



Starting a Credit Union

For Educational Purposes Only—Not a prospectus or offering

Platinum Business Group, Ltd would like to assist you in establishing your own credit union. What follows is some basic information you should know before endeavoring to start a credit union. Once you have made a decision that you wish to establish a credit union, *Platinum Business Group* and its affiliates and alliances will make the process straightforward and manageable.

Some Basic Facts

In the United States, as of 2005 credit unions have 86 million members, which is 43.47% of the economically active population. U.S. credit unions are **always** nonprofit, cooperative, tax-exempt organizations.

A credit union is a cooperative financial institution that is owned and controlled by its members, and operated for the purpose of promoting thrift, providing credit at reasonable rates, and providing other financial services to its members. Many credit unions exist to further community development or sustainable international development on a local level. Worldwide, credit union systems vary significantly in terms of total system assets and average institution asset size since credit unions exist in a wide range of sizes, ranging from volunteer operations with a handful of members to institutions with several billion dollars in assets and hundreds of thousands of members. Yet credit unions are typically smaller than banks; for example, the average U.S. credit union has \$93 million in assets, while the average U.S. bank has \$1.53 billion, as of 2007.

Credit unions in the United States have traditionally used a state/national trade association relationship that aligns credit unions with state “Credit Union Leagues” followed by national affiliation with the Credit Union National Association (CUNA). Federal credit unions may also be members of the National Association of Federal Credit Unions (NAFCU).

Corporate Credit Unions

Most credit unions provide service only to individual consumers. By contrast, *corporate credit unions* (also known as *central credit unions* in Canada) provide service to credit unions, with operational support, funds clearing tasks, and product and service delivery. The largest corporate credit union in the United States is U.S. Central Credit Union of Lenexa, Kansas, which serves as a central clearinghouse for corporate credit unions and holds approximately \$45.3 billion in assets

World Credit Unions

The World Council of Credit Unions (WOCCU) defines credit unions as “not-for-profit cooperative institutions.” In practice however, legal arrangements vary by

jurisdiction. For example in Canada credit unions are regulated as for-profit institutions, and view their mandate as earning a reasonable profit to enhance services to members and ensure stable growth. This difference in viewpoints reflects credit unions' unusual organizational structure, which attempts to solve the principal-agent problem by ensuring that the owners and the users of the institution are the same people. In any case, credit unions generally cannot accept donations and must be able to prosper in a competitive market economy.

Credit Union Executives

The Credit Union Executives Society (CUES), based in Madison, Wisconsin, provides professional development and resources to thousands of credit union executives and directors worldwide. It partners with world-renowned universities to offer graduate-level executive education specifically for credit union leaders.

Credit Union Cooperatives

Credit Unions often form cooperatives among themselves to provide services to members. A Credit Union Service Organization (CUSO) is generally a for-profit subsidiary of one or more credit unions formed for this purpose. For example, CO-OP Financial Services, the largest credit union owned interbank network in the US, provides an ATM network and shared branching services to credit unions. Other examples of cooperatives among credit unions include credit counseling services as well as insurance and investment services.

Platinum Business Group would like to serve you in starting a credit union

Ten Basic Issues to Address When Starting a Credit Union

1. Find something in common. Credit union members are a collective group having a common bond:

- **Occupation**—Employees of the same company.
- **Association**—Members of a professional and trade association, fraternal order, labor or church group.
- **Community**—Residents of the same well-defined neighborhood, community or rural district.
- **Income**—Low-income members can contact the National Federation of Community Development Credit Unions.

2. Get together. As a rule, a "yes" vote by 500 potential members warrants continuation of the process to form a credit union. The National Credit Union Administration (NCUA) requires that a credit union with fewer than 3,000 potential members provide more evidence of support, since only about one-third of potential members will join and credit unions with less than 3,000 members may not be economically justified. Survey your potential members to determine whether they have an interest in supporting a credit union.

3. Do the paperwork. You should order the Interpretive Ruling and Policy Statement 98-03, which redrafts the NCUA's Chartering and Field of Membership Manual. The NCUA also has material on how to start a credit union. You may obtain this document from the NCUA's Website.

4. Meet the membership requirement. If you want to discuss your potential field of membership, you should contact state or federal regulators. You must ensure that your survey covers a defined membership group and meets the definitions as required by state and federal regulations. It is suggested that you get your proposed FOM in writing.

5. Find a financial expert. A CPA or a person with a strong financial background needs to be on your organizing committee. This person will be responsible for developing realistic pro forma financial statements based upon your survey responses and the degree of sponsor assistance you will receive.

6. Form a committee. Your organizing committee should be comprised of individuals with very good credit. Both the state and federal regulators will obtain a current credit bureau report on each organizer and will take a dim view of a bad credit bureau report. Furthermore, the state will not allow someone who has had a bankruptcy within the past seven years to participate on the organizing committee or in the future operation of the credit union.

7. Set up a board of directors. The board is responsible for the general direction of the entire credit union, and its members should be able to understand the general and social environment in which it operates.

8. Collect some money. To help the credit union offset the cost of enrollment forms, a membership fee (typically \$5) is charged. Additionally, each member is required to purchase at least one share (usually at a cost of \$5 to \$25) to help provide a base from which loans can be made.

9. Get by with a little help from your friends. It is recommended you obtain assistance from a credit union consultant in your area. Platinum provides this service and, by utilizing this service, it will make the chartering process simpler and less time-consuming, since the consultant will be familiar with the necessary paperwork that must be completed.

10. Apply for status. Petition your state's Comptroller's Office or the National Credit Union Administration for official status.

Should you start a federal or state chartered credit union?

U.S. credit unions can be chartered by either the federal government ("federal credit unions") or by a state. The states of Delaware, South Dakota, and Wyoming do not regulate credit unions at the state level; in those states, a credit union must obtain a federal charter to operate. All federal credit unions and 95% of state-chartered credit unions have "share insurance" (deposit insurance) of at least \$250,000 per member through the National Credit Union Share Insurance Fund (NCUSIF). This deposit insurance is backed by the full faith and credit of the United States government and is administered by the National Credit Union Administration. As of December 2006, the NCUSIF had a higher insurance fund capital ratio than the fund for the Federal Deposit Insurance Corporation (FDIC). U.S. credit unions also typically have higher equity capital ratios than U.S. banks.

As of the end of 2007, the National Credit Union Share Insurance Fund insured more than \$560 billion in deposits at 8,101 not-for-profit cooperative US credit unions. For comparison, the FDIC insured more than \$4 trillion in deposits at 8,560 banks and thrift institutions. The NCUA and the FDIC are both independent federal agencies backed by the full faith and credit of the US government.

Benefits of Credit Unions

United States credit unions typically pay higher dividend (interest) rates on shares (deposits) and charge lower interest on loans than banks. Credit unions therefore often have a higher cost of assets (i.e. interest expense as a percentage of average assets) than commercial banks, with aggregate U.S. credit union cost of assets being higher than the aggregate U.S. bank cost of assets in eight of the thirteen years between 1995 and 2007. Credit union revenues (from loans and investments) do, however, need to exceed operating expenses and dividends (interest paid on deposits) in order to maintain capital and solvency.

Due to their small size and limited exposure to mortgage securitizations, credit unions have weathered the financial meltdown of 2008 reasonably well.

2008-2009 Wall Street Meltdown Consequences

However, two of the biggest credit unions in the United States with combined assets of more than \$57 billion were recently taken over by the federal government National Credit Union Administration on 20 March 2009.

How to Start

Please complete the Platinum Business Group Credit Union Questionnaire. Your Platinum account executive will provide you with that fillable form. Please return the completed form to Platinum for its review and comment. If the parties agree, a contract for consulting services will be submitted and Platinum will begin the application process to ensure a smooth and efficient processing with the chartering agency.

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