

How to Start a Washington State-Chartered Credit Union

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Organizing your Credit Union

Introduction

Definition

The Cooperative/Credit Union Dictionary and Reference book defines a credit union as follows:

A credit union is a government chartered and supervised cooperative thrift and loan service that financially helps its members help each other for emergency and/or productive purposes.

This definition continues:

A credit union is a member-owned, nonprofit cooperative thrift institution formed for the purpose of encouraging savings by offering a good return, using collective monies to make loans at competitively low rates to members, and providing other financial services. Members are united by a common bond of association (as defined in field of membership statutes and regulations) and democratically operate the credit union under state or federal regulation.

Dual Charter System

A charter is a document issued by a legislative body or other authority creating a public corporation such as a credit union. A charter is defined in the Cooperative/Credit Union dictionary as articles of incorporation consisting of powers, rights, and liabilities of a corporation granted to incorporators, carrying authority to act as a corporation.

As expressed in the definition of credit union, credit unions can choose to be state or federally chartered. This is known as the dual charter system. Regulatory policies and oversight for federal credit unions are controlled out of Washington, D.C., while state credit unions deal with local state officials in regulatory matters.

Washington state-chartered credit unions are regulated by the Department of Financial Institutions, Division of Credit Unions. Federally chartered credit unions are regulated by the National Credit Union Administration (NCUA).

Washington State has a strong dual charter system with approximately 65 federally chartered credit unions and 80 state-chartered credit unions. The state chartered system consists of approximately 83% (\$16 billion, 2003) of the total assets of credit unions in this state.

The NCUA has two areas of responsibility. It is the chartering agency for federal credit unions and it is also responsible for the management of the National Credit Union Share Insurance Fund. With the management of the insurance fund comes the shared interest in the continued safe and sound financial health and operation of federally insured, state-chartered credit unions. We have a document of cooperation that outlines the methods and procedures that will be used by the NCUA to monitor the continued insurability of federally insured, state-chartered credit unions. This document was developed as NCUA recognizes that primary regulation and supervision of state chartered credit unions is the responsibility of the Division of Credit Unions.

Bylaws

Another document required at the time of charter application is called the by-laws. By-laws are standing rules not included in the articles of incorporation specifying operational policies and practices of the organization. In a credit union, the rules adopted by shareholders (also known as members) and the board of directors act to define field of membership and give the general method by which corporate functions are to be carried out.

Sample articles of incorporation and by-laws are included in this package.

If the charter is granted, the granting agency (state or federal) will examine the credit union from time to time to ensure that the applicable laws are adhered to and that the public welfare and just cause for public confidence in the financial system is protected.

Once established, a credit union may convert from one charter type to another, such as convert from a federal charter to a state charter or vice versa.

To apply for a state charter, contact the following:

Washington State Department of Financial Institutions
Division of Credit Unions
Post Office Box 41200
Olympia, Washington 98504-1200
(360) 902-8701

Web Site: www.dfi.wa.gov/cu

The topics that follow are based on obtaining a Washington state charter. If you wish to obtain information on a federal charter, you will need to contact the NCUA for their rules and requirements on forming a new federal credit union.

National Credit Union Administration, Region V
1230 W. Washington Street, Suite 301
Tempe, AZ 85281
Telephone (602) 302-6000
E-mail: region5@ncua.gov
Web Site: www.ncua.gov

Application for Permission to Organize

State-chartered credit unions are authorized by Washington law under the Revised Code of Washington (RCW) Chapter 31.12, known as the Washington State Credit Union Act, see our web site.

The Washington State Credit Union Act under RCW 31.12 requires that seven or more people who reside in this state may apply to the Director, Division of Credit Unions for permission to organize a credit union. Before applying, many decisions must be made. In addition, the credit union organizers should be able to demonstrate to the Director that the establishment of the credit union is economically feasible, the proposed credit union membership meets all statutory and regulatory requirements, and the credit union operations will be in compliance with applicable state and federal laws.

The Division of Credit Unions will consider the following four basic factors when evaluating a new charter application:

1. **Economic feasibility** based on a pro forma balance sheet and budget (minimum of 3 years projections), business plan, and membership surveys;
2. **Sufficient donations** to cover start-up costs and operating costs until breakeven/profitability. Additionally, we will require a capital cushion in order to assure the success of your new credit union;
3. **Satisfactory management experience.** This includes senior management, board of directors and supervisory committee; and
4. **Mentoring and partnership relationships** with other credit unions and other organizations. These relationships are important to support your new credit union and to help validate the new credit union's operations.

Additionally, we will review the credit unions proposed operations to insure that they will be in compliance with applicable state and federal laws.

Field of Membership

One of the first decisions is the type of field of membership.

Washington state credit unions enjoy a broader field of membership policy than federal charters. See the section titled *Division's Explanatory Statement on FOM* and the Division's FOM application rules, Chapter 208-472 WAC that is included in the section titled *Legal Authority – Washington Administrative Code*.

Credit unions are to restrict their financial services only to members in their field of membership. Per RCW 31.12.382, "Membership in a credit union shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community,

or rural district. The director may adopt rules: (a) Reasonably defining “common bond”; and (b) setting forth standards for the approval of charters. The director may approve the inclusion within the field of membership of a credit union a group having a separate common bond if the director determines that the group is not of sufficient size or resources to support a viable credit union of its own.”

Further restrictions are shown in rules known as the Washington Administrative Code (WAC). Be sure to review the field of membership definitions contained in WAC 208-472-015. The WACs pertaining to state chartered credit unions are listed in this manual.

Once the decision has been made as to the proposed field of membership, information should be collected as to the number of potential members. Potential membership information may be obtained from the sponsoring employer group(s), sponsoring organization(s), sponsoring associational group(s), or the local Chamber of Commerce for community charter requests.

Deposit Insurance

All state-chartered credit unions are required to have federal share insurance under NCUA (known as the National Credit Union Share Insurance Fund - NCUSIF). The regulations that spell out the requirements for this insurance are included in this manual in a separate section titled Requirements for Insurance – Part 741.

For more information on NCUSIF, write or call the following:

National Credit Union Share Insurance Fund
Region V
1230 W. Washington Street, Suite 301
Tempe, AZ 85281
(602) 302-6023

E-mail: region5@ncua.gov

www.ncua.gov

You will note that this is the same address as the NCUA. NCUA administers the federal share insurance program. For federal share insurance, a credit union may be either federally chartered or state chartered.

Location

The organizers should decide on a location for the proposed credit union. This decision will impact the cost of operations.

Economic Feasibility

Before chartering a credit union, the Director of the Division of Credit Unions must be confident that the financial institution will be viable and will meet all applicable state and federal statutes and regulations. In order to demonstrate the economic feasibility, the following should be prepared and discussed with the Division of Credit Unions prior to the formal application for credit union organization.

Suggested information:

1. Three year business plan (please see further discussion on business plan contents)
2. Quarterly financial projections for the first three years (asset/liability & capital growth and also income & expenses)
3. Loan policies (sample loan policies are available through the Washington Credit Union League – website is www.waleague.org)
4. Plan for covering expenses until the credit union is self-sufficient, especially a contingency plan if revenues are not sufficient to cover operating expenses in the first two years.
5. Resumes of proposed directors and the managing officer(s), particularly as to financial services, operational, and accounting expertise

General Duties of Officers and Directors

The Washington Credit Union League's Credit Union Compliance Manual states the following regarding the duties of officers and directors:

In general, directors and officers of credit unions have the same duties and obligations as persons holding similar positions in other banking corporations. These include the three basic duties of obedience, diligence, and loyalty. Not only do directors owe the credit union the utmost good faith, but they must also exercise their duties with the degree of care others would apply in the same position. It is a higher standard of care than that applied to other business corporations.

The Business Plan

The business plan should demonstrate that the organizers, the proposed board of directors, and the managing officer understand the critical issues that will affect whether the credit union will be operated successfully. This plan should include any assumptions, surveys, or other supportable data that was used to prepare the business plan.

1. Analysis of market conditions that will affect the new credit union
2. Financial services to be offered

3. How and when financial services will be implemented
4. Staffing of credit union and credentials of staff, particularly managing staff
5. Type of record keeping system
6. Annual budget for first three years
7. Annual goals for number of members for first three years
8. Physical location and equipment
9. Pro forma financial statements for the first three years
10. Identify a computer and accounting system that will be used by the credit union
11. Address the issue of start-up capital. Sufficient start-up capital is essential to starting a new credit union.

Additional Information

Each credit union is unique based on its field of membership and services offered. Additional information may be requested by the Division of Credit Unions to assess the application for the proposed credit union. We would encourage the credit union organizers to be in frequent contact with the Division of Credit Unions personnel as plans are formulated.

Bond and Insurance Coverage

During your planning stage, you will want to research obtaining bond coverage. All credit unions are required to have bond coverage on their directors, committee members, and employees of the credit union.

One type of coverage is for a fidelity bond on employees and officials. A fidelity bond is to reimburse the credit union for loss due to dishonesty of a covered employee according to the fidelity bond contract. Another type of coverage is a surety bond. A surety bond provides monetary compensation should there be a failure to perform any specific acts within a stated period. An example of surety bond coverage would be reimbursing the credit union for a loan loss if a loan officer granted a loan that did not follow credit union policy.

A further coverage is insurance for losses caused by persons outside of the credit union (protection from losses due to theft, holdup, vandalism, etc.). The minimum coverage is commonly known as a Credit Union Blanket Bond Standard Form No. 23 of the Surety Association of America. Other bond forms may be used if accepted by the Division of Credit Unions. The bond and insurance coverage should be from a company holding a certificate of authority from the Secretary of the Treasurer and authorized to do business in the State of Washington.

Although you do not need this coverage until the Director has approved the proposed credit union, the Director's approval may be subject to providing evidence of bond coverage before opening the credit union for business. Please check with your insurance agent or legal counsel for alternative bond and insurance companies to contact.

Further Resources

It has also been our experience that credit union organizers, the proposed credit union board of directors, and proposed manager can greatly benefit from contact with successful credit union managing officers. Please see our web site for a list of state-chartered credit unions, which includes the addresses, phone numbers, and names of the managing officers. We encourage you to contact one or more credit union CEOs in your area for possible assistance during the planning stage in addition to a candid discussion as to actions that will ensure the viability of a new charter.

In addition, you may wish to contact the Washington Credit Union League. The League is an organization of credit unions, both state and federally chartered, within the state of Washington. The League provides a variety of helpful services to their member credit unions. They may have educational and promotional material that can assist you as organizers. In addition, you may want to purchase its *Credit Union Directory*. That directory provides information on the following: Washington credit unions, chapters and districts, Washington legislators, and credit union financial and membership data.

To contact the League, write or call the following:

Washington Credit Union League
33301 9th Avenue South, Suite 200
Federal Way, Washington 98003
(800) 552-0680 or (206) 340-4111
Fax: (206) 340-4808
www.waleague.org

Conclusion

The Division of Credit Unions has regulatory authority over Washington state-chartered credit unions. Its regulatory purpose is to protect the members' financial interests, the integrity of credit unions as cooperative institutions, and the interests of the general public. In addition, the Division also ensures that state-chartered credit unions remain viable and competitive in this state.

A credit union has a fiduciary responsibility to its members. This responsibility must not be taken lightly. The credit union must also have sufficient resources to succeed. Requests to organize a credit union will not be approved if the credit union is not in compliance with all

applicable state and federal statutes and rules or if the Director does not feel that the new credit union is feasible.

Please do not hesitate to call our office as often as you need during the review of this or other information. We would also encourage you to meet periodically with the personnel at the Division of Credit Unions as decisions are made on such matters as field of membership, location, and pro-forma financial statements. Our experience has shown that contact between the Division of Credit Unions and the credit union organizers prior to the formal application can save you time and effort.

Good luck and we look forward to hearing from you.

Division's Explanatory Statement on Field of Membership

Last revised January 2003

FOM statutes, rules, and guidelines

Generally. The Washington State Credit Union Act ("Act"), Chapter 31.12 RCW, sets forth requirements on the field of membership (FOM) of state credit unions. These statutory requirements are fairly brief:

RCW 31.12.382 Limitation on membership. (1) Membership in a credit union shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district. The director may adopt rules:

- (a) Reasonably defining "common bond"; and
- (b) setting forth standards for the approval of charters.

(2) The director may approve the inclusion within the field of membership of a credit union a group having a separate common bond if the director determines that the group is not of sufficient size or resources to support a viable credit union of its own. [1994 c 92 § 178; 1984 c 31 § 6. Formerly RCW 31.12.045.]

RCW 31.12.384 Membership. (1) A credit union may admit to membership those persons qualified for membership as set forth in its bylaws. (2) An organization whose membership, ownership, or employees are comprised principally of persons who are eligible for membership in the credit union may become a member of the credit union. [1997 c 397 § 27; 1984 c 31 § 16. Formerly RCW 31.12.145.] These provisions of the Act are implemented by the Division's rules set forth at Chapter 208-472 WAC.

Types of FOMs

Washington State-chartered credit unions may include occupational groups, associational groups, or community groups in their FOM. Moreover, a credit union may have one (or more) of each of these types of groups in its FOM. RCW 31.12.382; WAC 208-472-010.

Occupational groups. See definition in WAC 208-472-015(10). The Division also has a streamlined procedure for adding small occupational groups (SOGs) with up to 500 members, for those credit unions with a SOG enabling amendment approved by the director prior to March 8, 2002 WAC 208-472-015 (15). A credit union with a current composite CAMEL rating of 1 or 2 may add qualified occupational groups, as defined in WAC 208-472-015 (14) if it meets the requirements of WAC 208-472-020 (2) (a).

Associational groups. See definition in WAC 208-472-015(2). Associations must be comprised primarily (50% + 1) of natural persons. Business members of an association and other associated persons defined in the rule may be members of the credit union. A credit union with a current composite CAMEL rating of 1 or 2 may add qualified associational groups, as defined in WAC 208-472-015 (12) if it meets the requirements of WAC 208-472-020 (2) (a).

Communities. See definition in WAC 208-472-015(4). A credit union with a community in its FOM may take as a member any person who lives, works, worships, or goes to school in the community. WAC 208-472-015(4); RCW 31.12.382. In addition, a credit union with a community FOM may take as a member any business that is located in the community. RCW 31.12.384.

A credit union applying to add a community to its FOM does not have to give up any of its select employer groups (SEGs) or associational groups in the community.

As indicated, a credit union may include more than one community in its FOM. These communities may be physically separate and distinct, or they may be contiguous. A credit union with a current composite CAMEL rating of 1 or 2 may add qualified community groups, as defined in WAC 208-472-015 (13) if it meets the requirements of WAC 208-472-020 (2) (a).

Limitations on direct marketing to occupational and associational groups: - A credit union may not conduct direct marketing targeted primarily at persons in an occupational or associational group unless the group was included in the FOM Bylaws of the credit union prior to March 8, 2002 or a management official of the occupational or associational group has provided the credit union with a written statement, signed by the official, that the group desires service by the credit union (WAC 208-472-030).

Application requirements for credit unions currently rated a composite CAMEL 3, 4 or 5 – Credit unions with a current composite CAMEL rating of 3, 4 or 5 are not eligible to add FOM groups under the streamlined procedures. In such cases, application must be made to the Division of Credit Unions requesting FOM expansion. In general the director will not approve the addition of a community to such credit unions, and will not approve the addition of occupational or associational groups for those credit unions rated a CAMEL 4 or 5. Applications must include the items required in WAC 208-472-025 (1).

Business Plan Outline

At a minimum, the following information should be included in your business plan for starting a credit union.

- Incorporator's background in terms of education and work experience
- Definitions
 - Field of membership
 - Sponsor organization
 - Common bond
- Research, Survey, Focus Group
 - Previous attempts at starting a credit union in the area
 - Feasibility of a credit union surviving in the area
 - Need for or demand of a credit union in the area
- Assumptions/Pro forma Balance Sheet and Income Statement (3-5 year)
 - Loan growth
 - Share growth
 - Capital growth
 - Projected income
 - Projected expenses
- Policies
 - Lending
 - Objective – What types of loans do you want to provide
 - Responsibility – Loan officers, credit committee
 - Limits – Approval limits, eligibility limits
 - Repayments – Terms, conditions
 - Credit checks – Frequency, sources used
 - Collection
 - Time frames – first notice, second notice, right to cure
 - Usage of collection agency, legal action
 - Funds Management
 - Sources and uses of funds
 - Asset liability management

Investments

- Minimum/Maximum – Amounts and terms
- Authority limits
- Types of investments
- Institutions utilized

Share Drafts

- Fees
- Minimum balances
- Eligibility

- Minimum education and experience requirements of management and the board
- Marketing
 - Newspaper
 - Radio
 - Statewide Advertising Program (SWAP)
 - In-house
 - League
- Services
 - Credit cards
 - Share drafts
 - CDs
 - IRAs
 - Real estate lending
 - Line of credit
 - Money orders
 - Traveler's checks
 - Wire Transfers
- Branches – When, where, and how many
- Identify a computer and accounting system that will be used by the credit union
- Address the issue of start-up capital. Sufficient start-up capital is essential for a new credit union
- Web site internet banking presence

Credit Union Charter Application Procedures

1. Potential new members within prospective field of membership: minimum of 3000

The prospective credit union should have at least 3000 potential new members to be able to cover expenses.

Laws permit seven persons to make application by signing necessary Articles of Incorporation.

2. Forms and documents to complete. The actual forms and sample documents are included in the *Forms and Documents to Complete* Section of this manual. The sample documents that are included are the Articles of Incorporation, Bylaws, and the Credit Union Code of Ethics.

- Application for a Credit Union Charter (in duplicate) – This must show the names of incorporators and other information as noted. It must include where and who will care for books and records.
- Application for Federal Share Insurance (NCUSIF) – Contact the National Credit Union Share Insurance Fund at (602) 302-6000 for more information.
- Articles of Incorporation (Sample) - This is also known as the charter. This must be signed and two copies are needed.
- Bylaws (Sample) – This must be signed and supported by a worksheet. Two copies of the bylaws are needed.
- Bylaw Affidavit – the incorporator must sign this.
- Certification of Resolutions
- Credit Union Code of Ethics (Sample)
- Organizational Worksheet – This must discuss field of membership, number of directors, meeting quorums, and share par value.

A Division of Credit Unions, Washington Credit Union League, or NCUA employee can provide assistance in completing the forms. The Washington Credit Union League will provide assistance by telephone and in their office to assist persons with various leadership and operational responsibilities.

3. Where to submit forms

Submit state charters to:

Department of Financial Institutions
Division of Credit Unions
Post Office Box 41200
Olympia, Washington 98504-1200
Telephone (360) 902-8701
Email: DCU@dfi.wa.gov
www.dfi.wa.gov/cu

Submit federal charters to:

Regional Director
National Credit Union Administration, Region V
1230 W. Washington Street, Suite 301
Tempe, AZ 85281
Telephone (602) 302-6000
Email: region5@ncua.gov
Web site www.ncua.gov

4. Articles of incorporation

State Charter - Upon approval by the Director, Division of Credit Unions, the Articles are filed with the Washington Secretary of State by the DCU.

Federal Charter – There is no requirement for filing with the Washington Secretary of State.

Any person shall accept no funds until the credit union is properly bonded.

5. Operational forms

To order forms necessary for the credit union's operation, contact the CUNA Service Group (CSG) in Madison, Wisconsin at 800-356-9655 regarding current payment arrangements. The CUNA website address is www.cuna.org. In the past these forms were paid for from other credit union donations (in full or part), or by the credit union after it has been in operation for a year.

6. First membership meeting

The purpose of this meeting is to elect the Board of Directors and answer any questions or explain any changes that may have been made to the original charter proposal.

7. Set-up meeting

Advise this office as soon as the date of the set-up meeting is decided upon, preferably ten days in advance. (All records for the new credit union must be prepared before the Articles of Incorporation is mailed or delivered.)

There are several purposes of this meeting:

- Elect Officers
 - Chairperson
 - Vice Chairperson
 - Treasurer
 - Secretary
 - President (The President and Treasurer may be the same person.)
- Make application for bond coverage
- Select funds depository
- Determine who will be authorized to sign checks

8. Inform the correct regulatory agency and the Washington Credit Union League of the names and addresses of directors, officers and mailing address of the credit union. Also inform them of the records address if it is different.

9. Payment of Fees

- Federal share insurance – Washington state credit unions must be federally insured. See RCW 31.12.408.

The NCUA administers the National Credit Union Share Insurance Fund (NCUSIF). The NCUSIF consists of money set aside to insure federally insured credit unions.

Funding for the NCUSIF comes from two sources:

1. Each credit union sends a check to the NCUSIF to equal 1% of the total insured deposits at that credit union. This amount is adjusted as deposits grow.
 2. Beginning in 1984, the NCUSIF is authorized to assess an insurance premium to each credit union if the share insurance fund requires additional funding. NCUSIF assessed its first insurance premium in 1991 due to credit union losses. Although no additional insurance premiums have been assessed since 1991, credit unions must be aware that they are liable for premiums if assessed.
- Washington Credit Union League dues (optional) – League dues are based upon total assets. Previously, dues were to be paid only if the credit union elected to join the League. No payment was due until the credit union had been in operation one full calendar year. Call the League at (800) 552-0680 for current information on League dues.
 - Credit Union National Association dues (optional) – As of 1997, no payment was due until the credit union had been in operation for one full calendar year. CUNA dues

are paid to the League, which then remits them to CUNA. Call the League at (800) 552-0680 for current information on the payment of CUNA dues.

The amount in dues that a credit union pays is based on the following:

1. A credit union pays 10 cents per member of the credit union.
2. A credit union also pays 1 cent per \$1,000 of total assets held by the credit union as of June 30 of the previous year.

Contact CUNA at (608) 356-9655 to check on any changes made to these criteria.

FORMS AND DOCUMENTS TO COMPLETE

Application for Credit Union Charter

Please answer all applicable questions and provide explanations if needed.

A. Information for Articles of Incorporation and Bylaws

1. Name of proposed credit union _____
Location _____
City _____
County _____
2. Proposed permanent mailing address of credit union

3. What is the proposed field of membership, i.e., the common bond of this credit union will be based on:
____ Employment by a sponsoring company.
____ Affiliation with an association, church or social organization.
____ Residence within a well-defined community, neighborhood or rural district.
Please explain:

4. The Board of Directors will have _____ members.
The Credit Committee will have _____ members.

Person #2:

Person #3:

C. Economic Advisability of Forming the Proposed Credit Union

- 1. If applicable, the name and nature of business or activity of the company, employer or sponsoring organization.

- 2. If applicable, the street address of the company, employer or sponsoring organization.

- 3. If applicable, what is the number of potential members (the number of persons in this group)?

- 4. If applicable, are the officers of the sponsoring organization favorable to formation of the credit union? _____ Give names and titles of officers who were contacted.

- 5. If applicable, will the sponsoring organization assist the credit union by:

_____ Providing office space?

_____ Allowing/providing payroll deduction service?

_____ Allowing employees some company time to devote to credit union affairs?

____ Providing clerical assistance?

6. Where is it proposed that the credit union will operate and provide its services?
What is the monthly rent or cost?

7. Estimated number of hours per day ____ or week ____ the credit union facilities will be available to members. Will regular business hours be maintained?

8. If the members to be served are dispersed over a wide area or working in more than one location/city, give the following information:

Number of persons at each location: _____

How is it proposed that business be transacted with outlying groups?

If widely dispersed, why is it proposed to organize only one credit union for the entire group?

9. Are credit union services currently available to members of this group? ____ If so, explain the nature and extent of the overlapping of such service.

10. Proposed date to begin business if charter is approved.

11. Other comments or information that will assist in the consideration of this application. (add additional pages as necessary).

12. If approved, Articles of Incorporation and Bylaws should be sent to:

Name _____

Address _____

Phone Number _____

Submitted by: _____

Signature: _____

Date: _____

_____, Washington

Completion of this form is required pursuant to Section xxx of the Washington Statutes. This information will be used to determine eligibility for charter. Personally identifiable information on this form will be used for no other purpose.

I recommend that a charter be granted to this group.

Signed: _____

Date:

Application for Federal Share Insurance

TO: The Administrator
National Credit Union Administrator

Date

The proposed _____ Federal Credit Union,

(Mailing address)

(City/State/Zip Code)

applies for insurance of its accounts as provided in Title II of the Federal Credit Union Act, and in consideration of the granting of insurance, hereby agrees:

1. To pay the reasonable cost of such examinations as the Administrator may deem necessary in connection with determining the eligibility of the application for insurance.
2. To permit and pay the reasonable cost of such examinations as in the judgment of the Administrator may from time to time be necessary for the protection of the fund and of other insured credit unions.
3. To permit the Administrator to have access to any information or report with respect to any examination made by or for any public regulatory authority and furnish such additional information with respect thereto as the Administrator may require.
4. To provide protection and indemnity against burglary, defalcation, and other similar insurable losses, of the type, in the form, and in an amount at least equal to that required by the laws under which the credit union is organized and operates.
5. To maintain such regular reserves as may be required by Section 116 of this Act.
6. To maintain such special reserves as the Administrator, by regulation or in special cases, may require for protecting the interest of members.
7. Not to issue or have outstanding any account or security the form of which, by regulation or in special cases, has not been approved by the Administrator.
8. To pay the premium charges for insurance imposed by Title II of the Federal Credit Union Act.
9. To comply with the requirements of Title II of the Federal Credit Union Act and of regulations prescribed by the Administrator pursuant thereto.
10. To permit the Administrator to have access to all records and information concerning the affairs of the credit union and to furnish such information pertinent thereto that he may require.
11. To comply with Title 18 of the United States Code and other pertinent federal statutes as they may exist or may be hereafter promulgated or amended.

We, the undersigned, certify to the correctness of the information submitted. In support of this application the undersigned submit the Schedules described below:

Schedule No.

Title

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

President

Treasurer

Note: A willfully false certification is a criminal offense. U.S. Code, Title 18, Sec. 1001.

NCUA 9500 (Rev. 2/72)

Articles of Incorporation (Sample Only)

ARTICLES OF INCORPORATIONS

OF THE

_____ CREDIT UNION
_____, WASHINGTON

KNOW ALL MEN BY THESE PRESENTS, That we, the undersigned, adult residents of the State of Washington, do hereby make, sign, and agree to the following:

Articles of Incorporation

FIRST ARTICLE. The undersigned have associated and do hereby associate themselves together for the purpose of incorporating a credit union under and pursuant to Chapter 186 of the Laws of Washington and Acts amendatory thereof and supplementary thereto. The purpose and business of this credit union shall be to encourage thrift among its members, create a source of credit at a fair and reasonable rate of interest, provide an opportunity for its members to improve their economic and social conditions, and to perform those functions designated for credit unions in Chapter XXXXXX of the Washington Statutes and all amendments thereof and additions thereto.

SECOND ARTICLE. The name of said credit union shall be the

_____ Credit Union, and its
location shall be in the City of _____, County of
_____, Washington.

THIRD ARTICLE. The capital of said corporation shall be unlimited in
amount and shall consist of shares of the par value of
(\$_____) each.

FOURTH ARTICLE. The names, residences, and occupations of the
persons forming this corporation are:

NAME	RESIDENCE	OCCUPATION
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FIFTH ARTICLE. These Articles of Incorporation may be amended by the
members in accordance with Section XXXXXXXX of the Statutes subject to the approval of the
Director of Credit Unions.

IN WITNESS WHEREOF, We have hereunto set our hands, this

_____ Day of _____, A. D., 20 _____.

IN THE PRESENCE OF:

STATE OF WASHINGTON)
) SS
COUNTY OF _____)

Personally came before me this _____ Day of
_____, 20 __, the a forenamed

To me known to be the persons who executed the foregoing instrument
and acknowledged the same.

Notary Public

My Commission expires _____, 20 _____.

Model Bylaws

The Washington Credit Union League has developed a set of Model Bylaws. Please contact Examiner Vivian Carter at (360) 902-8790 or Stacy Augustine at the League, (206) 340-4111, ext. 121, for more information.

LOW-INCOME CREDIT UNIONS

Overview

A credit union may apply in writing to the director for designation as a low-income credit union, see RCW 31.12.413 – Low Income Credit Union. Washington State follows National Credit Union Administration (NCUA) guidelines on low-income credit unions (LICUs). For guidance on LICUs, see the NCUA web site www.ncua.gov.

***LEGAL AUTHORITY – REVISED CODE OF
WASHINGTON (RCW) AND THE WASHINGTON
ADMINISTRATIVE CODE (WAC)***

Please see our web site for the RCW and WAC that pertain to state chartered credit unions. Our web site address is www.dfi.wa.gov/cu.

Credit Union Taxation Issues

Federal Taxation

All credit unions are exempt from federal income taxation. Federally chartered credit unions were granted exempt status in 1937. Although the Congressional history available at this writing does not give a clear rationale for the exemption, credit unions were considered cooperative in nature and also similar to mutual financial institutions that at that time were tax exempt. When other financial institutions lost their tax exemption in 1951, state-chartered credit unions explicitly retained their federal tax-exempt status.

State Taxation

Washington state-chartered credit unions pay state sales tax. Federally chartered credit unions are specifically exempt from state sales tax under the Federal Credit Union Act, Section 1768, which states, “federal credit unions...shall be exempt from all taxation now and hereinafter imposed by the United States or by any State...”. This is a costly issue when a state-chartered credit union buys a \$1 million building for their office or a branch and pays approximately \$80,000 sales tax while a similar transaction for a federally chartered credit union does not result in any sales tax. The tax exemption has created a competitive disadvantage between federally and state-chartered credit unions.

Washington state-chartered credit unions do not pay B&O (business and occupation) tax due to being a not-for-profit organization. However, their credit union service organizations (CUSOs) (depending on the type of business line included in the CUSO) may pay B&O tax as well as federal income tax.

Legislative Attention to Federal Taxation

The executive branch of the federal government proposed taxation of credit unions in 1978 and 1985. The argument that the credit union’s tax-exempt status is an unfair advantage over banks and thrift institutions was defeated. Credit union officials and others successfully argued for continuation of tax exemption for the following reasons:

- Credit unions offer a unique service mix,
- Credit unions are member owned and nonprofit,
- Taxation is potentially harmful to lower capitalized credit unions that provide beneficial services to segments of the population.

If credit unions became subject to taxation, they would be encouraged to reduce their taxable income by several methods. One method would be to narrow the spread between loan and deposit rates. This would put their financial well-being at greater risk and increase the taxes paid by members. Another would be to increase investment in depreciating assets that would not directly benefit other members and therefore detract from their primary charter purpose. A third method would be to increase dividends to the members and such a move would increase the taxation of members.

In addition, credit unions do not have the structural capability to seek outside sources to infuse capital as compared to banks. As a cooperative, credit unions have traditionally distributed to the members net income, which is taxed at the individual tax rate. In addition, capital has been built slowly over time from a small portion of retained net income each year. Taxation would have a detrimental effect on a newly chartered or small credit union's ability to build capital to a safe and sound level.

Credit Unions are Exempt from Federal Income Taxation

The following paragraphs are from pages 289 – 290 of Appendix X from GAO/GGD-91-85 Credit Union Reforms.

While both federal and state credit unions are exempt from federal income tax, there are differences in the way tax law treats the two types of credit unions. State credit unions are required to pay federal tax on unrelated business income and can be taxed by their home state. Since federal credit unions are recognized as tax-exempt instrumentalities of the federal government, they are specifically exempt from federal tax on unrelated business income and are exempt from many state taxes.

IRS oversight of both federal and state chartered credit unions has been rather limited. State credit unions may apply for tax-exempt status and file annual returns either individually or as a group through state regulatory agencies. After unsuccessfully challenging the tax-exempt status of a credit union in court, IRS concluded that the provision of banking services by a state credit union could not serve as a basis for challenge of tax-exempt status. Federal credit unions do not file annual returns with IRS.

As tax-exempt financial institutions that are organized as cooperative or mutual associations, credit unions can be compared to other financial institutions, other tax-exempt organizations, and other cooperatives. In contrast to credit unions, commercial banks and thrift institutions are subject to the corporate tax. This gives credit unions an advantage in that to the extent that they compete with these institutions, they can finance the expansion of similar services at a lower cost through untaxed rather than taxed retained earnings. Credit unions share several characteristics with other tax-exempt organizations, but tax code requirements and IRS regulations restrict these organizations and impose tax on certain types of income. Credit unions are not subject to many of these requirements. While some types of cooperatives are specifically exempt from tax, cooperatives generally are taxed in order to ensure that all income is taxed at either the individual member or cooperative level.

The Historical Basis for Credit Union Tax Exemption

Internal Revenue Code section 501(c) describes 25 categories of organizations that are exempt from federal income tax. State credit unions are exempt in a category by themselves under section 501(c)(14)(A). Federal credit unions are exempt under section 501(c)(1). Section 501(c)(1) exempts certain corporations that have been organized under an act of Congress, designated as instrumentalities of the United States, and that are exempt from tax by the Internal Revenue Code or by certain congressional acts.

State-Chartered Credit Unions

Mutual financial institutions predate the corporate and personal income tax system. Domestic building and loan associations (now called savings and loans) and mutual savings banks not having a capital stock represented by shares were exempted from tax by the Revenue Act of 1913 (P.L. 63-16). Cooperative banks without capital stock organized and operated for mutual purposes and without profit were exempted by the Revenue Act of 1916 (P.L. 64-271). Credit unions were not exempted in either of these acts. Their tax-exempt status was addressed directly for the first time in 1917, when the Attorney General stated that credit unions organized under the laws of Massachusetts were entitled to exempt status because they were very similar to cooperative banks.

The Revenue Act of 1951 (P.L. 80-183) amended section 101(4) of the 1939 Internal Revenue Code to repeal the tax-exempt status for cooperative banks, savings and loan societies, and mutual savings banks, but it specifically provided for the tax exemption of state-chartered credit unions. While the act's legislative history contains extensive discussion of the reasons why the tax-exempt status of the other mutual institutions was revoked, it does not discuss why credit unions retained their exemption. The provisions in the bill removing exempt status were included in Senate amendments to the House bill. In conference, the House of Representatives agreed to these provisions with some amendments.

A Listing of State-Chartered Credit Unions

For a list of Washington state-chartered credit unions and their contacts, please see our web site www.dfi.wa.gov/cu/cucontacts.htm.

Glossary

Association of Credit Union League Executives (ACULE)

Offers seminars and conferences for its membership which is comprised of league presidents and management employees.

Chapters

Credit unions join local chapters in their area for education or professional development.

Corporate Credit Unions

There are approximately 40 corporate credit unions that are credit unions for credit unions, providing investments and corresponding financial services.

Credit Union Foundation

Established as the CUNA Foundation in 1980 and renamed in 1992, it is the movement's national foundation. Its purpose is to promote credit union development in the United States and abroad. It is a 501(c)(3) public foundation, and receives tax-deductible contributions from individuals, credit unions, chapters, leagues and others. The Foundation is a co-sponsor of the Development Education Program.

The Foundation funds credit union projects which include education, technical assistance, operating materials, credit union disaster relief, the development of new credit union movements and planning. For example:

- It provided a grant of \$10,000 in 1988 to assist member credit unions of the Jamaican Co-op Credit Union League following Hurricane Gilbert.
- It has provided more than \$40,000 for the development of credit unions in Poland, \$8,600 for a training program for credit cooperative leaders in China, and \$4,000 for a consultant to assist the Singapore Credit Union League.
- It has funded financial management workshops in several African countries including Nigeria and Sierra Leone.
- It has assisted the outreach work of the Central Appalachian People's Federal Credit Union, and it has

sponsored numerous domestic scholarships to CUNA Schools through its scholarship funds including the National Youth Involvement Board Scholarships, the Arthur Dunkin Scholarship Fund and others.

Credit Union Benefits Services, Inc. (CUBS)

Manages benefit plans for employees of credit unions and organizations, e.g., pensions, deferred income savings, retirement, disability, etc.

Credit Union National Association (CUNA)

Formed in 1934 in Estes Park, Colorado and headquartered in Madison, Wisconsin, CUNA is the national trade association representing America's credit unions. Fifty-two leagues are members of CUNA.

Services include: Publications
 Economics and Research
 Development Education
 Human Resource Development
 Public Relations
 Governmental Affairs*
 Other Services

* CUNA has an office in Washington, D.C. to represent credit unions before Congress and federal government agencies such as the National Credit Union Administration (NCUA), the Internal Revenue Service (IRS), Federal Reserve, Department of Labor, and the Treasury Department.

Credit unions

These are cooperatives based on common bond. Members elect the board of directors, which establishes policy, elects/appoints, various committees, and hires the manager/president.

CSG

CUNA Service Group

CUMIS

Credit Union Mutual Insurance Society

CUNA

Credit Union National Association

CUNA Mortgage Corporation

Jointly owned by CUNA Mutual and CSG, CUNA Mortgage provides mortgage financing services for credit unions including training and educational services, origination and closing services, mortgage loan servicing and the purchase of mortgage loans from credit unions. Operating nationally, CUNA Mortgage acquired approximately 19,500 loans for \$1.4 billion in 1992.

- CUNA Mutual Insurance Group** The following seven related companies provide insurance to credit unions and their members:
- CUNA Mutual Insurance Society
 - CUNA Mutual Investment Corporation
 - CUMIS Insurance Society, Inc.
 - MEMBERS Life Insurance Company
 - CMCI Corporation
 - League General Insurance Company
 - CBS Holding Company, Inc.

CUNA Mutual and Century Life of America joined in a permanent affiliation utilizing the strengths of both companies to provide policy owners with a strong diversified portfolio of individual life insurance coverage and services. Its policy owners own CUNA Mutual.

CUNA Mutual is an international company with offices in 13 other countries. They provide insurance products and services in 60 countries.

In addition to co-sponsoring the Development Education Program, CUNA Mutual also sponsors:

- **National Credit Union Youth Program** – The purpose of the Youth Program is to educate young people about the benefits of credit union membership and wise money management. The National Youth Involvement Board, sponsored by the Youth Program, is a co-sponsor of the Development Education Program.
- **National Association of Retired Credit Union People (NARCUP)** – Provides publications, information and valuable discount services for credit union people over the age of 50. Marketing information and services are provided to credit unions.

CUNA Service Group (CSG) Through state leagues, CSG provides credit unions with products and services such as share drafts, credit card services, travelers checks, money orders, IRAs, government securities, guaranteed student loans, CarFacts Program, and the Home Buying Program.

CUSO Credit Union Service Organization

Filene Research Institute The Filene Research Institute was organized in 1989 as a non-profit Wisconsin corporation designed to engage in unbiased research in the area of consumer finance. A joint

project of CUNA and its Affiliates, CUNA Mutual Insurance Group and the state leagues, it is associated with the University of Wisconsin-Madison Graduate School of Business.

FOM

Field of Membership

League Service Corporations

Most leagues have formed a for-profit, separate business entity know as an LSC to provide products and services such as supplies, collections, data processing, etc.

LSC

League Service Corporation

NASCUS

National Association of State Credit Union Supervisors

**National Federation of
Community Development
Credit Unions**

Established in 1974, the Federation affiliated with CUNA in 1991. The Federation has a membership of more than 100 community development credit unions (CDCUs) in 36 states ranging in size from \$25,000 to \$30 million in assets. Credit unions designated as CDCUs by NCUA serve predominantly low-income members, those with annual incomes of about \$18,000 or \$20,000 for a family of four.

NCUA

National Credit Union Administration

NCUSIF

National Credit Union Share Insurance Fund

NISCUE

National Institute of State Credit Union Examiners

PCA

Prompt Corrective Action

RCW

Revised Code of Washington

SEG

Select Employee Groups

State Leagues

Non-profit trade associations on the state level. There are 50 state leagues plus a league for the District of Columbia and Puerto Rico. As of year-end 1991, more than 90% of credit unions were members of leagues.

Credit unions pay dues to leagues. In return, credit unions receive services such as legislative representation, education, publications, public relations, and advertising.

U.S. Central Credit Union

US Central is located in Overland Park, Kansas and is the central credit union that offers products and services to support approximately 42 corporate credit unions. These corporate credit unions deposit their surplus funds in U.S.

Central, which loans the funds to other corporate credit unions. At year-end 2000, assets totaled approximately \$23 billion.

WAC

Washington Administrative Code

**World Council of Credit Unions
(WOCCU)**

The World Council of Credit Unions is the international association that promotes the principles of credit unions worldwide. It is an umbrella organization for seven national or regional organizations (confederations), four independent leagues and several associate members. It links 87 countries and 41,700 credit unions and related societies that represent 88.6 million members around the world. (Year-end 1991)

Two cents of the CUNA annual dues of 10 cents per member plus one cent per thousand dollars of assets (paid by credit unions to the leagues) go to the World Council to carry out its objectives of training, communications, transfer of technology and international representation.

WOCCU is headquartered in Madison, Wisconsin and maintains branch offices in Washington, D.C., and Geneva, Switzerland.