



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

Office of General Counsel

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SSIC 6010
89-0908

September 28, 1989

Gladys Cox, Manager
Winslow Santa Fe Credit Union
P.O. Box 1405
Winslow, Arizona 86047

Re: Field of Membership Overlap (Your
September 1, 1989, Letter)

Dear Ms. Cox:

This is in response to your second letter concerning the overlap in fields of membership between your credit union (Santa Fe CU) and the Gallup Santa Fe Federal Credit Union (Gallup FCU). Since the overlap has been caused by corporate restructuring, it is up to the credit unions to work out any problems with it.

Our understanding of the overlap between the two fields of membership is as follows. Your credit union's field of membership includes railroad employees whose runs go into or out of Winslow, Arizona. Gallup FCU's field of membership includes railroad employees in the first district of New Mexico. Originally, the first district did not include Winslow, Arizona. It now extends to Winslow. Hence, railroad employees who go into or out of Winslow are eligible for membership in both Winslow CU and Gallup FCU.

The overlap situation is the result of the first district railroad division expansion rather than any action by either of the credit unions. As you may know, NCUA policy, as set forth in Interpretive Ruling and Policy Statement 89-1 -- Chartering and Field of Membership Policy (IRPS 89-1) -- is

FOIA
VOL. 10, K

Gladys Cox, Manager
September 28, 1989
Page 2

to avoid overlaps. The discussion on overlaps in IRPS 89-1 is enclosed. NCUA encourages credit unions to work out overlap problems themselves. NCUA will only get involved if an overlap problem cannot be resolved by the credit unions and if the overlap is caused by an action of one of the credit unions.

When credit union sponsor corporate restructures occur, it is the responsibility of the credit unions involved to determine if the fields of membership can be redefined to accommodate continued service to those persons previously served under the prior corporate structure. If not, overlapping fields of membership may be the only alternative.

I hope that this has clarified our position on the issue.

Sincerely,

Hattie M. Ulan

HATTIE M. ULAN
Assistant General Counsel

Enclosure

cc: Regional Director, Region V (Austin)

Act requires that seven or more natural persons must present to NCUA for approval a sworn organization certificate stating at a minimum:

1. The name of the proposed Federal credit union;
2. The location of the proposed Federal credit union and the territory in which it will operate;
3. The names and addresses of the subscribers to the certificate and the number of shares subscribed by each;
4. The initial par value of the shares;
5. The proposed field of membership, specified in detail;
6. The term of the existence of the corporation, which may be perpetual; and
7. The fact that the certificate is made to enable such persons to avail themselves of the advantages of the Federal Credit Union Act.

These seven or more persons will be the proposed Federal credit union's "subscribers." False statements on this certificate may be grounds for Federal criminal prosecution.

The Act also requires NCUA to satisfy itself as to the "general character and fitness" of these subscribers. These persons, therefore, may be the subject of credit and background investigations at NCUA's discretion.

C. Economic Advisability. Before chartering a Federal credit union, NCUA must be assured that the institution will be viable and that it will not materially affect existing state or Federal credit unions. This economic advisability inquiry has become especially important since 1970, when Congress assigned NCUA the obligation to establish a Fund insuring credit union shares and to preserve that Fund.

NCUA will conduct an independent on-site investigation for each charter application to assure itself that the proposal can be successful.

1. The Proposed Federal Credit Union's Viability. The success of any credit union depends on: (a) The depth of the members' support; (b) the character and fitness of management; and (c) present and projected market conditions.

a. Member Support. While NCUA has not set a minimum size field of membership for chartering a Federal credit union, experience has shown that a credit union with under 500 potential members generally is unlikely to succeed. A charter applicant with a proposed field of membership of under 500 will have to demonstrate convincing support for the credit union. For example, in an occupational group a commitment for significant long-term support from the employer must be in evidence.

The group's size is only of help if members participate in the credit union. The charter applicant must show that a substantial percentage of the group's members will join the credit union and use its services. Survey results must be based at a minimum on a sampling of 250 potential members. In particular instances, especially where the common bond is broadly-defined or newly-established, NCUA may require a larger sampling.

b. Proposed Management's Character and Fitness. The applicant must provide a list of the persons who will serve as officials. NCUA will conduct a credit and background (including criminal record) investigation on each of the proposed Federal credit union's officials. NCUA also reserves the right to perform such checks on employees of the applicant FCU. The Agency will also need 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 Federal credit union a success.

c. Present and Future Market Conditions: The ability to compete in the marketplace and to adapt to changing market conditions is key to the survival of any enterprise, and a crucial part of that is the ability to plan well. NCUA, therefore, requires an applicant to submit a business plan based on realistic and supportable projections and assumptions, including, as a minimum, these elements:

- i. Mission statement;
- ii. Analysis of market conditions—economic prospects for the group, availability of financial services from credit unions, banks, S&Ls;
- iii. Summary of survey results;
- iv. Financial services needed/desired;
- v. Financial services to be provided;
- vi. How/when services are to be implemented;
- vii. Staffing of credit union and credentials of key employees;
- viii. Physical facility—office, equipment;
- ix. Type of recordkeeping system;
- x. Budget for 1st, 2nd, and 3rd year;
- xi. Semiannual pro forma financial statements for 1st, 2nd, and 3rd year, including assumptions—e.g., loans and dividend rates;
- xii. Goals for number of members;
- xiii. Goals for operating independently;
- xiv. Source of funds to pay expenses during initial months of operation;
- xv. Written policies (lending, investments, funds management);
- xvi. Goals for dividends, generation of resources;

xvii. Plan for continuity—directors, committee members; and
xviii. Evidence of sponsor commitment if subsidies are critical to success of the Federal credit union.

NCUA expects that the subscribers and proposed officials will understand and support the business plan submitted.

2. Overlaps. (This discussion pertains to new charters as well as existing charters.)

An overlap exists when a group of persons is eligible for membership in two or more credit unions, including state charters. General policy requires that every effort be made to avoid an overlap. Ideally, a group of persons should be included in the field of membership in only one credit union.

Both new and existing credit unions are obligated to investigate the possibility of an overlap prior to submitting an application for a new charter or adding a group, by surveying the prospective field of membership and contacting the state credit union supervisor and the local credit union league or trade association. If and when an overlap situation does arise, officials of the involved credit unions are encouraged to work out the overlap problem between or among themselves. If the matter is resolved informally, the applicant must submit a letter to that effect from the credit union whose field of membership already includes the subject group. If no resolution is possible, an application for a new charter or expansion may still be submitted, but must also include information regarding the overlap and document attempts at informal resolution. In any event, the applicant Federal credit union must clearly indicate why a new credit union or expansion is being sought and why existing and potential members of the current credit union will support and join a newly-chartered or expanded Federal credit union.

When resolution of an overlap problem is not forthcoming, and other circumstances warrant an overlap, then an overlap may be permitted. Among the circumstances which may justify an overlap are: (1) Failure of the original credit union to provide service to the group, (2) limited participation by members or employees of the group in the original credit union after the expiration of a reasonable period of time, and (3) incidental overlap (the group of persons in question is so small as to have no material effect on the original credit union); in reviewing the overlap, the Regional Directors will consider the nature of the problem: