

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 44 federally chartered credit unions and 62 state-chartered credit unions. The state chartered system consists of approximately 92% (\$33.32 billion as of 9/30/13) 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
Website: 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 website.

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 ensure 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 ensure 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 and expenses);
3. Loan policies (sample loan policies are available through the Northwest Credit Union Association – website is www.nwcua.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 three years; and
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 Northwest Credit Union Association'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, such as the following:

1. An analysis of market conditions that will affect the new credit union;

2. The financial services to be offered;
3. How and when financial services will be implemented;
4. The staffing of the credit union and the credentials of staff, particularly managing staff;
5. The type of the record keeping system;
6. An annual budget for the first three years;
7. Annual goals for the number of members for the first three years;
8. The physical location and the equipment of the credit union;
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; and
11. Address the issue of start-up capital. Note: 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 encourage the credit union organizers to be in frequent contact with the Division of Credit Unions staff, 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 the credit union's policy.

Further coverage is for 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 website for a list of Washington state-chartered credit unions, which includes the addresses, phone numbers, and names of the managing officer. We encourage you to contact one or more credit union CEOs in your area for possible assistance during the planning stage. Also, we encourage a candid discussion as to actions will help ensure the viability of a new charter.

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

To contact the Association, write or call the following:

Northwest Credit Union Association
18000 International Boulevard
Sea-Tac, Washington 98188
(800) 995-9064
www.nwcua.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 staff 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

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 was 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 was 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 Field of Membership (FOM)

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. See RCW 31.12.382, and WAC 208-472-010.

Occupational groups - See the 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 the definition in WAC 208-472-015(2). Associational groups 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 the definition in WAC 208-472-015(4). A credit union with a community charter in its FOM may take as a member any person who lives, works, worships, or goes to school in the community. See 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. See 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 does your credit union want to provide
 - Responsibility – Loan officers, Credit Committee, etc.
 - Limits – Approval limits, eligibility limits, etc.
 - Repayment – Terms, conditions
 - Credit checks – Frequency, source(s) used
 - Collections
 - Time frames – first notice, second notice, right to cure, etc.
 - Usage of a 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 for purchasing and selling investments

Share Drafts

- Fees
 - Minimum balances
 - Eligibility
- Minimum education and experience requirements of management and the board of directors
 - Marketing
 - Newspaper
 - Radio
 - Statewide Advertising Program (SWAP)
 - In-house
 - NW Credit Union Association
 - Services
 - Credit cards
 - Share drafts
 - CDs
 - IRAs
 - Real estate lending
 - Line of credit
 - Money orders
 - Traveler's checks
 - Wire Transfers

Note: Many services may not be allowed initially for a start-up/new credit union.
 - 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
 - Website and internet banking presence

Credit Union Charter Application Procedures

1. Potential new members within a prospective field of membership should be at least 3,000. The prospective credit union should have at least 3,000 potential new members to be able to cover expenses.

Laws permit seven persons to make an 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 (should be made in duplicate) – The application must show the names of incorporators and other information as noted. The application must include where and who will care for the credit union’s 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. The Articles of Incorporation must be signed and two copies are needed.
- Bylaws (sample) – The Bylaws 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 the credit union’s field of membership, its number of board directors, its meeting quorums, and its share par value.

A Division of Credit Unions, Northwest Credit Union Association, or NCUA employee can provide assistance in completing the forms. The Northwest Credit Union Association 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
Website www.ncua.gov

4. Filing Articles of Incorporation

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

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

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. The CUNA website address is www.cuna.org.

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 a funds depository
 - Determine who will be authorized to sign checks
8. Inform the correct regulatory agency and the Northwest Credit Union Association 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.
 - Northwest Credit Union Association dues (optional) – Association dues are based upon total assets. Call the Association at (800) 995-9064 for current information on its dues.
 - Credit Union National Association (CUNA) dues (optional) – CUNA dues are paid to the Association, which then remits them to CUNA. Call the Association at (800) 995-9064 or CUNA at (800) 356-9655 for current information on the payment of CUNA dues.

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.

The Supervisory Committee will have _____ members

5. Regular meetings of the board will be held during the _____ week of each month.

B. Character, Responsibility and General Fitness of Incorporators

1. Has an organizational meeting been held? _____ Number in attendance:

2. Estimated potential membership _____
3. Who will assume the credit union's record keeping duties, if it is chartered

4. Has an application for NCUSIF insurance been submitted? _____
5. Who will submit application for a surety bond? _____
6. Name of person who will maintain contact with the credit union after it is
organized to assist in operations _____
7. The names, occupations, and mailing addresses of the subscribers to the Articles of
Incorporation are as follows:

Name	Mailing Address	Occupation	# Shares
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

8. Are the subscribers within the field of membership and are they representative of
the entire group? _____ If not, explain.

9. Give names, addresses, telephone numbers and qualifications of three persons who will give freely of their time and effort to guide the credit union to a successful operation.

Person #1:

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 services?

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

_____ Providing clerical assistance?

6. Where (what location) 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 are 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 the 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 Northwest Credit Union Association developed a set of Model Bylaws. Please contact the Northwest Credit Union Association at (800) 995-9064 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 the National Credit Union Administration (NCUA) guidelines on low-income credit unions (LICUs). For guidance on LICUs, contact the NCUA Office of Small Credit Union Initiatives at (703) 518-6610 or e-mail them at oscuimail@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 website address is www.dfi.wa.gov/cu. Then click on either the RCW or WAC link on the left hand side of homepage.

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, and

- 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 their 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 website www.dfi.gov/cu/cucontacts.htm.

Glossary

Chapters	Credit unions join local chapters in their area for education or professional development.
Corporate Credit Unions	There are approximately 20 corporate credit unions that are credit unions for credit unions, providing investments and corresponding financial services.
Credit Union National Association (CUNA)	<p>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.</p> <p>Services include:</p> <ul style="list-style-type: none">PublicationsEconomics and ResearchDevelopment EducationHuman Resource DevelopmentPublic RelationsGovernmental Affairs*Other Services <p>* 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.</p> <p>www.cuna.org</p>
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 Mutual Insurance Group CUNA Mutual Group is a leading provider of financial services to credit unions, their members and other customers worldwide. The following eight related companies provide insurance to credit unions and their members:

www.cunamutual.com

- CUMIS Insurance Society – property and casualty affiliate
- CUNA Life Insurance Co. (parent company) – accident, health and life insurance
- CUNA Brokerage Services – investments & mutual funds
- CUNA Mortgage Insurance Company – private mortgage insurance
- CUNA Mutual Insurance Agency – insurance & annuity products.

Subsidiary Companies

- Members Capital Advisors, Inc. – registered investment advisor
- CPI Qualified Plan Consultants – retirement plan recordkeeping and administration
- Producers Ag Insurance Group – crop insurance

CUNA Strategic Services (CSS) Provides credit unions with access to quality products, services and technologies. CSS is jointly owned by CUNA and state credit union leagues.

www.cunastrategicservices.com

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.

www.filene.org

FOM	Field of Membership
NASCUS	National Association of State Credit Union Supervisors www.nascus.org
National CU Foundation	Chartered 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. www.ncuf.coop
National Federation of Community Development CUs	Established in 1974, the Federation affiliated with CUNA in 1991. The mission of the National Federation of Community Development Credit Unions is to help low- and moderate-income people and communities achieve financial independence through credit unions. www.cdcu.coop
NCUA	National Credit Union Administration www.ncua.gov
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. 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.

WAC

Washington Administrative Code

World Council of Credit Unions

The World Council of Credit Unions (WOCCU) is a global trade association and development agency for credit unions. WOCCU is funded by member dues, government agency and foundation grants and annual gifts to the WOCCU Foundation for Credit Unions. WOCCU and its subsidiaries are located in Madison, Wisconsin.