI Act]) “based on data of the Board and

³³ See CFPB’s “Rural or underserved counties list” available at:

<http://www.consumerfinance.gov/guidance/#ruralunderserved>

³⁴ <https://www.census.gov/geo/reference/ua/urban-rural-2010.html> (List of Population, Land Area and Percent Urban and Rural in 2010 and Changes from 2000 to 2010).

³⁵ 12 U.S.C. §1759(c)(2).

³⁶ *Id.*

³⁷ *Id.* §4702(16)

the Federal banking agencies.”³⁸ Other than to limit the sources of data and to define “depository institutions,” the FCU Act prescribes no specific test or criteria to assess “underservice.” Within this broad authority, the Board seeks to refine the data used in its concentration of facilities ratio, first introduced in 2008,³⁹ to determine whether a proposed area is underserved by other depository institutions, as well as to propose for comment alternative methodologies and metrics as options for making that determination.

1. Exclusion of Non-Depository Institutions and Non-Community Credit Unions from Concentration of Facilities Ratio. It has been NCUA’s practice to calculate an area’s concentration of facilities ratio on behalf of a credit union seeking approval to serve it as an underserved area. To assess the presence of banks and savings associations within geographic units that do not already qualify as “distressed” under the CDFI Act, NCUA has relied upon data compiled by the Federal Deposit Insurance Corporation (“FDIC”) in its Summary of Deposits Survey,⁴⁰ and on NCUA data to assess the presence of credit unions. The Board proposes to exclude two data components from the ratio, on a contingent basis, to prevent the concentration of facilities ratio from being diluted or distorted by over-inclusive data, as well as to ensure compliance with the letter and the spirit of the “depository institutions” definition the FCU Act references.⁴¹

³⁸ *Id.* §1759(c)(2)(A) citing *id.* § 461(b)(1)(A). By definition, a “depository institution” is insured and includes credit unions. *Id.* §461(b)(1)(A)(iv).

³⁹ 73 FR 73392 (Dec. 2, 2008). Using census tracts as the unit of measure, the concentration of facilities ratio compares the concentration of depository institution facilities among the population within the non-“distressed” portions of the proposed area against the concentration of such facilities among the population of the area as a whole. 73 FR at 73396. Ch.3, §III.B.3.of Appendix B. An area qualifies as underserved by other depository institutions when the concentration of facilities ratio within its non-“distressed” census tracts exceeds the concentration of facilities ratio within the census tracts of the area as a whole.

⁴⁰ FDIC’s “Summary of Deposits Survey,” e.g., <https://www.fdic.gov/news/news/financial/2015/fil15024.pdf>

⁴¹ 12 U.S.C. §461(b)(1)(A).

The first component is NCUA data reflecting the presence of *non*-community credit unions, such as multiple common bond credit unions—other than those already serving the proposed area as an underserved area—because they would be unable to serve the general public of a underserved area (*i.e.*, unable to serve anyone not within its select groups). The second component is FDIC data reflecting the presence of *non*-depository institutions, such as trust companies, which do not accept deposits from the general public. Excluding data reflecting the presence of institutions that would not be capable of serving a proposed area, either by definition or in fact, will preclude the unwarranted denial of an application to serve an underserved area.

It would be impracticable and an inefficient use of resources for NCUA to segregate bank and credit union data on a nationwide scale to exclude non-depository bank and non-community credit union data. However, in the event an initial concentration of facilities ratio calculation fails to identify a proposed area as underserved by other depository institutions, the proposed rule would require NCUA to then exclude the non-depository bank and non-community credit union data and recalculate the ratio. This will ensure the integrity of the result, as well as maximize the identification of areas that would benefit from the introduction of credit union service to compensate for the lack of service by other depository institutions. This approach also will conserve NCUA resources that otherwise would be consumed in routinely excluding this data without regard to whether an initial concentration of facilities ratio calculation without those exclusions would yield a positive result.

2. Alternatives to Identify Areas “Underserved by Other Depository Institutions.” While the concentration of facilities ratio has generally proven to be an effective measure of underservice by other depository institutions, it has some inherent limitations: it accounts for the physical presence of depository institutions in a given area, but it does not necessarily evaluate the benefit or quality of services these institutions deliver.⁴² Accordingly, the Board proposes two alternatives to the concentration of facilities ratio that may reflect underservice by other depository institutions more comprehensively. The first would be the designation of “underserved counties” by the CFPB,⁴³ which has rulemaking authority over Federal banking agencies’ collection of Home Mortgage Disclosure Act (“HMDA”) data used to make those designations.⁴⁴ The second would be a metric of a credit union’s own choosing that it would submit as evidence of underservice in a proposed area, provided the metric is based on “data of the Board and the Federal banking agencies.”⁴⁵

The Board invites commenters to identify other methodologies and Federal banking agency data that would be useful in identifying areas “underserved by other depository institutions” in an objective manner. Examples include data from Community Reinvestment Act examination reports prepared by the FDIC, Office of the Comptroller of the Currency (“OCC”) or the Board of Governors of the Federal Reserve System (“the Fed”),⁴⁶ and HMDA data collected by these agencies. The Board encourages commenters to suggest why and how any specific methodology

⁴² The benefit and quality of services depository institutions deliver is addressed by the “distress” criterion requiring the area to have “significant unmet need for loans and financial services.” 12 U.S.C. 4702(16)(A)(ii).

⁴³ Although CFPB’s annual “Rural or underserved counties list” does not segregate “rural” and “underserved” counties, NCUA will use the data collected by CFPB to produce and make available a list that identifies “underserved areas” exclusively.

⁴⁴ 12 U.S.C. 1813(z). Financial institutions, including national banks, Federal savings associations, state member banks, and FCUs report mortgage related data to their respective Federal regulator –OCC, the Fed, FDIC and NCUA.

⁴⁵ *E.g.*, FDIC “Summary of Deposits Survey.”

⁴⁶ *E.g.*, <http://www.ffiec.gov/cra/default.htm>.

and supporting data recommended for consideration would establish an objective basis for analysis of underservice by other depository institutions.

D. Multiple Common Bond

As amended in 1998, the FCU Act restored the Board's multiple common bond policy, permitting a multiple common bond credit union to serve a combination of distinct, definable occupational and/or associational groups, each having its own common bond among group members.⁴⁷

1. Credit Union's "Reasonable Proximity" through Members' Online Access to Services. The FCU Act authorizes multiple common bond credit unions to expand through the addition of select groups having dissimilar common bonds, provided such a group does not exceed 3,000 members.⁴⁸ To add a group that exceeds that limit, the group must meet other criteria the FCU Act prescribes to establish that it "could not feasibly or reasonably establish a new single common bond credit union."⁴⁹ Regardless of group size, the FCU Act further requires the Board, in deciding whether to approve a multiple common bond expansion, "to encourage the formation of separately chartered credit unions . . . whenever practicable and consistent with reasonable standards for the safe and sound operation of the credit union," based on approval criteria the FCU Act prescribes.⁵⁰

⁴⁷ 63 FR 71998, December 30, 1998; 12 U.S.C.1759(b)(2)(A). See *NCUA v. First National Bank & Trust Co.*, 522 U.S. 479 (1988).

⁴⁸ *Id.* §1759(d)(1).

⁴⁹ *Id.* §1759(d)(2)(A).

⁵⁰ *Id.* §1759(f)(1)(A).

When formation of a stand-alone single common bond credit union either is not practicable, or would be inconsistent with reasonable standards of safety and soundness, the FCU Act requires “inclusion of the group in the [FOM] of a credit union that is within *reasonable proximity* to the location of the group whenever practicable and consistent with reasonable standards for the safe and sound operation of the credit union.”⁵¹ The Chartering and FOM Manual implements both the stand-alone feasibility criteria and the multiple common bond expansion approval criteria.

In 1998, the Board acknowledged that “reasonable proximity” is an essential factor in determining whether a select group can be added to a multiple common bond credit union.⁵² However, the Board did not require an added group’s location to be within reasonable proximity of the credit union’s main office, but rather, within the service area of a “service facility” of the credit union. As currently defined, a “service facility” includes a credit union branch, a shared branch, a mobile branch that visits the same location on a weekly basis, and a credit union-owned electronic facility.⁵³ To qualify as a service facility, a group’s members must be able to deposit funds, apply for a loan or obtain funds on approved loans.⁵⁴

To recognize the role of advancing technologies in enabling reasonable proximity between a credit union and the groups it serves, the Board proposes to revise the definition of a “service facility” to extend it to members of occupational select groups, and members of pre-approved associational groups,⁵⁵ who have access to their credit union’s products and services through an online internet channel such as a transactional website. This proposed change would apply

⁵¹ *Id.* §1759(f)(1)(B) (emphasis added).

⁵² 63 FR 71998, 72002 (December 30, 1998).

⁵³ Appendix B, ch.2, §§IV.A.1 and Appendix 1(glossary).

⁵⁴ Appendix B, ch.2, §IV.A.1.

⁵⁵ Appendix B, ch. 2, §III.A.1.B.

solely to meet the “reasonable proximity” requirement that applies to a multiple common bond credit union and its select occupational and associational groups; it would not apply to meet the requirement that a credit union serving an underserved area “must establish and maintain an office or facility in [the underserved area].”⁵⁶ To provide the same functionality currently required for a service facility, the online internet channel must be capable of accepting shares for those members’ accounts and loan applications from them, or disbursing loan proceeds to them. The Board emphasizes that this proposed change would allow access to online financial services only by already existing members of multiple common bond credit unions; it would not permit an individual to qualify remotely for membership in a community credit union based on electronic access to it from outside its well-defined local community.

To support its proposal to incorporate online financial services in the definition of “service facility” through online internet channels via access to laptop computers, personal computers and mobile devices, the Board has reviewed data from FCUs regarding consumer needs and preferences. By all measures, the use of online financial services has increased dramatically in the past 15 years. Federally insured credit unions’ Call Report data indicates that the proportion of members using transactional websites has steadily increased from 27 percent of members in the fourth quarter of 2006 (23.2 million) to 45 percent in the second quarter of 2015 (40.5 million)—an increase of 17.3 million users.

Among FCUs, only 22 percent offered home banking via an internet website in 2000. This share increased to 68 percent in the fourth quarter of 2011 (4,846 out of 7,094), and 75 percent by the

⁵⁶ 12 U.S.C. §1759(c)(1)(B).

second quarter of 2015 (4,612 out of 6,159). There has been similarly significant growth in the use of smart phones and tablets to conduct mobile banking transactions. With such technology non-existent as late as 2008, only 6 percent of FCUs offered mobile banking in 2009. This share increased to 16 percent in 2011, and 47 percent by the second quarter of 2015.

Similarly, data collected by the Boston Consulting Group (“BCG”) indicates actual consumer use of online delivery channels has increased significantly.⁵⁷ Specifically, online consumer contacts with banks nearly doubled from 2004 to 2012. Mobile and internet banking increased from 5 percent of customer contacts in 2004 to about 48 percent by 2012. In contrast, the share of contacts conducted in branches fell from 75 percent to 30 percent during this period. The BCG study noted that mobile and internet banking transaction volume advanced not only due to the increase in the number of overall contacts, but because banking transactions accounted for a larger share of total activity. The BCG study emphasized that to compete effectively in the financial sector, financial institutions need to establish business plans that make “interactions across multiple channels simple—not disjointed or constrained by internal organizational boundaries in a way that leads customers to dead ends. Channels should support each other, not compete.”⁵⁸ In addition, the BCG study predicted that internet contacts as a percentage of all contacts would increase to about 66 percent by 2020.

The dramatic increase in FCUs offering mobile banking service is consistent with the use of internet and mobile banking services by consumers generally. An annual study sponsored by the

⁵⁷ Maguire, Andy, *et. al.*, *Distribution 2020: The Next Big Journey for Retail Banking* (March 2013): https://www.bcgperspectives.com/content/articles/financial_institutions_sales_channels_distribution_2020/?chapter=2.

⁵⁸ American Bankers Association Press Release: *More Consumers Turning to Mobile Banking* (August 11, 2015)

American Bankers Association, and conducted by Ipsos Public Affairs for 2015, surveyed 1,000 adults about their banking preferences among the following choices: internet banking (laptop or personal computer), mobile devices (cell phone, Blackberry, PDA, tablet), brick and mortar branches, ATMs, telephone, and mail. A primary question was, “Which method do you use most often to manage your bank accounts?” The table below indicates that 41 percent of customers preferred internet or mobile banking. In contrast, only 21 percent preferred branch banking. These preferences were similar in 2013 and in 2014. The study sponsor further stated that “This is the sixth year in a row [2008 – 2014] that customers named the Internet as their favorite way of conducting their banking business.”⁵⁹

Type of banking	2014	2013
Online channels (laptop or PC)	31%	39%
Branches	21%	18%
ATMs	14%	11%
Mobile (cell phone, Blackberry, PDA, iPad)	10%	8%
Telephone	7%	7%
Mail	6%	7%
Don't Know/Not sure	11%	10%

Similarly, government-sponsored studies indicate dramatic increases in online banking in the past few years. Since 2011, the Fed has conducted an annual survey that focuses on one channel of online banking: smart phone technology for mobile banking.⁶⁰ That survey illustrates the increased reliance of smart phone technology for mobile banking. The March 2015 Report of a December 2014 survey stated, “Thirty nine percent of all mobile phone owners with a bank account have used mobile banking in the 12 months prior to the survey, up from 33 percent in 2013 and 29 percent in 2012.” Further, “Fifty two percent of smartphone owners with a bank

⁵⁹ *Id.* at 2.

⁶⁰ *Federal Reserve Consumers and Mobile Financial Services* (March 2015)

account used mobile banking in the past 12 months, up from 51 percent in 2013.” The Federal Reserve survey further found that another 11 percent of mobile phone users think that they will use smart phones for online banking within 12 months.⁶¹

The Federal Reserve Bank of Atlanta studied the use of mobile banking by banks and credit unions to determine the level of and type of mobile financial services offered by financial institutions.⁶² Of 189 respondents in Georgia, Alabama, Florida, and parts of Mississippi, Louisiana, and Tennessee, which included banks and credit unions of all asset sizes, only six (3 percent) did not currently offer or, plan to offer mobile banking services. Further, the study noted, “There was very little difference between the bank and CU responses.” The study also confirmed a significant trend toward offering mobile banking, given that 23 percent of the respondents began offering mobile banking within the past year and 15 percent were planning to offer such services within the next two years.

The strong consumer preference for online financial services, as well as for integration of online banking into financial institutions’ overall business and marketing plans indicates the need to amend the Chartering and FOM Manual to facilitate current credit union members’ access to such online services. Accordingly, to put multiple common bond credit unions and members of the groups they serve within reasonable proximity of each other, as required by law, as well as to put them in parity with their depository institution competitors, the Board is proposing to amend

⁶¹ *Id.* Executive Summary at 4.

⁶² *Mobile Banking and Payments Survey of Financial Institutions of the Sixth District*, Lott, David (March 2015).

the definition of “service facility” to include online financial services, including computer-based and mobile phone channels meeting certain criteria for access.

In addition to the proposal to include a transactional website in the definition of “service facility,” the Board is considering modifying the definition of “service area” to include one or more discreet political jurisdictions such as a county or city. While the Board historically has discouraged using mileage and distance factors exclusively to define reasonable proximity,⁶³ it acknowledges that there may be an appropriate level of certainty in also defining reasonable proximity to encompass a city or county jurisdiction. The Board invites comments on options to modify the definition of “service area.”

2. Inclusion of Select Employee Group Contractors in a Multiple Common Bond. The Board presently includes within the definition of a *single* occupational common bond the persons who work regularly for an entity that is under contract to the sponsor of the select employee group (“SEG”) listed in its charter, provided the contractor has a “strong dependency relationship” with that sponsor.⁶⁴ This definition relies on the presence of a “strong dependency relationship” between the SEG sponsor and its contractor to establish the “common bond of occupation” the FCU Act requires for a group to be included in either a single or a multiple common bond credit union.⁶⁵ There being no distinction between a single and a multiple common bond credit union for purposes of recognizing the occupational affinity between a SEG sponsor’s own employees and those of each sponsor’s contractors, the Board proposes to extend to *multiple* occupational

⁶³ 63 FR 71998, 72003 (December 30, 1998).

⁶⁴ Appendix B, ch. 2 §II.A.1.

⁶⁵ 12 U.S.C. §1759(b)(1) & (2).

common bond credit unions the ability to add persons who work regularly for an entity that is under contract to any of the multiple SEG sponsors listed in its charter, provided the contractor has a “strong dependency relationship” with the sponsor in each case.

3. Inclusion of Office/Industrial Park Tenants in a Multiple Common Bond. In the past, NCUA has recognized industrial parks as a special type of community charter.⁶⁶ As an alternative to extend credit union service to persons who work in an office or industrial park, the Board now proposes to also permit a multiple common bond credit union to include as a SEG the employees of a park’s tenants (*e.g.*, retail tenants of a shopping mall, business tenants of an office building or complex). The group listed in the charter would be the office/industrial park itself; it would not be necessary to individually list each tenant as a group sponsor. Inclusion of such office/industrial park groups within a multiple common bond credit union would be subject to two conditions: Each tenant within the group must have fewer than 3,000 employees working at a facility within the park, and only those employees who work regularly at the park *during their employer’s tenancy* would be eligible for FCU membership. New tenants to the industrial park would be eligible for membership subject to the above conditions.

The option of including a tenants’ SEG within a multiple common bond would allow those FCUs to more efficiently offer services to employees of small businesses, avoiding an extensive outlay of resources to obtain letters from each group requesting credit union service. Instead, a multiple

⁶⁶ Appendix B, ch. 2 §V.A.6 (special community charters).

common bond credit union could serve employees of an office/industrial park's tenants by obtaining a letter from an authorized representative of the park itself, such as its leasing agent.

4. Streamlined Determination of Stand-Alone Feasibility of Groups Greater than 3,000. Based on NCUA's experience in assessing the stand-alone feasibility of groups in excess of 3,000 members, and data regarding the failure rate of credit unions during a 12-year period,⁶⁷ a trend has emerged: 80 percent of credit union failures occurred in credit unions with fewer than 5,000 members. In view of this trend, the Board has decided to modify NCUA's process for assessing the stand-alone feasibility of groups that seek to be added to the FOM of an existing multiple common bond credit union, rather than forming the group's own single common bond credit union. Accordingly, the Board proposes to reorganize and streamline the application process for multiple common bond expansions according a group's size.

Groups of fewer than 3,000 members will be subject to the existing application process, consisting of the following: a written request using the Application for Field of Membership (NCUA 4015 EZ), a letter from the group requesting credit union service and indicating the desire to be added to the FCU's field of membership; the number of persons included in the group to be added; and the group's proximity to the credit union's nearest service

⁶⁷ Credit union failures according to asset size and membership as reflected in final Call Reports for 2003Q1-2015Q2.

facility. Applicants do not need to support these groups' lack of ability to form their own credit union.

Since the statute presumes a group of 3,000 or more members can form a credit union, there is a higher burden of proof to establish that such a group cannot form its own credit union. When a group has between 3,000 and 5,000 members and displays evidence of a lack of available subsidies, disinterest among the group's members, and an overall lack of sufficient resources, the Board has historically determined that the group could not feasibly or reasonably establish a new single common bond credit union. In such cases the Board will accept a written statement indicating these conditions exist as sufficient documentation the group cannot form its own credit union. Consistent with current policy on incidental overlaps, the Board will no longer require an overlap analysis of a group between 3,000 and 5,000 members, given that groups in this size range rarely have been able to form a stand-alone credit union. Groups with more than 5,000 members will be subject to the existing standard application process, requiring a group to fully describe its inability to establish a new single common bond credit union.

However, the Board is particularly interested in comments on whether to consider a larger number than 5,000 for this threshold. While 80 percent of failures occurred in credit unions with fewer than 5,000 *actual* members, the number of *potential* members of those credit unions was significantly larger. Therefore, if 5,000 actual credit union members were deemed to be the minimum number needed to charter a viable new credit union, the number of potential members needed to reach 5,000 actual members would be larger.

For example, if the average penetration rate of actual members to potential members at the smallest multiple-group credit unions is 50 percent, a group of 10,000 potential members may be needed to reach 5,000 actual members. The Board welcomes comments on how many actual members are needed to charter a viable new credit union, and how many potential members would be needed in order to reach that minimum number of actual members.

There are three benefits to the proposed three-tiered process for assessing a group's stand-alone feasibility. First, it conforms to the stand-alone feasibility criteria the FCU Act prescribes for groups in excess of 3,000, and the approval criteria it prescribes for the addition of a group, regardless of its size, to an existing multiple common bond credit union.⁶⁸ Second, it will minimize the resource burden on individual groups and credit unions in compiling information and documentation to support an application to add a group, as well as on the NCUA staff in assessing the application. Finally, it will allow NCUA to more effectively allocate its resources by focusing its scrutiny on individual groups based on the record of survival of newly chartered credit unions having more than 5,000 members when formed. This would enhance the agency's ability to conduct an appropriate level of due diligence in its reviews.

E. Other Persons Eligible for Credit Union Membership

NCUA has historically recognized a variety of persons who, by virtue of their relationship to a common bond group, have been entitled to credit union membership eligibility. Principal among

⁶⁸ *Id.* §1759 (d)(2) & (f)(1).

these persons are members of the immediate family or household of a primary member of a credit union members (*i.e.*, spouse, child, sibling, parent, grandparent, grandchild, including by step or adoptive relationship).⁶⁹ Other such affinity groups include spouses of deceased credit union members, current credit union employees, pensioners and annuitants who have retired from credit union employment, and persons who perform volunteer work for a credit union.⁷⁰

Active duty and discharged military personnel and their families share a similar affinity, typically maintaining a close relationship with their active duty branch of service, largely through Armed Forces associations, publications and continued access to military bases, such as Veterans Administration facilities, base commissaries, post exchanges, and morale, welfare and recreation sponsored programs. To honor the contributions of those serving in the United States Armed Forces, and to give them the benefit of access to credit union service throughout their lives following active duty, the Board proposes to include within a credit union's common bond the honorably discharged veterans of any branch of the United States Armed Forces listed in its charter, continuing their eligibility for credit union membership beyond active duty.

F. Trade, Industry or Profession ("TIP") as a Single Common Bond.

A TIP is a single occupational common bond based on employment at any number of corporations or other legal entities that, while not under common ownership, still have a common bond by reason of producing similar products, providing similar services, sharing the same profession or trade, or participating in the same industry.⁷¹ To establish "one group that has a

⁶⁹ Appendix B, Ch.2, §§II.H., IV.H., and Appendix 1 (glossary definition of "affinity").

⁷⁰ Appendix B, Ch.2, §§II.H., IV.H.

⁷¹ 68 FR 18334, 18336 (April 15, 2003); Appendix B, ch. 2, §IIA.2.

common bond of occupation,” as the FCU Act prescribes, a TIP-based FOM must reflect a narrow commonality of interests among those working within a specific trade, industry, or profession, and there must be a close nexus among the entities within the group.⁷² The commonality of interest and close nexus requirements preclude a TIP from including third-party vendors and other suppliers and contractors. As an example, an automobile TIP may include all workers manufacturing automobiles but may not include the steel suppliers or other component suppliers.

Inclusion of “Strong Dependency” Vendors and Suppliers in TIP Definition. The Board already recognizes a single occupational common bond between a SEG sponsor’s own employees and those of its contractors, provided there is a “strong dependency relationship” between the sponsor and the contractor. Similarly, NCUA proposes to clarify its definition of a TIP to include employees of types of entities that have a strong dependency relationship on, and whose employees work directly with employees of, other entities within the same industry. An example would be an FCU that serves employees of companies within the airline industry that have a strong dependency relationship with airlines or airports, and whose employees work directly with providers of air freight transportation, courier services, air passenger services, in-flight food services, airport security, baggage handling, and commercial janitorial, maintenance and repair services. The premise of a strong relationship between these providers and their airport and airline customers is the likelihood of a significant economic impact, if not equally between them, if one were unable to continue in its operations without doing business with the other. As expanded, the TIP definition would give credit unions the opportunity to demonstrate that an

⁷² *Id.*

entity is “strongly dependent” on the others within a TIP, and shares a narrow commonality of interest with them, as necessary to be part of a TIP-based single occupational common bond.

G. Technical Updates.

Apart from introducing substantive revisions to NCUA’s FOM rules and policies, the proposed rule will update the Chartering and FOM Manual to enhance its accuracy and user-friendliness for the benefit of those seeking to charter a credit union, as well as for existing credit unions. To that end, the proposed rule substitutes certain references to regional office and regional director chartering responsibilities with references to the Office of Consumer Protection as the primary office for chartering matters within NCUA and, to address previous comments, substitutes the Board Secretary for the Office of Consumer Protection in reference to appeals of chartering decisions.⁷³ Finally, the proposed rule corrects statutory and regulatory citations and cross-references, as well as typos; updates the appendices to the Chartering and FOM Manual to reflect current agency practices; and updates references to NCUA offices and industry trade associations.

III. Regulatory Procedures

Regulatory Flexibility Act

The Regulatory Flexibility Act requires NCUA to prepare an analysis to describe any significant economic impact a regulation may have on a substantial number of small entities.⁷⁴ For purposes of this analysis, NCUA considers small credit unions to be those having under \$50

⁷³ 87 FR 25924, 25929 (May 6, 2015)

⁷⁴ 5 U.S.C. 603(a).

million in assets.⁷⁵ Although this rule is anticipated to economically benefit FCUs that choose to expand their FOMs, NCUA certifies that it will not have a significant economic impact on small credit unions.

Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (PRA) applies to collections of information through which an agency creates a paperwork burden on regulated entities or the public, or modifies an existing burden.⁷⁶ For purposes of the PRA, a paperwork burden may take the form of either a reporting or a recordkeeping requirement, both referred to as information collections. The Office of Management and Budget (OMB) previously approved the current information collection requirements for the Chartering and Field of Membership Manual and assigned them control number 3133-0015.

The proposed rule creates new strategic options for FCUs, while requiring essentially the same information that the existing rule required to apply for and be granted a charter expansion or conversion, with two exceptions. It introduces a new form within an appendix to the Chartering and Field of Membership Manual to condense the application process for adding certain groups to a multiple common bond FOM. This new form does not add any additional burden to FCUs.

Regarding a community common bond, the proposed rule permits an FCU to add an area adjacent to the perimeter of its existing community consisting of a Single Political Jurisdiction,

⁷⁵ Effective November 23, 2015, the asset ceiling for small credit unions will increase to \$100 million. 80 FR 57512 (Sept. 24, 2015).

⁷⁶ 44 U.S.C. 3507(d); 5 CFR part 1320.

Core Based Statistical Area, Combined Statistical Area or rural district, upon a showing by subjective evidence that residents on both sides of the perimeter interact or share common interests. For that purpose, the rule provides guidance in identifying compelling indicia of interaction or common interests that would be relevant in drafting a narrative summarizing the indicia that demonstrate that the residents of the expanded community meet the requirements of a well-defined local community.

NCUA has determined that the procedure for an FCU to assemble such subjective evidence of interaction or common interests, and to draft and submit a narrative summarizing the evidence to support its application to expand, would create a new information collection requirement. As required, NCUA is applying to OMB for approval to amend the current information collection to account for the new procedure.

Approximately 1,090 FCUs have a community charter. While there is no reasonable way to measure how many FCUs will use this particular option, it would be available to any community FCU, regardless of asset size. NCUA estimates that, on average, it would take an FCU's staff approximately 24 hours to collect the evidence of interaction and common interests and to draft a narrative to support its application to expand. Accordingly, NCUA estimates the aggregate information collection burden on FCUs that seek to add an area adjacent to the perimeter of an existing community consisting of a Single Political Jurisdiction, Core Based Statistical Area, Combined Statistical Area or rural district would be 24 hours times 1,090 FCUs for a total of 26,160 hours. NCUA is proposing to amend the current information collection control number 3133-0015 to account for these additional burden hours.

Organizations and individuals wishing to submit comments on this information collection requirement should direct them to the Office of Information and Regulatory Affairs, OMB, Attn: Shagufta Ahmed, Room 10226, New Executive Office Building, Washington, DC 20503, with a copy to the Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.

NCUA will consider comments by the public on this proposed collection of information in:

- Evaluating whether the proposed collection of information is necessary for the proper performance of the functions of the NCUA, including whether the information will have a practical use;
- Evaluating the accuracy of NCUA's estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used;
- Enhancing the quality, usefulness, and clarity of the information to be collected; and
- Minimizing the burden of collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology (*e.g.*, permitting electronic submission of responses).

Executive Order 13132

Executive Order 13132 encourages independent regulatory agencies to consider the impact of their actions on state and local interests. In adherence to fundamental federalism principles, NCUA, an independent regulatory agency as defined in 44 U.S.C. 3502(5), voluntarily complies with the executive order. Primarily because this rule applies to FCUs exclusively, it will not

have a substantial direct effect on the states, on the connection between the national government and the states, or on the distribution of power and responsibilities among the various levels of government. NCUA has determined this rule does not constitute a policy that has federalism implications for purposes of the executive order.

Assessment of Federal Regulations and Policies on Families

NCUA has determined that this proposed rule will not affect family well-being within the meaning of Section 654 of the Treasury and General Government Appropriations Act, 1999.⁷⁷

List of Subjects

12 CFR Part 701

Credit, Credit unions, Reporting and recordkeeping requirements.

By the National Credit Union Administration Board on November 19, 2015.

Gerard S. Poliquin

Secretary of the Board

⁷⁷ Public Law 105–277, 112 Stat. 2681 (1998).

For the reasons stated above, NCUA proposes to amend 12 CFR part 701, Appendix B as follows:

PART 701 — ORGANIZATION AND OPERATION OF FEDERAL CREDIT UNIONS

1. The authority for part 701 continues to read as follows:

Authority: 12 U.S.C. 1752(5), 1755, 1756, 1757, 1758, 1759, 1761a, 1761b, 1766, 1767, 1782, 1784, 1786, 1787, 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.

2. Appendix B to part 701 is revised to read as follows:

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,⁷⁸

⁷⁸ 12 U.S.C. 1751 et seq.

- 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 regional office serving the state in which the credit union will be organized. 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 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.

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

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 determination that 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 Consumer Protection 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 Consumer Protection 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, 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, and the organizer is satisfied the application has merit, 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.

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. At some point 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director Disapproval

When the Office of Consumer Protection 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 Consumer Protection 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 Consumer Protection Director Decision

If the Office of Consumer Protection Director denies a charter application, in whole or in part, that decision may be appealed to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial and must address the specific reasons for

denial. The appeal must be clearly identified as such and address the specific reason(s) the prospective group disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection Director. NCUA central office staff will make an independent review of the facts and present the appeal with a recommendation to the NCUA Board.

Before appealing, the prospective group may, within 30 days of the denial, provide supplemental information to the Office of Consumer Protection Director for reconsideration. A reconsideration will contain new and material evidence addressing the reasons for the initial denial. The Office of Consumer Protection 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 second request for reconsideration will be treated as an appeal to the NCUA Board.

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 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 Consumer Protection.

XII—FOREIGN BRANCHING

Federal credit unions are permitted to serve foreign nationals within their fields of membership wherever they reside provided they have the ability, resources, and management expertise to serve such persons. 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. A federal credit union may establish a service facility on a United States military installation or United States embassy without prior NCUA approval.

DRAFT

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 sets forth the membership criteria for each of these three types of credit unions.

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, which are fully discussed in the following sections of this Chapter, may apply to each.

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 long-term 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 must be narrowly defined, and cannot include third-party vendors and other suppliers, it may include, on a case by case basis with NCUA approval, employees of types of entities that have a strong dependency relationship and work directly with other types of entities

within the industry. As one example, an FCU may serve employees of companies within the Airline Transportation Industry that have a strong dependency relationship with airlines or airports, without the limitation that these employees work at an airport. This is provided they 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 request to the Office of Consumer Protection 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 Consumer Protection 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 it is 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director must approve all amendments to an occupational common bond credit union's field of membership.

II.B.2—Corporate 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 particular cases, the Office of Consumer Protection 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 Consumer Protection 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 Consumer Protection Director.

II.C.2—Office of Consumer Protection 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 Consumer Protection Director may require an on-site review. In addition, the Office of Consumer Protection 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.

II.C.3—Office of Consumer Protection Director Approval

If the Office of Consumer Protection Director approves the requested amendment, the credit union will be issued an amendment to Section 5 of its charter.

II.C.4—Office of Consumer Protection Director Disapproval

When the Office of Consumer Protection 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 Consumer Protection Director Decision

If a field of membership expansion request, merger, or spin-off is denied by staff, the federal credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial. The appeal must be clearly identified as such and must address the specific reason(s) the federal credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection, or as applicable, the appropriate regional office. NCUA central office staff will make an independent review of the facts and present the appeal to the Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the office rendering the initial decision for reconsideration. A reconsideration will contain new and material evidence addressing the reasons for the initial denial. The office rendering the initial decision 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 second request for reconsideration will be treated as an appeal to the NCUA Board.

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 where the continuing credit union is headquartered, with the concurrence of the regional 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 regions must be approved by the regional director where the continuing credit union is headquartered, with the concurrence of the regional 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 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 Consumer Protection Director. The Office of Consumer Protection 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 housekeeping 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 Consumer Protection Director will determine why the credit union desires to remove the group. If the Office of Consumer Protection 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.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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director.

III.C.2—Office of Consumer Protection 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 Consumer Protection Director may require an on-site review. In addition, the Office of Consumer Protection 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 Consumer Protection Director Approval

If the Office of Consumer Protection Director approves the requested amendment, the credit union will be issued an amendment to Section 5 of its charter.

III.C.4—Office of Consumer Protection Director Disapproval

When the Office of Consumer Protection 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 Consumer Protection Director Decision

If a field of membership expansion request, merger, or spin-off is denied by staff, the federal credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial and must be clearly identified as such and address the reason(s) the federal credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection, or as applicable, the appropriate regional office. NCUA central office staff will make an independent review of the facts and present the appeal to the NCUA Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the office rendering the initial decision for reconsideration. A reconsideration will contain new and material evidence addressing the reasons for the initial denial. The office rendering the initial decision 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 second request for reconsideration will be treated as an appeal to the NCUA Board.

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 where the continuing credit union is headquartered, with the concurrence of the regional 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 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 Consumer Protection Director. The Office of Consumer Protection 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 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.

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 Consumer Protection Director will determine why the credit union desires to remove the group. If the Office of Consumer Protection 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.

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.

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 and possessing a strong dependency relationship with another company) makes that person part of the occupational common bond of a select employee group within a multiple common bond.

A multiple common bond credit union is also able to serve the employees of tenants who work in an industrial park, such as a shopping mall or office park, without listing each occupational group, provided that each tenant employee group has fewer than 3,000 employees at the location. In addition, only employees who work at the facility during the tenancy are eligible for membership. New tenants would be eligible for membership subject to the above requirements.

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 includes the means for a multiple common bond credit union to accept shares for members' accounts, accept loan applications from them or disburse loans to them. 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, a credit union owned electronic facility, or a credit union's transactional website that meets the above listed transactional requirements (a "transactional website"). A credit union's transactional website that meets these requirements may be accessed by a computer, smart phone, tablet, or similar technological device. This definition of service facility does not meet the requirement that a credit union establish and maintain an office or facility in an underserved area.

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 bylaws in effect on December 31, 1997;

4. Employees of tenants with fewer than 3,000 employees of MJB Office Park who 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 Consumer Protection 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 Consumer Protection Director, with input from the appropriate regional 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 Consumer Protection Director, with input from the appropriate regional 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 Consumer Protection Director, with input from the appropriate regional 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.

Additional information is required for groups of 3,000 or more primary potential members requesting to be added to a multiple common bond credit union. 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 the NCUA 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 application process 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 or NCUA 4015-EZ) to the Office of Consumer Protection 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 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 (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;
- 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 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—Corporate 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 Consumer Protection Director.

IV.C.2—Office of Consumer Protection 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 Consumer Protection Director may require an on-site review. In addition, the Office of Consumer Protection 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 Consumer Protection Director Approval

If the Office of Consumer Protection Director approves the requested amendment, the credit union will be issued an amendment to Section 5 of its charter.

IV.C.4—Office of Consumer Protection Director Disapproval

When the Office of Consumer Protection 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 Consumer Protection Director Decision

If a field of membership expansion request, merger, or spin-off is denied by staff, the federal credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial and must be clearly identified as such and address the reason(s) the federal credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection or, as applicable, the appropriate regional office. NCUA central office staff will make an independent review of the facts and present the appeal to the NCUA Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the office rendering the initial decision for reconsideration. A reconsideration will contain new and material evidence addressing the reasons for the initial denial. The office rendering the initial decision 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 second request for reconsideration will be treated as an appeal to the NCUA Board.

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 primary 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 NCUA regional director where the continuing credit union is headquartered, with the concurrence of the regional 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 where the continuing credit union is headquartered, with the concurrence of the regional 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. 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. 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director will determine why the credit union desires to remove the group. If the Office of Consumer Protection 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 Consumer Protection 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 website, 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, OCP reserves the right to request this documentation at any time. If the FCU fails to provide this documentation when OCP requests it, OCP 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, OCP 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 OCP requires. The FCU will have 15 days to provide the necessary documentation. OCP staff 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, OCP staff will again correspond with the FCU and provide a 15-day time frame for correcting the concern. OCP staff 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 OCP 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 Consumer Protection (OCP) 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, OCP staff 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. OCP staff will also provide context as to the source of OCP's concerns, such as the discovery of new information about a particular group or an examination finding brought to OCP's attention;
2. If OCP 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, OCP staff 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, and in accordance with agency guidelines for administrative actions, OCP 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, OCP 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.

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.

“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 their political equivalent, an individual Congressional district, school districts, or a clearly

identifiable neighborhood. Although state boundaries are well-defined areas, states themselves do not meet the requirement that the proposed area be a local community or rural district.

The well-defined local community requirement is met if:

- **Single Political Jurisdiction**—The area to be served is in a recognized Single Political Jurisdiction, *i.e.*, a city, county, or their political equivalent, or any contiguous portion thereof. A Congressional district qualifies as Single Political Jurisdiction. If redistricting were to redraw the boundaries of a Congressional district into two or more Congressional districts, an FOM consisting of the original Congressional district would no longer be available to be served by any other credit union.

- **Statistical Area**—The area is a designated Core Based Statistical Area or a portion thereof, or in the case of a Core Based Statistical Area with Metropolitan Divisions, the area is a Metropolitan Division or is a portion thereof; or

- The area is a designated a Combined Statistical Area or a portion thereof; AND

- The Core Based Statistical Area, Metropolitan Division or Combined Statistical Area, or the portion thereof, must have a population of 2.5 million or less people.

- **Compelling Evidence of Interaction or Common Interests**—In lieu of a statistical area as defined above, this option applies when an area is substantially a Core Based Statistical Area or Combined Statistical Area, but also has an additional portion falling outside, and which is immediately adjacent to, the Core Based Statistical Area or Combined Statistical Area, and thus may demonstrate a sufficient level of interaction to qualify as a local community. For these situations, applicants have the option of submitting a narrative to NCUA to discuss how the residents meet the requirements for being a local community. NCUA will base its decision on a consideration of the following factors with respect to the proposed service area in its entirety:

Economic Hub: Evidence indicates residents commonly travel to a geographically compact locale within the area for work and major commerce needs. Traffic flows, the presence of common or related industries, or unified economic planning demonstrate how the locales have economic interdependence.

Population Center: Area has a dominant county or municipality with a significant portion of the area's population and evidence exists to support the relevance of the population center to all residents within the area.

Quasi-Governmental Agencies: A quasi-governmental agency, such as a regional planning commission, covers the proposed service area in its entirety and derives its leadership from the area to advance meaningful objectives advancing the residents' common interests in economic development and/or improving quality of life. Success of agency in meeting its mission depends upon collaboration from throughout the area.

Government Designations: 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.

Shared Public Services/Facilities: Formal agreements exist that provide for a common need shared by all of the residents, such as common police or fire protection, or public utilities.

Colleges and Universities: Evidence exists to demonstrate the common relevance of an institution or institutions to the entire area, such as unique educational initiatives to support economic objectives benefiting all residents and/or partnerships with local businesses or high schools.

The rural district requirement is met if:

- Rural District—
- The district has well-defined, contiguous geographic boundaries;
- The total population of the district does not exceed 1,000,000.

- Either more than 50% of the district's population resides in census blocks or other geographic areas 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 affinities that apply to rural districts are the same as those that apply to well-defined local communities. The OMB definitions of Core Based Statistical Area and Metropolitan Division may be found at 65 FR82238 (Dec. 27, 2000). They are incorporated herein by reference. Access to these definitions is available through the main page of the FEDERAL REGISTER Web site at <http://www.gpoaccess.gov/fr/index.html> and on NCUA's Web site at <http://www.ncua.gov>.

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 prior to July 26, 2010 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 after that date that is not exactly the same as the 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 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 intends to take.

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 a recognized Core Based Statistical Area must state in the field of membership the political jurisdiction(s) that comprise the Core Based 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—SAMPLE 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 (using a radius does not establish a well-defined area);

- Persons who live or work in the industrial section of New York, New York. (not a well-defined neighborhood, community, or rural district); or

- Persons who live or work in the greater Boston area. (not a well-defined neighborhood, community, or rural district).

Some examples of unacceptable local communities, neighborhoods, or rural districts are:

- Persons who live or work in the State of California. (does not meet the definition of local community, neighborhood, or rural district).

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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 housekeeping 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 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 by subjective evidence 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 Core Based 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 Consumer Protection Director. If a decision cannot be made within a reasonable period of time, the Office of Consumer Protection 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 Consumer Protection Director Decision

If a field of membership expansion request, merger, or spin-off is denied by staff, the federal credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial and must be clearly identified as such and address the specific reason(s) the federal credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection or, as applicable, the appropriate regional office. NCUA central office staff will make an independent review of the facts and present the appeal to the NCUA Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the office rendering the initial decision for reconsideration. A reconsideration will contain new and material evidence addressing the reasons for the initial denial. The office rendering the initial decision 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 second request for reconsideration will be treated as an appeal to the NCUA Board.

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—Standard 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 where the continuing credit union is headquartered, with the concurrence of the regional 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 housekeeping 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 nonmember 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 Consumer Protection 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 Consumer Protection 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. 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 website.

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 that is based on NCUA or other Federal banking agency data, establishes to NCUA’s satisfaction 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

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 Consumer Protection 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, or an office operated on a regularly scheduled weekly basis or a credit union owned electronic facility that meets, at a minimum, the above requirements. This definition does not include an ATM or the credit union's Internet Web site.

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 Consumer Protection Director Decision

If the Office of Consumer Protection Director denies an “underserved area” request, the federal credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial. The appeal must be clearly identified as such and address the specific reason(s) the federal credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection. NCUA central office staff will make an independent review of the facts and present the appeal to the NCUA Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Consumer Protection Director for reconsideration. A reconsideration will contain new and material evidence addressing the reasons for the initial denial. The Office of Consumer Protection 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 second request for reconsideration will be treated as an appeal to the NCUA Board.

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 Consumer Protection 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 Consumer Protection Director may make further investigation into the proposal and may require the submission of additional information to support the request to convert.

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 Consumer Protection Director and Conditions to the Approval

The conversion will be approved by the Office of Consumer Protection 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 Consumer Protection 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.

II.C.4—Notification

The Office of Consumer Protection 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 Office of Consumer Protection Director Decision

If a conversion to a federal charter is denied by the Office of Consumer Protection Director, the applicant credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial. The appeal must be clearly identified as such and address the specific reason(s) the credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection. NCUA central office staff will make an independent review of the facts and present the appeal to the NCUA Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Consumer Protection Director for reconsideration. The request will not be considered as an appeal, but a request for reconsideration by the Office of Consumer Protection Director. The Office of Consumer Protection 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 Consumer Protection Director.

II.D—ACTION BY BOARD OF DIRECTORS

II.D.1—General

Upon being informed of the Office of Consumer Protection 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 Consumer Protection 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 Consumer Protection Director; and
- Submit a statement of the action taken to comply with any conditions imposed by the Office of Consumer Protection 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 Consumer Protection 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 denial of a conversion application can be appealed. 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director at the time it requests approval of the conversion proposal. The Office of Consumer Protection 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.

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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director

The proposal will be approved by the Office of Consumer Protection 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 Consumer Protection Director will notify both the credit union and the state regulator of the decision on the proposal.

III.D.5—NCUA 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 Consumer Protection Director Decision

If the Office of Consumer Protection Director denies a conversion to a state charter, the federal credit union may appeal the decision to the NCUA Board. An appeal must be sent to the NCUA Board Secretary within 60 days of the date of denial. The appeal must be clearly identified as such and address the specific reason(s) the federal credit union disagrees with the denial. A copy of the appeal must be sent to the Office of Consumer Protection. NCUA central office staff will make an independent review of the facts and present the appeal to the NCUA Board with a recommendation.

Before appealing, the credit union may, within 30 days of the denial, provide supplemental information to the Office of Consumer Protection Director for reconsideration. The request will

not be considered as an appeal, but a request for reconsideration by the Office of Consumer Protection Director. The Office of Consumer Protection 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 Consumer Protection Director.

III.E—APPROVAL OF PROPOSAL BY MEMBERS

The members may not vote on the proposal until it is approved by the Office of Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director should be informed of the reasons for the delay. The Office of Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection 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 Consumer Protection Director will issue a new insurance certificate.

DRAFT

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 Consumer Protection director, with input from the appropriate regional 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, worshiping, 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 Consumer Protection or regional 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 24 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 12 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.

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 regulator 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 — Includes the means for a multiple common bond credit union to accept shares for a member's account, accept loan applications from the member, or disburse funds on approved loans. 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 transactional requirements. A service facility also includes a shared branch or a shared branch network if either: (1) the credit union has an ownership interest in the service facility either directly or through a CUSO or similar organization; or (2) the service facility is local to the credit union and the credit union is an authorized participant in the service center. For purposes of serving an underserved area, a service facility does not include an informational or transactional website, an ATM or an interest in a shared branch network.

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.

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 ownership – 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

See Online Version of the Rule at: <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx>

APPENDIX 3

NCUA Offices

See Online Version of the Rule at: <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx>

APPENDIX 4

NCUA Forms

See Online Version of the Rule at: <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx>

APPENDIX 5

Trade Associations

See Online Version of the Rule at: <http://www.ncua.gov/Legal/Regs/Pages/PropRegs.aspx>